

Report of Examination of

German Farmers Mutual of Sardis Insurance Association
Laings, Ohio

As of December 31, 2010

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Columbus, Ohio

July 22, 2011

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance (Department)
50 West Town Street, Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of

German Farmers Mutual of Sardis Insurance Association

an Ohio domiciled, mutual protective property company, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 43022 Six-Points Road, Laings, Ohio 43752.

A report of this examination is hereby respectfully submitted.

The Department last examined the Company as of December 31, 2006. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2010.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

Name	Principal Occupation
David Alleman	Assistant Manager, Wal-Mart
L. Dale Antill	Retired
Trent Indermuhle	Sales Associate, Richwood, Inc.
Gary McIntire	Retired
John G. Shaw	Retired

Ray W. Straub Retired
Tammy M. Wade Administrative Assistant, AEP Construction

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
John G. Shaw	President
David Alleman	Vice President
Janis Alleman	Secretary and Treasurer

Insurance Holding Company System

The Company is a member of a holding company as defined in Section 3901.32 of the ORC. The following organization chart displays ownership of the Company and affiliated companies:

German Farmers Mutual of Sardis Insurance Association
German Farmers of Sardis Insurance Agency

Reinsurance

Ceded

The Company has a per risk excess of loss agreement that covers losses above the Company's retention of \$37,500. An aggregate excess of loss agreements provides unlimited coverage for net losses above \$249,050.

All reinsurance agreements appear to transfer risk and have the NAIC required clauses.

Assumed

The Company did not assume any reinsurance.

Territory and Plan of Operations

The Company is licensed to do business in the State of Ohio.

Scope of Examination

One of the purposes of the examination was to make an assessment of the financial condition of the Company as of December 31, 2010. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the NAIC Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. fidelity bonds and other insurance;
3. officers', employees', and agents' welfare and pension plans;
4. growth of Company;
5. loss experience; and
6. pending litigation;

Financial Statements

The financial condition as reported and filed by the Company with the Department is reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Statement of Income

Statement of Assets, Liabilities, Surplus and Other Funds

Admitted assets

Cash and invested assets:	
Common stock	\$5,575
Cash	784,676
Total cash and invested assets	<u>790,251</u>
Investment due and accrued	1,657
Receivable from parent, subsidiaries and affiliates	3,771
Total admitted assets	<u>\$795,679</u>

Liabilities, capital and other funds

Liabilities:	
Unpaid losses	\$13,200
Other expenses (excluding taxes, licenses and fees)	203
Taxes, licenses and fees (excluding federal income taxes)	764
Unearned assessment/premium reserve	108,103
Ceded reinsurance premiums payable	7,059
Funds held by company under reinsurance treaties	121
Amounts withheld or retained by company for account of others	3,905
Payable to parent, subsidiaries and affiliates	855
Aggregate write-ins for liabilities	1,327
Total liabilities	<u>135,537</u>
Capital and surplus:	
Surplus as regards policyholders	660,142
Total capital and surplus	<u>660,142</u>
Total liabilities, capital and surplus	<u>\$795,679</u>

Statement of Income and Expenses

Income	
Total assessment or premium income	\$408,502
Deduct premiums for reinsurance ceded to other companies	<u>82,724</u>
Net assessment income	325,778
Deductions	
Losses incurred	232,697
Loss expenses incurred	5,399
Other underwriting expense incurred	<u>165,219</u>
Total underwriting deductions	403,315
Net underwriting loss	(77,537)
Investment Income	
Net investment income	<u>18,613</u>
Net investment gain	18,613
Other Income	
Finance and service charges not included in premiums	3,305
Aggregate write-ins for miscellaneous income	<u>16,890</u>
Total other income	20,195
Net loss, after capital gains tax and federal income taxes	(38,729)
Federal income taxes incurred	<u>-</u>
Net loss	<u><u>\$(38,729)</u></u>

Subsequent Events

There were no material subsequent events.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2010, and is summarized as follows:

Total Admitted Assets	\$ <u>795,679</u>
Liabilities	\$ 135,537
Surplus	<u>660,142</u>
Total Liabilities and Surplus	\$ <u>795,679</u>

Acknowledgement

In addition to the undersigned, the following representative of the Department participated in this examination: Methuselah E. Nyangoro, CFE, CPA.

Respectfully,



David A. Cook, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination of German Farmers Mutual of Sardis Insurance Association as of December 31, 2010.

David Cook 8/1/11
Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 1 day of August, 2011.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2012~~
My Commission Expires