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Dept. of Commerce & Insurance
Company Examinations

Report on Examination

of the

Farmers Mutual Fire Insurance Company of Washington County

Nashville, Tennessee

as of

December 31, 2011

Department of Commerce and Insurance

State of Tennessee

Nashville, Tennessee

EXHIBIT
A

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Nashville, Tennessee
May 2, 2013

Honorable Julie Mix McPeak
Commissioner of Commerce and Insurance
State of Tennessee
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee insurance laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), a financial examination was made of the condition and affairs of

Farmers Mutual Fire Insurance Company of Washington County
125 E. Jackson Blvd., Suite 4
Jonesborough, TN 37659

(Hereinafter referred to as the "Company") as of December 31, 2011, and a report thereon is respectfully submitted as follows:

Scope of Examination

The Company was last examined as of December 31, 2006, by the State of Tennessee Department of Commerce and Insurance ("Department"). The current financial examination covers the intervening period to and including the close of business on December 31, 2011, and incorporates such subsequent events and transactions as were deemed pertinent to this report.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook, Tennessee Code Annotated, and Tennessee Comprehensive Rules and Regulations. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of December 31, 2011.

The financial condition of the Company and its degree of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on solvency.

Since the Company's gross premium was less than one million dollars ($1,000,000), the Company, in accordance with Tenn. Comp. R. & Regs. 0780-1-78-.04, (3), (4), was not required to file financial reports audited by a certified public accountant or an actuarial opinion of an appointed actuary.

All Company books and records are kept at 125 E. Jackson Boulevard, Suite 4, Jonesborough, TN, 37659. All accounts and activities of the Company were considered in accordance with the risk focused examination process.

An examination was also made into the following matters:

Company History
Management and Control
Territory and Plan of Operation
Statutory Deposits
Accounts and records
Litigation and Contingent Liabilities
Market Conduct Activities
Subsequent Events
Financial Statement

Previous Examination Findings:

The previous examination of the Company was made as of December 31, 2006, and resulted in the following recommendations:

1. It was recommended that the Company comply with Tenn. Code Ann. § 56-3-112 and Tenn. Comp. R. & Regs. 0780-1-46 by having investments maintained by a member bank of the Federal Reserve System.

   Corrective Action: During the period under examination, the Company non-admitted all investments that led to the above recommendation. As of the date of this examination report, all Company investments were in compliance.

2. It was recommended that the Company not report on its Annual Statement premiums collected from policyholders on behalf of Farmers Mutual of Tennessee (reinsurer) for liability insurance coverage.

   Corrective Action: During the period under examination, the Company reported no collection of liability insurance premiums on its Annual Statement.

3. It was recommended the Company correctly calculate the amount of premium tax subject to reduction based on the amount of Tennessee investments held by the Company as defined by Tenn. Code Ann. § 56-4-210.

   Corrective Action: During the period under examination, the Company correctly calculated the reduction in premium taxes based on Tennessee investments.

4. It was recommended the Company revise its Bylaws and policy forms to reflect the cancellation and nonrenewal provisions of Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109 (b) (2).

   Corrective Action: Tenn. Code 56-7-1902 (a) states:

Unless the non-renewal notice contains a reason for the non-renewal action, the notice shall advise the insured that upon written request of the named insured, mailed or delivered to the insurer not later than fifteen (15) days after the effective date of the non-renewal, the insurer will within twenty (20) days mail to the named insured a written statement specifying a reason for the non-renewal action.

No action was taken by the Company to revise Bylaws and policy forms; however, in examination of non-renewal notices sent out by the Company, all notices contained a reason as to why non-renewal action was taken. There were no instances found of non-compliance.

Company History

The Company was incorporated on June 4, 1898, under the provisions of the Tennessee Business Corporation Act, Tenn. Code Ann §§ 48-11-101 – 48-27-103, as a non-profit mutual benefit corporation. The Company is a county mutual fire insurance company ("county mutual") pursuant to Tenn. Code Ann. §§ 56-22-101 – 120, for the purpose of insuring loss or damage to property of residents of Washington County in the state of Tennessee.

