

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

IN THE MATTER OF: )  
 )  
S&O Farmers Mutual Insurance Company )  
120 North Walnut Street )  
Rising Sun, Indiana 47040 )

**Examination of S&O Farmers Mutual Insurance  
Company**

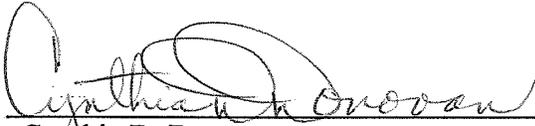
**NOTICE OF ENTRY OF ORDER**

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 **S&O 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 March 10, 2011, 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 **S&O 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.

4/12/2011  
Date

  
Cynthia D. Donovan  
Chief Financial Examiner

**CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 8080**

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### **FINDINGS AND FINAL ORDER**

The Indiana Department of Insurance conducted an examination into the affairs of the **S&O Farmers Mutual Insurance Company** (hereinafter "Company") for the time period January 1, 2005 through December 31, 2009.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on January 27, 2011.

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 March 10, 2011 and was received by the Company on March 14, 2011.

The Company did not file any objections.

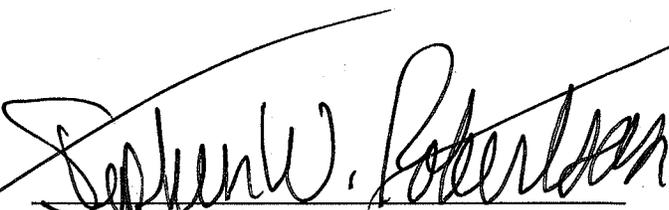
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the **S&O Farmers Mutual Insurance Company** as of December 31, 2009.
2. That the Examiners' Recommendations are reasonable and necessary in order for the **S&O 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 12<sup>th</sup> day of April, 2011.

  
Stephen W. Robertson  
Insurance Commissioner  
Indiana Department of Insurance

**STATE OF INDIANA**

**Department of Insurance**

**REPORT OF EXAMINATION**

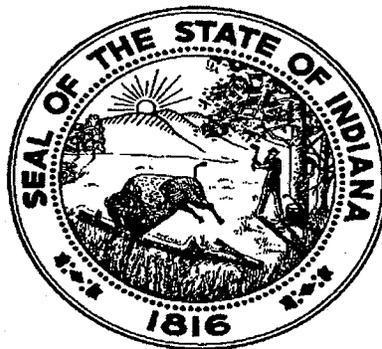
**OF**

**S&O FARMERS MUTUAL INSURANCE COMPANY**

**NAIC Co. CODE 92329**

As of

December 31, 2009



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# STATE OF INDIANA

MITCHELL E. DANIELS, JR., 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

January 28, 2011

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

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3658, an examination has been made of the affairs and financial condition of:

**S&O Farmers Mutual Insurance Company**  
**120 North Walnut Street**  
**Rising Sun, Indiana 47040**

hereinafter referred to as the "Company", an Indiana-domiciled, farm mutual insurance company. The examination was conducted at the Company's corporate offices in Rising Sun, Indiana.

The Report of Examination, reflecting the status of the Company as of December 31, 2009, 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  
In-State 1-800-622-4461

EXAMINATIONS / FINANCIAL SERVICES  
(317) 232-2390

MEDICAL MALPRACTICE  
(317) 232-2402

SECURITIES / COMPANY RECORDS  
(317) 232-1991

## **SCOPE OF EXAMINATION**

The Company was last examined by representatives of the Indiana Department of Insurance as of December 31, 2004. The present examination, covering the period from January 1, 2005, through December 31, 2009, was conducted by Noble Consulting Services, Inc. and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

We conducted our examination pursuant to and in accordance with the 2010 NAIC Financial Condition Examiners 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.

## **HISTORY**

The Company was organized in 1878 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 the following kinds of property outside the corporate limits of cities and towns: farm dwellings and other farm buildings, and the contents of such buildings, farm machinery and other farm equipment, farm products, livestock, school houses, churches, and such other risks as are owned principally by farmers.

