

STATE OF INDIANA)
) SS: BEFORE THE INDIANA
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)

Farmers Mutual Insurance Company of Tipton County)
101 East Jefferson Street)
Tipton, Indiana 46072)

Examination of Farmers Mutual Insurance Company of Tipton County


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 Tipton County, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on December 26, 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 Tipton County 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.

February 20, 2014
Date


Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0028 2155 74

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)
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101 East Jefferson Street)
Tipton, Indiana)

Examination of Farmers Mutual Insurance Company of Tipton County

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Farmers Mutual Insurance Company of Tipton County (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 22, 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 26, 2013 and was received by the Company on December 30, 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 Tipton County as of December 31, 2012.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Farmers Mutual Insurance Company of Tipton County 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 20 day of
February, 2014.



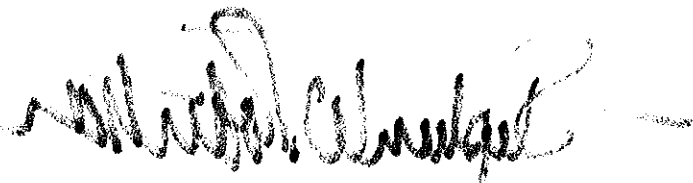
Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

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.

A handwritten signature in cursive script, appearing to read "Michael J. ...", with a horizontal line extending to the right.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION

OF

FARMERS MUTUAL INSURANCE COMPANY OF TIPTON
COUNTY

NAIC Co. CODE 92302

As of

December 31, 2012



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STATE OF INDIANA

MICHAEL R. PENCE, Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE
311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
FAX: (317) 232-5251

November 22, 2013

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 3766, an examination has been made of the affairs and financial condition of:

Farmers Mutual Insurance Company of Tipton County
101 East Jefferson Street
Tipton, Indiana 46072

hereinafter referred to as the "Company", an Indiana-domiciled, farm mutual insurance company. The examination was conducted at the Company's corporate offices in Tipton, 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

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2007. The present risk-focused 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 July 17, 1883, in Tipton County, Indiana, for the purpose of insuring its policyholders' properties against loss.

CAPITAL AND SURPLUS

The Company is owned by its 1,184 policyholders. As of December 31, 2012, the Company had surplus, as reported, of \$2,507,968.

TERRITORY AND PLAN OF OPERATION

The Company currently conducts business in the following twenty-four (24) counties: Blackford, Boone, Brown, Carroll, Cass, Clinton, Delaware, Elkhart, Grant, Greene, Hamilton, Howard, Johnson, Kosciusko, Madison, Marion, Miami, Owen, Parke, St. Joseph, Tipton, Vigo, Wabash, and White.

The Company primarily insures residential and farm property and equipment, as well as rural churches and stores. 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:

Year	Admitted		Policyholder	
	Assets	Liabilities	Assets	Surplus
2012	\$ 3,036,841	\$ 528,873	\$ 2,507,968	
2011	2,782,206	462,691	2,319,515	
2010	2,782,853	450,771	2,332,082	
2009	2,612,864	423,022	2,189,842	
2008	2,550,743	457,361	2,093,382	

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

As stated in the By-laws, the corporate powers of the Company are vested in a Board of Directors consisting of five (5) policyholders. Directors are elected to serve a term of three (3) years. The following three (3) persons were serving as directors at December 31, 2012:

<u>Name</u>	<u>Residence</u>
Jeff McCorkle	Windfall, IN
Ron Sottong	Atlanta, IN
Larry Clouser	Windfall, IN

See the Summary of Significant Findings section.

Officers

The officers of the Company consist of a President, a Vice President, and a Secretary-Treasurer. Officers are elected at the annual meeting of the Board of Directors. The Secretary-Treasurer is a hired position and cannot be a director on the Board of Directors, per the Company's Bylaws.

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

<u>Name</u>	<u>Title</u>
Jeff McCorkle	President
Ron Sottong	Vice President
Norma Mattingly	Secretary-Treasurer

CONFLICT OF INTEREST

The Company does not have a Conflict of Interest policy, as recommended by the NAIC and INDOI. It was noted that the directors and officers listed in the Management and Control section of this Report of Examination have not completed Conflict of Interest statements.

See the Summary of Significant Findings section.

OATH OF OFFICE

Indiana Code (IC) 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

The Articles of Incorporation were amended February 17, 2009. Amendments were made to reduce the standard policy period from five (5) years to one (1) year and to increase the minimum policy coverage amounts from \$50 to \$100.

Bylaws

The Bylaws were amended February 17, 2009. The number of directors specified in the By-laws was reduced from six (6) to five (5) and the number of directors constituting a quorum was reduced from four (4) to three (3).

