

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

IN THE MATTER OF: )  
 )  
Farmers Home Insurance Company of Knox County )  
1115 Weed Lane )  
Vincennes, Indiana 47591 )

Examination of: Farmers Home Insurance Company of Knox County

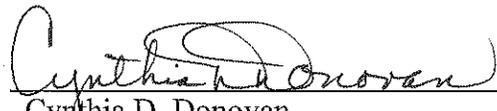
**NOTICE OF ENTRY OF ORDER**

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 Home Insurance Company of Knox County any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on February 14, 2014, 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 Home Insurance Company of Knox 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.

Date June 5, 2014

  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0033 4004 39**

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1115 Weed Lane )  
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Examination of: Farmers Home Insurance Company of Knox County

### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Farmers Home Insurance Company of Knox 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 December 17, 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 February 14, 2014 and was received by the Company on February 20, 2014.

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 Home Insurance Company of Knox County as of December 31, 2012.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Farmers Home Insurance Company of Knox 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 5 day of  
June, 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 black ink, appearing to read "Michael J. ...". The signature is written in a cursive style and is located at the bottom of the page.

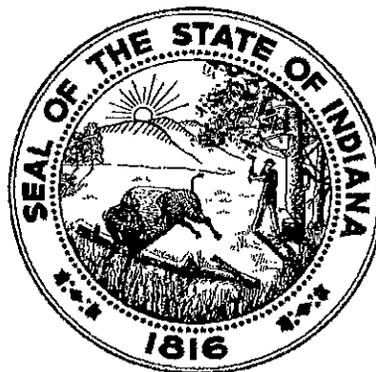
**STATE OF INDIANA**  
**Department of Insurance**  
**REPORT OF EXAMINATION**

**OF**

**FARMERS HOME INSURANCE COMPANY**  
**OF KNOX COUNTY**  
NAIC Co. CODE 92278

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

Stephen W. Robertson, Commissioner

December 17, 2013

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 3757, an examination has been made of the affairs and financial condition of:

**Farmers Home Insurance Company of Knox County**  
**1115 Weed Lane**  
**Vincennes, Indiana 47591**

hereinafter referred to as the "Company", an Indiana-domiciled, farm mutual insurance company. The examination was conducted at the Company's corporate offices in Vincennes, 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 in April, 1895, and elected to come under Chapter 145, Acts 1919 in 1978.

## CAPITAL AND SURPLUS

The Company is owned by its 706 policyholders. As of December 31, 2012, the Company had surplus, as adjusted through the examination process, of \$1,584,797.

## TERRITORY AND PLAN OF OPERATION

The Company currently conducts business in the following four (4) counties: Daviess, Greene, Knox, and Sullivan.

The Company insures against losses to rural risks including farm and farm-related structures, grain, hay, livestock, and machinery, caused by earthquake, fire, hail, theft/vandalism, and wind. 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 examination process:

Year	Admitted		Policyholder	
	Assets	Liabilities	Surplus	
* 2012	\$ 1,986,126	\$ 401,329	\$ 1,584,797	
2011	2,273,728	443,717	1,830,011	
2010	2,457,430	514,936	1,942,494	
2009	2,332,490	494,461	1,838,029	
2008	2,151,971	402,152	1,749,819	

\* As adjusted through the examination process, the 2012 Admitted Assets and Policyholder Surplus increased by \$110,635 related to reinsurance recoveries received in 2013 for losses paid in 2012.

## 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 nine (9) policyholders. 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>
Don Berry	Vincennes, IN
Charles Bobe	Vincennes, IN
Dennis Carnahan	Vincennes, IN
Joseph Holscher	Monroe City, IN
Rex Marchino	Vincennes, IN
Donald McCormick	Vincennes, IN
Dennis Mouzin	Vincennes, IN
Matt Schuckman	Vincennes, IN
Howard Unger	Carlisle, 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>Title</u>
Rex Marchino	President
Dennis Carnahan	Vice President
Douglas Steele	Secretary
Matt Schuckman	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 the directors and officers listed in the Management and Control section of this Report of Examination fulfilled that requirement.

## 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

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 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 Western Surety Company. The bond has blanket coverage of \$50,000. Based on the admitted assets and gross income of the Company, the Company is in compliance with the prescribed minimum coverage specified by the Handbook.

## 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 Excess of Loss, Aggregate Excess of Loss, and Property Pro Rata Facultative coverages.

### Individual Occurrence Excess of Loss

This coverage limited the Company's liability on an individual occurrence of loss with a retention limit of \$175,000. Losses under this layer are experience rated based on a five (5) year loss ratio. See Summary of Significant Findings.

### 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 \$677,629. Losses under this layer are experience rated based on a five (5) year loss ratio.

### 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. The Company utilizes a computerized accounting system for their general ledger, which generates the trial balance at year-end. Material balances reflected in the December 31, 2012 Annual Statement and trial balance were agreed to supporting documentation.

