



STATE OF MAINE

BUREAU OF INSURANCE

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

North Yarmouth-Cumberland Mutual Fire Insurance 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**

twenty-seventh day of February, 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 14, 2011

Eric A. Cioppa, Superintendent
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

North Yarmouth-Cumberland Mutual Fire Insurance Company

located in Falmouth, Maine. The following report is respectfully submitted.



PRINTED ON RECYCLED PAPER

REPORT OF EXAMINATION

**North Yarmouth-Cumberland Mutual Fire Insurance
Company**

AS OF

DECEMBER 31, 2010

ACCEPTANCE OF REPORT OF EXAMINATION

WHEREAS a verified Report of Examination of the Company dated June 14, 2011, was delivered to that insurer on January 18, 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: 2/27/12



Eric A. Cioppa
Superintendent

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SCOPE OF EXAMINATION

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

This examination consisted of a survey of the North Yarmouth-Cumberland Mutual Fire Insurance Company's (hereinafter, "Company") business policies, and a review of the articles of incorporation, bylaws, and board of directors' meeting minutes. This examination also included a verification of assets and a determination of liabilities at December 31, 2010, in conformity with the laws, rules, and regulations prescribed or permitted by the Maine Bureau of Insurance, where applicable.

SUMMARY OF SIGNIFICANT FINDINGS

Prior Examination Comments, Recommendations, and Status

Comment:

As noted in the underwriting section, the Company receives 31% of its revenue from one commercial sawmill and the insured risk represented 25% of the total insurance in-force at December 31, 2006.

Recommendation:

The board of directors should analyze the concentration of insured risk assumed by the Company and possibly consider certain changes to the risk profile of the Company.

The Company responded:

"North Yarmouth-Cumberland Mutual Fire Ins. Co. defines a risk as a single building and as such the Maschino policies cover several buildings separated by an acceptable distance. The Maschino property is composed of five (5) separate risks. The largest risk has an MPL [*maximum probable loss*] of \$70,000 after reinsurance. The MPL of all risks is \$170,000. Due to separation distance a total loss of all risks is possible but not probable in our estimation. To mitigate this exposure we will endeavor to combine policies in order to reduce our overall exposure to an MPL of \$100,000."

Status:

At December 31, 2010, the Company's aggregate maximum probable loss exposure after reinsurance of all Maschino-related risks was \$100,000.

Current Examination Comments and Recommendations

1. Investments Comment

Review of the TD Bank N.A. custodial statements indicated that the company failed to record a realized gain upon sale of a security in 2007 amounting to \$11,188.20. For the periods ending December 31, 2008, December 31, 2009, and December 31, 2010, the Company valued its investment in mutual funds at cost. SSAP No. 30 requires that these securities be valued at fair value. At December 31, 2009 and 2010 the fair value exceeded cost by \$33,547 and \$53,594, respectively.

Recommendation:

The Company should reconcile the custodial statements to its general ledger to ensure amounts reported in the Annual Statement reflect actual invested assets held by the Company. The Company should further value its mutual fund investments at fair value in accordance with SSAP No. 30.

2. Insurance Coverage Comment

The fidelity bond in place does not provide sufficient coverage based on National Association of Insurance Commissioners guidelines which would require coverage in the amount of \$25,000 to \$50,000. This requirement is based on calculated exposure of 5% of admitted assets and 10% of gross revenue.

Recommendation:

The Company should increase its fidelity bond coverage in accordance with the NAIC guidelines and maintain adequate insurance documentation pursuant to insurance coverage purchased to protect company assets.

3. Bylaws Comment

The Company has been operating with six directors for the past three years. Article VI §1 of the bylaws requires the Company to maintain a board of directors with seven members.

Article XI §1 of the bylaws requires the signatures of the president or the vice president and the secretary on all policies. Six of the ten policies examined did not have the required signatures. The Company was unable to provide copies of fully executed insurance policies to verify compliance with the bylaws.

Recommendation:

The Company should operate in accordance with its bylaws.

4. Underwriting Comment

The insured amount for policy no. 5080 issued to George Maschino was 90.9% of the estimated value of the property. Article I §4 of the Company's corporate charter, as amended in 2002, stipulates that "they shall determine the rates of insurance, the sum to be insured on any building not exceeding ninety (90%) of its value".

Recommendation:

The Company should operate in compliance with its charter and ensure that the value of any insured property does not exceed the stipulations of Article I §4 of the corporate charter, as amended in 2002.

5. Accounts and Records Comment

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

- Policy # 5081 - The ceded amount on the policy list indicated \$30,000 was ceded to Guy Carpenter whereas it should have indicated a cession of \$20,000 to Gorham Farmers Club Mutual Insurance Company and \$10,000 ceded to Guy Carpenter.
- Policy # 5080 – The name on the policy is George Maschino whereas the names and signatures on the application are George and Angie Macschino.
- Policy List - The premium revenue on the policy list did not tie out to premium revenue in the general ledger.
- Reinsurance Bordereau - There was a mathematical error on the March 2010 bordereau to the reinsurer.
- Assumed Reinsurance - There was a mathematical error on the third quarter assumed reinsurance submission.
- 2008 Annual Statement - The Company recorded a realized loss as a miscellaneous expense instead of a loss on sale of ledger assets on the income statement.

