

STATE OF INDIANA
COUNTY OF MARION

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) SS:
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BEFORE THE INDIANA
COMMISSIONER OF INSURANCE

IN THE MATTER OF:

Farmers Mutual Insurance Company of Grant and Blackford Counties
2125 S Western Ave
Marion, Indiana 46953

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Examination of Farmers Mutual Insurance Company of Grant and Blackford Counties

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Farmers Mutual Insurance Company of Grant and Blackford Counties, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on December 12, 2013, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of Farmers Mutual Insurance Company of Grant and Blackford Counties shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

March 18, 2014
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0029 5024 06

STATE OF INDIANA)
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COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)

Farmers Mutual Insurance Company of Grant and Blackford Counties)
2125 S Western Ave)
Marion, Indiana)

Examination of Farmers Mutual Insurance Company of Grant and Blackford Counties

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Farmers Mutual Insurance Company of Grant and Blackford Counties (hereinafter "Company") for the time period January 1, 2008 through December 31, 2012.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on November 8, 2013.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on December 12, 2013 and was received by the Company on December 18, 2013.

The Company did not file any objections.


NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Farmers Mutual Insurance Company of Grant and Blackford Counties as of December 31, 2012.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Farmers Mutual Insurance Company of Grant and Blackford Counties to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 18 day of
March, 2014.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

[Handwritten signature]

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

**FARMERS MUTUAL INSURANCE COMPANY OF GRANT
AND BLACKFORD COUNTIES**

NAIC Co. CODE 92299

As of

December 31, 2012

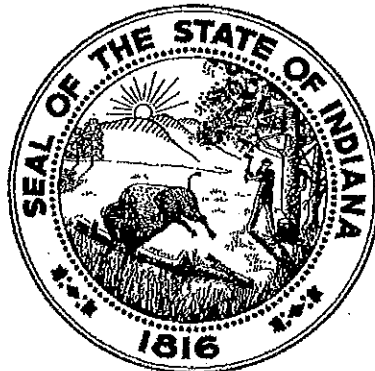


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STATE OF INDIANA

MICHAEL R. PENCE, Governor

November 8, 2013

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300

INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385

FAX: (317) 232-5251

Stephen W. Robertson, Commissioner

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 W. Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3768, an examination has been made of the affairs and financial condition of:

Farmers Mutual Insurance Company of Grant and Blackford Counties
2125 South Western Avenue
Marion, Indiana 46953

hereinafter referred to as the "Company", an Indiana-domiciled, farm mutual insurance company. The examination was conducted at the Company's corporate offices in Marion, Indiana and at the offices of Noble Consulting Services, Inc., in Indianapolis, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2012, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

SERVICES
32-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-822-4461

EXAMINATIONS / FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance as of the period ending December 31, 2007. The present examination, covering the period from January 1, 2008 through December 31, 2012, was conducted by Noble Consulting Services, Inc., (Noble) on behalf of the state of Indiana.

Noble conducted the risk-focused examination pursuant to and in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company, evaluating system controls, and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles, and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company was organized in March, 1889 and incorporated on January 24, 1891; as Farmers Mutual Insurance Company of Grant County, Indiana. The Company elected to come under Chapter 145, Acts 1919, as amended, to be known as Farmers Mutual Insurance Company of Grant and Blackford Counties.

The purpose of the Company is to insure the property of its policyholders, on the mutual plan, against loss from those hazards, which farm mutual law permits it to insure.

CAPITAL AND SURPLUS

The Company is owned by its 676 policyholders. As of December 31, 2012, the Company had surplus, as adjusted through the examination process, of \$2,386,469.

TERRITORY AND PLAN OF OPERATION

The Company currently conducts business in Grant County.

The Company insures against property losses to churches, dwellings, farm buildings and personal property, and mobile homes. Policies are written on a one (1) year basis.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company, as reported during the examination period and corrected in the process of the examination:

		Admitted		Policyholder
Year		Assets	Liabilities	Surplus
* 2012	\$	3,095,930	\$ 709,461	\$ 2,386,469
* 2011		3,046,388	581,877	2,464,511
* 2010		3,079,671	640,693	2,438,978
** 2009		2,784,722	641,609	2,143,113
2008		2,571,638	404,512	2,167,126

*As adjusted through the examination process, surplus was increased by \$199,000 for the years ended December 31, 2010, 2011, and 2012. The increase was due to an understatement of unpaid premiums.

