

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

IN THE MATTER OF:)
)
Mutual Fire Insurance Company of the French)
Township)
422 North 300 East)
Decatur, Indiana 46733)

Examination of Mutual Fire Insurance Company of the
French Township

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 Mutual Fire Insurance Company of the French Township, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 19, 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 Mutual Fire Insurance Company of the French Township 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 10, 2010



Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2224

STATE OF INDIANA) BEFORE THE INDIANA
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IN THE MATTER OF:)
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Mutual Fire Insurance Company of the French)
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422 North 300 East)
Decatur, Indiana 46733)

Examination of Mutual Fire Insurance Company of the
French Township

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Mutual Fire Insurance Company of the French Township (hereinafter "Company") for the time period January 1, 2004 through December 31, 2008.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on May 11, 2010.

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 May 19, 2010 and was received by the Company on May 22, 2010.

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 Mutual Fire Insurance Company of the French Township as of December 31, 2008.
2. That the Examiners' Recommendations are reasonable and necessary in order for the Mutual Fire Insurance Company of the French Township 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 10th day of
June, 2010.



Douglas Webber
Acting Insurance Commissioner

STATE OF INDIANA

Department of Insurance

REPORT OF EXAMINATION

OF

**MUTUAL FIRE INSURANCE COMPANY OF FRENCH
TOWNSHIP**

NAIC Co. CODE 92318

As of

December 31, 2008

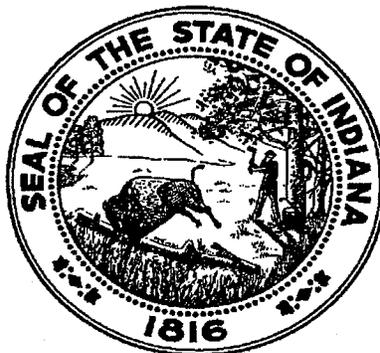


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300

INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385

FAX: (317) 232-5251

CAROL CUTTER, Commissioner

May 12, 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 3615, an examination has been made of the affairs and financial condition of:

**Mutual Fire Insurance Company of French Township
422 N. 300 East
Decatur, Indiana 46733**

hereinafter referred to as the "Company", an Indiana-domiciled, farm mutual insurance company. The examination was conducted at the Company's corporate offices in Decatur, 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
(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 (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 1882 and on May 12, 1926 elected to come under Chapter 145, Acts 1919, IC 27-5-1 of the Indiana Insurance Laws, as pertains to farm mutual companies. The purpose of the Company is to gather a number of members who promise to assist one another in losses resulting from fire, lightning, or multiple perils and to furnish such insurance to members at cost according to specified conditions.

CAPITAL AND SURPLUS

As of December 31, 2008, the Company had surplus of \$1,028,500 and had 672 members (policyholders), who are the owners of the Company.

TERRITORY AND PLAN OF OPERATION

The Company is authorized to conduct business throughout Indiana the State of Indiana and currently services members in Adams, Allen, Blackford, Dearborn, DeKalb, Hamilton, Howard, Huntington, Jay, Kosciusko, Lagrange, Miami, Noble, Putnam, Steuben, Wabash, Wells, and Whitely counties. The Company insures dwellings, contents, buildings, livestock, equipment, personal property, mobile homes, churches, and small businesses against losses resulting from fire, wind, and multiple perils.

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	\$ 1,288,244	\$ 259,744	\$ 1,028,500	\$ 428,250	\$ 351,646	\$ (25,518)
2007	1,311,506	243,315	1,068,191	393,381	160,566	139,729
2006	1,187,107	222,763	964,344	353,004	357,661	(82,837)
2005	1,266,463	4,463	1,262,000	326,043	64,519	(181,520)

During the examination period, all categories presented above fluctuated primarily as a result of net income or loss. The Company reported a net loss in three of the four years due to the variability of losses reported and paid during each period. Premiums have increased over the examination period and the Company states the premiums are adequate to grow surplus over time.

MANAGEMENT AND CONTROL

Members

Members (policyholders) of the Company are considered its owners. According to its Constitution, an annual meeting of members is to be held by the second Saturday in January of each year. During these meetings, members conduct elections to elect (or re-elect) officers and Directors whose terms are expiring. Each member is entitled to one vote for each issue where a vote is taken.

Directors

The Company's Bylaws direct that the power of the Company is vested in a Board of Directors, whose members are elected to five (5) year terms (on a staggered basis) during the annual meeting of the members. The following is a list of Board Members as of December 31, 2008:

<u>Name of Director</u>	<u>Residence</u>
Melvin Burkhart	Decatur, IN
Marvin Hirschy	Geneva, IN
Kerry Kauffman	Decatur, IN
Philip Moser	Decatur, IN

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 and serve for a term of five (5) years. The following is a list of officers as of December 31, 2008:

Name	Position
Robert Isch	President
Max Reinhard	Vice President
Arlene Stump	Secretary, & Treasurer

CONFLICT OF INTEREST

The Company requires officers and Directors to review and sign Conflict of Interest Statements on an annual basis. Per review of the signed statements, the Examiner noted that the Officers and Directors listed in the management and control section of this report had reviewed and signed their statements as of December 31, 2008.

