



STATE OF MAINE

BUREAU OF INSURANCE

**IT IS HEREBY CERTIFIED THAT THE ANNEXED REPORT OF
EXAMINATION FOR**

Farmington Mutual Fire Assessment Company

**has been compared with the original on file in this bureau and that it is a correct transcript
therefrom and of the whole of said original.**

IN WITNESS WHEREOF,

**I have hereunto set my hand and affixed the official seal of this Office at the City of
Gardiner this**

fourth day of April, 2012.

A handwritten signature in black ink, appearing to read "Eric A. Cioppa", written over a horizontal line.

**Eric A. Cioppa
Superintendent**



Paul R. LePage
GOVERNOR

STATE OF MAINE
DEPARTMENT OF PROFESSIONAL
AND FINANCIAL REGULATION
BUREAU OF INSURANCE
34 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0034

Eric A. Cioppa
SUPERINTENDENT

June 28, 2011

Eric A. Cioppa
Superintendent of Insurance
Maine Bureau of Insurance
34 State House Station
Augusta, ME 04333-0034

Dear Superintendent:

In accordance with your instructions and pursuant to statutory provisions, an examination has been made on the conditions and financial affairs of

Farmington Mutual Fire Insurance Company

located in West Farmington, Maine. The following report is respectfully submitted.



PRINTED ON RECYCLED PAPER

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REPORT OF EXAMINATION

Farmington Mutual Fire Insurance Company

AS OF

DECEMBER 31, 2010

ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a draft Report of Examination of the Company dated June 28, 2011, was delivered to that insurer on March 2, 2012, and

WHEREAS the Company and Bureau of Insurance staff have agreed to certain modifications with respect to the Report of Examination, and

WHEREAS I find such modifications proper, and

WHEREAS no hearing with respect to the Report of Examination has been requested by the Company,

NOW THEREFORE, I accept the Report of Examination as modified and hereby order it placed on file in the Bureau of Insurance as provided for by 24-A M.R.S.A. §226 (3).

Dated:

7/4/12



Eric A. Cioppa
Superintendent

TABLE OF CONTENTS

SCOPE OF EXAMINATION	1
SUMMARY OF SIGNIFICANT FINDINGS	1
PRIOR EXAMINATION COMMENTS, COMPANY RESPONSES, AND STATUS	1
CURRENT EXAMINATION COMMENTS AND RECOMMENDATIONS	2
SUBSEQUENT EVENTS	6
THE COMPANY	6
HISTORY	6
CORPORATE RECORDS	6
CORPORATE OWNERSHIP.....	6
CORPORATE GOVERNANCE	6
FIDELITY BOND AND OTHER INSURANCE.....	6
TERRITORY & PLAN OF OPERATION.....	7
UNDERWRITING RULES AND PRACTICES	7
GROWTH OF COMPANY	7
ACCOUNTS AND RECORDS	7
REINSURANCE	7
FINANCIAL STATEMENTS.....	8
CONCLUSION.....	8

SCOPE OF EXAMINATION

The procedures in this examination of Farmington Mutual Fire Insurance Company (hereinafter, "Company") considered the three year period from January 1, 2007, through December 31, 2009, and included an examination for the one year period ended December 31, 2010. In accordance with the National Association of Insurance Commissioners (hereinafter, "NAIC") Financial Condition Examiners Handbook (hereinafter, "FCEH"), this examination consisted of a survey of the Company's business policies, as well as a review of the articles of incorporation, bylaws, and board of directors' meeting minutes. This examination was also planned in order to verify assets and to determine liabilities at December 31, 2010, in conformity with the laws, rules, and regulations prescribed or permitted by the Maine Bureau of Insurance (hereinafter, "BOI"), where applicable.

This examination also included a review of significant transactions and/or events occurring subsequent to December 31, 2010, that were noted during the course of this examination.

SUMMARY OF SIGNIFICANT FINDINGS

Prior Examination Comments, Company Responses, and Status

Comment:

The board of directors made non-compliant changes to the bylaws. Article XII of the bylaws states that the bylaws may only be amended at annual meetings or at special meetings called specifically for that purpose.

Company Response:

The Company will comply going forward.

Status:

The changes remain in place. There were no changes made to the Company's bylaws throughout the period of this examination.

Comment:

The Company is over-stating policies in-force and the face value of premiums on Schedule C of the annual statement as submitted to the BOI.

Company Response:

The Treasurer will make sure that all policies in-force and premium notes are reported accurately on the annual statement.

