

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

IN THE MATTER OF:)
)
Mutual Insurance Association of Southern Indiana)
1133 West Mill Road, Suite 111)
Evansville, IN 47710)

Examination of Mutual Insurance Association of Southern Indiana

NOTICE OF ENTRY OF ORDER

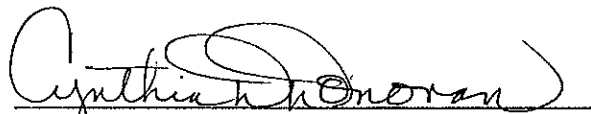
Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of Mutual Insurance Association of Southern Indiana, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on February 26, 2016, 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 Mutual Insurance Association of Southern Indiana 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.

Date

4/12/2016


Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 91 7190 0005 2720 0057 5507

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

IN THE MATTER OF:)
)
Mutual Insurance Association of Southern Indiana)
1133 West Mill Road, Suite 111)
Evansville, IN 47710)

Examination of Mutual Insurance Association of Southern Indiana

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Mutual Insurance Association of Southern Indiana (hereinafter "Company") for the time period January 1, 2010 through December 31, 2014.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on November 19, 2015.

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 February 26, 2016 and was received by the Company on February 29, 2016.

The Company did not file any objections.

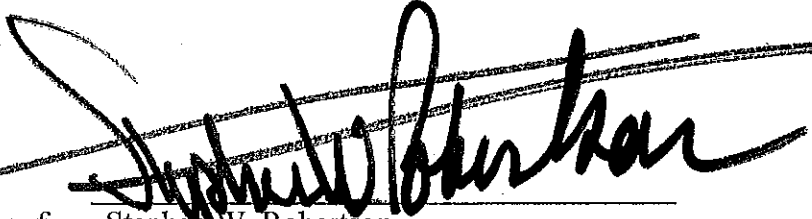
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Mutual Insurance Association of Southern Indiana as of December 31, 2014.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Mutual Insurance Association of Southern Indiana 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 12th day of April, 2016.



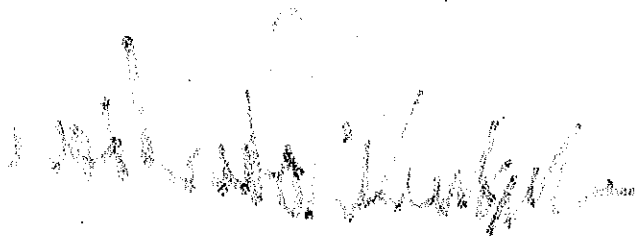
Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

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 dark ink, appearing to be "Michael J. ...", is written across the lower portion of the page. The signature is somewhat cursive and spans across several lines of the document's layout.

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

MUTUAL INSURANCE ASSOCIATION OF SOUTHERN INDIANA
NAIC Co. CODE 92268

As of

December 31, 2014

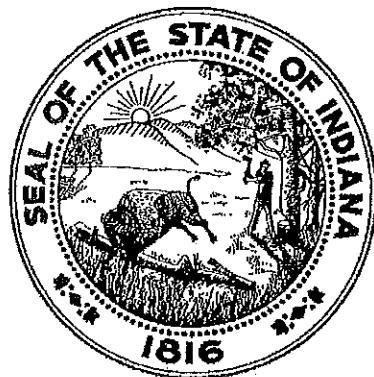


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STATE OF INDIANA

IDOI

MICHAEL R. PENCE, Governor

Indiana Department of Insurance
311 W. Washington Street, Suite 103
Indianapolis, Indiana 46204-2787
Telephone: (317) 232-2385
Fax: (317) 232-5251
Stephen W. Robertson, Commissioner

November 19, 2015

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

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3876, an examination has been made of the affairs and financial condition of:

Mutual Insurance Association of Southern Indiana
1133 West Mill Road, Suite 111
Evansville, Indiana 47710