The Company commenced business in 1898 and has operated as a county mutual since that time to the present. The current Certificate of Authority was issued to the Company on October 15, 2008, and authorized the transaction of the business of Fire, Lightning, Hail, Extended Coverage and Tornado in Washington County and all counties contiguous to Washington County. The Certificate is valid until suspended or revoked.

During the period under examination the Company operated as a Tennessee county mutual insurance company under the authority of Tenn. Code Ann. §§ 56-22-101-120.

The following tables show the Company's development since the last examination:

Year	Premium Earned	Net Incurred Losses	Net Investment Income	Net Income Before Taxes (Loss)	Total Admitted Assets	Total Liabilities	Surplus As Regards to Policyholders
2007	142,829	93,021	201,631	97,309	2,941,393	105,576	2,835,817
2008	255,443	196,484	89,830	5,880	3,593,490	45,256	3,543,233
2009	177,517	180,741	77,123	(92,232)	4,188,042	37,440	4,150,602
2010	160,495	205,109	53,997	(131,528)	4,883,531	117,746	4,765,786
2011	105,642	214,054	90,236	(197,878)	*3,942,610	*123,325	*3,942,610

(*) Totals listed include adjustments made as a result of this examination.

Year	Gross in Force Business	Policy Count
2007	34,186,522	2178
2008	40,906,772	2123
2009	39,729,272	1974
2010	44,654,272	2036
2011	49,133,507	2389

The Company's reported surplus and policy count complied with Tenn. Code Ann. § 56-22-105 (c), (*Application for certificate of authority -- Minimum requirements*) which states:

> No certificate of authority shall be granted or maintained, unless the applicant or county mutual insurance company can prove to the commissioner's satisfaction that it will be able to write at least one hundred (100) policies of insurance and possesses at least two hundred thousand dollars ($200,000) in surplus.

During the years 2009, 2010 and 2011, the Company experienced negative income due to a recent trend of higher frequency and severity of weather events affecting the region served by the Company.

Charter:

The original Charter of the Company was filed and recorded with the Secretary of State of the State of Tennessee, effective June 4, 1898. The Charter provided for the organization of Farmers Mutual Fire Insurance Company of Washington County as an association to insure the members of said association against loss by fire, wind and lightning on the mutual plan. The Company has a perpetual existence at its office in Jonesborough, Washington County, Tennessee.

Bylaws:

During the period under examination, no amendments were made to the Company Bylaws; however, a subsequent change to the Bylaws is covered in the Subsequent Events section of this report.

Management and Control

Holding Company System:

The Company is licensed as a county mutual insurance company owned by its members who are the policyholders. It does not meet the definition of a holding company system as defined by Tenn. Code Ann. § 56-11-201.[1]

Board of Directors:

Management of the Company is vested in a Board of Directors (BOD) elected to serve for three (3) years terms. In accordance with the amended Bylaws the Board shall consist of nine (9) members from any of the eighteen (18) districts in Washington County. The Board of Directors is charged with managing the business and affairs of the Company. Each Director must be a member in good standing of the Company.

The following persons had been duly elected and were serving as members of the Company's Board of Directors at December 31, 2011:

Name	Business Address	Occupation
Walter Huffine	1061 Hwy 93 Fall Branch, TN 37656	Elementary School Principal

[1] Former part 2, §§ 56-11-201 – 56-11-215, was redesigned as part 1, §§ 56-11-101 – 56-11-115, by the code commission in 2008

Name	Business Address	Occupation
Henry Walker	1562 Hwy 81 Jonesborough, TN 37659	Farmer
Sammy Ford	335 Roller St. Kingsport, TN	Retired
Grover Rex Renfro	104 East Jackson Blvd Jonesborough, TN 37659	Retired
Daryl Rowe	174 Jarrett Rd. Limestone, TN 37681	Retired Dairy Farmer
William Carter	1233 Carroll Creek Rd Johnson City, TN 37601	Farmer and Machinery

Not listed above are three Directors that served during some portion of the period under examination, but not as of December 31, 2011. Director Serl Fulwiler retired from the BOD in 2007, and Directors Clyde Harrison and John W. Jones passed away during the year 2011 and had not been replaced members as of December 31, 2011.

