

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

IN THE MATTER OF:)

Local Farmers Mutual Fire and Lightning Insurance)
Company)
10259 North County Road 600 East)
Sunman, IN 47041)

Examination of Local Farmers Mutual Fire and Lightning 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 Local Farmers Mutual Fire and Lightning Insurance Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on May 18, 2015, 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 Local Farmers Mutual Fire and Lightning 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.

Date

7/10/2015



Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 91 7190 0005 2720 0044 7200

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FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the Local Farmers Mutual Fire and Lightning Insurance Company (hereinafter "Company") for the time period January 1, 2009 through December 31, 2013.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on December 15, 2014.

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 18, 2015 and was received by the Company on May 26, 2015.

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 Local Farmers Mutual Fire and Lightning Insurance Company as of December 31, 2013.
2. That the Examiner's Recommendations are reasonable and necessary in order for the Local Farmers Mutual Fire and Lightning 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 10th day of

July, 2015.



Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

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.

[Handwritten signature]

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF

LOCAL FARMERS MUTUAL FIRE AND LIGHTNING
INSURANCE COMPANY
NAIC Co. CODE 92315

As of

December 31, 2013

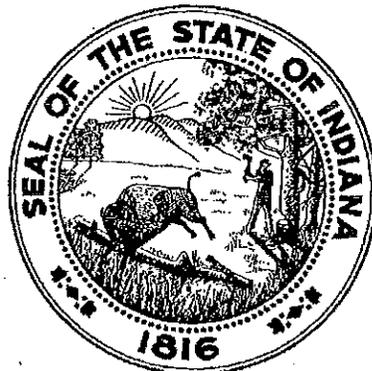


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STATE OF INDIANA

IDOI

MICHAEL R. PENCE, Governor

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

December 15, 2014

Honorable Stephen W. Robertson, Commissioner
Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3833, an examination has been made of the affairs and financial condition of:

Local Farmers Mutual Fire and Lightning Insurance Company
10259 N. County Road 600 E.
Sunman, Indiana 47041

hereinafter referred to as the "Company", an Indiana domiciled, farm mutual insurance company. The examination was conducted at the corporate offices of the Company in Sunman, Indiana and the offices of Noble Consulting Services, Inc., in Indianapolis, Indiana.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES (317) 232-2413 COMPANY COMPLIANCE (317) 233-0697 CONSUMER SERVICES (317) 232-2395 EXAMINATIONS/FINANCIAL SERVICES (317) 232-2390 MEDICAL MALPRACTICE (317) 232-2402 SECURITIES/COMPANY RECORDS (317) 232-1991 STATE HEALTH INSURANCE PROGRAM 1-800-332-4674

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of the period ending December 31, 2008. The present risk-focused examination was conducted by Noble Consulting Services, Inc., and covered the period from January 1, 2009 through December 31, 2013, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

The examination was conducted 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, 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.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

The Company was organized in 1870, and elected to operate under Chapter 145, Acts 1919; IC 27-5-1 of the Indiana Insurance Laws, as pertains to farm mutual companies.

CAPITAL AND SURPLUS

As of December 31, 2013, the Company had surplus of \$570,748, as adjusted per the examination, and had 119 policyholders who are known as members of the Company.

TERRITORY AND PLAN OF OPERATION

The Company conducts business in Dearborn, Decatur, Franklin, and Ripley counties.

GROWTH OF THE COMPANY

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

Year	Admitted		Surplus
	Assets	Liabilities	
*2013	\$ 582,064	\$ 11,316	\$ 570,748
*2012	594,916	11,316	583,600
*2011	609,460	10,351	599,109
2010	627,870	26,955	600,915
*2009	502,821	(145,017)	647,838

**In 2013, 2012, and 2011, the Company overstated unearned premiums by 68%. In 2009, the Company understated reinsurance recoverable by \$145,017.*

Surplus decreased each year of the examination period, a consistent negative trend.