## **CAPITAL AND SURPLUS**

As of December 31, 2009, the Company had surplus of \$729,801 and had 2,048 members, who are the owners of the Company.

## **TERRITORY AND PLAN OF OPERATION**

In accordance with the farm mutual laws, the Company may issue policies solely within the state of Indiana. As of December 31, 2009, the Company was transacting business in Ripley Dearborn, Decatur, Jefferson, Jennings, Ohio, Switzerland, Bartholomew, Clark, Washington, Scott, Warrick, Vigo, Delaware, Henry, Jackson, Vermilion, Rush, and Franklin counties.

## GROWTH OF THE COMPANY

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

<u>Year</u>	<u>Admitted</u>	<u>Member</u>	<u>Net Premium</u>	<u>Net Losses</u>	
	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Written</u>	<u>Paid</u>
2009	\$ 1,193,553	\$ 463,752	\$ 729,801	\$ 822,350	\$ 606,148
2008	1,493,137	620,492	872,645	807,010	586,608
2007	1,442,099	519,721	922,378	827,623	432,320
2006	1,339,782	478,755	861,027	798,909	458,458
2005	1,266,148	446,216	819,932	734,123	478,975

## MANAGEMENT AND CONTROL

### Members

Members (policyholders) of the Company are considered its owners. An annual meeting of members is held each year for the purpose of electing a Board of Directors and addressing such other business as may come before it. Each member is entitled to one vote for each issue where a vote is taken.

### Directors

The corporate powers of the Company are vested in a Board of Directors consisting of five members. Directors serve a term of three years. The following persons were serving as directors at December 31, 2009:

<u>Name of Director</u>	<u>Residence</u>	<u>Board Title</u>
Wade Turner	Rising Sun, IN	President
Shafe Boles	Philpot, KY	Vice-President
Robert Hacker	Bennington, IN	Secretary/Treasurer
Earl Ketenbrink	Rising Sun, IN	Member
Dan Monroe	Dillsboro, IN	Member

Two Board members were elected in 2010, raising the total to seven members. Those elected were Sam Fox and Lynn Works.

### Officers

The officers of the Company consist of a president, vice-president, secretary, and treasurer.

### **CONFLICT OF INTEREST**

The Company did not have signed conflict of interest statements. See the Summary of Significant Findings.

### **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. The Company was not aware of the requirements to have signed oath of office statements. A template for the statements will be provided to the Company. See the Summary of Significant Findings.

### **CORPORATE RECORDS**

#### **Articles of Incorporation and Bylaws**

There were no amendments to the Articles of Incorporation during the examination period. The Bylaws were restated on October 13, 2006.

#### **Minutes**

Minutes from the Board of Directors meetings and the annual meeting of the members were reviewed for the period under examination through the fieldwork date. Minutes documented the Board's oversight of operations.

### **AFFILIATED COMPANIES**

The Company is owned by its members and has no 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 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 NAIC.

### **STATUTORY DEPOSITS**

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

## REINSURANCE

### Reinsurance Assumed

The Company assumed no reinsurance during the exam period.

### Reinsurance Ceded

The Company's reinsurance program is written through Grinnell Mutual Reinsurance Company. The 2009 policies are as follows:

*Individual Occurrence Excess of Loss* – Retention is \$125,000 and the coverage limit is 100% of unlimited losses above the retention.

*Aggregate Excess Reinsurance Agreement* – Retention is \$536,120 and the coverage limit is 100% of unlimited losses above retention.

Loss amounts that exceed \$1,000,000 for livestock/poultry/horse operations, commercial and public property, farm outbuildings, and dwellings are not considered in determining the Aggregate Net Loss.

## 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 Grinnell software for their general ledger and uses it to create trial balances at year-end. Material balances reflected in the December 31, 2009, Annual Statement and trial balance were agreed to supporting documentation.

### **S&O Farmers Mutual Insurance Company**

## Financial Statements

### Assets, Liabilities, and Surplus

	As of December 31, 2009			December 31, 2008
	Per Annual Statement	Examination Adjustments	Per Examination	
<b>Assets:</b>				
Bank balances				
Subject to check	\$ 624,948		\$ 624,948	\$ 2,106
On interest	540,035		540,035	1,452,693
Cash in office	200		200	200
Unpaid premiums due after 11/1	21,255		21,255	35,792
Accrued interest	992		992	1,179
Equipment and furniture	6,123		6,123	1,167
<b>Total Assets</b>	<b>\$ 1,193,553</b>		<b>\$ 1,193,553</b>	<b>\$ 1,493,137</b>
<b>Liabilities and Surplus:</b>				
Unpaid claims (reported)		\$ 48,302	\$ 48,302	
Less: reinsurance recoverable				
Net unpaid claims		48,302	48,302	
Unpaid salaries and commissions	12,186		12,186	10,088
Ceded reinsurance balance payable	17,804		17,804	17,548
Taxes payable				3,282
Premiums received in advance	3,152		3,152	5,438
Unearned premium reserve	382,308		382,308	384,136
Note payable to Friendship State Bank				200,000
Total liabilities	415,450		463,752	620,492
Surplus	778,103	(48,302)	729,801	872,645
Total liabilities and surplus	<b>\$ 1,193,553</b>		<b>\$ 1,193,553</b>	<b>\$ 1,493,137</b>

**S&O Farmers Mutual Insurance Company**

**Financial Statements**

**Statement of Income**

For the period ended December 31, 2009

	<b>* Per Annual Statement</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>	<b>December 31, 2008</b>
<b>Net Ledger Assets, January 1,</b>	\$ 872,645		\$ 872,645	\$ 922,378
<b>Income:</b>				
Premiums, net of reinsurance	847,827	1,828	849,655	869,557
Interest on investments	32,888		32,888	44,440
Increase in ledger liabilities				
Miscellaneous income	2,410		2,410	
<b>Total income</b>	<b>883,125</b>	<b>1,828</b>	<b>884,953</b>	<b>913,997</b>
<b>Disbursements:</b>				
Losses, net of reinsurance	606,148	48,302	654,450	536,416
Operating expenses	370,791	792	371,583	415,536
Non-operating expenses	204,978	(203,214)	1,764	11,778
<b>Total disbursements</b>	<b>1,181,917</b>	<b>(154,120)</b>	<b>1,027,797</b>	<b>963,730</b>
<b>Net income</b>	<b>(298,792)</b>		<b>(142,844)</b>	<b>(49,733)</b>
<b>Net Ledger Assets, December 31,</b>	\$ 573,853		\$ 729,801	\$ 872,645

\* Statement amounts in this column may differ as a result of adjustments to more accurately reflect the appropriate amount(s).

## COMMENTS ON THE FINANCIAL STATEMENTS

There were no material adjustments to surplus for the current examination.

### SUMMARY OF SIGNIFICANT FINDINGS

1. As noted in the Conflict of Interest section of this report, the Company does not have its officers and directors sign statements annually. In accordance with regulatory requirements, signed Conflict of Interest statements should be obtained from officers and Board members annually.
2. As noted in the Oath of Office section of this report, the Company did not have signed Oath of Office statements on file. In accordance with IC 27-1-7-10(i), signed Oath of Office statements should be obtained from Board members and officers on an annual basis.
3. An examination adjusting entry was proposed due to unpaid claims being understated. See Financial Statement section of this report.

### SUBSEQUENT EVENTS

No significant subsequent events were noted.

### MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, a completed management representation letter in the standard NAIC format was obtained. This letter was executed by key financial personnel of the Company and provided to the IDOI.

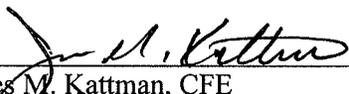
**AFFIDAVIT**

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 **S&O Farmers Mutual Insurance Company**, as of **December 31, 2009**.

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 2010 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 **S&O Farmers Mutual Insurance Company** as of **December 31, 2009**, as determined by the undersigned.

  
\_\_\_\_\_  
James M. Kattman, CFE  
Noble Consulting Services, Inc.

State of:  
County of:

On this 23 day of February 2011, before me personally appeared, James M. 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: 3/1/18 