Company Officers

The Company's Bylaws provide that the Directors will elect the Officers of the Company which shall include a President, Vice President, Secretary-Treasurer, and an Agent for the Company. On January 27, 2011, the following Officers were elected by the Directors and were serving at December 31, 2011, in accordance with the Company's Bylaws:

President	Walter Huffine III
Vice President	Henry Walker
Vice President	Sam Ford
Secretary - Treasurer	Carol Ramsey
Company Agent	Jeff Snyder
*Claims Adjuster	Hobie Hyder

(*) Although the Company Bylaws do not provide for the position of Claims Adjuster, this position is recorded in the BOD minutes as an elected position (see comments section).

The Bylaws also provide for an Executive Committee that consists of the President, Vice President, Secretary-Treasurer and Company Agent.

Corporate Records:

The members of the Board of Directors met semi-annually for each of the years under examination with the January BOD meeting being conducted as an annual meeting of the Membership.

During the period 2007 to 2011, there were ten (10) BOD meetings conducted. Minutes of the referenced meetings were reviewed and appear to properly reflect the acts of the respective bodies, but lack specific details in several areas (see comments section).

Compensation Expense Ratio:

Tenn. Comp. R. & Regs., 0780-1-78-.03 requires the Company's compensation expense ratio not exceed 30% and any county mutual insurance company whose compensation expense ratio exceeds 30% for any given year is labeled as operating in hazardous financial condition. The following table shows the calculation of the Company's compensation expense ratio for the years under examination:

Year	Total Compensation Expense	Total Gross Premium	(*) Compensation Expense Ratio
2007	65,369	194,881	.335
2008	65,339	190,439	.343
2009	57,618	164,867	.349
2010	47,461	205,109	.231
2011	57,284	214,054	.268

(*)Compensation Expense Ratio = (Total Compensation Expense/Total Gross Premium)

The Company's compensation expense ratio exceeded thirty percent (30%) during the years 2007, 2008 and 2009, and was not in compliance with the rule (see recommendation section).

Pecuniary Interest:

Tenn. Code Ann. § 56-3-103 prohibits Officers and Directors from having a pecuniary interest in investment or disposition of Company funds. In the review of Company records covering the period of examination, the Directors and Officers of the Company exhibited no interest in the investment or disposition of Company funds in compliance with the Tennessee Law.

Fidelity Bond and Other Insurance:

The Company maintains insurance coverage as follows:

Type of Coverage	Coverage Limits
Insurance Company Combined Professional Liability and Directors & Officers Liability Insurance	$1,000,000

The above coverage is underwritten by NAMIC Insurance Company, Inc. which is licensed in Tennessee as a surplus lines carrier. Ten thousand dollar ($10,000) retention per claim applies to defined claims as outlined in the policy.

Type of Coverage	Coverage Limits
Commercial Lines Policy:	
Business Property	$10,000
Liability and Medical Expenses	$1,000,000
Medical Expenses	$5,000 each person
Damage to Premises Rented to You	$100,000
Products-Completed Operations Aggregate Limit	$2,000,000
Other than Products/Completed Operations Aggregate	$2,000,000
Money and Securities inside premises	$10,000
Business Income	Actual Loss Sustained

The above coverage is underwritten by Acuity - Mutual Insurance Company which is licensed in Tennessee as a foreign property and casualty insurer.

Type of Coverage	Coverage Limits
Commercial Blanket	$50,000

The above coverage is underwritten by Western Surety Company, which is licensed in Tennessee as a foreign property and casualty insurer.