OATH OF OFFICE

IC 27-1-1-10(i) stipulates that every Director, when elected, shall take 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.

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 St. Paul Fire & Marine Insurance Company. The bond has blanket coverage of \$100,000 with a \$2,500 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

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 exam period.

Reinsurance Ceded

The Company's reinsurance program is written through Grinnell Mutual Reinsurance Company (Grinnell) of Grinnell, Iowa, with stipulated terms listed below:

- *Individual occurrence of loss* – Grinnell assumes liability over the Company's retention of \$125,000 per occurrence.
- *Aggregate Excess Reinsurance* – Grinnell assumes liability when losses exceed the adjusted attachment point for aggregate net losses of \$373,448.

RESERVES

Merlinos was engaged by the IDOI to review the carried reserves as presented in the Company's 2008 Annual Statement. Merlinos 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's accounting procedures, practices, account records and supporting data were reviewed and tested to the extent deemed necessary. The Company does not maintain a general ledger that includes significant liability accounts, including unpaid claims and unearned premiums. In order to fulfill their reporting requirements, liabilities are periodically calculated, as needed, and incorporated into documents like the Annual Statements. Material balances reflected in the December 31, 2008 and 2007 Annual Statements were agreed to supporting documentation and the trial balance when applicable, but the general ledger could not be reconciled to the Annual Statement in total

Mutual Fire Insurance Company of French Township

Financial Statements

Assets, Liabilities, and Surplus

	As of December 31, 2008			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Assets:				
Bonds	\$ -	\$ -	\$ -	\$ -
Stocks	205,940	(79,428)	126,512	-
Bank Balances	1,075,734	-	1,075,734	1,307,320
Accrued interest	6,442	-	6,442	4,186
Other Assets	128	-	128	-
Total Assets	\$ 1,288,244	\$ (79,428)	\$ 1,208,816	\$ 1,311,506
Liabilities and Surplus:				
Net unpaid claims	\$ 5,250	\$ -	\$ 5,250	\$ -
Ceded reinsurance balances payable	8,087	-	8,087	7,759
Taxes payable	1,992	-	1,992	1,843
Other unpaid expenses	367	-	367	367
Premiums received in advance	-	-	-	44,961
Unearned premium reserve	244,048	-	244,048	226,778
Unapplied premiums (suspense)	-	-	-	(23)
Total Liabilities	\$ 259,744	\$ -	\$ 259,744	\$ 281,685
Surplus	1,028,500	(79,428)	949,072	1,029,821
Total liabilities and surplus	\$ 1,288,244	\$ -	\$ 1,208,816	\$ 1,311,506

Note: In the 2007 Annual Statement, the liabilities total was misstated due to a simple addition error. As a result, the surplus balance reported was incorrectly reported as well. The amounts presented above have been corrected, to properly reflect the accurate liabilities and surplus balances as of December 31, 2007. Additionally, the 2007 total liabilities and surplus balance does not tie to the 2007 ledger asset balance per the Statement of Income as accrued interest was not posted into the correct years financial statement.

Mutual Fire Insurance Company of French Township

Financial Statements

Statement of Income

	As of December 31, 2008			December 31, Prior Year
	Per Annual Statement	Examination Adjustments	Per Examination	
Surplus, December 31 prior year	\$ 1,029,821	\$ -	\$ 1,029,821	\$ 890,092
Income:				
Premiums, net of reinsurance	\$ 454,172	\$ -	\$ 454,172	\$ 393,381
Interest on investments	56,485	(79,428)	(22,943)	54,754
Other income	8,658	-	8,658	-
Total income	\$ 519,315	\$ (79,428)	\$ 439,887	\$ 448,135
Disbursements:				
Losses, net of reinsurance	\$ 351,646	\$ -	\$ 351,646	\$ 160,566
Operating expenses	147,049	-	147,049	147,840
Non-operating expenses	21,941	-	21,941	-
Total disbursements	\$ 520,636	\$ -	\$ 520,636	\$ 308,406
Net income (loss)	\$ (1,321)	\$ (79,428)	\$ (80,749)	\$ 139,729
Surplus, December 31 current year	\$ 1,028,500	\$ (79,428)	\$ 949,072	\$ 1,029,821

Note: In the 2008 Annual Statement, Premiums net of reinsurance was misstated due to an accounting error. The numbers presented above have been corrected, to properly reflect premiums, net of reinsurance and surplus as of December 31, 2008.

COMMENTS ON THE FINANCIAL STATEMENTS

The Company's 2008 Annual Statement improperly reported the value of some invested assets. The Examiner proposed adjustments totaling \$79,428 to properly report this balance.

SUMMARY OF SIGNIFICANT FINDINGS

1. Certain stocks in the 2008 Annual Statement were listed at their book value, rather than their lower market value, overstating investments by \$79,428. The Company should reflect investments at the lower market value in the future.
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 regulatory requirements, signed Oaths of Office statements should be obtained from Board members on an annual basis.
3. The Company's accounting records did not agree with Annual Statements submitted to the IDOI. The Company should post all transactions to the general ledger and insure that it reconciles to the Annual Statement.

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 **Mutual Fire Insurance Company of French Township** 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 **Mutual Fire Insurance Company of French Township**.



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