

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

IN THE MATTER OF:)

Farmers Mutual Insurance Company of Johnson and Shelby Counties)
P.O. Box 452)
Franklin, Indiana 46131)

Examination of Farmers Mutual Insurance Company of Johnson and Shelby 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 Johnson and Shelby Counties, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on September 30, 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 Johnson and Shelby 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.

February 24, 2014
Date

Cynthia D. Donovan
Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0028 0132 93

STATE OF INDIANA)
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IN THE MATTER OF:)

Farmers Mutual Insurance Company of Johnson and Shelby Counties)
P.O. Box 452)
Franklin, Indiana)

Examination of Farmers Mutual Insurance Company of Johnson and Shelby Counties

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Farmers Mutual Insurance Company of Johnson and Shelby Counties (hereinafter "Company") for the time period January 8, 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 August 23, 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 September 30, 2013 and was received by the Company on October 3, 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 Johnson and Shelby 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 Johnson and Shelby 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 24 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.

Handwritten signature

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

**FARMERS MUTUAL INSURANCE OF JOHNSON AND
SHELBY COUNTIES**

NAIC Co. CODE 92295

As of

December 31, 2012

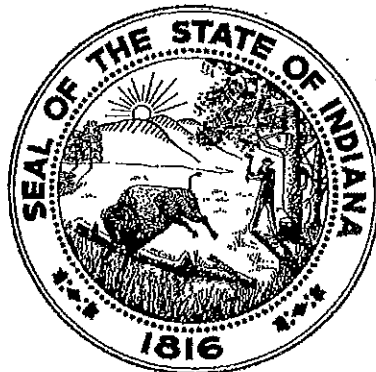


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STATE OF INDIANA

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

August 23, 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 3749, an examination has been made of the affairs and financial condition of:

Farmers Mutual Insurance of Johnson and Shelby Counties
1924 Longest Drive
Franklin, Indiana 46131

hereinafter referred to as the "Company", an Indiana-domiciled, farm mutual insurance company: The examination was conducted at the Company's corporate offices in Franklin, 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 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 March 9, 1894, under the Acts of 1881, and elected to come under Chapter 145, Acts 1919 on May 4, 1923. The Company's original name was Farmers Mutual Fire Insurance Company of Johnson and Shelby Counties. On July 11, 1980, the Company amended its Articles of Incorporation to adopt its current name.

The purpose of the Company shall be to safeguard its policyholders so far as possible against property losses by reason of fire and lightning, windstorm, cyclone, tornado and hail, and to distribute on the mutual plan such losses as may occur from these hazards in spite of reasonable precautions.

Also, see the Subsequent Events section on page 8.

CAPITAL AND SURPLUS

The Company is owned by its 868 policyholders. As of December 31, 2012, the Company had surplus, as adjusted through the examination process, of \$686,278.

TERRITORY AND PLAN OF OPERATION

The Company currently conducts business in forty-eight (48) Indiana counties.

The Company insures against property losses, which include: country churches, farms, homes, and personal property. 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 adjusted through the process of the examination:

	<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholder Surplus</u>
*	2012	\$ 1,192,128	\$ 505,850	\$ 686,278
**	2011	1,859,182	541,559	1,317,623
	2010	2,367,663	1,746,274	621,389
	2009	2,592,168	1,674,286	917,882
	2008	2,448,046	1,168,978	1,279,068

* As adjusted through the examination process, the 2012 Assets decreased by \$10,000 due to a devaluation in the stock portfolio. Liabilities decreased by \$825,000 due to an overstatement of the Unearned Premium Reserve. The net effect of the two adjustments increased surplus by \$815,000. The 2012 financial statements on pages 6 and 7 of this report were also adjusted to reflect the examination findings.

** As adjusted through the examination process, the 2011 Liabilities decreased by \$766,000 due to an overstatement of the Unearned Premium Reserve. Policyholder Surplus for 2011 increased by the same amount. The 2011 financial statements on pages 6 and 7 of this report were also adjusted to reflect the examination findings.

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 ten (10) Directors. Directors are elected to serve a term of three (3) years. The following persons were serving as Directors at December 31, 2012:

<u>Name</u>	<u>Residence</u>
Charles Billingsly	Greenwood, IN
J. Kevin Carson	Needham, IN
George Larrison	St. Paul, IN
Richard Larkey	Fairland, IN
Gary Long	Franklin, IN
Brian Morris	Greenwood, IN
Duane Smith	Noblesville, IN

Officers

The officers of the Company consist of a President, a Vice President, a Secretary, and a 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>Office</u>
J. Kevin Carson	President
Charles Billingsly	Vice President
Duane Smith	Secretary
Richard Larkey	Treasurer

CONFLICT OF INTEREST

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

FIDELITY BOND AND OTHER INSURANCE

The Company protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by St. Paul Fire and Marine Insurance 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 of Loss Excess

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 losses, in excess of the retention limit of \$1,653,983.

Also, see the Subsequent Events section on page 8.

