REPORT ON EXAMINATION

OF THE

FARMERS MUTUAL INSURANCE COMPANY OF GILES COUNTY
212 WEST MADISON STREET
POST OFFICE BOX 732
PULASKI, TENNESSEE 38478

RECEIVED

MAY 02 2013

Dept. of Commerce & Insurance
Company Examinations

AS OF
DECEMBER 31, 2011

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

EXHIBIT

tabbies

A

TABLE OF CONTENTS

Item | **Page**

Date of Report: May 2, 2013

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 Tennessee Insurance Laws, regulations and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and a market conduct review was made of the condition and affairs of the

FARMERS MUTUAL INSURANCE COMPANY OF GILES COUNTY

212 WEST MADISON STREET
POST OFFICE BOX 732
PULASKI, TENNESSEE 38478

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

INTRODUCTION

This examination was called by the Department of Commerce and Insurance of the State of Tennessee ("TDCI") on November 28, 2011. Examination work commenced on August 24, 2012, with the initial information request to the Company which included the Planning Questionnaire. With the Company having authority to write business only in the State of Tennessee, the examination was not classified as an Association Examination under NAIC Guidelines. The examination was performed by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

This examination report covers the period from January 1, 2007, to the close of business on December 31, 2011, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines and procedures contained in the NAIC Financial Condition Examiners Handbook. 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.

In addition, the following topics were reviewed:

Company History
Charter and Bylaws
Management and Control
Holding Company System
Compensation Expense Ratio TENN. COMP. R. & REGS. 0780-1-78-.03
Pecuniary Interest TENN. CODE ANN. § 56-3-103
Corporate Records
Fidelity Bonds and Other Insurance
Retirement Plan and Other Employee Benefits
Territory (includes in-force/premium by state)
Plan of Operation
Market Conduct Activities
Loss Experience
Reinsurance
Commission Equity
Statutory Deposits
Dividends or Distributions
Accounts and Records
Litigation and Contingent Liabilities
Subsequent Events
Financial Statement

The previous examination was conducted as of December 31, 2006, by authorized representatives of the TDCI and resulted in an approximate decrease to surplus of $484,038. This was primarily due to the non-admitting of assets which were not held under a proper custodial agreement. Four (4) recommendations were made and incorporated into the Commissioner's Order which is discussed under the caption, "COMMENTS – PREVIOUS EXAMINATION."

COMMENTS – PREVIOUS EXAMINATION

The "Order Adopting Examination Report with Directives No.: 08-100" listed four (4) Directives as follows:

- The Company is **DIRECTED** to comply with TENN. CODE ANN. § 56-3-112 and TENN. COMP. R. & REGS. 0780-1-46 by either moving its investments out of its Edward Jones account and investing directly with banks in accounts that are insured up to $100,000 by the Federal Deposit Insurance Corp. or establish proper custodial relationship with a bank that is a member of the federal reserve system and transferring these investments that are currently held by investment brokers into a custodial account that meets the requirements of TENN. CODE ANN. § 56-3-112 and TENN. COMP. R. & REGS. 0780-1-46. Furthermore, any investments held through Edward Jones are to be reported as non-admitted assets on future annual statement filings per TENN. COMP. R. & REGS. 0780-1-46-03(4).

Corrective Action: The Company currently non-admits its investment in Van Camp Trust Funds totaling $149,301 at December 31, 2011. The Company was not successful in obtaining a bank custodian willing to offer a reasonable cost efficient custodial arrangement.

- The Company is **DIRECTED** to comply with TENN. CODE ANN. § 56-1-405 and NAIC Statement of Statutory Accounting Principles SSAP #19 by ceasing to include the depreciated value of its computer equipment and furniture in future annual statements as admitted assets.

  Corrective Action: The Company does not record any amount as an asset for furniture or equipment.

- The Company is **DIRECTED** to comply with TENN. CODE ANN. § 56-22-109(b)(2) by updating its Bylaws to include the non-renewal provisions contained in TENN. CODE ANN. § 56-7-1902.

  Corrective Action: On November 10, 2006, the Company's Board of Directors approved new language for Article IX: Premium in the Bylaws in compliance with the statutes.

- The Company is DIRECTED to comply with TENN. CODE ANN. § 56-22-109(b)(2) by updating its policy forms to reflect the cancellation and non-renewal provisions of TENN. CODE ANN. §§ 56-7-1901 and 56-7-1902.