Status:

The Company restated Schedule C for the years 2006 through 2008, but then failed to complete Schedule C in the annual statements for the years 2009 and 2010.

Comment:

The Company is reinsuring lumber mill risks under its facultative reinsurance agreement which specifically excludes lumber mills and lumber yard risks.

Company Response:

The Company only has one saw mill operation on its books and is complying with the reinsurer's request that the Company's retention is never over \$22,000.

Status:

The Company was in compliance with its response until May 2010 when this policy was changed to increase the coverage amount. The additional coverage was not reported or ceded to the reinsurer until March 2011; therefore, the Company was not in compliance with the retention amount requested by the reinsurer and approved by the BOI as of December 31, 2010.

Current Examination Comments and Recommendations

1. Board Minutes Comment:

None of the annual member meeting minutes or board of directors' meeting minutes were approved at a later meeting. Additionally, it was observed that, since 2007, minutes related to certain board of directors' meetings have not been signed.

Recommendation:

The board of directors should vote to approve the minutes of prior meetings. The board of directors' meeting minutes should be properly signed. These actions will ensure that documentation of board of directors' meetings have been memorialized and distributed to all board of directors' members.

2. Board of Directors Comment:

In 2010 and 2011, the board of directors voted to continue with its aggregate excess of loss reinsurance arrangement, but misstated the terms of the agreement in the minutes to the board of directors' meeting. At the 2007 board of directors' meeting, only four members were present; however, a fifth member was listed to second a motion at that meeting. It appears that a quorum was not present at the 2007 board of directors' meeting. As such, no business should have been conducted.

Recommendation:

The Company should ensure that all actions of the board of directors are accurately recorded and that the board of directors only conducts business when at least a quorum is present.

3. Premium Income Comment:

Premiums, assessments, and policy fees reported for 2010 could not be verified for accuracy. The policy lists provided by the Company did not support 2010 income items.

Recommendation:

The Company should ensure that its accounting and record keeping is complete and accurate. All annual statement line items should have full support. If needed, reconciliations in support of the annual statement should be performed and saved.

4. Annual Statement Reporting Comment:

In both 2009 and 2010, the annual statements filed with the BOI were incomplete. Schedule C of the annual statement was not completed in 2009 and 2010. As such, the insurance in-force, the outstanding premium note balance, and the amount of reinsurance in place were not reported as required by the BOI. Please see comment two of the prior report of examination.

Recommendation:

The Company should ensure that all annual statements are completed as required.

5. Unearned Premium Comment:

The Company's calculation of the change in unearned premium was incorrectly reported.

Recommendation:

The Company's accounting and record keeping needs to be complete to ensure proper reporting in the annual statement.

6. Ceded Reinsurance Comment:

Two policies issued in 2010 were not ceded to the reinsurer under the facultative pro-rata reinsurance contract. The first policy noted was a 2010 new issue for \$50,000. The second policy noted was an addition of \$80,000 in coverage to an already existing policy of \$40,000, for a total insured amount of \$120,000. Further, the addition was processed as an endorsement, and no new premium note was signed. The recording of and accounting for these policies is not in compliance with the reinsurance contract. This resulted in an insured amount that exceeded the BOI approved retention.

Recommendation:

The Company should develop internal controls regarding the mutual assessment insurance product that ensure that monthly ceding to the facultative reinsurer is verified against the policies written or renewed, that premium notes are properly executed, and that BOI approved retentions are not exceeded.

7. Reinsurance Agreements Comment:

The Company was not able to provide fully executed reinsurance agreements for the property facultative pro-rata reinsurance contract or for the aggregate excess of loss reinsurance contract for the years under examination. The Company is not adequately retaining fully executed reinsurance documents in support of its reinsurance program.

Recommendation:

The Company should ensure that fully executed insurance contracts are kept safely at the Company.

8. Facultative Reinsurance Payments Comment:

In 2010, payments to the facultative reinsurer were not made accurately or timely. Article 9 of the facultative pro-rata reinsurance contract requires monthly reporting to the reinsurer within 30 days of the end of each month, and payment within 60 days of the end of each

month. The payments made to the facultative reinsurer in 2010 were not in compliance with the facultative pro-rata reinsurance contract.

Recommendation:

Payments to all reinsurers should be accurate and be made in a timely manner in accordance with the reinsurance contract.

9. Excess of Loss Reinsurance Payments Comment:

In 2010, payments to the aggregate excess of loss reinsurer were not made timely. Article 7 of the aggregate excess of loss reinsurance contract requires equal payments of the premium to be made on January 1st and July 1st.

