

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

IN THE MATTER OF: )

Mid-State Farmers Mutual Insurance Company )  
1008 Lincoln Highway )  
New Haven, IN 46774 )

Examination of Mid-State 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 Mid-State 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 April 13, 2015, 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 Mid-State 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.

Date

May 28, 2015



Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0058 2038 31**

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### FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Mid-State Farmers Mutual Insurance Company (hereinafter "Company") for the time period January 1, 2009 through December 31, 2013.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on March 13, 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 April 13, 2015 and was received by the Company on April 17, 2015.

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 Mid-State Farmers Mutual Insurance Company as of December 31, 2013.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Mid-State Farmers Mutual Insurance Company 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 28<sup>th</sup> day of  
May, 2015.

  
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**

**MID-STATE FARMERS MUTUAL INSURANCE COMPANY**  
NAIC Co. CODE 92293

As of

December 31, 2013

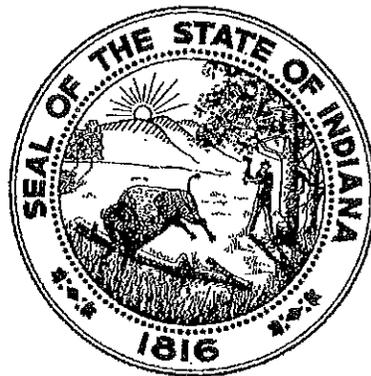


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# STATE OF INDIANA

# IDOI

MICHAEL R. PENCE, Governor

## 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

March 13, 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 3828, an examination has been made of the affairs and financial condition of:

**Mid-State Farmers Mutual Insurance Company**  
**1008 Lincoln Highway East**  
**New Haven, Indiana 46774**

hereinafter referred to as the "Company", an Indiana domiciled, farm mutual insurance company. The examination was conducted at the corporate offices of the Company in New Haven, 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, 2013, 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  
1-800-677-6664

EXAMINATIONS/FINANCIAL SERVICES  
(317) 232-2390

MEDICAL MALPRACTICE  
(317) 232-2402

SECURITIES/COMPANY RECORDS  
(317) 232-1991

STATE HEALTH INSURANCE PROGRAM  
1-800-332-4674

## SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2008. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2009 through December 31, 2013, 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 originally organized in February 1878, as the Farmers Mutual Fire Insurance Association of Allen County and elected to come under Chapter 145, Acts 1919 in November 1924. On January 1, 1988, the Company merged with the Farmers Mutual Insurance Company of Jay County with the Company being the surviving entity, and at the same time changing its name to Mid-State Farmers Mutual Insurance Company.

## CAPITAL AND SURPLUS

As of December 31, 2013, the Company had surplus of \$2,132,179 and had 2,182 policyholders, who are the owners of the Company.

## TERRITORY AND PLAN OF OPERATION

The Company operates in fifty-five (55) counties throughout the state of Indiana: Adams, Allen, Bartholomew, Blackford, Boone, Brown, Cass, Clark, Clinton, DeKalb, Delaware, Elkhart, Fayette, Fountain, Fulton, Grant, Hamilton, Hancock, Harrison, Hendricks, Henry, Howard, Huntington, Jay, Johnson, Knox, Kosciusko, Lagrange, Lake, LaPorte, Lawrence, Madison, Marshall, Miami, Monroe, Montgomery, Noble, Porter, Pulaski, Putnam, Randolph, Rush, St. Joseph, Starke, Steuben, Tippecanoe, Tipton, Union, Vermillion, Vigo, Wabash, Warren, Wayne, Wells, and Whitley.

The Articles of Incorporation state the purpose of the Company shall be 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 on the mutual insurance plan such loss as may occur in spite of reasonable precautions.

