

EXHIBIT A



STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION
OF THE
McMINN COUNTY FARMERS MUTUAL INSURANCE
COMPANY
(NAIC #15969)
ATHENS, TENNESSEE

AS OF
DECEMBER 31, 2016

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Athens, Tennessee
April 9, 2018

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

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-22-115, a full-scope financial examination and market conduct review as of December 31, 2016, has been made of the condition and affairs of:

McMinn County Farmers Mutual Insurance Company

NAIC # 15969
403 West Madison Avenue
Post Office Box 321
Athens, Tennessee 37303

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

INTRODUCTION

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or “Department”) under the rules established by the State of Tennessee. The examination commenced on October 2, 2017, and was conducted by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2011. This examination report covers the period from January 1, 2012, to the close of business on December 31, 2016, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with the

National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* (“Handbook”), as deemed appropriate. The examination sought to evaluate the overall financial statement presentation and management’s compliance with statutory accounting principles and annual statement instructions. The examination also included an assessment of prospective risks faced by the Company based on information obtained during the course of the examination.

Our examination included reviewing the Company's business policies and practices, management and corporate matters, and reviewed and evaluated assets, liabilities, income, and disbursements. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules, and regulations. In planning and conducting our examination, we considered the concepts of materiality and risk, and our examination efforts were directed accordingly.

A limited market conduct review was also performed concurrently with the financial examination. See the “Market Conduct Activities” section of this report.

The Company provided a letter of representation certifying that management has disclosed all significant matters and records.

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

Our examination included a review to determine the current status of the comments and recommendations in the previous Report on Examination, as of December 31, 2011, which covered the period from January 1, 2007, through December 31, 2011. The prior examination comments and recommendations are as follows:

Comment #1

The Company’s 2011 annual statement reporting errors would likely cause errors in the 2012 annual statement. The Company should refile its 2012 annual statement.

Corrective Action

The Company complied by refiling its 2012 annual statement.

Comment #2

As of December 31, 2011, the Company was in violation of Article XI, Section 5 of its Bylaws by issuing commercial insurance policy # 2858C with a total insured risk in excess of \$200,000.

Corrective Action

The Company complied by removing this restriction through an amendment to its Bylaws.

Comment #3

During and subsequent to the period under examination, the Company did not cancel policies with premium balances over ninety (90) days past due, nor did the Company send any cancellation notices during 2012.

Corrective Action

The Company complied by implementing an automated policy management system which cancels policies more than thirty (30) days past due and sending cancellation notices for all canceled policies, except those cancelled due to total loss. See the "Comments and Recommendations" section later in this report.

Recommendation #1

The Company's General Manager confirmed that prior approval by the Company's Board of Directors ("Board") was not given before the acquisition of property in February 2011. This was a violation of Tenn. Code Ann. § 56-3-408(b)(1).

Corrective Action

The Company complied by requiring Board approval for investment transactions.

Recommendation #2

The Company did not properly disclose realized or unrealized losses incurred in its common stock investment per Tenn. Code Ann. § 56-22-109(a)(4). This statute requires all county mutual insurance companies to prepare their annual statements according to the NAIC's *Accounting Practices and Procedures Manual* in effect for the period covered by the annual statement.

Corrective Action

The Company complied by correctly reporting the value of its investments in common stock.

Recommendation #3

Per NAIC Statement of Statutory Accounting Principles (SSAP) No. 4, NAIC SSAP No. 6 and Tenn. Code Ann. § 56-22-109(a)(4), the Company did not account for installment premiums receivable as an asset on the Assets Page (page 2, line 8), or as a non-admitted asset for ninety (90) days past due amounts on page 2, line 18 in its 2007 through 2011 annual statements.

Corrective Action

The Company complied by correctly reporting installment premiums receivable.

Recommendation #4

Per NAIC SSAP No. 53, the Company did not maintain a detailed record listing each policy written, the amount of insurance in-force, and the amount of premium written, earned or unearned, for each policy.

Corrective Action

The Company complied by adopting an automated policy management system.