Recommendation:

Payments to all reinsurers should be accurate and be made in a timely manner in accordance with the reinsurance contract.

10. Underwriting Comment:

The following deficiencies were noted through examination of underwriting files:

- Certain instances were observed in which insurance policies did not include the signatures of the president and secretary, required by Article IX of the bylaws;
- Insurance policies were not renewed pursuant to a consistent Company procedure;
- Premium notes were not consistently executed pursuant to a consistent Company procedure;
- Insurance coverage applications were not consistently executed pursuant to a consistent Company procedure;
- The Company's applications did not contain real property values.
- Insurance policies did not consistently provide descriptions and locations of the insured properties;
- Policy application numbers did not consistently correspond to the policy list.

Recommendation:

The Company should ensure that all underwriting functions are performed in accordance with the Company's bylaws. The Company should ensure that all applications and premium notes are complete, accurate, and properly executed. The Company should ensure that policies are properly recorded. The Company should ensure that all policies and applications are properly maintained in the Company's files.

11. Operations Management Comment:

Review of the insurance operations, without consideration of the effect on operations of fire and lightning losses and reinsurance recoveries, indicated that performance, as reported by the Company, deteriorated from break-even results in 2006 to successive losses of approximately \$3,000 in 2007, 2008, 2009, and 2010. Additionally, there was no internal

discussion of the state of operations in any of the annual meeting minutes or board of directors' meeting minutes reviewed for the period under examination, including 2011.

Recommendation:

The board of directors should consult with the Company's officers and develop a plan to address the future operations of the Company

12. Accounts and Records Comment:

Several errors were noted in the policies and the accounts and records.

- Premium amounts reflected on the facultative pro-rata reinsurance contract monthly bordereau did not match the premium on the 2010 policy lists provided by the Company;
- Policy numbers on the facultative pro-rata reinsurance contract monthly bordereau did not match the policy numbers on the 2010 policy lists provided by the Company;
- Policyholder names on the monthly bordereau for the facultative pro-rata reinsurance contract were not the names listed on the 2010 policy list provided by the Company;
- There were deposits listed on the December 31, 2010, bank reconciliation as deposits-in-transit that were not deposited until February and March of 2011;
- The Company does not keep a cash disbursement journal. To facilitate this examination the Company prepared a list of checks written in 2010. Check number 1838 was missing from the list because it was written out of order in 2011. The Company is not writing checks in pre-numbered numerical order;
- The 2010 payment for the insurance agent and brokers' liability insurance paid in April did not match the premium indicated on the declaration page of the policy.

Recommendation:

The board of directors should identify and require management to remedy the aforementioned accounts and records control deficiencies. Financial records furnished to the BOI must be accurate.

13. Annual Meeting Comment:

The number of the 2009 annual meeting was recorded as the 115th meeting. This recording was incorrect. The 2009 annual meeting should have been recorded as the 114th meeting, as the 2008 meeting was recorded as the 113th annual meeting of the members.

Recommendation:

The Company should be cognizant of accurately recording corporate documents.

SUBSEQUENT EVENTS

No material subsequent events were noted in the BOI's review of the corporate records.

THE COMPANY

History

The Company was incorporated in 1895 and commenced writing business during that year. The Company merged with Wilton Mutual Fire Insurance Company in 1972 with the successor company being Farmington Mutual Fire Insurance Company.

Corporate Records

The Company's articles of incorporation, bylaws, and minutes of the annual members' meetings and board of directors' meetings held during the period under examination were reviewed.

Please see comment one and comment thirteen.

Corporate Ownership

The Company was formed as a mutual. Each policyholder/member is granted one vote at the annual policyholders' meeting.

Corporate Governance

Article II §1 of the bylaws sets forth a governing body of seven directors. The following individuals are the duly elected members of the board of directors and officers serving as of December 31, 2010:

<u>Directors</u>		<u>Officers</u>	
Paul Frederic	Vivian Kennedy	Donna Lane	President
David Gould	Laura Kwon	Adrian Harris	Vice President
Adrian Harris	Donna Lane	Laura Kwon	Secretary/Treasurer
Rebecca Houle			

Review of the insurance operations, without the effect on operations of fire losses and reinsurance recoveries, indicated that the Company has gone from a break-even position in 2006 to losses of approximately \$3,000 for every year under examination. With investment income declining, it appears that the Company's income will not be sufficient to sustain the current level of expenses without a continual charge to surplus. Further, review of the annual meeting minutes and board of directors' meeting minutes indicated that the topic of insurance operations was not discussed.

Please see comment eleven.

