

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

IN THE MATTER OF:)
)
Ferdinand Farmers Mutual Insurance Company)
1405 Main Street, PO Box 263)
Ferdinand, Indiana 47532)

Examination of Ferdinand Farmers Mutual Insurance Company

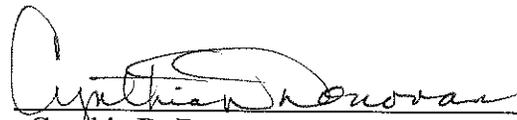
NOTICE OF ENTRY OF ORDER

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 Ferdinand Farmers Mutual Insurance Company, 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 Ferdinand Farmers Mutual Insurance Company 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.

April 4, 2014
Date


Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0029 9614 87

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 4 day of
April, 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 left of the page.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
FERDINAND FARMERS MUTUAL
INSURANCE COMPANY
NAIC Co. CODE 92305

As of

December 31, 2012

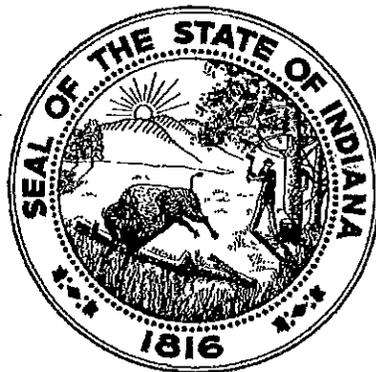


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STATE OF INDIANA

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

December 12, 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 3763, an examination has been made of the affairs and financial condition of:

Ferdinand Farmers Mutual Insurance Company
1405 Main Street
Ferdinand, Indiana 47532

hereinafter referred to as the "Company", an Indiana-domiciled, farm mutual insurance company. The examination was conducted at the Company's corporate offices in Ferdinand, 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 in July, 1864. On March 4, 1919, it elected to come under Chapter 145, Acts 1919, and Indiana Code (IC) 27-5.1 of the Indiana Insurance Laws, as pertains to farm mutual companies.

On July 17, 1970, the Company merged with Farmers Mutual Insurance Company of Huntingburg, Indiana. The merger was approved by the INDOI on July 24, 1970.

Effective January 1, 1991, the Company purchased Kemper Insurance Agency from James Kemper. The agreement was approved on January 7, 1991, by the Board of Directors. In order to identify its association with the Company, Kemper Insurance Agency was renamed Ferdinand Farmers Mutual Insurance Agency (Ferdinand Agency).

In June 1995, the Company and German Mutual Fire Insurance Company (name changed to German Mutual Insurance Company, effective March 1, 1998) entered into a management agreement whereby the Company would assume complete responsibility for the management of German Mutual Insurance Company (GMIC).

On July 23, 2003, Farmers Mutual Home Insurance Company of Bainbridge Township was merged into the Company. The merger was subsequently approved by the policyholders on September 13, 2003.

CAPITAL AND SURPLUS

The Company is owned by its 3,031 policyholders. As of December 31, 2012, the Company had surplus, as adjusted through the examination process, of \$6,495,382.

TERRITORY AND PLAN OF OPERATION

The Company currently conducts business in the following twenty (20) counties: Clay, Crawford, Daviess, Dubois, Gibson, Greene, Harrison, Johnson, Knox, Marion, Martin, Monroe, Orange, Perry, Pike, Posey, Spencer, Vanderburgh, Warrick, and Washington.

The Company insures against property losses to churches, small commercial property, dwellings, and farm buildings and equipment.

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:

<u>Year</u>	<u>Admitted</u>		<u>Policyholder</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2012	\$ 8,091,830	\$ 1,596,448	\$ 6,495,382 *
2011	7,489,949	1,391,367	6,098,582 *
2010**	8,087,049	1,355,199	6,731,850 *
2009	7,591,179	1,143,685	6,447,494
2008	6,834,702	1,005,317	5,829,385

* The Company's Admitted Assets were adjusted to reflect the Ferdinand Agency investment, using the equity method, not to exceed 10% of surplus. The adjustments were \$291,078 in 2011 and \$340,000 in 2012. Also, the Company's investment portfolio includes fully vested employee severance accounts. An offsetting liability was added to recognize employee vesting in the amounts of \$227,679 in both 2010 and 2011, and \$189,266 in 2012.

** Surplus for 2010 was misstated by \$1.1 million on the 2010 Annual Statement. The Company filed a corrected balance sheet for 2010 with the INDOI but did not update prior year information in subsequent filings. Surplus for 2010 was reported as \$5.9 million, but should have been \$7.0 million. Adjustments in the preceding note bring 2010 surplus from \$7.0 million to \$6.7 million.

MANAGEMENT AND CONTROL

Policyholders

An annual meeting of policyholders is held 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 six (6) policyholders. The Board of Directors has the authority to appoint two (2) additional 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>
John Becher, Jr.	Dale, IN
Nicholas Dilger	Ferdinand, IN
Kurk Fleck	Saint Meinrad, IN
Debra Johnson	Ferdinand, IN
James Kemper	Ferdinand, IN
Patrick Lueken	Ferdinand, IN
Alan Weyer	Ferdinand, 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>
Alan Weyer	President
James Kemper	Vice President
Debra Johnson	Secretary
Patrick Lueken	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

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 corporation. 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 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 assumes business from GMIC on an excess of loss basis. GMIC retains the first \$10,000 of each risk and cedes the remainder to the Company.

The Company's ceded 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 coverages.

Individual Occurrence Excess of Loss

This coverage limits the Company's liability on an individual occurrence of loss with a retention limit of \$100,000. Losses in 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 \$1,642,399. Losses in 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.