Employee Benefits:

The Company has one fulltime employee who serves as the Company Secretary/Treasurer. The Company provided this employee basic salary, but no additional health or retirement benefits.

TERRITORY

During the period under examination, the Company was licensed to transact business in the state of Tennessee with approval to write coverage in Washington County and those counties contiguous to Washington County. Listed below are the counties and the amount of premium written by the Company in 2011.

Premium Written In Tennessee By County:

Washington	$181,730
Unicoi	18,903
Carter	11,578
Sullivan	1,843
Total	$214,054

PLAN OF OPERATION

The Company writes fire, lightening, hail and extended coverage insurance on structures in Washington County and all counties contiguous to Washington County.

Marketing is performed by the Company's appointed agent. Net exposure is limited to fifty thousand dollars ($50,000) per risk before reinsurance. The Company's largest single gross risk insured in 2011 was one hundred fifty thousand dollars $150,000. Member's premiums are payable on a semi-annual, quarterly, or monthly basis at the option of the member.

Liability coverage is made available to members through Farmers Mutual of Tennessee if the policyholder so wishes to purchase this additional coverage protection.

Loss Experience:

Year	Net Premiums Earned	Net Incurred Losses & LAE	Underwriting Ratio	General & Adm. Exp.	Gen. & Adm. Exp. to Prem.	Combined Ratio
2007	142,829	122,021	85.43%	127,387	89.19%	174.62%
2008	255,443	225,544	88.30%	121,549	47.58%	135.88%
2009	177,517	209,563	118.05%	141,006	79.43%	197.48%
2010	160,495	253,432	157.91%	95,308	59.38%	217.29%
2011	105,642	275,753	261.03%	120,089	113.68%	374.70%

Reinsurance:

Tenn. Code Ann § 56-22-110 requires the Company carry an aggregate excess of loss reinsurance policy of no less than five percent (5%) of business in force, reduced by the Company's accumulated surplus. In compliance with this requirement, the Company during the period under examine was party to an excess of loss reinsurance agreement with Farmers Mutual of Tennessee, headquartered in Knoxville, Tennessee, that provided the following coverage:

Type: Combination per Risk and Aggregate Layer

Coverage: Part 1 – Property Risk Excess of Loss covers each loss in excess of the Company's $50,000 maximum retention, and up to the Reinsurer's $100,000 maximum per risk, for each loss occurrence.

Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year if losses exceed the greater of 100% of the Company's gross net premium income, or $150,000 and shall not exceed 100% of the lesser of 65% of the Company's gross earned premium income or $133,200.

Facultative coverage is limited to $100,000 unless prior approval is given by the Reinsurer.

Type:	Second Aggregate Layer
Coverage:	Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 100% of the Company's gross net premium income or $150,000 plus the lesser of 60% of gross net premium income or $133,200 and shall not exceed 100% of the lesser of 125% of the Company's gross net earned premium income or $270,000 in the aggregate, during each annual period this agreement is in effect.
Type:	Third Aggregate Layer
Coverage:	Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 285% of the Company's gross net premium income or $500,000, and shall not exceed 100% of the lesser of 750% of the Company's gross net premium income or $1,750,000 in the aggregate, during each annual period this agreement is in effect.

During the years 2009, 2010, and 2011 the Company's losses exceeded the amount necessary to trigger the Second Aggregate Layer of reinsurance coverage. Farmers

Mutual of Tennessee is licensed as a domestic property and casualty insurer by the Department.

Commission Equity:

The reinsurance agreements with Farmers Mutual of Tennessee under which the Company cedes a portion of its losses are excess of loss agreements and do not create any commission equity.

Dividends or Distributions:

No dividends or distributions were paid during the period under examination.

STATUTORY DEPOSITS

Tenn. Code Ann. § 56-22-110 requires county mutuals that provide comprehensive personal liability insurance to maintain a statutory deposit with the Commissioner in an amount deemed necessary for the protection of policyholders in an amount of at least two hundred thousand dollars ($200,000). During the period under examination, the Company did not underwrite comprehensive personal liability insurance and only underwrote property insurance policies; therefore, the Company was not required to maintain a statutory deposit.

