

# **EXHIBIT A**



**STATE OF TENNESSEE**  
**DEPARTMENT OF COMMERCE AND INSURANCE**

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**REPORT ON EXAMINATION**  
**OF**  
**FARMERS MUTUAL FIRE INSURANCE COMPANY**  
**OF**  
**UNION COUNTY**  
**MAYNARDVILLE, TENNESSEE**

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**AS OF**  
**DECEMBER 31, 2013**

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Nashville, Tennessee  
April 13, 2015

Honorable Julie Mix McPeak  
Commissioner  
State of Tennessee  
Department of Commerce and Insurance  
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tenn. Code Ann. § 56-22-115, regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), a full-scope individual financial examination and market conduct review, as of December 31, 2013, has been made of the condition and affairs of:

**FARMERS MUTUAL FIRE INSURANCE COMPANY OF UNION COUNTY**  
140 Court Street  
Maynardville, Tennessee 37807

hereinafter and generally referred to as the "Company", and a report thereon is submitted as follows:

## **INTRODUCTION**

This examination was arranged by the Commissioner of the Tennessee Department of Commerce and Insurance ("TDCI"), commenced on June 19, 2014, and was conducted by duly authorized representatives of the TDCI.

## **SCOPE OF EXAMINATION**

The last examination of the Company was completed as of December 31, 2008. This examination report covers the period from January 1, 2009, through December 31, 2013, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* and practices and procedures of the TDCI. The examination was

planned and performed to evaluate the financial condition of the Company as of December 31, 2013. The examination sought to identify prospective risks by obtaining information about the Company, including its corporate governance, by identifying and assessing inherent risks within the Company, and by evaluating system controls and procedures used to mitigate those risks. The examination also included 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 consistent with Tennessee statutes and regulations.

Our examination included a review of the Company's business policies and practices, management and corporate matters, verifications and evaluations of assets, and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable Tennessee laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was not required to file audited financial statements with the TDCI. Therefore, the examination did not include a review of audit workpapers.

## **COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS**

The previous Report on Examination, dated June 25, 2010, which covered the period from January 1, 2004, through December 31, 2008, contained no comments or recommendations.

## **COMPANY HISTORY**

The Company incorporated on November 22, 1913, under the Tennessee Business Corporation Act as a non-profit mutual benefit corporation. The Company commenced business on December 10, 1913. On November 3, 2012, the Company was issued its most recent Certificate of Authority to transact the business of insurance pursuant to Tenn. Code Ann. § 56-22-101, *et seq.* The business purpose was to insure loss or damage to property due to fire, lightning, and wind to residents of Union County, Tennessee. Subsequently, counties contiguous to Union, including Claiborne, Grainger, Campbell, Anderson, and Knox have been added to the Company's territory.

The Company's statutory address at incorporation was 140 Court Street, Maynardville, Tennessee 37807.

## MANAGEMENT AND CONTROL

### MANAGEMENT

Management of the Company is vested in a Board of Directors ("Board"). In accordance with the Bylaws, the Board shall be elected by a voice vote by a majority of the policyholder Members present at the annual meeting. The Board shall consist of at least five (5) and no more than ten (10) directors, who are Members. The number of directors will be determined by majority vote of the Board in office. Directors serve a term of three (3) years. The following persons were duly elected and serving as directors on the Company's Board, at December 31, 2013:

| <u>Director</u>      | <u>Principal Business Occupation</u> |
|----------------------|--------------------------------------|
| James G. Sexton      | Retired                              |
| Albert Warren Dykes  | Bus Contractor                       |
| Minnie Ruth Sexton   | Secretary & Treasurer                |
| Timothy David Atkins | Truck Driver                         |
| Noah Andrew Sexton   | Brick and Tile Mason                 |

The annual meeting of the Members shall be held on the second Monday in January of each year at a time and place designated by the Board.

