

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, Indiana 47041)

Examination of Local Farmers Mutual Fire and
Lightning Insurance Company

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 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 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 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

June 10, 2010



Connie Ridinger, CPA, CFE
Chief Examiner/Deputy Commissioner

CERTIFIED MAIL NUMBER: 7004 1160 0000 3839 2194

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10259 North County Road 600 East)
Sunman, Indiana 47041)

Examination of Local Farmers Mutual Fire and
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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, 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 6, 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 24, 2010.

The Company did not file any objections.

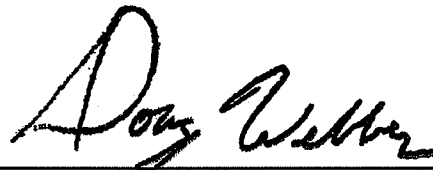
NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following FINDINGS:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the Local Farmers Mutual Fire and Lightning Insurance Company as of December 31, 2008.
2. That the Examiners' 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
June, 2010.



Douglas Webber
Acting Insurance Commissioner

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, 2008

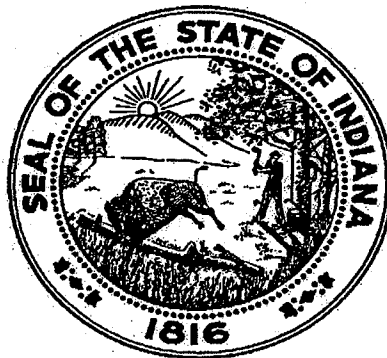


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STATE OF INDIANA

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 7, 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 3614, 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, IN 47041

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

We conducted the examination pursuant to and in accordance with 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 1870 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 purpose of the Company is to insure its members against hazards that are permitted by the farm mutual laws.

CAPITAL AND SURPLUS

As of December 31, 2008, the Company had surplus of \$558,524 and had 148 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 Dearborn, Decatur, Franklin, and Ripley counties. The Company insures farms, buildings (both farm and non-farm), machinery, livestock, and dwellings.

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>Member</u>	<u>Premium</u>	<u>Losses Paid</u>	<u>Net Income</u>
	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Written</u>		<u>(Loss)</u>
2008	\$ 558,524	\$ -	\$ 558,524	\$ 70,945	\$ 24,362	\$ 4,707
2007	553,817	-	553,817	67,671	4,272	13,727
2006	540,083	-	540,083	65,100	9,033	14,937
2005	523,056	-	523,056	61,663	-	(2,856)

MANAGEMENT AND CONTROL

Members

Members (policyholders) of the Company are considered its owners. The annual meeting of the members and Directors is 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. An annual Board meeting is held every year, to review the previous year's activity and to do strategic planning.

Directors

The Company's Bylaws direct that the power of the Company is vested in its Board of Directors. 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>
John Brandt	Milan, IN	Guard
Steve Meyer	Batesville, IN	Contractor
Louis Brandt	Sunman, IN	Farmer (retired)

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>
Glenn Roepke	President
Rita Newhart	Vice President
Kim Ertel	Secretary
Esther Edmondson	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.

OATH OF OFFICE

IC 27-1-1-10(i) stipulates that every Director, when elected, shall take an 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. 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 Federal Insurance Company. The bond has blanket coverage of \$200,000 with a \$10,000 deductible. Coverage includes employees and Directors. 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 placed through Guy Carpenter & Company, LLC, a large, reinsurance intermediary from Philadelphia, Pennsylvania. The Company is party to four reinsurance treaties. Each is briefly summarized below:

Obligatory First Surplus Reinsurance Treaty

Effective January 1, 2008, this treaty provides the Company with excess coverage up to six times its net retained liability to a maximum cession of \$60,000. The Company's minimum net retained liability as respects any one risk is \$2,500. The premium for this coverage is equal to the proportionate share of the liability ceded, less a 25% ceding commission.

Aggregate Excess of Loss Reinsurance Treaty

Under the terms of this treaty, the Company is reinsured against losses exceeding the greater of \$12.50 per \$1,000 of the average net fire insurance in force, or \$19,000. The reinsurer's liability is the lesser of 95% of \$19.00 per \$1,000 of the average net fire insurance in force or 95% of \$39,900. Losses equal to the greater of \$12.50 per \$1,000 of the average net fire insurance in force or \$19,000, plus the remaining 5% of any excess loss recoverable are retained by the Company. The premium for this coverage is \$0.53 per \$1,000 of the average net fire insurance in force, subject to a minimum annual premium of \$800.

Supplemental Aggregate Excess of Loss Reinsurance Treaty

Under the terms of the treaty and upon meeting the conditions set forth in the "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. The premium for this coverage is \$0.175 per \$1,000 of the average net fire insurance in force, subject to an annual minimum premium of \$750.

Property Facultative Pro Rate Reinsurance Contract

Effective January 1, 2008, this treaty 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.

