



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 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 had been made on the conditions and financial affairs of

**Gorham Farmers Club Mutual Fire Insurance Company**

Located Gorham, Maine (hereinafter, "the Company"). The following report is respectfully submitted.



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**ACCEPTANCE OF REPORT OF EXAMINATION**

WHEREAS a verified Report of Examination of the Company dated June 14, 2011, was delivered to that insurer on June 5, 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:

7/19/12



Eric A. Cioppa  
Superintendent

**REPORT OF EXAMINATION**

**Gorham Farmers Club Mutual Fire Insurance Company**

**AS OF**

**DECEMBER 31, 2010**

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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. 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, 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 (hereinafter, "BOI"), where applicable.

The examination also included a review 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 Comment and Status

#### **Comment:**

The Company had no fidelity bond at December 31, 2006. According to NAIC standards, the Company should be protected by a fidelity bond in the range of \$15,000 to \$25,000 covering all individuals with access to Company books and records. Article II §7 of the Company's bylaws state that satisfactory bonds are required from the secretary and the treasurer.

#### **Status:**

As of December 31, 2010, the Company does not maintain an in-force fidelity bond. Please see comment 1 of the current examination comments and recommendations.

### Current Examination Comments and Recommendations

#### **1. Insurance Coverage Comment**

The Company had no fidelity bond in place at December 31, 2010. According to NAIC standards, the Company should be protected by a fidelity bond in the range of \$15,000 to \$25,000 covering all individuals with access to Company books and records. Article II §7 of the Company's bylaws states that satisfactory bonds are required from the secretary and the treasurer. Title 24-A M.R.S.A. §3629 (2) provides that domestic mutual insurers be subject to 24-A M.R.S.A. §221 (1). This allows for the superintendent to consider the criteria adopted by the NAIC and published in the FCEH.

#### **Recommendation:**

The Company should obtain a fidelity bond in the range of \$15,000 to \$25,000 covering all individuals with access to Company accounts and records to be in compliance with its bylaws and 24-A M.R.S.A. §221 (1).

## **2. Board Minutes Comment**

The review of the minutes of the annual policyholder meetings and board of directors' meetings found several instances of non-compliance with the Company's bylaws.

- There was no election of directors noted in the minutes of the annual policyholders meeting in three of the four years under examination. See Article II §1 of the Company's bylaws.
- There was no election of officers during the board of directors' annual meeting in 2008. See Article II §2 of the Company's bylaws.
- In a special board of directors' meeting in 2009, the number of directors present at the meeting did not constitute a quorum as required by the bylaws. See Article II §9 of the Company's bylaws. The examiners noted that the special purpose of the meeting was in fact voted upon. The examiners also noted that the directors present at this meeting conducted business other than the business announced as the special purpose of the meeting.

### **Recommendation:**

The board of directors should manage the Company in compliance with its bylaws.

## **3. Underwriting Comment**

All five of the policies tested did not have the required signatures of the President, or Vice President, and the Secretary/Treasurer. See Article III §2 and §5 of the Company's bylaws.

### **Recommendation:**

The Company should keep copies of fully executed policies in compliance with its bylaws.

## **4. Underwriting Property Comment**

Article V §3 of the Company's bylaws limit the amount of insurance to two-thirds (2/3) of the real value of the property. The applications examined did not have a property value noted, and therefore compliance with the Company's bylaws requirement could not be verified.

### **Recommendation:**

The Company should ensure applications contain the property value of the insured property as required by the Company's bylaws.

## **5. Premium Comment**

Examiners could not verify the accuracy of the reported premium amounts (direct, assumed, or ceded) from documents provided by the Company. Specifically, the cash receipts journal, the cash disbursements journal, the in-force policy list, the premium payments received list, the quarterly reinsurance submissions to/from another mutual fire insurance company (assumed and ceded), and the monthly reinsurance submissions to its other reinsurer (ceded) could not be verified for accuracy.

**Recommendation:**

The Company should maintain detailed, accurate supporting documentation for all accounts.

**6. Surplus Comment**

The Company is not accurately reporting "Total Guaranty Capital and Surplus". The Company reported \$433,425.00 as "Total Guaranty Capital and Surplus" on the 2010 balance sheet. The Company also reported \$437,070.00 as "Total Guaranty Capital and Surplus" on the 2010 guaranty capital and surplus account schedule. The examiners adjusted the reported beginning surplus, increased surplus by the reported net income, and adjusted surplus for the change in unearned premium; however, the ending surplus remained understated by \$10.00. The error was either in the net income as reported or in the calculation of unearned premium, or a combination of both.

**Recommendation:**

The Company needs to check its entries on the annual statement in order to properly complete the guaranty capital and surplus account schedule in the annual statement.

**7. Accounts and Records Comment**

The following errors were noted in the policies and accounts and records:

- The Company's checking account deposit journal listed a \$54.00 deposit in the month of December that was not included in the bank statements for December 2010 and January 2011. This amount was included in cash on the balance sheet, but could not be confirmed by the checking account custodian.
- Schedule B – part 6 of the annual statement was not completed.
- There was a mathematical error on the 2010 3<sup>rd</sup> quarter reinsurance submission to another mutual fire insurance company.
- There was an error on the October 2010 bordereau to a reinsurance broker which was corrected upon notice from the reinsurer. It was observed that the cessions to the reinsurer do not coordinate with partial premium payments received from the insured.
- Expenses on the income statement could not be traced to the cash disbursement journal.
- The unearned premium reported as a liability on the balance sheet could not be re-calculated.