MANAGEMENT AND CONTROL

Directors

The Company's Bylaws state that the power of the Company is vested in its Board of Directors. The following is a listing of persons serving as directors as of December 31, 2013:

Name	Address
Bonnie Billman	Osgood, Indiana
Viola Billman	Sunman, Indiana
Brandon Brandt	Sunman, Indiana
Roger Crum	Sunman, Indiana
Kim Ertel	Sunman, Indiana
Jean Field	Versailles, Indiana
Julia Kirkland	Versailles, Indiana
Steve Meyer	Batesville, Indiana
Rita Newhart	Osgood, Indiana
Jerry Volz	Sunman, Indiana

Officers

The Company's Bylaws state that the officers of the Company shall be Board members and 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 key officers and their respective titles as of December 31, 2013:

<u>Name</u>	<u>Office</u>
Rita Newhart	President
Steve Meyer	Vice President
Kim Ertel	Secretary
Viola Billman	Treasurer

CONFLICT OF INTEREST

Directors and officers are required to review and sign Conflict of Interest statements annually. It was determined that all directors and officers listed in the Management and Control section of this Report of Examination have reviewed and signed their statements as of December 31, 2013.

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 Company and will not knowingly violate any of the laws applicable to such Company. It was determined that all directors listed in the Management and Control section of this Report of Examination have subscribed to an oath as of December 31, 2013.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments made to the Articles of Incorporation during the examination period.

Bylaws

There were no amendments made to the Bylaws during the examination period.

Minutes

The Board and members meeting minutes were reviewed for the period under examination through the fieldwork date.

AFFILIATED COMPANIES

The Company does not have any 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 the Federal Insurance Company. The bond has a single loss coverage limit of \$200,000, with a \$10,000 deductible. The fidelity bond is adequate to meet the prescribed minimum coverage specified by the NAIC.

The Company had additional types of coverage in-force at December 31, 2013, including but not limited to, management indemnity/directors and officers liability.

STATUTORY DEPOSITS

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

REINSURANCE

The Company's reinsurance program is placed through Guy Carpenter & Company, LLC, a large, reinsurance intermediary based in Philadelphia, Pennsylvania. The Company is party to four (4) reinsurance treaties. Each is briefly summarized below:

- *Obligatory First Surplus Reinsurance Contract* - The contract provides the Company with excess coverage up to six (6) times its net retained liability to a maximum cession of \$60,000. The Company's minimum net retained liability as respects any one (1) risk is \$2,500.
- *Aggregate Excess of Loss Reinsurance Contract* - The reinsurer shall be liable in the aggregate in respect of losses occurring during the term of this contract for 95% of the ultimate net loss over and above an initial ultimate net loss equal to the greater of \$12,800 or \$12.50 per \$1,000 of average net fire insurance in-force, subject to a limit of liability to the reinsurer of the lesser of \$27,645 (being 95% of \$29,100) or 95% of \$19.00 per \$1,000 of average net fire insurance in-force.
- *Supplemental Aggregate Excess of Loss Reinsurance Treaty* - Under the terms of the contract and upon meeting the conditions set forth in the Supplemental Aggregate Excess of Loss Reinsurance Treaty, the reinsurer assumes the amount of the excess up to but not exceeding 100% of \$250 per \$1,000 of average net fire insurance in-force during the contract year.
- *Property Facultative Pro Rate Reinsurance Contract* - This contract provides reinsurance to the Company of up to 10 times its net retention, subject to a minimum net retention of \$2,500 and to a maximum cession of \$250,000. The premium for this coverage is the exact proportion of the Company's gross net written premium income, subject to a 25% ceding commission.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The trial balances prepared from the Company's general ledger for the years ended December 31, 2012 and 2013, were agreed to the respective Annual Statements.

LOCAL FARMERS MUTUAL FIRE AND LIGHTNING INSURANCE COMPANY
 Assets, Liabilities and Surplus
 As of December 31, 2013

	Per Annual Statement	Adjustments	Per Examination
ASSETS			
Bonds	\$ 209,989	\$ -	\$ 209,989
Stocks	290,768	-	290,768
Bank Balances subject to check	9,090	-	9,090
Bank Balances on interest	72,217	-	72,217
Total Assets	<u>\$ 582,064</u>	<u>\$ -</u>	<u>\$ 582,064</u>
LIABILITIES AND SURPLUS			
Premiums received in advance	\$ 34,966	\$ (34,966)	\$ -
Unearned premium reserve	-	11,316	11,316
Total Liabilities	<u>34,966</u>	<u>(23,650)</u>	<u>11,316</u>
Surplus	549,398	21,350	570,748
Total Liabilities and Surplus	<u>\$ 584,364</u>	<u>\$ (2,300)</u>	<u>\$ 582,064</u>