  Corrective Action: Copies of the Company's Amended Cancellation Policy, revised premium rates, new policy and application forms with an effective date of January 1, 2007, were filed and approval was granted on December 16, 2006, by the Property & Casualty Rating Section of the Department.

  The cancellation policy is included with the issuance of each policy of insurance.

The above actions are deemed to be in compliance with the Order.

COMPANY HISTORY

The Company was incorporated on March 24, 1900, under the provisions of the Tennessee Business Corporation Act as a non-profit mutual benefit corporation and was organized as a county mutual fire insurance company ("county mutual") pursuant to TENN. CODE ANN. § 56-22 for the purpose of insuring loss or damage to property of residents of Giles County in the State of Tennessee.

The original incorporators were:

Ed Copeland
E. N. Grigsby
A. P. Giffis
J. B. Morell
B. G. Mason

The Company commenced business in 1900 and has operated as a "county mutual" from that time to the present. The current Certificate of Authority was issued to the Company on September 3, 2008, and authorizes the transaction of the business of Fire; Lightning; Hail; Extended Coverage and Tornado in Giles County and all those counties contiguous to Giles County. The Certificate is valid until suspended or revoked.

The Company operates as a mutual company and therefore, reports no authorized or issued common stock.

The Company's capital structure appears in the 2011 Annual Statement as follows:

Policyholders' surplus	$1,067,615

The following exhibit depicts certain aspects of the growth and financial history of the Company since the previous examination, according to annual statements filed with the TDCI.

Date	Earned Premium	Net Incurred Losses	Admitted Assets	Liabilities	Policyholders' Surplus	Net Income
12/31/2007	$97,321	$72,321	$984,472	$238,171	$746,301	($73,128)
12/31/2008	305,112	160,889	1,153,784	180,179	973,605	37,546
12/31/2009	320,112	151,074	1,248,256	207,645	1,040,611	62,006
12/31/2010	277,879	132,828	1,259,289	184,124	1,075,165	34,555
12/31/2011	272,282	160,068	1,296,798	229,183	1,067,615	(7,551)

Date	Gross In Force Business	Net In Force Business	Policy Count
12/31/2007	$57,460,910	$36,053,540	811
12/31/2008	56,824,064	18,438,150	796
12/31/2009	55,570,914	22,879,044	776
12/31/2010	58,751,694	17,946,350	771
12/31/2011	61,897,484	18,258,600	782

CHARTER AND BYLAWS

Charter:

The original Charter of the Company was filed and recorded with the Secretary of State, State of Tennessee effective March 24, 1900. The Charter provided for the operation of a non-profit corporation with a perpetual existence and established its location in Pulaski, Giles County, Tennessee.

The Charter states:

The purpose of the corporation is to insure its members against loss to property caused by fire, wind or lightning.

Changes to statutes in Tennessee Law now allow the Company to additionally offer extended coverage.

The Charter on file with the TDCI is a copy of the original handwritten document and is stamped received June 22, 1983. The secretary of state website reflects the March 24, 1900 date.

Bylaws:

On September 8, 1997, the Company's Board of Directors approved an Amended and Restated Constitution and Bylaws. This Amended and Restated Constitution and Bylaws were approved by the TDCI on August 8, 1998.

The Bylaws provide for an annual meeting of the members on the first Monday in the month of March at 10:00 AM Central Standard Time. A Board of Directors is elected at this meeting. Officers are elected by the Board annually at the first board meeting after the annual meeting of members. The Bylaws charge the Board of Directors with managing the business and affairs of the Company.

The current Bylaws are such as are generally found in corporations of this type and contain no unusual provisions. No amendments have been enacted to the Bylaws under the period of examination.

The Board did approve new cancellation language on November 10, 2006, as noted in the prior examination report which is in compliance with Tennessee statutes and reads as follows:

> "PAYMENT OF: Section 1; All new premiums chargeable to members of this Company shall be due and payable on the effective date of the policy. NEGLECT OR FAILURE TO PAY: Section 2: Should any member neglect or refuse to pay his premium on the due date of his policy he will be given a 10 day notice in advance of cancellation or non-renewal. CANCELLATION AND NON-RENEWAL: We may cancel or not renew this policy by written notice to you at the address shown on the Declarations 30 days in advance of cancellation or non-renewal. Proof of mailing is sufficient proof of notice. NOTICE OF PREMIUM: Section 3: The mailing of a notice of premium directed to the last known address of the policy holder shall be a fulfillment of the duties of the Company in

notifying a member, and subsequent notices to a member whose policy is suspended shall not waive the suspension thereon."