The Bylaws of the Company instruct the Board to annually elect a President, Vice President, and Secretary/Treasurer. The President, Vice President and Secretary/Treasurer shall be elected from among the directors of the Board. Also, the Board may employ or dismiss, at its discretion, agents or any other assistants necessary for the transaction of the business of the Company.

The following persons were serving as the Company's officers, as of December 31, 2013:

| <u>Name</u>        | <u>Title</u>        |
|--------------------|---------------------|
| James G. Sexton    | President           |
| A. Warren Dykes    | Vice President      |
| Minnie Ruth Sexton | Secretary/Treasurer |

### CONTROL

The Company is equally owned by its Members, who are the Company's policyholders.

## **CONFLICTS OF INTEREST AND PECUNIARY INTEREST**

The Company has a Conflict of Interest Policy that governs the actions of all directors, officers, and employees.

A review of the Company's compliance with Tenn. Code Ann. § 56-3-103 found no director or officer of the Company had any pecuniary interest in the investment or disposition of Company funds.

## **CORPORATE RECORDS**

### **Charter**

The Charter recites general and specific powers of the Company in detail. The Charter, as currently stated, was inspected and found to have been duly issued and properly recorded. During the period of examination, the Charter was amended for a name change.

### **Bylaws**

The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board and its Members. The Board shall have authority to amend or change the Bylaws by a majority vote. There were no amendments to the Bylaws during the period of examination.

## **SERVICE AGREEMENTS**

The Company uses a service provider to perform some of the functional duties of an insurance company. Mary Ann Brantley, Inc. provides accounting services related to regulatory filings, including preparation of statutory annual statements, payment of premium taxes and federal income tax filings.

## **FIDELITY BONDS AND OTHER INSURANCE**

### **Fidelity Coverage**

The Company's \$50,000 Surety Bond in effect covering the Company's Secretary / Treasurer was issued by Western Surety Company, a licensed property and casualty insurance carrier in the State of Tennessee, as of the date of this examination. Therefore, the Company's surety bond meets the \$50,000 minimum fidelity coverage for the protection of the Company's policyholders, as recommended in the NAIC Financial Condition Examiners Handbook for a company of this size.

### **Commercial General Liability and Business Owners Property Policy**

The Company's combination Commercial General Liability and Business Owners Property coverage was underwritten by Grange Mutual Casualty Company of Columbus, Ohio, which is a licensed property and casualty carrier in the State of Tennessee, as of the date of this examination. The policy's commercial general liability limit of insurance was: (a) \$1,000,000 for general aggregate, (b) \$500,000 each occurrence limit, (c) \$5,000 medical expenses limit, any one person, and (d) \$100,000 damage limit to premises.

The policy's business owners' property insurance limits were: (a) building \$129,000 and (b) contents \$46,000.

### **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2013, and as of the date of this examination report, the Company was authorized to transact business in Union, Claiborne, Grainger, Campbell, Anderson, and Knox counties in Tennessee.

### **INSURANCE PRODUCTS AND RELATED PRACTICES**

The Company provides its policyholders coverage on dwelling homes (single & multi-family), rental homes (single & multi-family), modular homes, mobile homes, farm buildings, personal property, and churches in case of loss due to fire, wind, and lightning.

Policies are typically written for sixty-seven percent (67%) of the replacement value of the property insured, subject to policy limits of \$70,000 per specific loss. Each policy is issued for one (1) year. Policyholders' premiums are due annually on the policy anniversary date. There is no deductible.

The Company writes business through one (1) licensed, in-house agent. The Company pays the agent only on new business. The commission rate is \$.80 on each \$100 for dwelling (home), barns, outbuildings, trailers (mobile homes), and modular homes insured. The Company's agent performs a visual inspection of the property, photographs the property and determines the value of the property prior to the issuance of a policy. Upon the signing of the completed application and collection of the initial billed premium, the policy is bound. The Company's Board has the authority to make the final approval for the binding of coverage.



