

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

IN THE MATTER OF:)
)
First Farm Mutual Insurance Company of Jackson)
County)
760 North 500 East)
Seymour, Indiana 47274)

Examination of First Farm Mutual Insurance Company
of Jackson County

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Doug Webber, Acting Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of First Farm Mutual Insurance Company of Jackson County, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 18, 2010, 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 First Farm Mutual Insurance Company of Jackson 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 14, 2010

Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2415

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 14th day of
June, 2010.

Douglas Webber
Acting Insurance Commissioner

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

**FIRST FARM MUTUAL INSURANCE COMPANY OF
JACKSON COUNTY**

NAIC Co. CODE 92306

As of

December 31, 2008

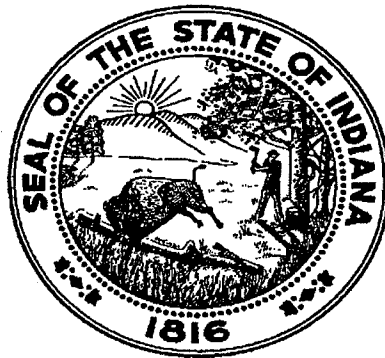


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300
INDIANAPOLIS, INDIANA 46204-2787
TELEPHONE: (317) 232-2385
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CAROL CUTTER, Commissioner

May 13, 2010

Honorable Douglas Webber
Acting 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 3609, an examination has been made of the affairs and financial condition of:

First Farm Mutual Insurance Company of Jackson County
760 North 500 East
Seymour, Indiana 47274

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

The Report of Examination, reflecting the status of the Company as of December 31, 2008, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
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COMPANY COMPLIANCE
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CONSUMER SERVICES
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SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (IDOI) as of December 31, 2004. The present examination, covering the period from January 1, 2005 through December 31, 2008, was conducted by Noble Consulting Services, Inc. (Noble) and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

David Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc. (Merlinos), a consulting actuary appointed by the IDOI, conducted the review of the Company's reserves and related accounts as of December 31, 2008. There were no actuarial adjustments or recommendations resulting from this review.

We conducted our examination pursuant to and in accordance with the 2009 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.

HISTORY

The Company was organized in 1881 and elected to come under Chapter 145, Acts 1919, IC 27-5-1 of the Indiana Insurance Laws, as pertains to farm mutual companies. The Company's Bylaws defined the object of the Company as being the insurer of property of its members against loss by fire or lightning and other coverages as authorized by the Board of and Directors.

CAPITAL AND SURPLUS

As of December 31, 2008, the Company had surplus of \$1,244,974 and had 390 members (policyholders), who are the owners of the Company.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to conduct business throughout the State of Indiana and currently services members in Jackson, Jennings, Scott, and Washington counties. The Company writes property coverage against losses from fire, wind, and earthquake to farm buildings, furniture, homes and mobile homes in rural areas.

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>Assets</u>	<u>Liabilities</u>	<u>Member</u> <u>Surplus</u>	<u>Premium</u> <u>Written</u>	<u>Losses Paid</u>	<u>Net Income</u> <u>(Loss)</u>
2008	\$ 1,406,776	\$ 161,802	\$ 1,244,974	\$ 46,648	\$ 263,259	\$ (180,005)
2007	1,588,615	142,418	1,446,197	178,954	107,261	73,340
2006	1,517,481	163,126	1,354,355	53,029	108,810	(19,419)
2005	1,533,456	128,974	1,404,482	(30,009)	240,822	(151,118)

The Company experienced net losses in all but one (1) year of the exam period. These losses were primarily as a result of high claims payment activities and the occurrence of several bad storms in a relatively small geographic area. While the five year (5) policies written by the Company do not come up for renewal until 2012, the surplus lost over the two (2) year period already realized has so far resulted in a decline in surplus of less than 10%. The relatively small premiums written to available surplus would indicate that the Company is not yet at risk of being unable to service claims.

