

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

IN THE MATTER OF:)
)
Decatur County Farmers Mutual Insurance Company)
329 West Washington Street)
Greensburg, Indiana 47240)

Examination of Decatur County Farmers Mutual Insurance Company

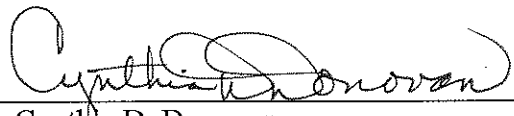
NOTICE OF ENTRY OF ORDER

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 Decatur County Farmers Mutual Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, 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 Decatur County 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.

October 17, 2013
Date


Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 9214 8901 0661 5400 0021 4177 53

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Greensburg, Indiana 47240)

Examination of Decatur County Farmers Mutual Insurance Company

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Decatur County Farmers Mutual Insurance Company (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 August 16, 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 August 30, 2013 and was received by the Company on September 3, 2013.

On September 11, 2013, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:


1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2012.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance 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, as amended, 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, as amended. 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 17 day of
October, 2013.



Stephen W. Robertson
Insurance Commissioner

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.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

DECATUR COUNTY FARMERS MUTUAL INSURANCE
COMPANY

NAIC Co. CODE 92275

As of

December 31, 2012

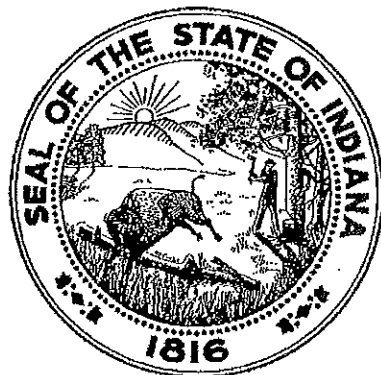


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STATE OF INDIANA

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

August 16, 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 3756, an examination has been made of the affairs and financial condition of:

Decatur County Farmers Mutual Insurance Company
329 West Washington Street
Greensburg, Indiana 47240

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

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0897

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 the period ending December 31, 2007. The present examination covered the period from January 1, 2008 through December 31, 2012, and 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 February, 1878 as Patrons of Husbandry Fire Insurance Company. The Company operates under the farm mutual laws, as defined within the Indiana Insurance Code.

CAPITAL AND SURPLUS

The Company is owned by its 977 policyholders. As of December 31, 2012, the Company had surplus, as adjusted through the examination process, of \$1,955,482.

TERRITORY AND PLAN OF OPERATION

The Company currently conducts business in the following fourteen (14) counties: Bartholomew, Decatur, Fayette, Franklin, Hamilton, Jefferson, Jennings, Johnson, Marion, Ohio, Ripley, Rush, Shelby, and Switzerland.

The Company insures against property losses to rural risks including Farms, Farm Equipment, Grain, Homes, Livestock, and Personal Property. 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:

	<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholder Surplus</u>
*	2012	\$ 2,286,080	\$ 330,598	\$ 1,955,482
**	2011	1,753,249	(17,179)	1,770,428
	2010	2,105,748	433,848	1,671,900
	2009	1,945,184	414,062	1,531,122
	2008	2,126,762	507,816	1,618,946

* As adjusted through the examination process, the 2012 Liabilities decreased by \$100,829 and 2012 Policyholder Surplus increased by the same amount. The 2012 financial statements on pages 6 and 7 of this Report of Examination were also adjusted to reflect the examination findings.

** As adjusted through the examination process, the 2011 Liabilities decreased by \$444,046 and 2011 Policyholder Surplus increased by the same amount. The 2011 financial statements on pages 6 and 7 of this Report of Examination were also adjusted to reflect the examination findings.