MANAGEMENT AND CONTROL

Board of Directors:

Management of the Company is vested in a Board of Directors elected annually. In accordance with the Bylaws, the Board shall consist of not less than six nor more than 15 members. 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, Address and County	
Richard Eugene Long Pulaski, Tennessee	
Sandra Gail Clark Pulaski, Tennessee	
Harry Winford Burns Pulaski, Tennessee	
Edward E. Rose Pulaski, Tennessee	
Ruby Lee Petty Pulaski, Tennessee	
Clint Winford Burns Pulaski, Tennessee	
Rassie Watts, Jr. Pulaski, Tennessee	(deceased in 2012)

Officers:

The Bylaws of the Company provide that the Board of Directors shall elect annually a president, vice president, a secretary/treasurer, and manager who shall also be members of the Company. The following officers were duly elected and were serving in the positions indicated for the Company at December 31, 2011:

Richard Eugene Long	President
Sandra Gail Clark	Secretary/Treasurer
Edward E. Rose	Vice President

The President functions as the Chief Executive Officer and presides over all meetings of the members and the Board of Directors. The President and the Secretary/Treasurer serve as joint managers for the affairs of the Company as no specific "Manager" is elected for this small county mutual business operation.

A new President, Harry Winford Burns was elected in March of 2012. Mr. Burns has been a board member since 1979.

The Company's Executive Committee at December 31, 2011 is as follows:

Name	Title
Richard Eugene Long	President
Sandra Gail Clark	Secretary/Treasurer
Edward E. Rose	Vice President

The administrative and executive functions of the Company are performed by the home office staff which is Ms. Sandra Clark. The Company is a direct writer marketing insurance products through its appointed agent, Mr. Wendell Wilburn. Underwriting activities are also performed by home office staff with the assistance of the Company's reinsurer, Farmers Mutual of Tennessee located in Knoxville, Tennessee.

Limited accounting assistance is provided as needed by the following firm:

Garner & Downs CPA's
118 North Third Street
Pulaski, Tennessee 38478

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 an insurance holding company system defined by TENN. CODE ANN. § 56-11-101.

COMPENSATION EXPENSE RATIO TENN. COMP. R. & REGS. 0780-1-78-.03

TENN. CODE ANN. § 56-22-107 and TENN. COMP. R. & REGS. 0780-1-78-.03 both offer guidance on compensation for Directors and Officers as follows:

> "(1) No county mutual insurance company's compensation expense ratio may exceed thirty percent (30%) for any given year.
>
> (2) Any county mutual insurance company whose compensation expense ratio exceeds thirty percent (30%) for any given year shall be considered to be operating in a hazardous financial condition."

Year	Policy Count	Gross Premium	Total Compensation Expense	Compensation Expense Ratio
2007	811	$348,660	$112,092	32.1%
2008	796	379,344	114,226	30.1%
2009	776	363,445	103,326	28.4%
2010	771	394,914	103,058	26.1%
2011	782	386,499	104,385	27.0%

The Company has not borrowed any money during the period under examination.

PECUNIARY INTEREST TENN. CODE ANN. § 56-3-103

The Directors and Officers of the Company comply with the provisions of TENN. CODE ANN. § 56-3-103. The statute prohibits officers and directors from having a pecuniary interest in investment or disposition of Company funds.

CORPORATE RECORDS

The members of the Board of Directors met quarterly for each of the years under examination. An annual meeting of Members was held in March of each year.

During the period of examination and subsequent period in the 2012 calendar year, there were twenty-three (23) regular board meetings, two (2) executive meetings and six (6) annual meetings of members. Minutes of the referenced meetings were reviewed and appear to properly reflect the acts of the respective bodies.

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

Coverage is underwritten by NAMIC Insurance Company, Inc. which is licensed in Tennessee as a "Surplus Lines Carrier." Retention in the amount of $5,000 per claim applies to defined claims as outlined in the policy.

Type of Coverage	Coverage Limits
Commercial Lines Policy:	
Building (actual cash value)	$132,970
Business Property	$32,651
Liability and Medical Expenses	$1,000,000
Medical Expenses	$5,000 each person
Other than Products/Completed Operations Aggregate	$2,000,000
Products/Completed Operations	$2,000,000
Money and Securities inside premises	$10,000
Business Income	60 days

Coverage is underwritten by Union Insurance Company which is licensed in Tennessee as a "Foreign Property and Casualty Insurer." A $250 deductible applies to property coverage and $500 to optional coverage.