ACCOUNTS AND RECORDS

The Company's books and records are kept at the home office location at 125 E. Jackson Blvd., Suite 4, Jonesborough, TN, 37659.

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. All of the Company's bank accounts were confirmed with various financial institutions. General ledger and trial balance information were reconciled with totals in the annual statements for the years 2007, 2008, 2009, 2010 and 2011.

During the period under examination, the Company maintained handwritten ledgers to record general transactions with policy and claims information maintained by computer using a program designed specifically for the Company called *Alpha Fire*. Accounting records appear to properly reflect the operations of the Company during the period under examination.

LITIGATION AND CONTINGENT LIABILITIES

As of December 31, 2011, the Company had no pending litigation which could have a material financial effect on the Company.

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a market conduct review was made of the Company as of December 31, 2011. Listed below are areas reviewed.

Underwriting, Policy Forms and Rates:

Policies are typically written for the full value of the property insured subject to policy limits. The Company's retained risk per policy is fifty thousand dollars ($50,000). All coverage is written by the Company's appointed agent, Jeff Snyder, who is licensed in the state of Tennessee for property casualty lines of business. During the application process, the Company's agent performs an appraisal of the property. Property eligible to be insured includes dwellings, farm machinery, livestock, barns, sheds, churches, and their contents. The Company's retained amount of risk is in compliance with the requirements of Tenn. Code Ann. § 56-22-106.

The Company's forms and rates were submitted to the Department for approval in compliance with Tenn. Code Ann. § 56-5-305. The policies issued and the premium rate per thousand dollars of coverage is the same for all members. During the period under examination, the Company's policy form and rates were unchanged.

Advertising:

The Company does not have a formal advertising program. Company information and services are communicated throughout the community by the BOD, the Company's appointed agent and policyholders. The Company conducts limited advertising which consists of placement of ads in local publications and radio advertisement.

Advertising materials used by the Company were examined and found to be in compliance with requirements of Tenn. Code Ann. § 56-8-104, *Unfair trade practices defined*. However, the Company does not display the words "county mutual insurance company" any time the name of the Company is used as required by Tenn. Code Ann. § 56-22-106 (g). This issue is further addressed in the Recommendation Section of this report.

Claims Review:

A sample of paid claim files was reviewed and the Company was found to be processing claims in accordance with policy provisions with settlements paid promptly upon receipt of proper evidence of the Company's liability. The Company had no claims open at December 31, 2011.

Policyholder Complaints:

During the period under examination there were two complaints received by the Department concerning the Company. The Company's responses to the complaints were examined and found to be complete and timely. Inquiries made to the various sections within the Division of Insurance indicated no specific regulatory concern with the Company.

SUBSEQUENT EVENTS

Premium Rate Increase:

Subsequent to the period under examination, on July 21, 2012, the BOD approved a premium rate increased effective March 1, 2013. This rate increased was filed with the Department on January 24, 2013.

Bylaw Change - Reducing the Number of Directors:

Subsequent to the period under examination, on July 21, 2012, the Board of Directors approved an amendment to the Company's Bylaws. The Amendment reduced the number of Directors from nine (9) to five (5) with at least three (3) Directors required for a quorum. This Amendment to the Bylaws was filed with the Tennessee Department of Commerce and Insurance on January 24, 2013.