** Five year historical amounts do not agree with what is shown above for 2009 as noted in the Comments on the Financial Statements section of this Report.

MANAGEMENT AND CONTROL

Policyholders

An annual meeting of policyholders is held each year for the purpose of electing a Board of Directors and addressing such other business as may arise. Each policyholder is entitled to one (1) vote.

Directors

The corporate powers of the Company are vested in a Board of Directors consisting of no less than five (5) and no more than seven (7) policyholders. Directors are elected to serve a term of three (3) years with staggered term expirations. The following persons were serving as directors at December 31, 2012:

Name	Residence
Richard Thurman	Hartford City, IN
Jerry Trant	Montpelier, IN
Merle Templin	Converse, IN
John Kerlin	Marion, IN
George DeWeese	Warren, IN

Officers

The officers of the Company consist of a President, a Vice President, a Secretary, and Treasurer. Officers are elected at the annual meeting of the Board of Directors to serve a term of one (1) year.

The following persons were serving as officers at December 31, 2012:

<u>Name</u>	<u>Title</u>
Richard Thurman	President
John Kerlin	Vice President
Lisa Harvey	Secretary and Treasurer

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. Per review of the signed statements, it was noted that the directors and officers listed in the Management and Control section of this Report of Examination fulfilled that requirement.

OATH OF OFFICE

Indiana Code 27-1-7-10(i) stipulates that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly, and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such Company. Per review of the signed statements, it was noted that all Directors and officers listed in the Management and Control section of this Report of Examination had completed Oath of Office statements.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments to the Bylaws during the examination period.

Minutes

Minutes from the Board of Directors meetings and the annual meeting of the policyholders were reviewed for the period under examination through the fieldwork date. Minutes documented the Board of Director's oversight of operations.

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by its employees through a fidelity bond issued by The Western Surety Company. The bond has blanket coverage of \$100,000. Based on the admitted assets and gross income of the Company, the Company is in compliance with the prescribed minimum coverage specified by the NAIC.

REINSURANCE

The Company's reinsurance program is written through Grinnell Mutual Reinsurance Company (Reinsurer), of Grinnell, Iowa. The Company's reinsurance contract, effective January 1, 2012, consists of Individual Occurrence and Aggregate Excess of Loss coverage.

Individual Occurrence Excess of Loss

This coverage limits the Company's liability on an individual occurrence of loss with a retention limit of \$200,000. Losses under this layer are experienced rated based on a five (5) year loss ratio.

Aggregate Excess of Loss

The Reinsurer agrees to indemnify the Company for 100% of their aggregate net loss, in excess of the retention limit of \$623,897. Losses under this layer are experienced rated based on a five (5) year loss ratio.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The Company uses a computerized accounting system for their general ledger and uses it to create trial balances at year-end. Material balances reflected in the December 31, 2012 Annual Statement and trial balance were agreed to supporting documentation.

FARMERS MUTUAL INSURANCE COMPANY OF GRANT AND BLACKFORD COUNTIES

FINANCIAL STATEMENTS

Assets, Liabilities, and Surplus

	As of December 31, 2012			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, 2011
Assets:				
Bonds	\$ 916,520	\$ -	\$ 916,520	\$ 862,145
Stocks - common	1,271,504	-	1,271,504	1,164,704
Bank balances	483,156	-	483,156	589,843
Real Estate	219,680	-	219,680	222,129
Accoutits' receivable and unpaid premiums	-	199,000	199,000	199,000 *
Accrued interest	6,070	-	6,070	8,003
Indiana income tax recoverable	-	-	-	564
Total Assets	\$ 2,896,930	\$ 199,000	\$ 3,095,930	\$ 3,046,388
Liabilities and Surplus				
Total unpaid losses	\$ 122,992	\$ 200,000	\$ 322,992	\$ 90,903
Less: reinsurance recoverable on unpaid losses	-	(200,000)	(200,000)	(86,903)
Net unpaid claims	122,992	-	122,992	4,000
Ceded reinsurance balances payable	21,259	-	21,259	19,837
Unpaid salaries and commissions	19,844	-	19,844	14,440
Amounts withheld from others	1,552	-	1,552	2,627
Unearned premium reserve	543,814	-	543,814	540,973
Total liabilities	709,461	-	709,461	581,877
Surplus	2,187,469	199,000	2,386,469	2,464,511
Total liabilities and surplus	\$ 2,896,930	\$ 199,000	\$ 3,095,930	\$ 3,046,288