Recommendation:

Based on the number of errors noted in our review of the annual statements for the period of January 1, 2007, through December 31, 2010, it is recommended that the Company address internal control environment issues.

SUBSEQUENT EVENTS

The State of Maine Bureau of Insurance has determined that the amendment to the bylaws in 2009 indemnifying directors and officers is not in compliance with 13-C M.R.S.A. §852. The Bureau of Insurance identified this issue in June of 2011, subsequent to December 31, 2010.

THE COMPANY

History

The Company was incorporated in the State of Maine in 1853 as North Yarmouth Mutual Fire Insurance Company. In 1965, the Company merged with Cumberland Mutual Fire Insurance Company, incorporated in the State of Maine in 1848, resulting in the surviving corporation, North Yarmouth-Cumberland Mutual Fire Insurance Company. The Company is tax-exempt under IRS Code Section 501 I (15).

Corporate Records

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

Please see comment three.

Corporate Ownership

The Company, formed as a mutual, provides for one vote for each member at the annual policyholders' meeting.

Corporate Governance

Bylaws Article VI §1 sets forth that the Company is governed by a board of directors, comprising seven directors who meet quarterly. The following are the duly elected members of the board of directors and officers serving as of December 31, 2010.

<u>Directors</u>	
William Stiles	Robert Maloney
Jerry Goodall	Duane Snow
Lincoln Merrill, Jr.	Jeffrey Steinman

<u>Officers</u>	
William Stiles	President
Jerry Goodall	Vice President
Mary Goodall	Secretary / Treasurer

Please see comment three.

Fidelity Bond and Other Insurance

The fidelity bond in 2010 of \$20,000 coverage was found to be insufficient under the NAIC guidelines. The NAIC suggested range for fidelity bond coverage is \$25,000 to \$50,000.

Please see comment two.

Territory & Plan of Operation

The Company is authorized to issue fire and lightning policies in the State of Maine. The Company limits writings to the within the State of Maine per the 1990 Certificate of Amendment to the 1965 incorporation documents filed with the Secretary of State. The Company issues fire and lightning policies for a five year period under an assessment plan. The Company requires every policyholder to provide a premium note to the Company.

Underwriting Rules and Practices

Underwriting procedures utilize a pre-determined table which establishes a premium note face value as a percentage of the corresponding amount of insured risk. Currently, the face amounts of the notes are 4% to 25% of the insured risk. The Company charges an annual premium of 4.5% of the face of the note.

Policyholders are assessable up to the value of their respective premium notes. The amount of insurance that the Company may write is limited by Article I §4 of the articles of incorporation to 90% of the value of a building. The amount of risk retained by the Company on a per risk basis is limited by the State of Maine to 10% of the Company's surplus plus 8% of the amount of the notes outstanding.

Please see comment four.

Growth of Company

Certain financial results, as reported by the Company, are presented for comparative purposes. The table below reports a decrease in premium, a decrease in total assets and a decrease in surplus during the period 2007 through 2010.

<u>Account</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Direct premium	\$ 31,293	\$ 31,362	\$ 35,014	\$ 32,921
Total assets	\$ 484,293	\$ 459,086	\$ 435,222	\$ 500,804
Surplus	\$ 474,707	\$ 450,059	\$ 424,952	\$ 491,533

Accounts and Records

The Company prepares its accounts and records using excel spreadsheets and a general ledger package. The books and records are maintained at the home of the Secretary/Treasurer. The annual statement is prepared on a basis other than statutory accounting principles.

The Company maintains copies of fully executed policies at the home of the Secretary/Treasurer.

Please see comment five.

REINSURANCE

During the period under examination, the Company had two reinsurance contracts in place. One contract is a reciprocal reinsurance agreement with another, Maine domiciled, mutual fire assessment company. It provides for each company to retain 100% of all policies up to and including \$5,000. On policies with a face value in excess of \$5,000 up to and including \$40,000 the company issuing the policy retains one-half of the face value of the contract and reinsures the other half of the face value of the contract with the other company.

The second reinsurance contract is a facultative pro-rata contract placed by a reinsurance broker. This contract provides for cessions limited to an amount equal to five times the

The second reinsurance contract is a facultative pro-rata contract placed by a reinsurance broker. This contract provides for cessions limited to an amount equal to five times the Company's net retention plus the amount ceded to the Company's working reinsurance contracts, subject to a minimum net retention of \$20,000 and to a maximum cession hereunder of \$100,000 on any one risk covered hereunder.

Please see comment five.

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

North Yarmouth-Cumberland Mutual Fire Insurance Company

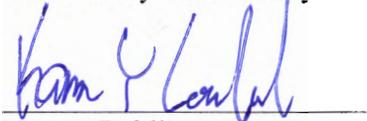
of Falmouth, Maine as of December 31, 2010, and that the foregoing report of examination subscribed to by him is true to the best of his knowledge and belief. The following examiners from the Maine Bureau of Insurance assisted:

Graham S. Payne
Margaret S. Boghosian, CPA, CFE
Debra L. Blaisdell, AFE



Stuart E. Turney, CPA, AFE

Subscribed and sworn to before me
This twenty-seventh day of February, 2012



Notary Public

My Commission Expires:

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