**FARMERS HOME INSURANCE COMPANY OF KNOX COUNTY**

**FINANCIAL STATEMENTS**

**Assets, Liabilities, and Surplus**

	As of December 31, 2012			
	<u>Per Annual</u>	<u>Examination</u>	<u>Per</u>	<u>December 31,</u>
	<u>Statement</u>	<u>Adjustments</u>	<u>Examination</u>	<u>2011</u>
<b>Assets:</b>				
Bonds	\$ 107,728	\$ -	\$ 107,728	\$ 101,867
Stocks - common	352,379	-	352,379	541,900
Bank balances	1,293,217	-	1,293,217	1,514,865
Agents' balances	119,226	-	119,226	111,794
Reinsurance receivable on paid losses	-	110,635	110,635	- *
Accrued interest	2,941	-	2,941	3,302
Total Assets	<u>\$ 1,875,491</u>	<u>\$ 110,635</u>	<u>\$ 1,986,126</u>	<u>\$ 2,273,728</u>
<b>Liabilities and Surplus:</b>				
Total unpaid losses	\$ 97,583	\$ -	\$ 97,583	\$ 179,922
Less: reinsurance recoverable on unpaid losses	(97,583)	-	(97,583)	(108,358)
Net unpaid claims	-	-	-	71,564
Ceded reinsurance balances payable	27,317	-	27,317	11,670
Premiums collected for other companies	15,805	-	15,805	8,415
Taxes payable	-	-	-	283
Unearned premium reserve	358,207	-	358,207	351,785
Total liabilities	401,329	-	401,329	443,717
Surplus	1,474,162	110,635	1,584,797	1,830,011 *
Total liabilities and surplus	<u>\$ 1,875,491</u>	<u>\$ 110,635</u>	<u>\$ 1,986,126</u>	<u>\$ 2,273,728</u>

\* As adjusted through the examination process, the 2012 Assets and Surplus increased by \$110,635 related to reinsurance recoveries received in 2013 for losses paid in 2012.

**FARMERS HOME INSURANCE COMPANY OF KNOX COUNTY**

**FINANCIAL STATEMENTS**

**Statement of Income and Changes in Surplus**

	As of December 31, 2012			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, 2011
<b>Income:</b>				
Total net assessment, premiums and fees	\$ 756,932	\$ -	\$ 756,932	\$ 727,307
Total income from investment	32,604	-	32,604	42,408
Miscellaneous income	-	-	-	439
Capital gains	15,766	-	15,766	-
Salvage recovery	14,000	-	14,000	-
Total income	<u>819,302</u>	<u>-</u>	<u>819,302</u>	<u>770,154</u>
<b>Disbursements:</b>				
Total of all net losses	909,738	(110,635)	799,103	620,347 *
Total operating expense	299,719	-	299,719	324,133
Total non-operating expense	1,753	-	1,753	5,737
Change in ledger assets and liabilities	-	(36,059)	(36,059)	(67,580) **
Total disbursements	<u>1,211,210</u>	<u>(146,694)</u>	<u>1,064,516</u>	<u>882,637</u>
Net income	(391,908)	146,694	(245,214)	(112,483)
Surplus, beginning of period	1,830,011	-	1,830,011	1,942,494
Surplus, end of period	<u>\$ 1,474,162</u>	<u>\$ 110,635</u>	<u>\$ 1,584,797</u>	<u>\$ 1,830,011 *</u>

\* As adjusted through the examination process, the 2012 net losses decreased and 2012 Surplus increased by \$110,635 related to reinsurance recoveries received in 2013 for losses paid in 2012

\*\*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 (\$67,580) in 2011 and (\$36,059) in 2012.

## 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 (\$67,580) and (\$36,059), in 2011 and 2012, respectively.

## SUMMARY OF SIGNIFICANT FINDINGS

Reinsurance recoveries were not accurately reflected in the 2012 Annual Statement. In the first two quarters of 2013, the Company received recoveries totaling \$110,635. Those recoveries related to losses paid in 2012, but were not reflected on the 2012 Annual Statement. It is recommended the Company ensure accurate reporting of reinsurance recoveries in the future.

IC 27-1-13-6 stating (a) No company organized to make any kind or kinds of insurance included in class II and class III of IC 27-1-5-1 may take, on any one (1) risk of whatever nature, a sum exceeding one-tenth (1/10<sup>th</sup>) part of its paid-up capital, surplus, and contingent reserves, if any, if a stock company, or one-tenth (1/10<sup>th</sup>) of its surplus and contingent reserves, if any, if other than a stock company. The Company's risk retention was \$175,000 on an individual loss, as of December 31, 2012, which is 11.0% of surplus, as of December 31, 2012 (\$1,584,797). It is recommended the Company monitor the ratio above and ensure compliance with Indiana statutes in the future.

## SUBSEQUENT EVENTS

It was noted the Company changed its reinsurance program in 2013 such that its maximum retention on an individual loss is \$150,000. The change in the reinsurance program was made to bring the Company into compliance with IC 27-1-13-6(a).

There were no other events subsequent to the examination date and prior to the completion of fieldwork 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 Home Insurance Company of Knox 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 Home Insurance Company of Knox County**, as of **December 31, 2012**, as determined by the undersigned.

  
\_\_\_\_\_  
Jim Kattman, CFE  
Noble Consulting Services, Inc.

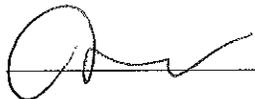
State of: Indiana  
County of: Hendricks

On this 5 day of February 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



  
\_\_\_\_\_