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

The Report of Examination, reflecting the status of the Company as of December 31, 2014, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES (317) 232-2413 COMPANY COMPLIANCE (317) 233-0697 CONSUMER SERVICES (317) 232-2395 EXAMINATIONS/FINANCIAL SERVICES (317) 232-2390 MEDICAL MALPRACTICE (317) 232-2402 SECURITIES/COMPANY RECORDS (317) 232-1991 STATE HEALTH INSURANCE 1-800-832-4674
1-800-622-4461

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance as of the period ending December 31, 2009. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2010 through December 31, 2014, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted 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, including corporate governance, identifying and assessing inherent risks within the Company, and 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 on September 12, 1899, and elected to come under Chapter 145, Acts 1919, on August 31, 1934, which was repealed by Acts 1972, P.L. 129-2003 and restated as Indiana Code (IC) 27-5.1 as pertains to farm mutual insurance companies.

The purpose of the Company is to insure its members against loss from hazards permitted to be insured against by the farm mutual law under which it operates and to distribute such losses on the mutual insurance plan.

CAPITAL AND SURPLUS

As of December 31, 2014, the Company had surplus as adjusted in the examination of \$10,691,060 and 2,922 policyholders, who are the owners of the Company.

TERRITORY AND PLAN OF OPERATION

The Company insures commercial property, dwellings, equipment, farm outbuildings, livestock, mobile homes, and personal property. The Company conducts business in the Indiana counties of Crawford, Daviess, Dubois, Gibson, Knox, Perry, Pike, Posey, Spencer, Vanderburgh, and Warrick.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company, as reported during the examination period and adjusted per the examination:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2014	\$ 11,799,769 ^A	\$ 1,108,709	\$ 10,691,060 ^A
2013	10,905,487 ^B	812,207	10,093,280 ^B
2012	9,692,840 ^B	936,948	8,755,892 ^B
2011	9,538,327 ^B	831,488	8,706,839 ^B
2010	9,503,396 ^B	876,055	8,627,341 ^B

^A 2014 admitted assets and surplus have been adjusted per the examination. See the **Comments on the Financial Statements** section.

^B 2010-2013 admitted assets and surplus were adjusted to reverse the dividend reserve (\$174,350 (2010), \$37,202 (2011), \$4,229 (2012), and \$206,321 (2013)). See the **Comments on the Financial Statements** section.

MANAGEMENT AND CONTROL

Directors

The business and financial affairs of the Company shall be managed by a Board of Directors (Board) consisting of seven (7) members elected at the annual meeting of members of the Company and such additional members, if any, as are provided for by the Articles of Incorporation. Two (2) directors are elected each year, with the exception of every third year, where three (3) are elected. The following is a listing of persons serving as directors as of December 31, 2014:

<u>Name</u>	<u>Address</u>
Thomas Benton	Mt. Vernon, Indiana
Richard Blankenship	Newburgh, Indiana
Perry Ireland	Lynnville, Indiana
Larry Johnson	Fort Branch, Indiana
Clenneth Kohlmeyer	Elberfeld, Indiana
Michael Wassmer	Wadesville, Indiana
William Wehr	Jasper, Indiana

Officers

At the annual meeting of the Board, which shall be held immediately following the annual meeting of the members, the Board shall elect for a term of one (1) year, a President, a Vice President, a Secretary, and a Treasurer. The following is a list of key officers and their respective titles as of December 31, 2014.

<u>Name</u>	<u>Office</u>
Clenneth Kohlmeyer	President
William Wehr	Vice President
Richard Blankenship	Secretary and Treasurer

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2014.

OATH OF OFFICE

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 Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all of the directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2014.

CORPORATE RECORDS

Articles of Incorporation

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

Bylaws

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

Minutes

The Board minutes and the minutes from the annual meeting of the members were reviewed for the period under examination, through the fieldwork date. No significant issues or events were noted.

AFFILIATED COMPANIES

The Company does not have any affiliated companies.