FERDINAND FARMERS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets, Liabilities, and Surplus

	As of December 31, 2012			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, 2011
Assets:				
Bonds	\$ 4,489,670	\$ -	\$ 4,489,670	\$ 3,961,462
Stocks - common	2,484,738	-	2,484,738	2,244,484
Bank balances	149,716	-	149,716	368,192
Real Estate	277,468	-	277,468	285,249
Accrued interest	41,316	-	41,316	30,562
Agency Investments	308,922	340,000	648,922	600,000 *
Total Assets	<u>\$ 7,751,830</u>	<u>\$ 340,000</u>	<u>\$ 8,091,830</u>	<u>\$ 7,489,949</u>
Liabilities and Surplus				
Total Unpaid Losses	\$ 79,000	\$ -	\$ 79,000	\$ 92,815
Less: reinsurance recoverable on unpaid losses	-	-	-	(92,815)
Net unpaid claims	79,000	-	79,000	-
Ceded reinsurance balances payable	-	-	-	57,591
Taxes payable	2,277	-	2,277	-
Retirement benefits	-	189,266	189,266	227,679 **
Premiums collected for other companies	23,360	-	23,360	16,884
Premiums received in advance	38,511	-	38,511	70,332
Unearned premium reserve	1,264,034	-	1,264,034	1,018,881
Total liabilities	<u>1,407,182</u>	<u>189,266</u>	<u>1,596,448</u>	<u>1,391,367</u>
Surplus	<u>6,344,648</u>	<u>150,734</u>	<u>6,495,382</u>	<u>6,098,582</u>
Total liabilities and surplus	<u>\$ 7,751,830</u>	<u>\$ 340,000</u>	<u>\$ 8,091,830</u>	<u>\$ 7,489,949</u>

* The Company's Admitted Assets were adjusted to reflect the Ferdinand Agency investment, using the equity method, not to exceed 10% of surplus. The adjustments were \$291,078 in 2011 and \$340,000 in 2012.

** The Company's investment portfolio includes fully vested employee severance accounts. An offsetting liability was added to recognize employee vesting in the amount of \$227,679 in 2011 and \$189,266 in 2012.

FERDINAND FARMERS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income and Changes in Surplus

	As of December 31, 2012			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, 2011</u>
Income:				
Total net assessments, premiums and fees	\$ 1,991,016	\$ -	\$ 1,991,016	\$ 1,903,301
Total income from investments	380,453	-	380,453	349,275
Federal income tax refund	169,872	-	169,872	128,354
State income tax refund	13,000	-	13,000	23,748
Salvage and other income	15,726	-	15,726	9,096
Total income	<u>2,570,067</u>	<u>-</u>	<u>2,570,067</u>	<u>2,413,774</u>
Disbursements:				
Total of all net losses	1,100,216	-	1,100,216	1,707,190
Total operating expenses	704,029	-	704,029	669,656
Total non-operating expenses	368,962	-	368,962	332,798
Change in ledger assets and liabilities	-	60	60	337,398 *
Total disbursements	<u>2,173,207</u>	<u>60</u>	<u>2,173,267</u>	<u>3,047,042</u>
Net income	396,860	(60)	396,800	(633,268)
Surplus, beginning of period	6,035,183	63,399	6,098,582	6,731,850 **
Surplus, end of period	<u>\$ 6,344,648 (1)</u>	<u>\$ 63,339</u>	<u>\$ 6,495,382</u>	<u>\$ 6,098,582 **</u>

(1) Net income reported in 2012 of \$396,860, when added to prior year reported surplus of \$6,035,183, totals \$6,432,043. The difference between prior year reported surplus and prior year surplus per examination is explained below in footnote **.

* 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 \$337,398 in 2011 and by \$60 in 2012.

** The Company's investment portfolio includes fully vested employee severance accounts. An offsetting liability was added to recognize employee vesting in the amount of \$227,679, reducing surplus in 2010. This 2010 reduction of surplus is carried through surplus in 2011 and 2012. In 2011 this \$227,679 is offset by the \$291,078 carrying value adjustment for Ferdinand Agency for a difference of \$63,399.

COMMENTS ON THE FINANCIAL STATEMENTS

The Company reports some income statement items on a cash basis. In order to properly reconcile the changed in surplus, the change in ledger assets and liabilities has been adjusted through the examination process by \$337,398 and \$60 in 2011 and 2012, respectively.

SUMMARY OF SIGNIFICANT FINDINGS

The Company has not been accurately reporting its investment in the Ferdinand Farmers Mutual Insurance Agency. Per IC 27-1-13-3.5, any investment in a subsidiary shall be admitted as assets except: (1) to the extent that the aggregate amount thereof exceeds ten percent (10%) of the capital and surplus. It is recommended the Company report the valuation in the future giving consideration to the above statute citation.

	<u>2012</u>	<u>2011</u>
Reported Asset:	\$ 308,922	\$ 308,922
Adjustments:	340,000	291,078
Adjusted Admitted Asset:	648,922	600,000
CPA Valuation (Equity Method):	746,073	730,626

The Company has included the account valuations for the employee severance accounts in the Company's assets. However, given the Company personnel are immediately 100% vested in those accounts, the accounts are owned by the Company personnel, not the Company. An adjustment has been made to recognize the appropriate liability for those accounts in 2011 and 2012, \$227,679 and \$189,266, respectively. It is recommended the Company report an offsetting liability for the above accounts in the future.

SUBSEQUENT EVENTS

Based on the review of November 2013 Board of Director's meeting minutes, it was determined that the Company is reviewing a possible merger with Harrison County Farmers Mutual Insurance Company and German Mutual Insurance Company.

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 **Ferdinand Farmers Mutual Insurance Company**, 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 **Ferdinand Farmers Mutual Insurance Company**, 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 expires: _____