RESERVES

Merlinos and Associates, Inc. (Merlinos) was engaged by the IDOI to review the carried reserves as presented in the Company's 2008 Annual Statement. It was noted that no reserves were carried as of December 31, 2008 and the Company had no records with which to perform an actuarial review. Merlinos reviewed the subsequent payment records through December 31, 2009 to determine if any claims payments related to the 2008 loss year. Merlinos noted the existence of 2008 losses paid in 2009 and recommended a surplus adjustment. See the Summary of Significant Findings section of this Report of Examination for further details.

ACCOUNTS AND RECORDS

The Company uses "QuickBooks" for its record-keeping. The Examiners 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 of Examination for further details.

Local Farmers Mutual Fire and Lightning Insurance Company

Financial Statements

Assets, Liabilities, and Surplus

	As of December 31, 2008			December 31,
	Per Annual Statement	Examination Adjustments	Per Examination	2007
Assets:				
Bonds	\$ 80,020	\$ -	\$ 80,020	\$ 64,689
Stocks - common	-	-	-	-
Bank balances	478,504	-	478,504	489,128
Reinsurance recoverable	-	26,189	26,189	-
Total Assets	\$ 558,524	\$ 26,189	\$ 584,713	\$ 553,817
Liabilities and Surplus				
Accounts payable	\$ -	\$ 17,271	\$ 17,271	\$ -
Unpaid claims and IBNR	-	9,300	9,300	-
Unearned premiums	-	30,725	30,725	-
Total liabilities	\$ -	\$ 57,296	\$ 57,296	\$ -
Surplus	558,524	(31,107)	527,417	553,817
Total liabilities and surplus	\$ 558,524	\$ 26,189	\$ 584,713	\$ 553,817

Local Farmers Mutual Fire and Lightning Insurance Company

Financial Statements

Statement of Income

	For the period ended December 31, 2008			December 31,
	Per Annual	Examination	Per	2007
	Statement	Adjustments	Examination	
Surplus, January 1	\$ 553,817	\$ -	\$ 553,817	\$ 540,090
Income:				
Premiums	\$ 70,945	\$ (30,725)	\$ 40,220	\$ 67,671
Less, reinsurance paid	(28,250)	(17,271)	(45,521)	(47,608)
Interest on investments	8,228	-	8,228	19,603
Total income	\$ 50,923	\$ (47,996)	\$ 2,927	\$ 39,666
Disbursements:				
Losses	\$ 86,817	\$ 9,300	\$ 96,117	\$ 37,533
Less, reinsurance recovered	(62,455)	(26,189)	(88,644)	(33,261)
Operating expenses	21,854	-	21,854	21,667
Total disbursements	\$ 46,216	\$ (16,889)	\$ 29,327	\$ 25,939
Net income	\$ 4,707	\$ (31,107)	\$ (26,400)	\$ 13,727
Surplus, December 31,	\$ 558,524	\$ (31,107)	\$ 527,417	\$ 553,817

COMMENTS ON THE FINANCIAL STATEMENTS

The Annual Statements did not reflect any unearned premiums, unpaid claims, or claims incurred but not reported. The Examiner proposed adjustments to record these balances.

SUMMARY OF SIGNIFICANT FINDINGS

1. The Company reported no amounts for unpaid claims or claims incurred but not reported (IBNR). This was also a finding in the previous exam. Management has been instructed to include these balances in all future statements. The Examiner noted a payment of \$9,300 in 2009 for 2008 claims year activity.
2. The Company reported no amounts for unearned premiums. This was also a finding in the previous exam. Management has been instructed to include these balances in all future statements. The unearned premiums were determined to be \$30,725 at December 31, 2008.
3. The Company reported no amounts for reinsurance recoverable or payable. Management has been instructed to include these balances in all future statements. The Examiner noted deposits in 2009 for reinsurance amounts recovered on 2008 claims totaling \$26,189. Additionally, the Examiner noted payments made to reinsurers for 2008 claims activities totaling \$17,271.
4. The Board only meets once a year, which is inadequate to develop and implement strategic plans and to properly oversee operations. The Board should meet at least quarterly, to review financial and operational data. In addition, Board meetings should include discussions of current industry and local trends, the business outlook, and business strategies. The Company should implement a policy of quarterly board meetings and provide the IDOI with copies of all 2010 Board minutes.
5. The Company did not require Board members to agree to and sign a "Conflict of Interest" statement as mandated by the IDOI. The Company should immediately act to obtain signed statements and forward them to the IDOI.
6. The Company did not require Board members to agree to and sign an "Oath of Office" statement as mandated by the IDOI. The Company should obtain signed statements and forward them to the IDOI.
7. 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.
8. As several of the findings listed above are reoccurring, we recommend that the President follow-up and report to the IDOI on implementation of corrective actions for each of the items noted above.

SUBSEQUENT EVENTS

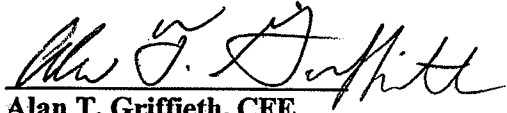
No significant subsequent events were noted.

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 **Local Farmers Mutual Fire and Lightning Insurance Company** 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 **Local Farmers Mutual Fire and Lightning Insurance Company**.



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