FINANCIAL STATEMENT

There follows a statement of assets, liabilities and statement of income at December 31, 2011, together with a reconciliation of capital and surplus for the period under review, as established by this examination:

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds and Long-term Certificates of Deposit	$1,237,309	$53,586	$1,183,723
Preferred Stocks	0		0
Common Stocks	0		0
Real Estate: Property occupied by the company	0		0
Cash and short-term investments	2,757,096		2,757,096
Investment income due and accrued			
Uncollected premiums and agents balances in the course of collection	1,791		1,791
Reinsurance recoverable on paid losses and loss adjustment expenses	648,933	648,933	0
Federal income tax recoverable			
Furniture, equipment and supplies	4,500	4,500	0
Electronic data processing equipment and software	1,500	1,500	0
Aggregate write-ins for other than invested Assets	0	0	0
Totals	$4,651,129	$708,519	$3,942,610

LIABILITIES, CAPITAL AND SURPLUS

	Current Year
Gross losses and claims reported, unpaid	$0
Gross losses and claims incurred but not reported	0
Reinsurance recoverable on unpaid losses and claims	0
Total unpaid claims and losses net of reinsurance	0
Loss adjustment expenses	0
Unearned premiums	123,325
Ceded reinsurance premiums payable	0
Account payable and accrued expenses	0
Advance premiums	0
Taxes, licenses and fees payable	0
Federal income tax payable	0
Borrowed money	0
Aggregate write-ins for liabilities	0
Total liabilities	123,325
Policyholders' surplus	3,819,285
Total liabilities & Policyholders' surplus	$3,942,610

STATEMENT OF REVENUE AND EXPENSES

Underwriting Income	Current Year
Net premiums earned	$105,642
Deductions	
Losses incurred	214,054
Loss expenses incurred	14,045
Total Deductions	228,099
Other Underwriting Expenses	
Commissions and Brokerage	47,653
Field supervisory expenses	0
Salaries and related items	57,284
Directors fees	0
Advertising and subscriptions	12,449
Boards, bureaus and association dues	1,983
Surveys and underwriting reports	0
Employee relations and welfare	0
Insurance and fidelity bonds	7,797
Travel and travel items	0
Rent and rent items	11,900
Equipment	0
Cost or Depreciation of EDP equipment and software	0
Printing and stationery	720
Postage, telephone and telegraph	3,464
Legal and auditing fees	790
Taxes, licenses and fees:	7,214
Real estate expenses and repairs	0
Real estate taxes	0
Aggregate write-ins for underwriting expenses	16,489
Total underwriting expenses incurred	167,742
Net underwriting gain or (loss)	(290,199)
Investment Income	
Net investment income earned	90,236
Net realized capital gains or (losses) from sale or maturity of assets	0
Net investment gain or (loss)	90,236
Other Income	
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	2,085
Total other income	2,085
Dividends to policyholders	0
Net income after dividends to policyholders and before federal income taxes	(197,878)
Federal income taxes incurred	0
Net income	$(197,878)

CAPITAL AND SURPLUS

	CHANGE	TOTAL
Surplus as regards policyholders, December 31, prior year		$5,135,040
Net income	(197,878)	
Net unrealized capital gains (losses)	0	
Change in non-admitted assets	(433,316)	
Cumulative effect of changes in accounting principles	0	
Aggregate write-in for gains and losses in surplus	(684,561)	
Change in surplus as regards policyholders for the year	(1,315,755)	
Surplus as regards policyholders, December 31, current year		$3,819,285

Capital and Surplus Account					
	2007	2008	2009	2010	2011
Policyholder surplus, December 31, previous year	**$4,847,601**	**$2,835,817**	**$3,548,233**	**$4,150,602**	**$5,135,040**
Net income	95,703	5,880	(42,232)	(131,528)	(197,878)
Change in net unrealized capital gains or (losses)	0	0	0	0	0
Change in non-admitted assets	(2,263,434)	706,535.28	694,601	746,712	(433,316)
Cumulative effect of changes in accounting principles		0	0	0	0
Aggregate write-ins for gains and losses in surplus	155,947	0	0	0	(684,561)
Policyholders surplus as of December 31, current year	**$2,835,817**	**$3,548,233**	**$4,150,602**	**$4,765,786**	**$3,819,285**

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

The Company's 2011 annual statement, exhibited several errors that resulted in changes being made to the financial statement as shown below:

Annual Statement Assets Page:

Admitted Assets	$3,942,610

The Company overstated *cash and cash equivalents* by two hundred thousand, five hundred eighty-eight dollars ($276,588). This error was a result of several errors noted on Schedule E – Cash & Cash Equivalents, where the Company made errors in both recording the value of several certificates of deposit and the balance of the checking account as of December 31, 2011.