MANAGEMENT AND CONTROL

Members

Members (policyholders) of the Company are considered its owners. The annual meeting of the members and Directors is also held every year in January for the purpose of electing the 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 Company's Bylaws state that the Company shall be managed by a Board of Directors consisting of seven (7) members. Such Directors shall serve for a term of one (1) year. The following is a list of Board members as of December 31, 2008:

<u>Name of Director</u>	<u>Residence</u>	<u>Principal Occupation</u>
Roy Darlage	Vallonia, IN	Farming (retired)
Robert Benter	Brownstown, IN	Farming (retired)
Richard Lambring	Seymour, IN	Farming (retired)
Gary D. Darlage	Brownstown, IN	Farming (retired)
Milton Stuckwisch	Seymour, IN	Farming (retired)
Betty Shoemaker	Vallonia, IN	Farming (retired)
Jane Stuckwisch	Seymour, IN	Company's Office Manager

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. Officers are elected at the annual meeting of the members/Directors and serve for a term of one (1) year. The following is a list of officers as of December 31, 2008:

<u>Name</u>	<u>Position</u>
Milton Stuckwisch	President
Robert Benter	Vice President
Betty Shoemaker	Secretary
Jane Stuckwisch	Treasurer

CONFLICT OF INTEREST

The Company had no signed Conflict of Interest Statements. See the "Summary of Significant Findings" section of this Report of Examination for further commentary.

OATH OF OFFICE

IC 27-1-1-10(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 had no signed Oath of Office statements as of December 31, 2008. See the "Summary of Significant Findings" section of this Report of Examination for further commentary.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

There were no amendments made to the Company's Articles of Incorporation or Bylaws during the examination period.

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 and strategic planning. Board meetings were held in accordance with Company Bylaws.

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 Ohio Casualty. The bond has blanket coverage of \$3,000 with no deductible. The fidelity bond does not meet the prescribed minimum coverage of \$25,000 as specified by the NAIC. See the "Summary of Significant Findings" section of this Report of Examination for further commentary.

STATUTORY AND SPECIAL 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 examination period.

Reinsurance Ceded

The Company's reinsurance program is written through Guy Carpenter, a reinsurance intermediary licensed in the State of Indiana. The 2008 program under which the Company was reinsured is outlined below:

Property Facultative Pro Rata Reinsurance Contract

The Company's minimum retention is \$30,000 of each risk and the reinsurer will assume no more than five (5) times the retention amount, subject to a limit of no more than \$300,000 for any one loss occurrence.

RESERVE

Merlinos was engaged by the IDOI to review the carried reserves as presented in the Company's 2008 Annual Statement. They relied on the relevant disclosures found in the Annual Statement as well as information provided by the Examiners. Merlinos stated that, "We have no material concerns with the Company's carried reserves as of December 31, 2008."

ACCOUNTS AND RECORDS

The Company uses "QuickBooks" for its record-keeping. The Examiner obtained a backup of the accounting system and attempted to agree the account balances to the 2008 Annual Statement. Since year end entries prepared by their accountants were not recorded in the Company's accounting system, the general ledger could not be reconciled to the Annual Statement. See the "Summary of Significant Findings" section of this report for further details.

First Farm Mutual Insurance Company of Jackson County

Financial Statements

Assets, Liabilities, and Surplus

	As of December 31, 2008			December 31, 2007
	Per Annual Statement	Examination Adjustments	Per Examination	
Assets:				
Bonds	\$ 235,028	\$ -	\$ 235,028	\$ 233,014
Bank balances	1,033,503	-	1,033,503	1,229,171
Unpaid premiums	663	-	663	2,683
Reinsurance receivable	133,201	-	133,201	117,532
Accrued interest	4,381	-	4,381	6,215
Total Assets	\$ 1,406,776	\$ -	\$ 1,406,776	\$ 1,588,615
Liabilities and Surplus				
Unpaid claims	\$ 43,380	\$ -	\$ 43,380	-
Less, reinsurance recoverable	38,394	-	38,394	-
Net unpaid claims	\$ 4,986	\$ -	\$ 4,986	\$ -
Taxes payable	-	-	-	623
Unearned premium reserve	155,786	-	155,786	141,467
Payroll taxes withheld	1,030	-	1,030	328
Total liabilities	\$ 161,802	\$ -	\$ 161,802	\$ 142,418
Surplus	1,244,974	-	1,244,974	1,446,197
Total liabilities and surplus	\$ 1,406,776	\$ -	\$ 1,406,776	\$ 1,588,615