## 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:

Year	Admitted Assets	Liabilities	Surplus
*2013	\$ 2,794,955	\$ 662,777	\$ 2,132,178
*2012	2,847,042	880,675	2,136,652
2011	3,175,871	730,871	2,445,000
2010	3,210,005	669,417	2,540,588
2009	2,985,715	492,234	2,493,481

*\*In 2013 and 2012, adjustments were made to reduce unearned premiums by \$80,000. Unrealized gains and losses were also reclassified from a liability to a change in surplus, in the amount of \$340,883 for 2013 and \$132,372 for 2012.*

## MANAGEMENT AND CONTROL

### Directors

The Company's Articles of Incorporation direct that the power of the Company is vested in a Board of Directors, whose members are elected to three (3) year terms (on a staggered basis), such that each year, four (4) directorships are filled. The following is a list of persons serving as directors, as of December 31, 2013:

Name	Address
Marilyn Arnold	Fort Wayne, Indiana
Greg Baumert	Monroeville, Indiana
Daniel Gustin	Harlan, Indiana
Beverly Hollar	Bryant, Indiana
Todd Houghton	Goshen, Indiana
Norbert Sarrazine	New Haven, Indiana
Harrold Spenn	Fort Wayne, Indiana

### Officers

The Company's Bylaws state that the officers of the Company shall consist of a President, a Vice President, a Treasurer, and a Secretary. Each officer is elected to a one (1) year term. The following is a list of the officers as of December 31, 2013

Name	Title
Marilyn Arnold	President
Norbert Sarrazine	Vice President
Rick Moss	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, 2013.

### 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 Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2013.

### 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 and membership meeting minutes were reviewed for the period under examination through the fieldwork date. Minutes of the meetings appear to adequately address the business conducted during the meetings.

### 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 single loss coverage limit of \$250,000, with a \$2,500 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2013, including but not limited to, directors and officers liability, management indemnity, and workers' compensation liability.

### STATUTORY DEPOSITS

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

### REINSURANCE

Everett Cash Mutual Insurance Company (Everett) is the Company's reinsurer. The following is a summary of the reinsurance program in place with Everett during 2013:

- *First Per Risk Excess of Loss* – Everett assumes liability once the Company's ultimate net loss per risk exceeds \$50,000. Everett shall then be liable for an amount not to exceed \$350,000 per risk, subject to a maximum occurrence limit of \$700,000, regardless of the number of risks involved.
- *Aggregate Excess of Loss* – This layer provides coverage once the Company's total net losses in any calendar year exceed an amount equal to 70% of the net premiums earned in the respective calendar year. Everett shall be liable for 95% of \$1,000,000 of the Company's ultimate net loss exceeding \$400,000, but Everett's liability shall never exceed \$950,000 from all risks for all loss occurrences. Everett's liability is limited to \$750,000 on any one risk.
- *Supplemental Aggregate Excess of Loss* – Everett shall be liable for 100% of \$3,600,000 in excess of \$1,400,000 when total net losses exceed an amount equal to the sum of the Company's net retention plus Everett's limit of liability under the First Per Risk Excess of Loss plus coverage provided by the underlying Aggregate Excess of Loss treaty.

See the Subsequent Events section of this Report of Examination for further information on reinsurance.

### 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, 2012 and 2013, were agreed to the respective Annual Statements.

MID-STATE FARMERS MUTUAL INSURANCE COMPANY  
Assets, Liabilities and Surplus  
As of December 31, 2013

	Per Annual Statement	Adjustments	Per Examination
<b>ASSETS</b>			
Bonds	\$ 252,112	\$ -	\$ 252,112
Stocks	2,088,157	-	2,088,157
Bank Balances Subject to check	52,801	-	52,801
Bank Balances On interest	155,581	-	155,581
Real Estate	96,926	-	96,926
Cash in office	200	-	200
Unpaid Premiums Due after November 1	3,863	-	3,863
Reinsurance receivable on paid losses	144,253	-	144,253
Accrued interest	1,063	-	1,063
Totals	<u>\$ 2,794,955</u>	<u>\$ -</u>	<u>\$ 2,794,955</u>
<b>LIABILITIES AND SURPLUS</b>			
Total unpaid losses	\$ 558,937	\$ -	\$ 558,937
Less: reinsurance recoverable	(276,960)	-	(276,960)
Net unpaid claims	281,977	-	281,977
Unpaid salaries and commissions	18,295	-	18,295
Amounts withheld for the account of others	290	-	290
Taxes payable	3,732	-	3,732
Premiums collected for other companies	21,109	-	21,109
Premiums received in advance	13,981	-	13,981
Unearned premium reserve	403,393	(80,000)	323,393
Unrealized gains/losses on investments	340,883	(340,883)	-
Total liabilities	1,083,660	(420,883)	662,777
Surplus	1,711,295	420,883	2,132,178
Total liabilities and surplus	<u>\$ 2,794,955</u>	<u>\$ -</u>	<u>\$ 2,794,955</u>

\* A rounding error of \$1 develops from the 2013 Annual Statement amount for Total Assets. Calculated balances in the above table may not total properly due to this immaterial error.