LOCAL FARMERS MUTUAL FIRE AND LIGHTNING INSURANCE COMPANY
Income Statement and Change in Surplus
For the Year Ended December 31, 2013

	Per Annual Statement	Adjustments	Per Examination
INCOME			
Direct premiums written	\$ 75,247	\$ -	\$ 75,247
Less, reinsurance premiums ceded	(50,648)	-	(50,648)
Net premiums written	24,599	-	24,599
Income from investments	(1,244)	-	(1,244)
Total Income	<u>\$ 23,355</u>	<u>\$ -</u>	<u>\$ 23,355</u>
EXPENSES AND CHANGE IN SURPLUS			
Direct losses	\$ 1,751	\$ -	\$ 1,751
Less, reinsurance recovered	(1,700)	-	(1,700)
Net losses paid	51	-	51
Boards, bureaus and associations	1,702	-	1,702
Salaries of officers	20,910	-	20,910
Insurance	2,836	-	2,836
Rent and rent items	60	-	60
Printing, stationary and supplies	1,251	-	1,251
Postage and telephone	1,578	-	1,578
Legal and auditing	1,100	-	1,100
Insurance Department licenses and fees	400	-	400
Payroll taxes	4,768	-	4,768
Salaries and expenses of agents	104	-	104
Refunds	408	-	408
Bond	1,039	-	1,039
Total operating expense	<u>36,156</u>	<u>-</u>	<u>36,156</u>
Total disbursements	<u>36,207</u>	<u>-</u>	<u>36,207</u>
Net income	(12,852)	-	(12,852)
Surplus, beginning of period	559,950	23,650	583,600
Surplus, end of period	<u>\$ 549,398</u>	<u>\$ 21,350</u>	<u>\$ 570,748</u>

COMMENTS ON THE FINANCIAL STATEMENTS

In the 2013 annual statement, the Company incorrectly reported unearned premiums in the amount of \$34,966 as premiums received in advance. An adjustment was made to reclassify the balance as unearned premium reserve. In addition, the unearned premium reserve balance was overstated and an adjustment was made to reflect the correct balance of \$11,316. The total liabilities and surplus, as reported in the annual statement did not agree with total assets reported. An adjustment of \$2,300 was made to reflect the proper balance.

OTHER SIGNIFICANT ISSUES

Surplus decreased each year of the examination period, a consistent negative trend. The Company's current business model precludes the Company's ability to maintain reserves. It is recommended that the Company develop a business plan that addresses the ongoing depletion of surplus. The plan should evaluate all current income and expenses, including consideration of the competitiveness of current premium rates, the optimal reinsurance coverage and cost, and the current commission structure.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork which were considered material events requiring disclosure in this Report of Examination.

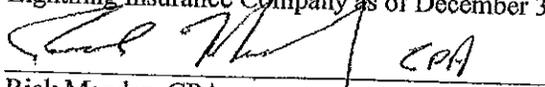
AFFIDAVIT

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 Local Farmers Mutual Fire and Lightning Insurance Company, as of December 31, 2013.

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 NAIC Financial Condition Examiners 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.

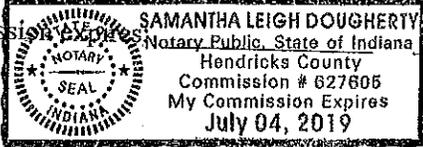
The attached Report of Examination is a true and complete report of condition of Local Farmers Mutual Fire and Lightning Insurance Company as of December 31, 2013, as determined by the undersigned.


Rick Mendez, CPA
Noble Consulting Services, Inc.

State of: Indiana
County of: Marion

On this 10 day of February, 2015, 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 last above written.

My commission expires  
Samantha Leigh Dougherty
Notary Public, State of Indiana
Hendricks County
Commission # 627605
My Commission Expires
July 04, 2019
Notary Public