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 a coverage limit of \$100,000 with a \$2,500 deductible. The fidelity bond does not meet the prescribed minimum coverage specified by the NAIC. See the Other Significant Issues section of this Report of Examination.

The Company had additional types of coverage in-force at December 31, 2014, including but not limited to, business liability, directors and officers liability, employment practices liability, and professional liability.

STATUTORY DEPOSITS

As a farm mutual insurer, the Company is not required to maintain a statutory deposit with the state of Indiana.

REINSURANCE

During the examination period, the Company purchased reinsurance from Grinnell Mutual Reinsurance Company (Grinnell) as follows:

- *Individual Occurrence of Loss Excess* – The Company's retention was \$275,000 for 2014 and the coverage limit was 100% above the retention subject to limitations.
- *Aggregate Excess* – The Company's retention was \$1,908,395 for 2014 and the coverage limit was 100% of unlimited losses above retention.
- *Facultative* – Rates shall be determined by Grinnell on an individual basis. The Company agrees to provide Grinnell with all necessary information about the risk. Grinnell shall determine which risks are acceptable for facultative reinsurance.
- *Pollution Clean Up and Removal* – The Company shall cede 100% of the liability it assumes on coverage insured by the Pollution Clean Up and Removal Coverage Endorsement.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2013 and 2014, were agreed to the respective Annual Statements.

MUTUAL INSURANCE ASSOCIATION OF SOUTHERN INDIANA
Assets, Liabilities and Surplus
As of December 31, 2014

	Per Annual Statement	Examination Adjustments	Per Examination
Bonds	\$ 3,463,731	\$ -	\$ 3,463,731
Stocks	6,714,132	-	6,714,132
Bank Balances			
Subject to check	169,122	-	169,122
On interest	1,318,997	-	1,318,997
Cash in office	200	-	200
Unpaid Premiums			
Due after November 1	66,905	-	66,905
Accrued interest	47,158	-	47,158
Federal income tax recoverable	15,000	-	15,000
Dividend reserve ^A	(276,367)	276,367	-
NAMIC Insurance Group	5,475	-	5,475
Uncashed checks	(951)		(951)
Totals	<u>\$ 11,523,402</u>	<u>\$ 276,367</u>	<u>\$ 11,799,769</u>
Unpaid claims (reported)	\$ 165,134	\$ -	\$ 165,134
Unpaid claims (incurred but not reported)	25,000	-	25,000
Total unpaid losses	190,134	-	190,134
Unpaid payroll taxes	5,704	-	5,704
Unpaid salaries and commissions	11,923	-	11,923
Other unpaid expenses	2,187	-	2,187
Premiums received in advance	92,488	-	92,488
Unearned premium reserve	751,185	-	751,185
Reinsurance payable	55,088	-	55,088
Total liabilities	<u>1,108,709</u>	<u>-</u>	<u>1,108,709</u>
Surplus ^B	10,414,693	276,367	10,691,060
Total liabilities and surplus	<u>\$ 11,523,402</u>	<u>\$ 276,367</u>	<u>\$ 11,799,769</u>

^A The adjustment is to reverse the dividend reserve reported as of December 31, 2014. See the **Comments on the Financial Statements** section.

^B The adjustment increases the surplus by \$276,367, as a result of the dividend reserve reversal for 2014. See the **Comments on the Financial Statements** section.

MUTUAL INSURANCE ASSOCIATION OF SOUTHERN INDIANA
Income Statement and Change in Surplus
For the Year Ended December 31, 2014