* As adjusted through the examination process, surplus was increased by \$199,000 for the years ended December 31, 2010, 2011, and 2012. The increase was due to an understatement of unpaid premiums.

FARMERS MUTUAL INSURANCE COMPANY OF GRANT AND BLACKFORD COUNTIES

FINANCIAL STATEMENTS

Statement of Income and Changes in Surplus

	As of December 31, 2012			December 31, 2011
	Per Annual Statement	Examination Adjustments	Per Examination	
Income:				
Total net assessments, premiums and fees	\$ 840,504	\$ -	\$ 840,504	\$ 849,080
Total income from investments	96,551	-	96,551	100,066
Federal income tax refund	21,328	-	21,328	11,333
Miscellaneous income	7,149	-	7,149	1,416
State income tax refund	-	-	-	11,899
Total income	965,532	-	965,532	973,794
Disbursements:				
Total of all net losses	519,500	-	519,500	434,118
Total operating expense	511,742	-	511,742	434,405
Total non-operating expense	12,480	-	12,480	115,758
Change in ledger assets and liabilities	-	(148)	(148)	(36,020) *
Total disbursements	1,043,722	(148)	1,043,574	948,261
Net income	(78,190)	148	(78,042)	25,533
Surplus, beginning of period	2,265,511	199,000	2,464,511	2,438,978 *
Surplus, end of period	\$ 2,187,469	\$ 199,148	\$ 2,386,469	\$ 2,464,511 *

* The Company reports some income statement items on a cash basis. In order to properly reconcile the change in Surplus, the change in ledger assets and liabilities has been adjusted through the examination process by (\$148) in 2012 and by (\$36,020) in 2011.

COMMENTS ON THE FINANCIAL STATEMENTS

The Company experienced significant losses in 2012, which exceeded the reinsurance retention limits. The Company did not report the reinsurance recoverable as of December 31, 2012, but instead reported unpaid losses, net of reinsurance recoverable. In the future, the Company should take appropriate measures to ensure the proper reporting of reinsurance recoverable.

The Five Year Historical section of each Annual Statement, since 2009, has incorrectly listed the total Liabilities and Surplus for 2009. The correct amounts, as reported on the Liabilities page of the 2009 Annual Statement, are: \$641,609 for Liabilities and \$2,143,113 for Surplus. Only the amounts reported on the Five Year Historical section have been incorrectly reported and should be corrected for the 2013 Annual Statement.

SUMMARY OF SIGNIFICANT FINDINGS

The Company understated unpaid premiums by \$199,000 in 2010, 2011, and 2012, which increased Policyholder surplus by \$199,000 for each year. In the future, the Company should take appropriate measures to ensure the proper reporting of unpaid premiums.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of field work that were considered material events requiring disclosure in this Report of Examination.


AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Noble Consulting Services, Inc., hereinafter collectively referred to as the "Examiners", performed an examination of **Farmers Mutual Insurance Company of Grant and Blackford Counties**, as of **December 31, 2012**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

This examination was performed in accordance with those procedures required by the 2013 NAIC Financial Condition Examiner's Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standards and no audit opinion is expressed on the financial statements contained in this Report of Examination.

The attached Report of Examination is a true and complete report of condition of **Farmers Mutual Insurance Company of Grant and Blackford Counties**, as of **December 31, 2012**, as determined by the undersigned.



Jim Kattman, CFE
Noble Consulting Services, Inc.

State of:
County of:

On this 13 day of January 2014, before me personally appeared, Jim Kattman, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission