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 no less than eight (8) members and no more than fifteen (15) Directors. Directors are elected to serve three (3) year, staggered terms. The following persons were serving as Directors at December 31, 2012:

<u>Name</u>	<u>Residence</u>
Beth AmRhein	Westport, IN
Robert Beesley	Westport, IN
Earl Mitchell Evans	Greensburg, IN
Shawn Fields	Greensburg, IN
Christy Kinker	Greensburg, IN
Steven Nobbe	Greensburg, IN
Timothy Nobbe	Greensburg, IN
Jack Ogle	Greensburg, IN

Officers

The officers of the Company consist of a President, a Vice President, a Secretary, and 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>Office</u>
Earl Mitchell Evans	President
Robert Beesley	Vice President
Beth AmRhein	Secretary
Steven Nobbe	Treasurer

CONFLICT OF INTEREST

Officers and Directors 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

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 meeting were reviewed for the period under examination through the fieldwork date. Minutes documented the Board's oversight of operations.

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 the Indiana Insurance 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.

REINSURANCE

The Company's reinsurance program is placed through Guy Carpenter, a reinsurance intermediary, with offices in Philadelphia, Pennsylvania. The reinsurance program includes four (4) treaties, all effective January 1, 2012, which are described below. Each of the reinsurance providers have an A.M. Best rating greater than or equal to "A-".

Property Per Risk Excess of Loss Reinsurance

All risks are reinsured for up to \$150,000 in excess of the Company's retention of \$30,000. The premium for this coverage is 15% of the gross net written premium of the Company.

Aggregate Excess of Loss (XOL) Contract

The reinsurers are liable in the aggregate for losses occurring during the contract term for the upper limit of 95% of 325% of gross net earned premium income (GNEPI) or 95% of \$2,320,500 whichever is less. The lower limit or threshold on coverage under this contract is equal to 75% of GNEPI, or \$357,000, whichever is greater. The premium for this coverage is 8.13% of the Company's GNEPI subject to an annual minimum premium of \$38,700.

Supplemental Aggregate XOL Contract

The reinsurers insure the Company against losses up to the coverage in an amount not to exceed 100% of 1,000% of the Company's net earned premiums, which is in excess of an amount equal to the sum of the Company's net retention plus coverage by the Aggregate XOL contract. The premium for this coverage is 2% of the Company's GNEPI subject to a minimum annual premium of \$9,520.

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. Adjustments in the financial statements which follow are for the purpose of reconciling the change in surplus and presenting the financial statements on a full accrual basis.

DECATUR COUNTY 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:				
Stocks - common	\$ 1,900,138	\$ -	\$ 1,900,138	\$ 1,473,757
Bank balances and cash on hand	167,462	-	167,462	69,852
Real Estate	193,416	-	193,416	198,821
Unpaid premiums	17,364	-	17,364	3,119
Investment in FRM agency	7,700	-	7,700	7,700
Total Assets	\$ 2,286,080	\$ -	\$ 2,286,080	\$ 1,753,249
Liabilities and Surplus:				
Unpaid claims	\$ 17,432	\$ -	\$ 17,432	\$ 11,368 *
Less, reinsurance recoverable	(4,750)	-	(4,750)	(283,520) *
Net unpaid claims	12,682	-	12,682	(272,152)
Amounts withheld for the account of others	1,070	55,171	56,241	2,324
Premiums received in advance	7,413	-	7,413	-
Unearned premium reserve	410,262	(156,000)	254,262	252,649 *
Total liabilities	431,427	(100,829)	330,598	(17,179)
Surplus	1,854,653	100,829	1,955,482	1,770,428 *
Total liabilities and surplus	\$ 2,286,080	\$ -	\$ 2,286,080	\$ 1,753,249

* As adjusted through the examination process, the 2011 Policyholder Surplus increased by \$444, 046, (unpaid claims were overstated by \$138,102, reinsurance recoverable was understated by \$149,944 and unearned premium reserve was overstated by \$156,000).