Recommendation #5

The Company's 2011 annual statement did not reflect a liability for unpaid excess of loss reinsurance premium and unpaid facultative reinsurance premium pursuant to NAIC SSAP No. 62 – Property & Casualty Reinsurance, Section 43.

Corrective Action

The Company complied by properly reporting reinsurance premiums payable.

Recommendation #6

The Company did not establish a liability for “Federal Income Taxes Payable” in its 2007 through 2011 annual statements in accordance with NAIC SSAP No. 10 and 10R – Income Taxes.

Corrective Action

The Company complied by accurately reporting its Federal Income Tax obligations.

Recommendation #7

The Company did not disclose in its 2011 annual statement liability premium held by the Company on behalf of Farmers Mutual of Tennessee (FMT) as required by NAIC SSAP No.67 – Other Liabilities.

Corrective Action

The Company complied by reporting amounts held on behalf of FMT.

Recommendation #8

During the course of examination, significant delays were experienced in receiving information from the Company. In general, the Company did not demonstrate accounting knowledge necessary to file an accurate annual statement.

Corrective Action

The Company has obtained the services of an accounting firm in order to provide sufficient accounting expertise when needed. The Company continues to be non-compliant with requests, exhibiting significant delays in responding to examiner requests. See the “Comments and Recommendations” section later in this report.

Recommendation #9

The Company's Compensation Expense Ratio exceeded the required percentage of thirty percent (30%) for each year during the period of examination per Tenn. Comp. R. & Regs. 0780-1-78-.03(2).

Corrective Action

For the period under examination, the Company was in compliance with Tenn. Comp. R. & Regs. 0780-1-78-.03(2) which limits the Compensation Expense Ratio to thirty percent (30%).

Recommendation #10

The Examiner recommended the Company provide the TDCI with a plan to remediate their accounting processes and procedures in order to comply with Tenn. Code Ann. § 56-22-109(a)(4) and the NAIC *Accounting Practices and Procedures Manual*.

Corrective Action

The Company complied by submitting a plan for remediation to the TDCI and generally following through with its plans. The Company also uses the services of an accounting firm to assist in annual statement preparation, as needed.

COMPANY HISTORY

The Company was incorporated on December 21, 1908, under the provisions of the Tennessee Business Corporation Act. The Company is a non-profit mutual benefit corporation organized as a county mutual fire insurance company ("county mutual"), pursuant to Tenn. Code Ann. Title 56, Chapter 22. The Company's charter states it was formed "for the purpose of mutually insuring against loss, or damages by fire, lightning, explosion, extended coverage (including wind & hail, tornadoes, theft, vandalism and malicious mischief) on dwellings and related structures, personal property, commercial buildings, farm buildings and farm personal property, cattle and farm products." The Company is limited to providing coverage to residents of McMinn County and contiguous counties in the State of Tennessee. The Company commenced business in 1908.

As of December 31, 2016, the Company was licensed to transact business in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(a).

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in a Board, elected annually by its policyholders ("members") at the annual members' meeting. In accordance with the Bylaws, the Board shall consist of ten (10) directors.

The following persons were duly elected by the members to serve on the Board, as of December 31, 2016:

<u>Name</u>	<u>Address</u>
Norman Beetler	Athens, Tennessee
Hazel Dake	Athens, Tennessee
David Dilbeck	Niota, Tennessee
Alan Dyke	Athens, Tennessee
John Gambill	Athens, Tennessee
Nellie Kyker-Sliger	Niota, Tennessee
John Middleton	Englewood, Tennessee
Horace P. Moore II	Niota, Tennessee
Vicki Moore	Niota, Tennessee
Jimmy Small	Athens, Tennessee

One-third (1/3) of the directors are elected at each annual members' meeting, and each serves a term of three (3) years. A majority of the Board constitutes a quorum, as defined by the Bylaws.

Officers

The Bylaws of the Company instruct the Board to annually appoint the officers of the Company, immediately following the annual meeting of the members.