**Recommendation:**

The Company should ensure the accounting records can be reconciled to the entries on the annual statement, and the annual statement contains the effects of all applicable transactions.



## SUBSEQUENT EVENTS

The Company amended its bylaws in January 2011 to include indemnification language for officers and directors. The indemnification, as worded, has been identified by the BOI as not complying with 13-C M.R.S.A §852.

## THE COMPANY

### History

The Company was incorporated in the State of Maine in 1861 for the purpose of insuring real and personal property against loss by fire or lightning. The articles of incorporation limit the writing of insurance to members only. The Company is tax-exempt under IRS Code Section 501 (c) (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. There were several instances where the directors were not managing the Company in compliance with the corporate documents. Please see comment two to this report.

### Corporate Ownership

The Company was formed as a mutual and every policyholder is allowed a vote at the policyholders' annual meeting.

### Corporate Governance

Management of the Company is vested in a nine-member board of directors. The following are the duly elected members of the board of directors and officers serving as of December 31, 2010:

#### Directors

Albert Mosher	Calvin Hamblen
Alva Smith	Ken Waterhouse
William Stiles	Jane Edington
Elton Smith	Marcena Phillips

#### Officers

Elton Smith	President
Jane Edington	Vice President
Marcena Phillips	Secretary/Treasurer

### Fidelity Bond and Other Insurance

The Company does not have the required fidelity bond coverage in place. This was also a comment in the prior Examination Report as of December 31, 2006. Please see comment one to this report.



### **Territory & Plan of Operation**

The Company is authorized to issue fire and lightning policies in the State of Maine. The Company issues fire and lightning policies for a one to five-year period under an assessment plan.

### **Underwriting Rules and Practices**

Underwriting procedures utilize a pre-determined risk 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 8% to 20% 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. Article V §3 of the Company's bylaws limits the amount of insurance that the Company may write to two-thirds (2/3) of the real value of the property. Please see comment four to this report.

### **Growth of Company**

As reported by the Company, direct written premium declined for the period under examination, while assets and surplus increased.

<b><u>Account</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>
Direct written premium	\$ 5,913	\$ 6,308	\$ 5,773	\$ 7,070
Total assets	\$ 437,070	\$ 434,160	\$ 426,914	\$ 413,880
Surplus	\$ 433,425	\$ 430,505	\$ 423,316	\$ 410,282

### **Accounts and Records**

The Secretary/Treasurer maintained the accounts and records of the Company on a manual basis at the home of the Secretary/Treasurer. The accounts and records were maintained on a basis other than statutory accounting principles. The 2010 annual statement was presented on a basis other than statutory accounting principles.

## **REINSURANCE**

The Company's retention per risk is limited by 24-A M.R.S.A. Chapter 51 §3623 to not retaining liability as to any one risk in an amount exceeding 10% of its surplus and in addition 8% of the amount at any time due on its premium notes.

During the period under examination, the Company had two reinsurance contracts in place. The Company had a reciprocal reinsurance agreement with another mutual fire assessment company, whereby each insurer retained no more than \$20,000 of the insured risk, and ceded no more than \$20,000 of insured risk. Under this reciprocal agreement, each company retained the risk related to all policies of \$5,000 or less.

The Company had a facultative reinsurance agreement that allowed the Company to cede up to two times the Company's net retention, or more, if accepted by the reinsurer.

## **FINANCIAL STATEMENTS**

The Company's financial statements were 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 did 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.

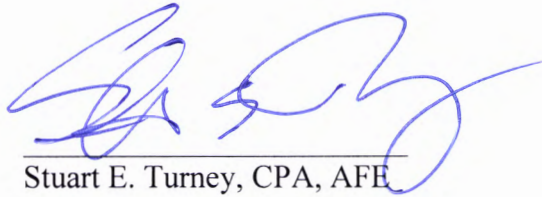
COUNTY OF KENNEBEC, SS

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 of Insurance, pursuant to the Insurance Laws of the State of Maine, he has made an examination of the condition and affairs of the

**Gorham Farmers Club Mutual Fire Insurance Company**

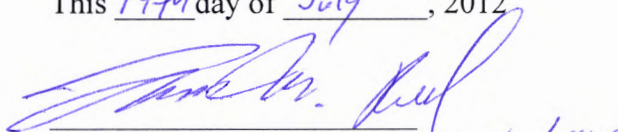
of Gorham, Maine as of December 31, 2010, and that the foregoing report of examination subscribed to by him is true to the best of his knowledge and belief. The following examiners from the Maine BOI assisted:

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



Stuart E. Turney, CPA, AFE

Subscribed and sworn to before me  
This 19th day of July, 2012



~~Notary Public~~ Attorney at Law  
My Commission Expires:  
Bar Number 1017