MID-STATE FARMERS MUTUAL INSURANCE COMPANY  
Income Statement and Change in Surplus  
For the Year Ended December 31, 2013

INCOME	Per Annual Statement	Adjustments	Per Examination
Total net assessment, premiums and fees	\$ 809,356	\$ -	\$ 809,356
Total income from investments	139,506	-	139,505
Other income	522,137	-	522,137
<b>Total Income</b>	<b>1,470,998</b>	<b>-</b>	<b>1,470,998</b>
<b>EXPENSES AND CHANGE IN SURPLUS</b>			
Total of all net losses	915,104	-	915,104
Total operating expense	584,936	-	584,936
Total non-operating expense	332,549	-	332,549
<b>Total disbursements</b>	<b>1,832,589</b>	<b>-</b>	<b>1,832,589</b>
Net Income	(361,591)	-	(361,591)
Change in assets and liabilities	(59,905)	208,511	148,606
Unrealized gain on investments	208,511	-	208,511
Surplus, beginning of period	1,924,280	212,372	2,136,652
<b>Surplus, end of period</b>	<b>\$ 1,711,295</b>	<b>\$ 420,883</b>	<b>\$ 2,132,178</b>

\* A rounding error of \$1 develops from the 2013 Annual Statement amount for Total Income. Calculated balances in the above table may not total properly due to this immaterial error.

### COMMENTS ON THE FINANCIAL STATEMENTS

In the 2013 Annual Statement, the Company overstated unearned premiums by \$80,000. An adjustment was made to reduce unearned premiums by \$80,000. In the 2013 Annual Statement, unrealized gains and losses were classified as a liability, rather than a change in surplus. The balance of \$340,883 was reclassified as a change in surplus. These amounts combined represent the \$420,883 adjustment to surplus.

The Company reports some income statement items on a cash basis. In order to properly reconcile the 2013 change in surplus, the Change in Liabilities amount of \$208,511 reflects the reconciliation from cash to accrual basis.

In the 2012 Annual Statement, the Company overstated unearned premiums by \$80,000. An adjustment was made to reduce unearned premiums by \$80,000. In the 2012 Annual Statement, unrealized gains and losses were classified as a liability, rather than a change in surplus. The balance of \$132,372 was reclassified as a change in surplus. These amounts combined represent the \$212,372 adjustment to surplus for 2012.

### OTHER SIGNIFICANT ISSUES

In 2013, the Company made commission payments to a non-licensed producer. IC 27-1-15.6-3 states that an insurer require a person who sells, solicits, or negotiates insurance to be licensed. It is recommended that the Company only pay commissions to licensed producers in future periods to be in compliance with IC 27-1-15.6-3.

### SUBSEQUENT EVENTS

The Company believes its reinsurer, Everett Cash Mutual Insurance Company, has not paid all recoveries due in accordance with their contracts. The Company is currently in the process of seeking legal guidance related to the terms of these contracts and has filed a complaint with the INDOI. As of the date of this report, any potential recoveries from this process are considered intangible assets, which cannot be reasonably estimated and therefore, are not included in this report.

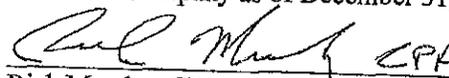
**AFFIDAVIT**

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 Mid-State Farmers Mutual Insurance Company, as of December 31, 2013.

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 Mid-State Farmers Mutual Insurance Company as of December 31, 2013, as determined by the undersigned.

 CPA

Rick Mendez, CPA  
Noble Consulting Services, Inc.

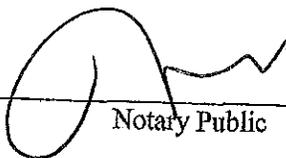
State of: Indiana  
County of: Marion

On this 13 day of March, 2015, before me personally appeared, Rick Mendez, 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