RETIREMENT PLAN AND OTHER EMPLOYEE BENEFITS

The Company does not provide any retirement benefits for employees or directors. The Company does reimburse the Secretary for the cost of health insurance which the Secretary purchases directly from an insurance carrier.

TERRITORY

As of December 31, 2011, and as of the date of this examination report, the Company was licensed to transact business in the State of Tennessee with approval to write coverage in Giles County and those counties contiguous to Giles County.

Premium Written In Tennessee By County:

Giles	$371,620
Lawrence	5,288
Lincoln	3,186
Marshall	1,450
Maury	3,469
Total	$385,013

PLAN OF OPERATION

The County Mutual has been in existence since 1900, writing fire, lightning, hail and extended coverage insurance on structures in Giles County. As allowed by statute, the County also writes in the contiguous counties. Marketing is performed by the Company's one (1) appointed agent. Net exposure is limited to $25,000 per risk through reinsurance. The largest single gross risk insured in 2011 was $458,000.

Premiums are payable on an annual, semi-annual or quarterly basis at the option of the member.

Liability coverage is made available to the members of the County Mutual if they wish to purchase this additional protection through Farmers Mutual of Tennessee.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2011, in conjunction with this examination. The following items were addressed:

Policy Forms and Underwriting Practices:

A review was made of the Company's underwriting policies and policy forms. No unusual findings were noted.

The Company offers a payment plan to its members on an annual, semi-annual or quarterly basis.

Policies are typically written for the full value of the property insured subject to policy limits. The retained amount of risk is $25,000. The reinsurance program is further described under the caption, "REINSURANCE". The agent performs the appraisal on the property prior to the issuance of a policy during the application process. Property eligible to be insured includes dwellings, church buildings, barns, cribs, stables and smokehouses and the contents of each of the aforementioned structures.

The Company's retained amount of risk is in compliance with the requirements of TENN. CODE ANN. § 56-22-106.

Advertising:

The Company does not have a formal advertising program. Reputation and services are communicated throughout the community by the Board Members and the Company's appointed agent. Marketing is on a direct basis. The coverage is written by the Company's one (1) appointed agent, Wendell Wayne Wilburn, who is licensed in the State of Tennessee for property casualty lines of business.

The Company and its appointed agent, Wendell Wayne Wilburn, are in compliance with "TENN. CODE ANN. § 56-22-113. Licensing requirements."

Claims Review:

A sample of paid claim files reviewed during the examination indicated that claims were being paid in accordance with policy provisions and settlements were made properly upon receipt of proper evidence of the Company's liability.

The Company had only one (1) open claim at December 31, 2011 which was settled in January, 2012.

Policyholder Complaints:

Inquiries made to the various sections within the Division of Insurance indicated no specific regulatory concerns with the Company during the period under examination. No unusual practices, transactions or items warranting significant concern with regard to the Company were noted.

Privacy of Non-Public Personal Information

The Company's privacy policies and practices were reviewed. No instances of non-compliance with TENN. COMP. R. & REGS. 0780-1-72 were noted.

LOSS EXPERIENCE

Year	Net Premiums Earned	Net Incurred Losses & LAE	Underwriting Ratio	General & Adm. Exp.	Gen. & Adm. Exp. to Prem.	Combined Ratio
2007	$97,321	$72,015	74.0%	$150,830	155.0%	229.0%
2008	305,129	160,889	52.7%	156,288	51.2%	103.9 %
2009	320,112	151,074	47.2%	138,990	43.4%	90.6%
2010	277,879	132,828	47.8%	136,353	49.1%	96.9%
2011	272,282	160,068	58.8%	141,173	51.8%	110.6%

REINSURANCE

Effective January 1, 2008, through the end of the year 2011, the Company has ceded excess of loss reinsurance with Farmers Mutual of Tennessee headquartered in Knoxville, Tennessee as follows:

Type: Exhibit A – Combination Per Risk and Aggregate Layer

Coverage: Part 1 – Property Risk Excess of Loss: covers each loss in excess of the Company's $25,000 maximum retention up to the Reinsurer's $125,000 maximum per risk, each loss occurrence. This layer has an annual aggregate deductible of $20,000.

Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater or 80% of the Company's gross net premium income or $185,600 and shall not exceed 100% of the lesser of 45% of the Company's gross premium income or $156,600.

Type: Exhibit B – 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 80% of the Company's gross net premium income or $185,600 plus the lesser of 45% of gross net premium income or $156,600 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 80% of the Company's gross net premium income or $185,600 plus the lesser of 45% of gross net premium income or $156,600 but the Reinsurer's liability shall not exceed 100% of the lesser of 125% of the Company's gross net premium income or $435,000 in the aggregate, during each annual period this agreement is in effect.

Type: Exhibit C – 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 250% of the Company's gross net premium income or $580,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 250% of the Company's gross net premium income or $580,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 750% of the Company's gross net premium income or $2,610,000 in the aggregate, during each annual period this agreement is in effect.

During the period of examination, the Company's losses have not exceeded the amount necessary to trigger the Second or Third Aggregate Layer of reinsurance coverage. Farmers Mutual of Tennessee is licensed as a "Domestic Property and Casualty Insurer" by the TDCI.

Any policy insuring a property for more than $150,000 is underwritten and reinsured by Farmers Mutual of Tennessee on a facultative basis.

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 have been paid during the period under examination.

ACCOUNTS AND RECORDS

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 the various financial institutions. General ledger trial balance information and AIMS policy system information were reconciled with copies of annual statements for the years 2007, 2008, 2009, 2010 and 2011.

County Mutual Insurance Companies do not file a Risk Based Capital Report.

The Company uses the QuickBooks accounting program and also maintains some hand written ledger information. Accounting records appear to properly reflect the operations of the Company during the period under examination. However; the Company has not been successful in creating a policy aging system which would allow for the calculation of uncollected premium. The only means available at present would be to take the handwritten policy cards and calculate the amount due at a particular date.

Books and records of the Company are kept at the following home office location:

212 West Madison Street
Pulaski, Tennessee 38478

LITIGATION AND CONTINGENT LIABILITIES

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

SUBSEQUENT EVENTS

No subsequent events to report other than the election of a new president, Harry Winford Burns as stated previously under the caption, "MANAGEMENT AND CONTROL."

FINANCIAL STATEMENT

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

ASSETS

	Assets	Non-admitted Assets	Net Admitted Assets
Bonds	$149,300	$149,300	$0
Preferred Stocks	0		0
Common Stocks	0		0
Real Estate:			
Property occupied by the company	5,000		5,000
Cash and short-term investments	1,249,537		1,249,537
Investment income due and accrued	0		0
Uncollected premiums and agents balances in the course of collection	42,260	42,260	0
Reinsurance recoverable on paid losses and loss adjustment expenses	0		0
Federal income tax recoverable	0	0	0
Furniture, equipment and supplies	0	0	0
Electronic data processing equipment and software	0		0
Aggregate write-ins for other than invested Assets	0	0	0
Totals	$1,446,097	$191,560	$1,254,537

LIABILITIES, CAPITAL, AND SURPLUS

Gross losses and claims reported, unpaid	$2,600
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	2,600
Loss adjustment expenses	0
Unearned premiums	184,313
Ceded reinsurance premiums payable	42,270
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	229,183
Policyholders' surplus	1,025,354
Total liabilities & policyholders' surplus	$1,254,537

STATEMENT OF REVENUE AND EXPENSES

Net premiums earned		$272,282
Deductions: Losses incurred	$160,068	
Loss expenses incurred	0	
Total losses and loss expenses incurred		160,068
Other underwriting expenses incurred:		
Agents compensation and allowances (travel)	5,489	
Employee salaries	84,147	
Payroll taxes	7,594	
Total salaries and related items	91,741	
Directors fees	8,104	
Boards, bureaus and association dues	3,318	
Employee relations and welfare	4,540	
Insurance and fidelity bonds	4,163	
Travel and travel items	2,278	
Equipment	49	
Printing and stationery	4,486	
Postage, telephone and telegraph	5,104	
Legal and auditing fees	45	
State and local insurance taxes	6,552	
Insurance department fees	580	
Real estate expenses and repairs	3989	
Real estate taxes	735	
Total underwriting deductions		141,173
Net underwriting gain (loss)		(28,959)

INVESTMENT INCOME

Net investment income earned	18,448	
Net realized capital gains (losses)	0	
Net investment gain		18,448