First Farm Mutual Insurance Company of Jackson County

Financial Statements

Changes in Ledger Assets

	For the period ended December 31, 2008			December 31, 2007
	Per Annual Statement	Examination Adjustments	Per Examination	
Ledger Assets, December 31, prior year	\$ 1,582,400	\$ -	\$ 1,582,400	\$ 1,509,060
Income:				
Premiums, net of reinsurance	\$ 46,648	\$ -	\$ 46,648	\$ 178,954
Interest on investments	52,459	-	52,459	63,270
Profit on sale of investments	6	-	6	-
Increase in ledger liabilities	19,384	-	19,384	-
Return of claim	7,377	-	7,377	-
Total income	<u>\$ 125,874</u>	<u>\$ -</u>	<u>\$ 125,874</u>	<u>\$ 242,224</u>
Disbursements:				
Losses, net of reinsurance	\$ 263,259	\$ -	\$ 263,259	\$ 107,261
Operating expenses	42,620	-	42,620	40,916
Non-operating expenses	-	-	-	20,707
Total disbursements	<u>\$ 305,879</u>	<u>\$ -</u>	<u>\$ 305,879</u>	<u>\$ 168,884</u>
Net income (loss)	<u>\$ (180,005)</u>	<u>\$ -</u>	<u>\$ (180,005)</u>	<u>\$ 73,340</u>
Ledger Assets, December 31, current year	<u>\$ 1,402,395</u>	<u>\$ -</u>	<u>\$ 1,402,395</u>	<u>\$ 1,582,400</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2008, based on the results of this examination.

SUMMARY OF SIGNIFICANT FINDINGS

1. The Company did not require Board members to agree to and sign a "Conflict of Interest" statement, which is mandated by the IDOI. The Company should immediately act to obtain signed statements and forward them to the IDOI within sixty days.
2. The Company did not require Board members to agree to and sign an "Oath of Office" statement, which is mandated by the IDOI. The Company should immediately act to obtain signed statements and forward them to the IDOI within sixty days.
3. The Company's accounting records did not agree with Annual Statements submitted to the IDOI. Along with the 2010 Annual Statement, the Company is required to submit a trial balance which reconciles to the Annual Statement.
4. The analysis of claims payment data noted a statistical anomaly with regards to the distribution of claims payments. A higher propensity of related party payments appeared to exist over the examination period. Given the small sample size of the claims, this could likely be coincidental, given the close proximity of the members. Claims submitted by members of the Board of Directors should be reviewed in detail by each Board member and approval of claims paid should be disclosed in the Board minutes.
5. The Company has only one employee who is a policyholder, a Board member, Company Treasurer, and the spouse of the President of the Company. Additionally, the employee receives funds, disburses funds, coordinates bank activities, and oversees the general ledger and annual statement preparation process. Further, there are no monthly account reconciliation procedures and the books and records of the Company were noted as inadequate. There is little to no separation of duties and inadequate Board oversight. Due to these control weaknesses it is imperative that the full Board of Directors actively monitor and manage the activities of the Company. Monthly financial statement results should be presented to the Board and active participation by all Board members is necessary to provide for adequate governance of the Company.
6. Board members are compensated for the adjusting of claims on a per claim basis. While all Board members adjust claims, they are not all licensed adjusters. The Company's claims should only be adjusted by properly licensed adjusters.
7. The Fidelity Bond maintained by the Company does not meet the prescribed minimum coverage of \$25,000 specified by the NAIC. The Company should obtain a bond which meets the prescribed minimum and submit the bond to the IDOI within sixty days.

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, the Examiners obtained a completed management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

CONCLUSION

The preceding Report of Examination of **First Farm Mutual Insurance Company of Jackson County** as of December 31, 2008 reflects its financial condition in accordance with the National Association of Insurance Commissioners Accounting Practices and Procedures Manual and any and all prescribed and permitted accounting practices of the Indiana Department of Insurance. An Affidavit of the Examiner-in-Charge, Daniel P. McBay, CFE, is on file with the Indiana Department of Insurance and attests that the examination was performed in a manner consistent with the standards and procedures required by the Indiana Department of Insurance and the National Association of Insurance Commissioners Financial Condition Examiners Handbook. Based on my review, to the best of my knowledge, the examination was performed in a manner consistent with those standards and procedures and properly reflects the financial condition of **First Farm Mutual Insurance Company of Jackson County**.



Alan T. Griffith, CFE
Examinations Manager
Indiana Department of Insurance