The following persons served as the Company's officers, as of December 31, 2016:

<u>Name</u>	<u>Title</u>
John Middleton	President, Director
Jimmy Small	Vice President, Director
Vicki Moore	Secretary, Treasurer, Director

Committee

The Board appointed an Executive Committee to provide oversight for the affairs of the Company. The following persons served on the Executive Committee, as of December 31, 2016:

<u>Name</u>	<u>Title</u>
John Middleton	President, Director
Jimmy Small	Vice President, Director
Vicki Moore	Secretary, Treasurer, Director

CONTROL

The Company's Bylaws define a member as a person having insurance with the Company. The Company is equally owned by its members. The Company has never issued any shares of capital stock or established guaranteed capital.

Annual and special meetings of the members shall be held at the call of the president or on the written request of five (5) members. Annual meetings of the members are held on the fourth Saturday in January at 10:00 A.M. Advance notice of the date and time of the annual meeting of the members is given on the insurance policy form and mailed to members with a ballot for the election of directors. Notice of a special meeting may be held on the call of the president, or on the written request of five (5) members, and upon giving written notice to the members of the Company at least ten (10) days prior to such meeting. These communications shall be deemed sufficient notice to all members of annual and special meetings, pursuant to the Bylaws.

Each member is entitled to one (1) vote, irrespective of the number of policies owned by any member. No member shall vote by proxy. A quorum for the transaction of business consists of five percent (5%) of the members entitled to vote, represented in person or by ballot, pursuant to the Bylaws.

The Company's members held five (5) annual meetings and no special meetings during the examination period.

CONFLICTS OF INTEREST AND PECUNIARY INTEREST

The Company has adopted a formal, written "Conflict of Interest Policy." The policy prohibits any director, officer, or committee member having any investment authority from accepting any fee, brokerage, commission, gift, or other consideration for any loan, deposit, purchase, sale, payment, or exchange made by or on behalf of the

Company, or from being pecuniarily interested in any such purchase, sale, or loan, in accordance with Tenn. Code Ann. § 56-3-103.

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

CORPORATE RECORDS

Charter

The Charter recites the general and specific powers of the Company in detail. Two (2) amendments were made to the Company's Charter, effective October 13, 2012. The first amendment for property coverage redefined the perils of wind and hail as extended coverage. The second amendment introduced a requirement that all dues or premiums should be paid annually upon all property insured. Prior to the second amendment update, all dues or premiums were prorated in order to effectuate this change. The Charter, as currently stated, was inspected and found to have been duly issued and properly recorded.

Bylaws

The Bylaws were reviewed and are such as are generally found in companies of this type, with the exception of the inclusion of policy provisions in the Bylaws. The Company includes in its Bylaws policy provisions which are typically found in policy forms. The Company provides a copy of its Bylaws to all members when policies are issued. The Bylaws may be amended or repealed, or new Bylaws may be drafted and adopted, by the majority vote of the directors present at any regular meeting of the Board. There were five (5) amendments made to the Bylaws during the period of examination. These five (5) amendments are discussed below.

On January 28, 2012, the Board approved the first amendment to the Bylaws. The first amendment removed Section 5 of Article XI of the Bylaws, enabling the Company to write commercial property insurance policies in excess of the previous \$200,000 limit. This amendment was approved by the Department on January 6, 2014. See the "Comments and Recommendations" section later in this report.

On October 13, 2012, the Board approved the second amendment to the Bylaws. The second amendment set insurance policy duration at one (1) year. This amendment also included a requirement that policyholders report losses within five (5) days of discovery, and limited the Company's responsibility for paying losses to those reported within one (1) year of discovery. This amendment was approved by

the Department on January 6, 2014. See the “Comments and Recommendations” section later in this report.

On September 28, 2013, the Board approved the third amendment to the Bylaws. The third amendment added language specifying that “roll” roofing would not be covered by the Company. This amendment was approved by the Department on January 6, 2014. See the “Comments and Recommendations” section later in this report.

On August 29, 2015, the Board approved the fourth amendment to the Bylaws. The fourth amendment added an additional Vice President position to avoid disruptions to continued operations of the Company due to unforeseen circumstances. This amendment was not filed with the Department. See the “Comments and Recommendations” section later in this report

On November 14, 2015, the Board approved the fifth amendment to the Bylaws. The fifth amendment added a stipulation that, “This Company will not be liable for any loss caused by kerosene heaters, propane space heaters, or temporary supplemental heat systems.” This amendment also implemented a minimum earned premium for the Company in the event of early policy cancellation by the policyholder. This amendment, which included a change to policy coverage, was not filed with the Department. See the “Comments and Recommendations” section later in this report.