DECATUR COUNTY FARMERS MUTUAL INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income and Changes in 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>
Income:				
Total net assessment, premiums, and fees	\$400,059	\$ -	\$400,059	\$353,993
Total income from investments	93,480	-	93,480	132,301
Premiums collected for other companies	73,400	-	73,400	69,641
Other Income	32,896	-	32,896	(9,761)
Total income	<u>599,835</u>	<u>-</u>	<u>599,835</u>	<u>546,174</u>
Disbursements:				
Losses, net of reinsurance	(166,473)	283,520	117,047	150,884 *
Total operating expenses	295,144	-	295,144	284,641
Total non-operating expenses	69,260	55,171	124,431	100,586
Change in ledger assets and liabilities	-	(121,841)	(121,841)	(88,465) *
Total disbursements	<u>197,931</u>	<u>216,850</u>	<u>414,781</u>	<u>447,646</u>
Net Income	401,904	(216,850)	185,054	98,528
Surplus, beginning of period	1,770,428	-	1,770,428	1,671,900
Surplus, end of period as reported	<u>\$ 2,172,332</u>	<u>\$ (216,850)</u>	<u>\$ 1,955,482</u>	<u>\$ 1,770,428</u>

* As adjusted through the examination process, the 2011 Policyholder Surplus increased by \$444, 046, (unpaid claims were overstated by \$138,102, reinsurance recoverable was understated by \$149,944 and unearned premium reserve was overstated by \$159,600). Note the minor difference between the sum of the individual adjustments outlined above and the increase in Policyholder Surplus of \$3,600 is a result of immaterial differences.

COMMENTS ON THE FINANCIAL STATEMENTS

The Company overstated unpaid claims by \$138,102, as of December 31, 2011. This overstatement had a material impact on the Company's financial statements. In the future, the Company should take appropriate measures to ensure the proper reporting of unpaid claims.

The Company understated its reinsurance recoverable by \$149,944, as of December 31, 2011. This understatement had a material impact on the Company's financial statements. In the future, the Company should take appropriate measures to ensure the proper reporting of reinsurance recoverable.

The Company overstated its unearned premium reserve by \$159,600, as of December 31, 2011, and \$156,000, as of December 31, 2012. The overstatement had a material impact on the Company's financial statements. In the future, the Company should take appropriate measures to ensure the proper reporting of unearned premium reserve.

The Company understated losses, net of reinsurance, by \$283,520, as of December 31, 2012. This understatement had a material impact on the Company's financial position. In the future, the Company should take appropriate measures to ensure the proper reporting of losses, net of reinsurance.

The Company understated non-operating expenses and the liability of other unpaid expenses by \$55,171, as of December 31, 2012, due to failing to recognize the liability for unpaid federal income tax. This understatement had a material impact on the Company's financial statements. In the future, the Company should take appropriate measures to ensure the proper reporting of all unpaid taxes.

The Company understated unrealized gains by \$128,000 in 2012, as a result of increases in stock valuations. This understatement had a material impact on the Company's financial statements. This adjustment, as well as a minor adjustment to various ledger assets and liabilities of \$6,159, totaled \$121,841. In the future, the Company should take appropriate measures to ensure the proper reporting of unrealized gains and losses in order to accurately state Policyholder Surplus.

SUMMARY OF SIGNIFICANT FINDINGS

The mutual fund investment of \$235,769 in Pimco Income Fund, exceeds the limit of 10% of Net Admitted Assets (\$228,608) as stated in IC 27-1-13-3(c)(1) and (8). The Company should reallocate investments to a level below the 10% limit noted above in order to address this issue.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of field work, 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., hereinafter collectively referred to as the "Examiners", performed an examination of **Decatur County 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 of Examination.

The attached Report of Examination is a true and complete report of condition of **Decatur County Farmers Mutual Insurance Company**, as of **December 31, 2012**, as determined by the undersigned.


Rick Mendez, CPA
Noble Consulting Services, Inc.

State of:
County of:

On this 26 day of August 2013, 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 first above written.

My commission expires