Minutes

Minutes from the Board of Directors meetings and the annual meetings of 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 St. Paul Fire and Marine Insurance Company. The bond has blanket coverage of \$250,000. 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 placed through Guy Carpenter, a reinsurance intermediary, with offices in Philadelphia, Pennsylvania. The Company's reinsurance contracts, effective January 1, 2012, consist of Property Per Risk, Aggregate, Supplemental Aggregate Excess of Loss (XOL), and Property Facultative Pro Rata coverages.

Property Per Risk Excess of Loss

The Reinsurer agrees to indemnify the Company for 100% of their Ultimate Net (property) Loss over and above the Company's retention limit of \$40,000 subject to the limit of liability to the Reinsurer of \$360,000 each loss, each risk and \$720,000 each occurrence.

Aggregate Excess of Loss

The Reinsurer agrees to indemnify the Company for 95% of their Ultimate Net Loss over and above an initial Ultimate Net Loss equal to the greater of \$478,800 or 90% of Gross Net Earned Premium Income (GNEPI), subject to a limit of liability to the Reinsurer of 95% of the lesser of \$2,350,110 (being 95% of \$2,473,800) or 95% of 310% of GNEPI.

Supplemental Aggregate Excess of Loss

The Reinsurer is liable in the aggregate for 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss equal to the sum of its retention under its Aggregate XOL reinsurance contract plus the Reinsurers' limit of liability, subject to a limit of liability to the Reinsurer of 100% of 187.5% of GNEPI.

Property Facultative Pro Rata Reinsurance

Under this reinsurance treaty, coverage is ceded on a risk by risk basis. The facultative coverage is used to limit the Company's overall retention based on their risk appetite.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. Material balances reflected in the December 31, 2012 Annual Statement and trial balance were agreed to supporting documentation.

FARMERS MUTUAL INSURANCE COMPANY OF TIPTON COUNTY

FINANCIAL STATEMENTS

Assets, Liabilities, and Surplus

	As of December 31, 2012			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, 2011</u>
Assets:				
Bonds	\$ 748,849	\$ -	\$ 748,849	\$ 598,849
Bank balances	2,287,992	-	2,287,992	2,183,357
Total Assets	<u>\$ 3,036,841</u>	<u>\$ -</u>	<u>\$ 3,036,841</u>	<u>\$ 2,782,206</u>
 Liabilities and Surplus:				
Total unpaid losses	\$ 18,712	\$ -	\$ 18,712	\$ 8,619
Net unpaid claims	18,712	-	18,712	8,619
Unearned premium reserve	503,819	-	503,819	450,798
Accrued payroll tax	6,342	-	6,342	3,274
Total liabilities	528,873	-	528,873	462,691
Surplus	2,507,968	-	2,507,968	2,319,515
Total liabilities and surplus	<u>\$ 3,036,841</u>	<u>\$ -</u>	<u>\$ 3,036,841</u>	<u>\$ 2,782,206</u>

FARMERS MUTUAL INSURANCE COMPANY OF TIPTON COUNTY

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	\$ 734,417	\$ -	\$ 734,417	\$ 654,861
Total income from investments	69,782	-	69,782	70,682
Other Income	35,730	-	35,730	18,462
Total income	<u>839,929</u>	<u>-</u>	<u>839,929</u>	<u>744,005</u>
Disbursements:				
Total of all net losses	290,577	-	290,577	477,766
Total operating expenses	288,736	-	288,736	266,275
Total non-operating expenses	5,981	-	5,981	612
Change in ledger assets and liabilities	-	66,182	66,182	11,919 *
Total disbursements	<u>585,294</u>	<u>66,182</u>	<u>651,476</u>	<u>756,572</u>
Net income	254,635	(66,182)	188,453	(12,567)
Surplus, beginning of period as reported	<u>2,319,515</u>	<u>-</u>	<u>2,319,515</u>	<u>2,332,082</u>
Surplus, end of period as reported	<u>\$ 2,507,968</u>	<u>\$ -</u>	<u>\$ 2,507,968</u>	<u>\$ 2,319,515</u>

* 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 \$66,182 in 2012, and by \$11,919 in 2011.

COMMENTS ON THE FINANCIAL STATEMENTS

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 \$11,919 and \$66,812, in 2011 and 2012, respectively.

SUMMARY OF SIGNIFICANT FINDINGS

The Bylaws state the number of directors required on the Board of Directors is five (5). Both the 2012 and 2011 Annual Statements reflect that the Board of Directors consisted of three (3) directors. This fact was also confirmed during the review of the Board of Directors' meeting minutes. It is recommended the Company appoint additional directors to the Board of Directors in order to be in compliance with the current Bylaws.

The Company was unable to provide a Conflict of Interest policy or signed Conflict of Interest statements for directors, officers, and key employees as recommended by the NAIC and the INDOI. It is recommended the Company implement a Conflict of Interest policy requiring directors, officers, and key employees to submit signed conflict of interest statements annually to the Board of Directors.

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.

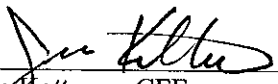
AFFIDAVIT

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 Tipton County**, 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 Tipton County**, 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 expires  _____


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