Meeting Minutes

The minutes provided a brief summary of the actions of the Board. Attachments and exhibits provided to the Board were maintained with the minutes. During the period of examination, there were five (5) annual meetings of members and seventeen (17) regular Board meetings. Minutes of the referenced meetings were reviewed. The Company did not maintain separate Executive Committee minutes. See the “Comments and Recommendations” section later in this report.

SERVICE AGREEMENTS

The Company had several agreements in place for services during the period under examination. These agreements do not have set durations. The prices and terms associated with these agreements appear to be fair based on the services provided.

Financial and Tax Preparation Services

Warren & Tallent, CPAs, PLLC of Sweetwater, Tennessee provides limited accounting services related to regulatory filings, including preparation of statutory annual statements, quarterly statements, and federal income tax filings.

Policy Management Services

BriteCore of Springfield, Missouri provides policy management and premium accounting software and support services.

Claims Adjustment Services

N&C Claims Services Inc. of Sarasota, Florida provides claims adjustment services on an as needed basis.

FIDELITY BOND AND OTHER INSURANCE

The Company is listed as a named insured on a policy which provides employee dishonesty (fidelity) coverage. The Company's fidelity coverage meets the minimum amount suggested in the NAIC Handbook.

Other insurance policies were reviewed and the Company is listed as a named insured on the following insurance coverages maintained by the Company as of December 31, 2016:

Forgery and Alteration	Agents & Brokers Professional Liability
Property, Liability & Medical	Directors & Officers Liability
Terrorism Insurance Coverage	Insurance Company Professional Liability
Fine Arts Insurance	

These policies were inspected and appeared to be in-force as of the date of this examination. All of the above policies were issued by companies licensed to transact business in the State of Tennessee or by authorized surplus lines insurers.

TERRITORY AND PLAN OF OPERATIONS

Territory

The Company's current Certificate of Authority was issued by the TDCI on June 12, 2009, and authorized the transaction of the business of fire, lightning, hail, extended coverage, and tornado in the State of Tennessee. The Certificate of Authority is valid until suspended or revoked and allows the Company to transact business operations in McMinn County and all counties contiguous thereto in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company writes policies in McMinn, Bradley, Loudon, Meigs, Monroe, Polk, and Roane counties in Tennessee.

Plan of Operations

The Company provides its members with coverage on dwellings and related structures, personal property, commercial buildings, farm buildings and farm personal

property, cattle, and farm products in case of loss due to fire, lightning, hail, extended coverage, and tornado.

Policyholders have the option of paying premiums annually, semi-annually, or quarterly. The standard deductible is \$500.

The Company's agents perform a visual inspection, photograph the property, and determine its value prior to the issuance of a policy. The Company's President approves or rejects all policy applications prepared by the agents. Upon the signing of the completed application by the Company's agents and collection of the initial billed premium, the policy is bound.

Liability coverage, provided by FMT, is also available to the members of the county mutual if they wish to purchase this additional protection through the Company. The Company is listed as an insurance agency on the FMT liability policies. This additional protection has been arranged by the Company through a written agreement with FMT.

Policyholders who opt to purchase FMT's liability policies pay their property and liability premiums through the Company's BriteCore system. The Company's agreement with FMT specifies that liability premiums should be held by an agent identified in the agreement and remitted to FMT quarterly. These funds are not held separately from other Company funds. The Company remits FMT's liability policy premiums, minus a commission, to FMT upon receiving a quarterly statement from FMT. See the "Comments and Recommendations" section later in this report.