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 utilizes a computerized accounting system for their general ledger, which generates the 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 OF JOHNSON AND SHELBY COUNTIES

FINANCIAL STATEMENTS

Assets, Liabilities, and Surplus

	As of December 31, 2012			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, 2011
Assets:				
Bonds	\$ 269,910	\$ -	\$ 269,910	\$ 399,214
Stocks - common	252,817	(10,000)	242,817	227,358
Bank balances	428,715	-	428,715	768,402
Real Estate	88,465	-	88,465	218,340
Unpaid premiums	157,182	-	157,182	239,123
Accrued interest	-	-	-	1,428
Federal income tax recoverable	16	-	16	16
Miscellaneous assets	5,023	-	5,023	5,301
Total Assets	\$ 1,202,128	\$ (10,000)	\$ 1,192,128	\$ 1,859,182
Liabilities and Surplus:				
Total Unpaid losses	\$ 158,951	\$ -	\$ 158,951	\$ 152,431
Less: reinsurance recoverable on unpaid losses	(158,951)	-	(158,951)	(152,431)
Net unpaid claims	-	-	-	-
Unpaid salaries and commissions	-	-	-	50,037
Ceded reinsurance balances payable	48,201	-	48,201	55,370
Taxes payable	8,078	-	8,078	14,761
Other unpaid expenses	3,990	-	3,990	4,191
Premiums received in advance	19,397	-	19,397	20,582
Unearned premium reserve	1,251,184	(825,000)	426,184	395,485 *
Accrued payroll tax	-	-	-	1,133
Total liabilities	1,330,850	(825,000)	505,850	541,559
Surplus	(128,722)	815,000	686,278	1,317,623 *
Total liabilities and surplus	\$ 1,202,128	\$ (10,000)	\$ 1,192,128	\$ 1,859,182

* As adjusted through the examination process, the 2011 policyholder surplus increased by \$766,000 (unearned premium reserve was overstated by \$766,000).

FARMERS MUTUAL OF JOHNSON AND SHELBY COUNTIES

FINANCIAL STATEMENTS

Statement of Income and Changes in Surplus

	As of December 31, 2012			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, 2011
Income:				
Total net assessments, premiums and fees	\$ 163,996	\$ 59,000	\$ 222,996	\$ 1,823,741
Total income from investments	75,573	(10,000)	65,573	116,429
Miscellaneous income	117,699	-	117,699	109,308
Fire salvage	339	-	339	13,367
Total income	<u>357,607</u>	<u>49,000</u>	<u>406,607</u>	<u>2,062,845</u>
Disbursements:				
Total of all net losses	357,213	-	357,213	1,941,558
Total operating expenses	656,679	-	656,679	790,418
Total non-operating expenses	17,918	-	17,918	74,079
Change in ledger assets and liabilities	-	23,033	23,033	(673,444) *
Total disbursements	<u>1,031,810</u>	<u>23,033</u>	<u>1,054,843</u>	<u>2,132,611</u>
Net income	(674,203)	25,967	(648,236)	(69,766)
Surplus, beginning of period	551,623	766,000	1,317,623	1,387,389 **
Unrealized Gain on stocks	16,891	-	16,891	- ***
Surplus, end of period	<u>\$ (128,722)</u>	<u>\$ 791,967</u>	<u>\$ 686,278</u>	<u>\$ 1,317,623 ***</u>

* The Company reports income and expenses on a cash-basis. A reduction of expenses in the amount of \$673,444 was recorded in 2011, and an increase in expenses in the amount of \$23,033 was recorded in 2012, in order to properly reconcile surplus.

**As adjusted through the examination process, the 2010 and 2011 policyholder surplus increased by \$766,000 (unearned premium reserve was overstated by \$766,000).

***The amount for "Surplus, end of period" in the Per Annual Statement column does not reconcile as presented in the 2012 Annual Statement. Because income and expenses are reported on a cash basis, an adjustment of \$23,033 is necessary and this adjustment is reflected in the 2012 surplus amount of (\$128,722). Further, unrealized gains on stocks were reported correctly in the subsidiary schedules within the 2012 Annual Statement and are presented on a separate line in the reconciliation of Surplus.

COMMENTS ON THE FINANCIAL STATEMENTS

The Company overstated common stocks by \$10,000, as of December 31, 2012, relating to the write-off of common stock. The adjustment also reduced investment income by the same amount. This overstatement had a material impact on the Company's financial position. In the future, the Company should take appropriate measures to ensure the proper reporting of common stock valuations.

The Company overstated unearned premium reserve by \$825,000, as of December 31, 2012 and \$766,000, as of December 31, 2011. This overstatement had a material impact on the Company's financial position. In the future, the Company should take appropriate measures to ensure the proper reporting of unearned premium reserve.

The adjustment to correct overstated unearned premium in 2012 resulted in increase of net income of \$59,000.

The Company reports income and expenses on a cash-basis. Changes in ledger assets and liabilities were not reported in the Annual Statement. An additional expense of \$23,033 was recorded in 2012, in order to properly reconcile surplus.

SUMMARY OF SIGNIFICANT FINDINGS

Other than the comments outlined in the Comments on the Financial Statements section of this Report of Examination, the examination resulted in no other significant findings.

SUBSEQUENT EVENTS

Effective January 1, 2013, the reinsurance agreement with the Reinsurer was changed to a 100% Quota Share treaty with a 32% commission allowance. The reinsurance agreement was permanently terminated effective April 30, 2013.

As of April 30, 2013, the Company ceased servicing policyholders, except for Board Member policies. The Board Member policies were subsequently terminated. The Company has retained minimal staff and operational capability, in order to facilitate the refund of Surplus to qualified policyholders.


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 of Johnson and Shelby 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.

The attached report of examination is a true and complete report of condition of **Farmers Mutual Insurance of Johnson and Shelby Counties**, as of **December 31, 2012**, as determined by the undersigned.



Jim Kattman, CFE
Noble Consulting Services, Inc.

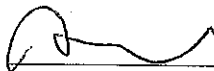
State of: Indiana
County of: Hendricks

On this 5 day of February 2013, 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





100-100000000

RECEIVED
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
WASHINGTON, D. C. 20535
MAY 15 1964