OTHER INCOME

Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	2,960
Total other income	2,960
Dividends to policyholders	0
Federal income taxes incurred	0
Net income	$(7,551)

CAPITAL AND SURPLUS

Surplus as regards policyholders, December 31 prior year		$1,075,165
Net income	($7,551)	
Net unrealized capital gains (losses)	0	
Change in net deferred income tax	0	
Change in non-admitted assets	0	
Surplus adjustments: Paid in	0	
Accounting change for addition error	(42,260)	
Aggregate write-in for gains and losses in surplus	0	
Change in surplus as regards policyholders for the year		(49,811)
Surplus as regards policyholders, December 31 current year		$1,025,354

RECONCILIATION OF CAPITAL AND SURPLUS
FOR THE PERIOD UNDER EXAMINATION

Surplus as regards policyholders December 31	2007	2008	2009	2010	2011
Previous Year	$1,215,109	$746,301	$973.605	$1,040,611	$1,075,165
Net Income	(73,128)	37,546	62,006	34,555	(7,551)
Change in net unrealized capital gains (losses)					
Change in net deferred income tax					
Increase uncollected premium					42,260
Change in non-admitted assets	(354,301)	154,302	0	0	(42,260)
Change in reserve on account of change in valuation basis	0	0	0	0	0
Change in asset valuation reserve					
Cumulative effect of changes In accounting principles	(41,288)	35,456	0	0	0
Capital changes: Paid in					
Capital changes: Transferred from surplus (stock dividend)					
Surplus adjustments: Paid in					
Surplus adjustments: Transferred to capital (stock dividend)					
Aggregate write-ins for gains and losses in surplus			5,000		
Accounting change for addition error on annual statement					(42,260)
Accounting adjustments	(91)				
Rounding to $	0	0	0	(1)	0
Surplus as regards to policyholders December 31, Current Year	**$746,301**	**$973,605**	**$1,040,611**	**$1,075,165**	**$1,025,354**

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

The annual statement as filed with the TDCI exhibited an arithmetic error on the summation of the admitted assets in the amount of $42,260. Gross assets were added correctly and net admitted assets were not added correctly.

The amount of the addition error is actually the uncollected premium which the Company is unable to age in order to comply with the requirements of SSAP No. 6 in order to admit the amount. Therefore, the statement should indicate an increase of $42,260 as uncollected premium which is then considered a non-admitted asset.

The corresponding adjustment is an increase in non-admitted assets which will decrease surplus by the same amount. An accounting change will record the decrease to surplus. A summary schedule follows:

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS

Item	Policyholders' Surplus	
	Increase	Decrease
Uncollected premiums and agents balances in the course of collection	$42,260	
Increase in Non- admitted assets		$42,260
Accounting change for addition error on annual statement	0	42,260
Totals	$42,260	$84,520
Net change in policyholders' surplus		$42,260

COMMENTS AND RECOMMENDATIONS

Comments:

The Company is encouraged to develop a premium aging system which would allow a true accounting of due and uncollected premium which would allow a determination of any premium balances which are more than 90 days and should be non-admitted. This would allow the uncollected premium asset to become an admitted asset for statutory financial statement purposes pursuant to SSAP No. 6.

The Company should continue to identify and non-admit any uncollected premium while utilizing the present premium aging system.

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 Insurance Company of Giles County of Pulaski, Tennessee.

In such manner, it was determined that, as of December 31, 2011, the Company had admitted assets of $1,254,537 and liabilities, exclusive of unassigned funds, of $229,183. Thus, there existed for the additional protection of the policyholders, the amount of $1,025,354 in the form of 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,

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Farmers Mutual Insurance Company of Giles County dated May 2, 2013, and made as of December 31, 2011, on behalf of the Department of Commerce and Insurance, State of Tennessee. 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.

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

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

FARMERS MUTUAL INSURANCE COMPANY
OF GILES COUNTY
"A COUNTY MUTUAL INSURANCE COMPANY"
P.O. BOX 732
212 West Madison Street
PULASKI, TENNESSEE 38478
(931) 363-1322
FAX: (931) 363-1332
e-mail:farmersmutu35957@bellsouth.net

May 10, 2013

Dear Mr. James E. York Jr.

We are in agreement with the report and wish to waive our right to a rebuttal.

Sincerely,

Harry W. Burns

Harry W. Burns, President

RECEIVED

MAY 20 2013

Dept. of Commerce & Insurance
Company Examinations

EXHIBIT

tabbies

B