GROWTH OF COMPANY

The following comparative data reflects the growth of the Company for the period under review, as reported by the Company in its respective annual statements:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Incurred Losses</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders' Surplus</u>	<u>Net Income (Loss)</u>
2016	\$271,695	\$154,842	\$516,775	\$172,783	\$343,992	(\$71,590)
2015	\$299,825	\$79,712	\$592,095	\$171,142	\$420,953	\$38,184
2014	\$271,976	\$12,068	\$624,428	\$215,450	\$408,978	\$135,899
2013	\$254,092	\$25,733	\$586,708	\$163,580	\$312,198	\$141,437
2012	\$198,476	\$149,123	\$451,731	\$241,089	\$210,642	(\$58,634)

LOSS EXPERIENCE

The following comparative data reflects the loss experience of the Company for the period under review, as reported by the Company in its respective annual statements:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Losses + LAE</u>	<u>Loss Ratio</u>	<u>Premiums Written</u>	<u>Other Expenses</u>	<u>Expense Ratio</u>	<u>Combined Ratio</u>
2016	\$271,695	\$155,297	57.2%	\$266,134	\$233,154	87.6%	144.8%
2015	\$299,825	\$80,017	26.7%	\$291,451	\$220,908	75.8%	102.5%
2014	\$271,976	\$12,068	4.4%	\$286,310	\$203,451	71.1%	75.5%
2013	\$254,092	\$25,733	10.1%	\$257,198	\$147,014	57.2%	67.3%
2012	\$198,476	\$149,468	75.3%	\$215,280	\$328,536	152.6%	227.9%

ACCOUNTS AND RECORDS

The Company engaged Warren & Tallent, CPAs, PLLC, assisted by the Company's Manager, to provide certain accounting services, preparation of income tax returns, and preparation of certain regulatory filings, including all required financial statements.

The Company's 2016 annual statement was reconciled to the corresponding general ledger account balances. As noted in the "Compliance with Previous Examination Findings" section of this report, the Company experienced difficulty in complying with requests for a general ledger. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. These test checks and reviews revealed no material discrepancies. All of the Company's

investment securities were confirmed with the custodian of such securities as of the date of this examination.

The Company's Secretary/Treasurer is authorized to print, sign, and mail checks for operational expenses. See the "Comments and Recommendations" section later in this report.

Pursuant to Tenn. Comp. R. & Regs. 0780-1-78-.04(3), the Company was not required to file financial reports audited by a certified public accountant during the period under examination.

The Company was not required to file the Management's Discussion and Analysis Report (MD&A) section of the NAIC *Annual Statement Instructions for Property and Casualty Companies*, pursuant to Tenn. Comp. R. & Regs. 0780-01-37.

In accordance with Tenn. Code Ann. § 56-46-110, the Company was exempted from filing a Risk-Based Capital Report.

The Company was exempt from filing an actuarial opinion by a qualified actuary with the Commissioner on or before March 1, pursuant to Tenn. Comp. R. & Regs. 0780-1-78-.04(4).

The Company's books and records are located in Athens, Tennessee.

LITIGATION AND CONTINGENT LIABILITIES

The Company is not party to any pending legal proceedings, nor were any commitments or contingencies found that would materially affect the Company's financial position or operating results as of December 31, 2016.

REINSURANCE

Specific and Aggregate Excess of Loss Reinsurance

The Company has multiple reinsurers brokered by Guy Carpenter, all of which are licensed carriers approved to transact business in the State of Tennessee. Under the terms of this agreement, the Company retains the first \$25,000 of each risk per occurrence and reinsures up to \$2,000,000 through a series of two (2) excess layers of coverage, in aggregate.

The agreement was found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to Tenn. Code Ann. § 56-2-207(a)(2). This agreement appears to effectuate proper transfer of risk in accordance with SSAP No. 62 and NAIC guidelines. The agreement was found to meet the requirements set forth in Tenn. Code Ann. § 56-22-110.

MARKET CONDUCT ACTIVITIES

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

Policy Forms and Underwriting Practices

Pursuant to Tenn. Code Ann. §§ 56-5-303, 56-5-304, 56-5-305, and 56-22-109(b)(1), the Company's rates in effect from January 1, 2012, through December 31, 2016, and policy forms in effect from January 1, 2012, through January 28, 2012, were approved on December 9, 2009.