Fidelity Bond and Other Insurance

A blanket fidelity bond protects the Company. The \$250,000 fidelity bond maintained by the Company satisfies the NAIC suggested range of between \$15,000 and \$25,000.

Territory & Plan of Operation

The Company is authorized to issue fire and lightning policies in the state of Maine.

Underwriting Rules and Practices

The Company issues fire and lightning policies for a three year period under an assessment plan. The Company requires every insured to provide a premium note to the Company. The amount of the note is determined based on risk and is currently 10% - 15% of the insured amount. The Company charges premiums based on the amount of the note. Policyholders are assessable up to the value of their respective premium notes.

Article VIII of the bylaws limits the amount of insurance that the Company may write to 80 % of the value of the insured property.

Please see comment three, comment four, and comment ten.

Growth of Company

For comparative purposes, certain unexamined financial statement line items, reported by the Company, indicate steady growth in direct premiums throughout the period of examination. It was also noted that total assets and surplus declined. Please see the table below:

<u>Account</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Direct Premium	\$ 16,683	\$ 16,027	\$ 15,196	\$ 13,348
Total assets	\$ 166,743	\$ 192,301	\$ 194,602	\$ 198,137
Surplus	\$ 161,014	\$ 186,554	\$ 188,952	\$ 193,116

Accounts and Records

The Company prepares its accounts and records manually and uses MSExcel spreadsheets for tracking the billing of policies. The Company does not prepare a cash receipts journal, a cash disbursements journal, or a trial balance. The annual statements are prepared on a basis other than statutory accounting principles. The books and records are maintained at the office of the Secretary/Treasurer.

Please see comment four, comment five, and comment twelve.

REINSURANCE

During the period under examination, the Company had two reinsurance contracts in place. The first cover, a facultative reinsurance contract, provides for the Company to cede up to \$100,000 (and more if accepted by the reinsurer,) above the BOI's approved retention, of \$22,000.

Article 9 of the 2010 facultative pro-rata reinsurance contract requires monthly reporting to the reinsurer within 30 days after the end of the month and payment of the ceded premium within 60 days after the end of the month.

The second cover, an aggregate excess of loss contract, allows for reinsurance of 90% of the ultimate net loss in excess of an amount equal to the greater of \$8,000 or \$7.00 per \$1,000 of average net in-force insurance.

Article 7 of the 2010 aggregate excess of loss contract requires equal payments of the premium on January 1st and July 1st of 2010.

Please see comment six, comment seven, comment eight, and comment nine.

FINANCIAL STATEMENTS

The Company's financial statements are not presented, herein, due to the examiners' inability to rely on the internal control environment of the Company.

CONCLUSION

The Company's system of internal controls does not support the accurate presentation of the Company's financial condition, as of December 31, 2010.

Acknowledgement of cooperation and assistance extended to the examiners by Company personnel is hereby expressed.

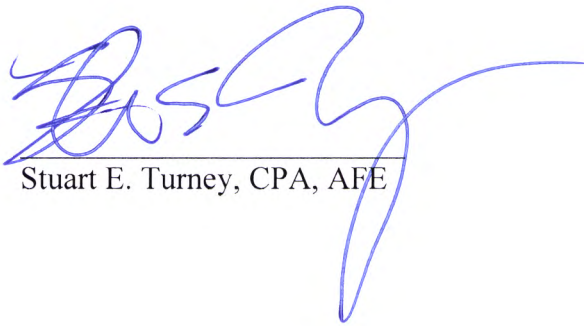
STATE OF MAINE
COUNTY OF KENNEBEC, SS

Stuart E. Turney, Director of Examination, being duly sworn according to law deposes and says that, in accordance with authority vested in him by Eric Cioppa, Superintendent, pursuant to the Insurance Laws of the State of Maine, he has made an examination of the condition and affairs of the

Farmington Mutual Fire Insurance Company

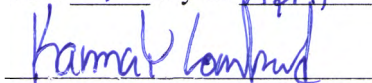
of West Farmington, Maine as of December 31, 2010, and that the foregoing report of examination subscribed to by him is true to the best of his knowledge and belief. The following examiners from the Maine Bureau of Insurance assisted:

James C. Williams, CPA, CFE, CIE
Margaret S. Boghosian, CPA, CFE
Debra L. Blaisdell, AFE



Stuart E. Turney, CPA, AFE

Subscribed and sworn to before me
This 4 day of April, 2012



Notary Public

My Commission Expires:

KARMA Y. LOMBARD
Notary Public, Maine
My Commission Expires June 12, 2016