## GROWTH OF COMPANY

The following comparative data reflects the growth of the Company for the period under review:

| <u>Year</u> | <u>Direct<br/>Premiums<br/>Written</u> | <u>Net<br/>Admitted<br/>Assets</u> | <u>Liabilities</u> | <u>Policyholders'<br/>Surplus</u> | <u>Net Income</u> |
|-------------|--|------------------------------------|--------------------|-----------------------------------|-------------------|
| 2013        | \$82,828                               | \$1,724,659                        | \$32,923           | \$1,692,013                       | \$21,794          |
| 2012        | \$81,958                               | \$1,702,478                        | \$32,589           | \$1,669,889                       | \$20,472          |
| 2011        | \$84,040                               | \$1,684,783                        | \$35,604           | \$1,649,178                       | (\$3,015)         |
| 2010        | \$85,590                               | \$1,687,217                        | \$35,313           | \$1,651,904                       | \$27,699          |
| 2009        | \$89,963                               | \$1,658,379                        | \$34,457           | \$1,623,922                       | \$40,611          |

## LOSS EXPERIENCE

The following comparative data reflects the loss experience of the Company for the period under review:

| <u>Year</u> | <u>Premiums<br/>Earned</u> | <u>Incurred<br/>Losses<br/>&amp; LAE</u> | <u>Underwriting<br/>Ratio</u> | <u>General &amp;<br/>Adm.<br/>Expense</u> | <u>General &amp;<br/>Adm.<br/>Expense<br/>to Premium</u> | <u>Combined<br/>Ratio</u> |
|-------------|----------------------------|--|-------------------------------|---|--|---------------------------|
| 2013        | \$83,386                   | \$1,000                                  | 1.20%                         | \$75,335                                  | 90.34%   | 91.54%                    |
| 2012        | \$83,982                   | \$4,000                                  | 4.76%                         | \$62,689                                  | 74.65%   | 79.41%                    |
| 2011        | \$84,999                   | \$33,000                                 | 38.82%                        | \$63,723                                  | 74.97%   | 113.79%                   |
| 2010        | \$85,303                   | \$14,150                                 | 16.59%                        | \$60,006                                  | 70.34%   | 86.93%                    |
| 2009        | \$91,652                   | \$17,100                                 | 18.66%                        | \$62,886                                  | 68.61%   | 87.27%                    |

## REINSURANCE

Effective January 1, 2013, the Company ceded risk through an Excess of Loss Reinsurance Agreement with Farmers Mutual of Tennessee, headquartered in Knoxville, Tennessee, as follows:

|           |   |
|-----------|---|
| Type:     | Combination Per Risk/Aggregate Excess of Loss   |
| Coverage: | Section I – Property Risk Excess of Loss: covers each loss in excess of the Company’s \$50,000 maximum retention up to the reinsurer’s \$50,000 each risk, each occurrence.   |
|           | Section II – Aggregate Excess of Loss: The reinsurer shall not be liable for any loss hereunder until the Company’s ultimate net loss in the aggregate for each calendar year exceeds the greater of: (a) one hundred (100%) of the Company’s gross net earned premium income or (b) \$75,000, and then the reinsurer shall be liable for one hundred (100%) of the Company’s ultimate net loss in excess of the amount, but the reinsurer’s liability for each calendar year shall not exceed one hundred (100%) or the lesser of: (a) one hundred (100%) of the Company’s gross net earned premium income or (b) \$115,000. |

As of January 1, 2013 and 2014, the maximum amount of coverage the Company was allowed to retain for a single risk was \$70,760 and \$70,097, respectively, in accordance with Tenn. Code Ann. § 56-22-106(c)(1).

## ACCOUNTS AND RECORDS

### Financial Records

The Company’s general accounting records consisted of a handwritten general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). The Company’s general ledgers are locked in fireproof filing cabinets. Our review did not disclose any deficiencies in these records.

Accounting records conformed to statutory accounting practices and procedures as reflected within the Company’s operations during the period under examination and the status of the Company at the date of examination.