The Company's policy forms in effect from January 29, 2012, through October 13, 2012, were approved on January 6, 2014. See the "Comments and Recommendations" section later in this report.

The Company's policy forms in effect from October 14, 2012, through September 28, 2013, were approved on January 6, 2014. See the "Comments and Recommendations" section later in this report.

The Company's policy forms in effect from September 29, 2013, through November 14, 2015, were approved on January 6, 2014. See the "Comments and Recommendations" section later in this report.

The Company's policy forms in effect from November 15, 2015, through December 31, 2016, were not filed with the Department for approval. See the "Comments and Recommendations" section later in this report.

During the period under examination, the Company added an additional multi-peril form and implemented a corresponding rate for use with this new form. This filing was approved and went into effect on January 6, 2014.

Advertising

The Company's advertising during the period of examination consisted of a listing in the Yellow Pages. The Company's reputation and products are communicated to

potential policyholders by the Board and the Company's appointed agents via word of mouth.

Complaint Handling

The Company maintains a complaint register as required by Tenn. Code Ann. § 56-8-104(11). The Company's complaint register was reviewed and found to be in compliance with the aforementioned statute. No complaints were received by the Company during the period under examination, nor did the Department receive any formal complaints about the Company.

Policy Cancellation

The Company mails a premium notice to its members thirty (30) days before the due date. Policyholders are given thirty (30) days to make their premium payments. Policyholders are notified of past due premium and given a thirty (30) day grace period before a cancellation notice is sent to the member and lienholder(s). If the premium payment is made during the thirty (30) day grace period, the Company will pay any legitimate claim, after a reduction for the policy premium due and the deductible.

The examiner reviewed a sample of policy cancellation notices that were used by the Company during the period of examination. The Company uses BriteCore to mail cancellation notices to policyholders. However, as noted in the "Compliance with Previous Examination Findings" section earlier in this report, BriteCore does not mail cancellation notices for policy cancellations due to total losses. Two (2) policyholders were not provided cancellation notices for claims that resulted in a total loss. The Company does not adhere to the notice of cancellation of policies in accordance with Tenn. Code Ann. §56-7-1303. See the "Comments and Recommendations" section later in this report.

Privacy of Non-Public Personal Information

The Company's policy for the disclosure of non-public personal information was reviewed. There were no instances noted of non-compliance with Tenn. Comp. R. & Regs. 0780-01-72.

Claims Review

All claims open and unpaid, as of the examination date, and claims closed during 2016, were examined for compliance with the Company's policy terms and Tenn. Code Ann. § 56-8-105. No issues or concerns were identified.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in this examination report. Our review confirmed the Company's disclosures in its 2016 annual statement and in its Letter of Representation. Management stated in its Letter of Representation that they were not aware of any events subsequent to December 31, 2016, that could have a material effect on the Company's financial condition.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income as of December 31, 2016, together with a reconciliation of policyholders' surplus for the period under review, as reported by the Company:

ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Common stocks	\$8,616		\$8,616
Real estate (properties occupied by the company)	149,603		149,603
Investment real estate	6,886	\$6,886	
Cash, cash equivalents, and short-term investments	372,491	68,764	303,727
Premium receivables and agents balances	9,106	\$6,303	2,803
Reinsurance recoverable on paid losses and loss adjustment expenses	52,026		52,026
Furniture, equipment, and supplies	1,011	1,011	
Electronic data processing equipment and software	<u>1,203</u>	<u>1,203</u>	<u>0</u>
Totals	<u>\$600,942</u>	<u>\$84,167</u>	<u>\$516,775</u>

LIABILITIES AND POLICYHOLDERS' SURPLUS

Losses	\$3,491
Loss adjustment expenses	455
Unearned premiums	142,408
Advance premiums	8,219
Commissions payable, contingent commissions and other similar	6,312
Account payable and accrued expense payable	2,777
Taxes, licenses, and fees (excluding federal income taxes)	2,879
Federal income taxes payable and interest thereon	3,742
Amount withheld or retained by company for account of others	<u>2,500</u>
Total liabilities	172,783
Policyholders' surplus	<u>343,992</u>
Total liabilities & policyholders' surplus	<u>\$516,775</u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Premiums earned	<u>\$271,695</u>
DEDUCTIONS	
Net losses incurred	154,842
Loss adjustment expenses incurred	12,090
Other underwriting expenses incurred	<u>233,154</u>
Total underwriting deductions	<u>400,086</u>
Net underwriting gain (loss)	(128,391)

