

Report of Examination of

Sandy and Beaver Valley Farmers Mutual Insurance Company
Lisbon, Ohio

As of December 31, 2012

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Columbus, Ohio

May 27, 2014

Honorable Mary Taylor
Lt. Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

Sandy and Beaver Valley Farmers Mutual Insurance Company

an Ohio domiciled, mutual protective property company, hereinafter referred to as the “Company.”

Scope of Examination

The Department last examined the Company as of December 31, 2008. The Department’s current examination covers the period of January 1, 2009 to and including December 31, 2012.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate 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.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<u>Name</u>	<u>Principal Occupation</u>
Jerry Connor	Owner, Connor Claims Service
Tim Dickey	President, D.W. Dickey & Sons
Ned Ellis	Vice President, The Company
Tom Patterson	Retired
Tad Rose	Owner, Ray Lewis and Company
James L. Sanor	President, The Company

Officers

As of the examination date, the following officers were serving in the designated positions:

<u>Name</u>	<u>Title</u>
James L. Sanor	President and Treasurer
Ned Ellis	Vice President
Shawna L'Italien	Secretary

Insurance Holding Company System

The Company is not a member of an insurance holding company system as defined in ORC Section 3901.32.

Territory and Plan of Operations

The Company is licensed to do business in the State of Ohio as a mutual protective association.

Reinsurance

Assumed Reinsurance

The Company did not assume any reinsurance.

Ceded Reinsurance

The Company has an Individual Occurrence of Loss Excess Coverage for 100% of loss in excess of a \$75,000 retention subject to a \$2,000,000 limit for Loss to Farm Machinery and Equipment Storage Buildings and \$1,000,000 limit for all other insured risks. Per Occurrence Catastrophe Coverage provides coverage for 100% of loss in excess of a \$500,000 retention. The Company cedes 100% of its HomeGuard Homeowner exposures to a reinsurer.

Financial Statements

The financial condition and the results of its operations for the year ending December 31, 2012 as reported and filed by the Company with the Department are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds

Statement of Income

Statement of Changes in the Capital and Surplus Account

**Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2012**

Bonds	\$ 297,340
Preferred stocks, common stocks, and mutual funds	1,512,370
Real estate	116,653
Cash	6,925,431
Short-term investments	<u>504,777</u>
Subtotal, cash and invested assets	<u>9,356,571</u>
Investment income due and accrued	15,108
Assessments or premiums in the course of collection	382,331
Electronic data processing equipment and software	<u>15,045</u>
Total assets	<u>\$ 9,769,055</u>
Unpaid Losses	\$ 299,305
Unpaid loss adjustment expenses	16,761
Unearned assessment/premium reserve	2,478,645
Accounts Payable	<u>213,856</u>
Total liabilities	<u>3,008,567</u>
Surplus as regards policyholders	<u>6,760,488</u>
Total liabilities and surplus	<u>\$ 9,769,055</u>

Statement of Income
For the Year Ending December 31, 2012

Underwriting Income

Gross Assessments/Premiums earned	\$ 8,799,847
Less: Return Assessments/Premiums earned	<u>182,231</u>
Direct Assessments/Premiums earned	8,617,616
Deduct Premiums for reinsurance ceded	<u>1,411,484</u>
Net Assessments/Premiums earned	<u>7,206,132</u>

Deductions

Losses incurred	3,182,452
Loss expenses incurred	191,084
Other underwriting expenses incurred	<u>3,214,526</u>
Total underwriting deductions	<u>6,588,062</u>
Net underwriting gain	<u>618,070</u>

Investment Income

Net investment income earned	128,644
Net realized capital gains	<u>37,853</u>
Net investment gain	<u>166,497</u>

Other Income

Other income	<u>229,010</u>
Total other income	<u>229,010</u>
 Net income	 <u>\$ 1,013,577</u>

Statement of Changes in the Capital and Surplus Account

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Capital and surplus, beginning of the year	\$5,706,857	\$6,992,273	\$7,209,897	\$7,480,941
Net income (loss)	1,013,577	(1,298,678)	(180,050)	221,561
Change in net deferred income tax	0	0	0	(470,173)
Change in net unrealized capital gains(losses)	45,346	(3,537)	6,640	0
Change in non-admitted assets	<u>(5,292)</u>	<u>16,799</u>	<u>(44,214)</u>	<u>(22,432)</u>
Change in surplus during the year	<u>1,053,631</u>	<u>(1,285,416)</u>	<u>(217,624)</u>	<u>(271,044)</u>
Capital and surplus, end of the year	<u>\$6,760,488</u>	<u>\$5,706,857</u>	<u>\$6,992,273</u>	<u>\$7,209,897</u>

Notes to Financial Statements

Investments

The Company's investments were not in compliance with ORC Section 3925.08 Section (D)(2). The company's investment in the Vanguard 500 Index Signal Fund was in excess of the permitted amount. By April 2013, the Company took the necessary steps to become compliant with ORC 3925.08. A gain of \$31,792 was recognized as a result of the investment transactions to be compliant with the investment statutes.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$ 9,769,055</u>
Liabilities	3,008,567
Surplus	<u>6,760,488</u>
Total Liabilities and Surplus	<u>\$ 9,769,055</u>

Subsequent Events

On October 29, 2013, the Department approved the acquisition of control and merger application request made by the Company of Richmond Farmers Mutual Insurance Company. Under the terms of the agreement, Richmond Farmers merged with and into the Company. The current Directors and Officers of the Company remained the same before and after the merger.

Acknowledgement

In addition to the aforementioned and undersigned, David Finkler, CPA, CFE, CISA, AES and Louis Radecky, CPA (Inactive), CFE participated in this examination.

Respectfully,



Nicholas J. Kostoff, CFE
Examiner-In-Charge
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2012.

Nicholas J. Kostoff 5/30/14 David A. Cook 5/30/14
Examiner-In-Charge Date Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 30 day of May, 2014.

Elizabeth Chase
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 30 day of May, 2014.

Elizabeth Chase
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
MY COMMISSION EXPIRES MAY 22, 2017
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