	Per Annual Statement	Examination Adjustments	Per Examination
INCOME			
Direct premiums written ^C	\$ 2,359,421	\$ (165,896)	\$ 2,193,525
Less: Reinsurance premiums ceded	(9,391)	-	(9,391)
Net premiums written	2,350,030	(165,896)	2,184,134
Aggregate excess loss reinsurance paid	(414,619)	-	(414,619)
Total net premiums	1,935,411	(165,896)	1,769,515
Income from investments	543,241	-	543,241
Other income	159,714	-	159,714
Total income	\$ 2,638,366	\$ (165,896)	\$ 2,472,470
DISBURSEMENTS			
Direct losses	\$ 1,233,930	\$ -	\$ 1,233,930
Received from aggregate excess loss reinsurance	(51,403)	-	(51,403)
Total losses paid	1,182,527	-	1,182,527
Operating expenses ^D	1,199,315	(235,942)	963,373
Total disbursements	2,381,842	(235,942)	2,145,900
Net income	256,524	70,046	326,570
Unrealized gains	607,614	-	607,614
Change in accrued assets and liabilities ^B	(336,404)	-	(336,404)
Surplus, beginning of period ^F	9,886,959	206,321	10,093,280
Surplus, end of period ^G	\$ 10,414,693	\$ 276,367	\$ 10,691,060

^C The adjustment reduces the direct premiums written as a result of the dividend reserve reversal. See the **Comments on the Financial Statements** section.

^D The adjustment is to remove the dividend expense portion of the operating expenses as a result of the dividend reserve reversal. See the **Comments on the Financial Statements** section.

^B The Company reports some income statement items on a cash basis. In order to properly reconcile the change in surplus, the change in accrued assets and liabilities amount reflects the reconciliation from cash to accrual basis.

^F The adjustment increases the surplus, beginning of period, by \$206,321, as a result of the dividend reserve reversal for 2013. See the **Comments on the Financial Statements** section.

^G The adjustment increases the surplus, end of period, by \$276,367, as a result of the dividend reserve reversal for 2014. See the **Comments on the Financial Statements** section.

COMMENTS ON THE FINANCIAL STATEMENTS

Annually, the Company's Board determines a discount that will be offered to policyholders who elect to renew. The Company accounts for the discount similar to a dividend, setting up a liability, even though the discount is not guaranteed and is no more than an incentive to renew. In the annual statement, the Company refers to the discount as a dividend reserve, which decreases surplus. Discounts should not be accrued.

The dividend reserve of \$276,367 reported as of December 31, 2014 has been reversed to \$0. As a result of the dividend reserve reversal the surplus increased by \$276,367 for the year ended December 31, 2014. Additionally, the 2014 operating expenses decreased by \$235,942 to account for the removal of the dividend expense portion related to dividend reserve reversal. Also, the 2014 direct premiums written were overstated due to the dividend reserve accounting issues and were reduced by \$165,896 to accurately account for the discounted premiums being offered to policyholders mentioned above.

For comparative purposes, the 2013, 2012, 2011 and 2010 admitted assets and surplus were adjusted in the amount of \$206,321, \$4,229, \$37,202, and \$174,350, respectively, to take in account the dividend reserve reversal for each year under examination.

OTHER SIGNIFICANT ISSUES

The fidelity bond in effect at the examination date did not meet the prescribed minimum coverage specified by the NAIC. It is recommended that the Company increase their fidelity bond coverage to \$125,000.

There were no further significant issues identified as of December 31, 2014, based on the results of this examination.

SUBSEQUENT EVENTS

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

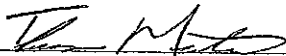
AFFIDAVIT

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., performed an examination of Mutual Insurance Association of Southern Indiana as of December 31, 2014.

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 NAIC Financial Condition Examiners 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 Mutual Insurance Association of Southern Indiana as of December 31, 2014, as determined by the undersigned.



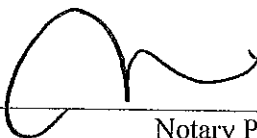
Tom Masterson, CFE
Noble Consulting Services, Inc.

State of: Indiana
County of: Marion

On this 19 day of November, 2015, before me personally appeared, Tom Masterson, 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



Notary Public

1-11-1911

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THE PROVERBIAL SAYINGS
OF THE WISE MEN OF
THE EAST
BY
D. H. M. W. H. H.
LONDON