INVESTMENT INCOME

Net investment income earned	9,070
Net realized capital gains (losses) less capital gains tax	<u>0</u>
Net investment gain (loss)	9,070

OTHER INCOME

Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	<u>51,473</u>
Total other income	<u>51,473</u>
Net income before dividends to policyholders and federal income taxes	(67,848)
Federal income taxes incurred	<u>3,742</u>
Net income	<u>(\$71,590)</u>

POLICYHOLDERS' SURPLUS ACCOUNT

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Policyholders' Surplus					
December 31, previous year	<u>\$420,954</u>	<u>\$408,978</u>	<u>\$312,198</u>	<u>\$210,642</u>	<u>\$370,852</u>
Net income or (loss)	(71,590)	38,182	92,871	141,437	(58,634)
Change in non-admitted assets from prior year	277	13,940	13,100	1,200	(15,868)
Aggregate write-ins for gains and losses in surplus	<u>(5,649)</u>	<u>(40,146)</u>	<u>(9,191)</u>	<u>(41,081)</u>	<u>(85,708)</u>
Net change in capital and surplus for the year	<u>(76,962)</u>	<u>11,976</u>	<u>96,780</u>	<u>101,556</u>	<u>(160,210)</u>
Policyholders' Surplus					
December 31, current year	<u>\$343,992</u>	<u>\$420,954</u>	<u>\$408,978</u>	<u>\$312,198</u>	<u>\$210,642</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus

\$343,992

Total policyholders' surplus, as established by this examination, is the same as what was reported by the Company in its 2016 annual statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2016.

COMMENTS AND RECOMMENDATIONS

The following list presents a summary of comments and recommendations noted in this report:

Comments

1. As noted in the "Management and Control" section of this report, the Company does not have a record of Executive Committee meeting minutes. As a good business practice, the Company is advised to record all committee meeting minutes.
2. As noted in the "Accounts and Records" section of this report, the Company has a lack of segregation of duties in daily operations. The Company's Secretary/Treasurer prints, mails, and signs checks for operational expenses. It is advised that the Company have segregation of duties in the check issuance process or introduce controls to mitigate the risk of misappropriation of funds.

Recommendations

1. As noted in the "Compliance with Previous Examination Findings" section of this report, the Company does not provide policy cancellation notices to policyholders who experience total losses. As a good business practice and to evidence compliance with Tenn. Code Ann. § 56-7-1901, it is recommended the Company mail or deliver policy cancellation notices for all cancellations.
2. As noted in the "Compliance with Previous Examination Findings" section of this report, significant delays were experienced in receiving financial information from the Company during this examination. The Company did not provide free and convenient access to all books, records, securities, documents, and any and all papers relating to the property, assets, business, and affairs as required by Tenn. Code Ann. § 56-1-411(b)(1). It is recommended that the Company provide such access to all records regarding the business and affairs of the Company.

3. As noted in the "Management and Control" and "Market Conduct Activities" sections of this report, the Company made four policy provision changes through amendments to its Bylaws during the period under examination. These amendments occurred between January 28, 2012, and November 14, 2015. Due to these amendments causing changes to the Company's policy provisions, the Company is required to file such amendments with the Department's Policy Analysis Section for approval. These amendments were not approved for use until January 6, 2014. It is recommended that the Company file all rating, policy form, and Bylaws amendments affecting policy provisions with the Department's Policy Analysis Section in accordance with Tenn. Code Ann. § 56-22-109(b)(1).
4. As noted in the "Management and Control" section of this report, the Company amended its Bylaws to add a second Vice President position to avoid disruptions to continued operations of the Company due to unforeseen circumstances. Such amendments are required to be filed with the Department as noted in the General Interrogatories of the Annual Statement. It is recommended that the Company file all amendments to its Bylaws in accordance with Tenn. Code Ann. § 56-22-109(a)(4)
5. As noted in the "Territory and Plan of Operations" section of this report, the Company facilitates the sale of liability insurance coverage on behalf of FMT as a service to policyholders who wish to obtain such coverage on properties insured by the Company. In the process of selling these policies, the Company itself has been listed as the producer on FMT's liability policies. This is a violation of Tenn. Code Ann. § 56-6-106(b), which states, "A business entity may obtain an insurance producer's license; however, only an individual licensed producer or limited lines producer shall sell, solicit or negotiate a contract of insurance in this state." It is recommended that the Company discontinue the practice of acting as an insurance producer.