The Company overstated and *non-admitted premium receivables and agents balance* in the amount of two hundred seventy-one thousand, three hundred fifty-eight dollars ($271,358). This amount was entered in error and was result of the Company's misinterpretation of the annual statement instructions.

The Company understated *premium receivables and agents balance* in the amount of one thousand seven hundred ninety-one dollars ($1,791). This is amount was not entered in the annual statement and was also a result of the Company's misinterpretation of the annual statement instructions.

The Company overstated the value of *furniture, equipment and supplies* by eight thousand one hundred fifty-nine dollars ($8,159); however, since the same amount was non-admitted, this error did not affect total admitted assets.

The Company non-admitted a fifty-three thousand, five hundred eighty-six dollar ($53,586) investment maintained with Merrill Lynch, but failed to record the same investment as an aggregate write-in for other invested assets, effectively offsetting the investment. Since offsetting did not occur, admitted assets were understated by this amount.

Annual Statement Liabilities & Policyholder Surplus Page:

Liabilities	$123,325
Policy Surplus	$3,819,285

The Company overstated loss adjustment expenses by fourteen thousand forty-six dollars ($14,046). This error was a result of Company misinterpretation of the annual statement instructions. The amount listed had been paid by the Company prior to December 31, 2011; therefore no amount should have been listed.

Summary Schedule of Examination Changes in Surplus:

Item	Policyholders' Surplus	
	Increase	Decrease
Cash & Cash equivalents	$0	$276,588
Premium receivables and agents balance"	1,791	
Non-admitted "premium receivables and agents balance"	271,358	0
Aggregate write-ins for other invested assets	53,586	0
Loss adjustment expenses	14,046	0
Total	$340,781	$276,588
Net change in policyholders surplus	$64,193	

As a result of the above adjustments, total assets increased to three million nine hundred forty-two thousand, six hundred ten dollars ($3,942,610) and policyholder surplus increased by sixty-four thousand, one hundred ninety-three dollars ($64,193) to three million, eight hundred nineteen thousand, two hundred eighty-five dollars ($3,819,285).

COMMENTS

Company Bylaws and BOD Meeting Minutes:

In the examination of Company Bylaws and BOD meeting minutes there were several issues identified.

Director Requirements

In 2003, the BOD approved an amendment to the Bylaws reducing the number of Directors from fifteen (15) to nine (9), and the number of Directors required for a quorum to transact business from eight (8) to five (5); however, the amendment as posted to the Bylaws only addresses the change in the number of Directors, and does not address the quorum change. In addition, in the 2003 amendment, the BOD did not address any change in the Directors' period of service or how many Directors would be elected each year.

Subsequent to the examination period, on January 19, 2012, the BOD approved an additional amendment to the Bylaws reducing the number of Directors from eight (8) to five (5) and the number required for a quorum transact business from five (5) to three (3). In the BOD's approval of this amendment to the Bylaws, again no consideration was given to the period of service or the number to be elected each year.

It is recommended the BOD clarify its requirements and amend the Company Bylaws accordingly.

Claims Adjuster Requirements

The Company's BOD annually voted on persons to serve as Company Officers to include a person serving in the position of Claims Adjuster;

however, in the examination of the Company's Bylaws the position of claims adjuster as a separate Officer was not addressed. The Bylaws as currently written assign the Claims Adjuster responsibility to each Director in their respective districts.

It is recommended the BOD amend the Bylaws to reflect establishment of the Claims Adjuster as an Officer pursuant to the Bylaws.