During the course of the examination, accounts were verified by various tests and procedures deemed necessary to confirm values for assets and liabilities appearing in the Company’s financial statements. General ledger trial balances were reconciled with the financial statements, and all were reviewed for completeness of disclosure and

conformity to NAIC Accounting Practices and Procedures as permitted by Tenn. Comp. R. & Regs. 0780-01-78-.04(1).

### **Information Systems**

The Company conducted business electronically, using basic computing methods. The Company employee works from an individual personal computer.

The Company's assets, liabilities, cash receipts, and disbursements were recorded using PeachTree Software, which enabled the Company to produce a detailed general ledger.

## **LITIGATION AND CONTINGENT LIABILITIES**

Based upon data provided during the course of this examination, there were no material litigated claims.

## **MARKET CONDUCT ACTIVITIES**

In conjunction with this examination, a market conduct review was made of the Company as of December 31, 2013. The following areas were addressed:

### **Policy Forms and Underwriting Practices**

Pursuant to Tenn. Code Ann. § 56-22-109(b)(1) and Tenn. Code Ann. §§ 56-5-303, 56-5-304, 56-5-305, the Company's policy forms and premium rates, in effect during the period of examination, were approved by the Policy Analysis Section of the TDCI, on December 27, 2006. A flat rate of \$.80 on \$100 coverage is charged for all types of coverage.

### **Advertising**

The Company's advertising during the period of examination consisted of print advertisements in the local paper, The Union News.

### **Policy Cancellation**

Members are given sixty (60) days from the delivery of the notice of premium to make their premium payment. After sixty (60) days, the Member is considered suspended, and the Company is not liable for any loss until such time payment is made.

The Company adheres to the non-renewal provisions contained in Tenn. Code Ann. §§ 56-7-1901 and 56-7-1902, in accordance with Tenn. Code Ann. § 56-22-109(b)(2)

(effective January 1, 2007), that relate to the notice of intention to non-renew and the reason for non-renewal.

**Privacy of Non-Public Personal Information**

The Company's privacy policy was reviewed. No instances of non-compliance with Tenn. Comp. R. & Regs. R. 0780-01-72, "Privacy of Consumer Information Regulations" were noted.

## FINANCIAL STATEMENTS

There follows a balance sheet and a statement of operations and fund balance, as of December 31, 2013, for the period under review, as established by this examination:

### ASSETS

|  |                    |
|--|--------------------|
| Bonds, and Long-term Certificate of Deposits               | \$1,361,369        |
| Real estate (properties occupied by the company)           | 4,490              |
| Cash and cash equivalents                                  | 357,000            |
| Interest, dividends and real estate income due and accrued | <u>2,077</u>       |
| Total Assets   | <u>\$1,724,936</u> |

### LIABILITIES AND POLICYHOLDERS' SURPLUS

|  |                    |
|--|--------------------|
| Unearned premiums                            | \$29,438           |
| Accounts Payable and Accrued Expense Payable | 454                |
| Taxes, licenses and fees                     | 1,342              |
| Aggregate write-ins for liabilities          | <u>1,689</u>       |
| Total Liabilities                            | 32,923             |
| Policyholders' surplus                       | <u>1,692,013</u>   |
| Total Liabilities and Policyholders' Surplus | <u>\$1,724,936</u> |

## STATEMENT OF INCOME

| UNDERWRITING INCOME  |                    |
|--|--------------------|
| Premiums earned  | \$83,386           |
| DEDUCTIONS:  |                    |
| Losses incurred  | 1,000              |
| Loss expenses  | 6,741              |
| Total underwriting expenses incurred   | <u>67,541</u>      |
| Total underwriting deductions  | 75,282             |
| Net underwriting gain (loss)   | 8,104              |
| INVESTMENT INCOME  |                    |
| Net investment income earned   | <u>12,081</u>      |
| Net investment gain (loss)   | 12,081             |
| OTHER INCOME   |                    |
| Aggregate write-ins for miscellaneous income                                   | <u>1,662</u>       |
| Total other income   | 1,662              |
| Net income after dividends to policyholders and before federal<br>income taxes | <u>21,847</u>      |
| Net income   | <u>\$21,847</u>    |
| CAPITAL AND SURPLUS ACCOUNT  |                    |
| Surplus as regards policyholders, December 31 prior year                       | \$1,669,889        |
| Net income   | 21,847             |
| Change in non-admitted assets from prior year                                  | <u>277</u>         |
| Surplus as regards policyholders as of December 31, 2013                       | <u>\$1,692,013</u> |

## **SUBSEQUENT EVENTS**

None.

## **COMMENTS AND RECOMMENDATIONS**

### **COMMENTS**

None.

### **RECOMMENDATIONS**

None.

## CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Farmers Mutual Fire Insurance Company of Union County of Maynardville, Tennessee.

In such manner, it was determined that, as of December 31, 2013, the Company had admitted assets of \$1,724,936 and liabilities, exclusive of unassigned funds, of \$32,923. Thus, there existed for the additional protection of the policyholders unassigned funds (surplus) of \$1,692,013.

The courteous cooperation of the officers, directors and office manager of the Company extended during the course of the examination is hereby acknowledged.

Respectfully submitted,



---

Rebecca E. Walker  
Insurance Examiner III  
State of Tennessee



**AFFIDAVIT**

The undersigned deposes and states that she has duly executed the attached examination report of Farmers Mutual Fire Insurance Company of Union County, dated April 13, 2015, and made as of December 31, 2013, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further states she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information, and belief.

*Rebecca E. Walker*

Rebecca E. Walker  
Insurance Examiner III  
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 24<sup>th</sup> day of June, 2015

Notary Helen W. Dorsey

My Commission Expires: 11/06/2017



# **EXHIBIT B**



STATE OF TENNESSEE  
DEPARTMENT OF COMMERCE AND INSURANCE  
500 JAMES ROBERTSON PARKWAY  
NASHVILLE, TENNESSEE 37243

June 23, 2015

**CERTIFIED MAIL**  
7012 1010 0003 2379 5445

Ms. Ruth Sexton  
Contact Person  
Farmers Mutual Fire Insurance Company  
of Union County  
P.O. Box 326  
140 Court Street  
Maynardville, TN 37807

**RE: Report of Examination of Farmers Mutual Fire Insurance Company of  
Union County**

Dear Ms. Sexton:

Enclosed please find a FINAL copy of the Report of Examination for Farmers Mutual Fire Insurance Company of Union County, made as of December 31, 2013. If you are in agreement with the report, please respond immediately, in writing, to that effect. A sample response letter is attached for your convenience. Your response may be submitted via email to my attention at [joy.little@tn.gov](mailto:joy.little@tn.gov).

If you wish to make a written submission or rebuttal with respect to any matter contained within the report, pursuant to Tenn. Code Ann. 56-1-411(d)(1), please provide this office with your company's position as soon as possible. When preparing your submission or rebuttal, please quote the Comment, Recommendation or page number from the report and detail your comments, providing any supporting documentation.

Should you have questions, you may reach me at (615) 741-6796. We appreciate your timely assistance with this matter and your courteous cooperation during the examination.

Sincerely,

E. Joy Little, CPA, CFE, MCM  
Insurance Examinations Director/Chief Examiner  
Enclosure

**FARMERS MUTUAL FIRE INSURANCE COMPANY**

**Of Union County**

140 Court St. P.O. Box 326  
Maynardville, Tennessee 37807-0326  
865-992-3552

June 25, 2015

E. Joy Little  
Director of Financial Examination/Chief Examiner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, TN 37243

RE: Farmers Mutual Fire Insurance Company of Union County -  
Report of Examination

Dear Ms. Little:

We hereby acknowledge receipt of the final report of Examination for Farmers Mutual Fire Insurance Company of Union County. By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

*Ruth Sexton*

Ruth Sexton

Secretary - Treasurer

(printed Name, Title)