In addition to the licensing issue noted above, the Company receives a commission on every liability policy sold on behalf of FMT. This is a violation of Tenn. Code Ann. § 56-6-113(b), which states "A person shall not accept a commission, service fee, brokerage or other valuable consideration for selling, soliciting or negotiating a contract of insurance in this state if that person is required to be licensed under this part and is not so licensed." It is recommended that the Company discontinue the practice of accepting commissions on the liability policies sold.

The Company accepts premium payment for its policies and the FMT liability policies, often in the same check or online transaction. The Company remits the FMT liability policy premiums, minus a commission, to FMT after receiving a quarterly statement from FMT. Pursuant to the Company's agreement with FMT, these funds are to be held by the agent specified in the agreement. To be in accordance with the agreement, premium payments should be received separately and FMT's premiums should be held separately from Company funds by the agent. If a single payment method is allowed for customer convenience, the payments should be made to the licensed insurance producer, who then remits the appropriate premiums to the respective insurers. It is recommended that the Company discontinue the practice of accepting premium payments for FMT's liability policies in the same check or online transaction as payment of its premiums.

In order to remedy the issues noted above regarding the sale of FMT's liability policies, FMT is currently working with the Company to develop a written agreement that is satisfactory to both parties and in compliance with Tennessee statutes, rules, and regulations.

CONCLUSION

Rules and procedures prescribed by the statutes of the State of Tennessee, and guidance from the NAIC, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of McMinn County Farmers Mutual Insurance Company.

In such manner, it was determined that, as of December 31, 2016, the Company had admitted assets of \$516,775 and liabilities, exclusive of policyholders' surplus, of \$172,783. Thus, there existed for the additional protection of the policyholders surplus funds of \$343,992. Tenn. Code Ann. § 56-22-105(c) requires an insurer of this Company's type to maintain a minimum surplus of \$200,000. For this examination, as of December 31, 2016, the Company maintains surplus sufficient to satisfy the requirements of Tenn. Code Ann. § 56-22-105(c).

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

In addition to the undersigned, Alisha Pruitt, Insurance Examiner, Leah Thomas, CFE, MCM, AIE, FLMI, and Bryant Cummings, CFE, MCM, Assistant Chief Examiner from the State of Tennessee participated in the work of this examination.

Respectfully submitted,



A. Jay Uselton, CFE
Examiner-In-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of McMinn County Farmers Mutual Insurance Company located in Athens, Tennessee, dated April 9, 2018, and made as of December 31, 2016, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.



A. Jay Uselton, CFE
Examiner-In-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 25th day of June, 2018

Mindy C. Walker
(NOTARY)

My Commission Expires: 7-6-2020



EXHIBIT B



McMinn County Farmers Mutual
P.O. Box 321
403 W Madison Ave.
Athens, TN 37371-0321
423-745-4341 phone
423-745-9955 fax
mcfm@mcminnfarmersmutual.com
www.mcminnfarmersmutual.com

June 26, 2018

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

RE: Report of Examination - McMinn County Farmers Mutual Insurance Company

Dear Ms. Little:

We hereby acknowledge receipt of the Final Report of Examination for McMinn County Farmers Mutual Insurance Company.

By signing below , we indicate acceptance of the report as transmitted, and without rebuttal.

Sincerely

A handwritten signature in black ink that reads "Vicki Anderson Moore". The signature is written in a cursive, flowing style.

Vicki Anderson Moore, AINS
Secretary/Treasurer
General Manager