BOD Meeting Minutes

In the examination of BOD meeting minutes, it was not readily apparent as to which Directors were in attendance, i.e., the Company would only list absent members, leaving the examiner to assume the other directors were in attendance and a quorum constituted. During the period under examination two Directors died and their deaths were not reflected in the minutes.

It is recommended the Company establish a standard format for the reporting of all meeting minutes that includes reporting of Directors present and absent from the meeting. The BOD discussions should be current and include discussions and voting on issues as they arise without undue delay or oversight.

RECOMMENDATIONS

1. Advertisement and Listing of Company Name:

Tenn. Code Ann. § 56-22-106 (g) states:

> Any company operating under this chapter must use the words "county mutual insurance company" in their name or the words must be displayed any time the name of the company is used. No name shall be used that is similar to any name

already in use by any existing company organized and doing business in the United States, as to be confusing or misleading.

In the examination of Company business and advertising material, the Company did not always display the words "county mutual insurance company". Company stationery, business cards and advertising material were found to be in noncompliance with the above requirement.

It is recommended the Company use the words "county mutual insurance company" in all future listings of the Company's name.

2. **Participation of Policyholders in Election of Directors**:

Tenn. Code Ann. § 56-22-107 (a) states:

> Every policyholder in good standing shall be entitled to one (1) vote in person or by ballot transmitted by mail, as shall be provided in the bylaws, in any election for directors or upon any other issues properly brought to the policyholders for consideration.

The Company's Bylaws state that Directors shall be elected each year at the annual meeting of policyholders, and that each policyholder is entitled to one (1) vote. The Bylaws further state that in case of a tie vote or absence of policyholders the BOD shall make the decision.

These Company Bylaw requirements provide for policyholder participation in the operation of the Company; however, in review of BOD meeting minutes and correspondence sent to policyholders, there is no indication that policyholders were invited to annual meetings or were given an opportunity to vote on Directors.

It is recommended actions be taken by the Company to comply with statutory and Company Bylaw requirements and allow the BOD to be elected by the members..

3. <u>Compensation Expense Ratio</u>:

. Tenn. Comp. R. & Regs. 0780-1-78-.03 states:

> No county mutual insurance company's compensation expense ratio may exceed thirty percent (30%) for <u>any</u> [emphasis added] given year.
>
> Any county mutual insurance company whose compensation expense ratio exceeds thirty percent (30%) for <u>any</u> [emphasis added] given year shall be considered to be operating in a hazardous financial condition.

During the period under examination, the Company's compensation expense ratio exceeded thirty percent (30%) during the years 2007, 2008 and 2009, identifying the Company as operating in a hazardous financial condition.

It is recommended actions be taken by the Company to comply with Tenn. Comp. R. & Regs. 0780-1-78-.03 during all future years.

CONCLUSION

The customary 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 the Farmers Mutual Fire Insurance Company of Washington County.

In such manner, it was determined that as of December 31, 2011, the Company had admitted assets of three million, nine hundred forty-two thousand, six hundred ten dollars ($3,942,610) and liabilities, exclusive of capital and surplus, of one hundred twenty-three thousand, three hundred twenty-five dollars ($123,325). Thus, there existed for the additional protection of the policyholders, the amount of three million, eight hundred nineteen thousand, two hundred eighty-five dollars ($3,819,285) in the form of gross paid-in and contributed surplus and unassigned funds (surplus).

The courteous cooperation of the officers and employees of the Company extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

Gregory Bronson, CIE, MCM, ALMI, AIRC
Examiner III
State of Tennessee
Southeastern Zone, NAIC

Examination Affidavit

The undersigned deposes and says that he has duly executed the attached examination report of the Farmers Mutual Fire Insurance Company of Washington County dated May 2, 2013, and made as of December 31, 2011, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Gregory Bronson, CIE, MCM, ALMI, AIRC
Insurance Examiner
State of Tennessee

Subscribed and sworn to before me this
2nd day of May, 2013
Notary Helen W. Dorsey
County Davidson
State Tennessee
Commission Expires 03/03/2014

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY