STATE OF TENNESSEE

DEPARTMENT OF COMMERCE AND INSURANCE

REPORT ON EXAMINATION

OF THE

MONROE COUNTY MUTUAL FIRE INSURANCE COMPANY

(NAIC # 15976)

MADISONVILLE, TENNESSEE

AS OF

DECEMBER 31, 2018

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Madisonville, Tennessee
March 18, 2020

Honorable Hodgen M. Mainda
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated ("Tenn. Code Ann.") § 56-22-115, a full-scope financial examination and market conduct review, as of December 31, 2018, has been made of the condition and affairs of:

MONROE COUNTY MUTUAL FIRE INSURANCE COMPANY
NAIC # 15976
442 Main Street
Madisonville, Tennessee 37354

hereinafter 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"). The examination was conducted by duly authorized representatives of the Department.

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2013. This examination covers the period from January 1, 2014, through the close of business on December 31, 2018, 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 practices and procedures promulgated by 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 the *Annual Statement Instructions for Tennessee County Mutual Insurers* ("Instructions"). The examination also included an assessment of prospective risks faced by the Company, based on information obtained during the course of the examination.

The examination reviewed 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 separate market conduct review was performed concurrently with the financial examination. See the "Market Conduct Activities" section of this report.

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

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The examination included a review to determine the current status of the comments and recommendations in the previous report on examination, as of December 31, 2013, which covered the period from January 1, 2009, through December 31, 2013. A summary of the Commissioner's directives and the corrective actions taken by the Company is discussed below:

Comments

Comment #1

Policies and procedures should be implemented to strengthen the Company's accounting system in order to produce a general ledger and trial balance that completely reconciles to the Company's annual statement.

Corrective Action

While the Company has made progress with strengthening its accounting systems, further improvements are necessary. See the "Accounts and Records" and "Comments and Recommendations" sections of this report.

Comment #2

It was found that the Company was not keeping a written record of their committee meetings, as is required by their Bylaws. It was recommended that the Company maintain a record of committee meeting minutes to be in compliance with their Bylaws.

During the February 2009 annual meeting, the Members voted to reduce the number of directors from fifteen (15) to eleven (11) and changed the date of the annual member meeting to the last Saturday in February; however, the Company had not amended their Bylaws to reflect these changes. It was suggested that Internal controls be established to allow for timely amendments to the Company's Bylaws.

Corrective Action

The Company has been keeping a written record of their committee meetings.

The Company changed their Bylaws to reflect the change in the number of directors and the date of the annual meeting. However, the Company did not properly amend their Bylaws, as they did not retain the original Bylaws and append the amendments thereto. For additional details, see the "Management and Control" and "Comments and Recommendations" sections later in this report.

Recommendations

Recommendation #1

It is recommended that the Company account for and report the depreciated book value of its office building in accordance with NAIC Statement of Statutory Accounting Principles (SSAP) No. 40, in order to comply with the Instructions and Tenn. Code Ann. § 56-22-109(a)(4).

Corrective Action

The Company has not corrected this issue. For additional details, see the "Accounts and Records" and "Comments and Recommendations" sections later in this report.

Recommendation #2

It was recommended that the Company account for and report the value of its bond investments using amortized cost in accordance with SSAP No. 26, Tenn. Code Ann. § 56-22-109(a)(4), and the Instructions.

Corrective Action

The Company has not corrected this issue. For additional details, see the "Accounts and Records" and "Comments and Recommendations" sections later in this report.

Recommendation #3

It was recommended that the Company account for and report the acquisition and disposal of bonds and long-term certificates of deposit pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions.

Corrective Action

The Company has not corrected this issue. For additional details, see the "Comments and Recommendations" section later in this report.

Recommendation #4

It was recommended that the Company report premium receivable as required by Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions.

Corrective Action

The Company has reported premium receivable as required by Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions during the examination period.

Recommendation #5

It was recommended that the Company report taxes, licenses, and fees payable pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions.

Corrective Action

The Company has correctly reported taxes, licenses, and fees payable pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions during the examination period.

Recommendation #6

It was recommended that the Company report interest income due and accrued pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions during the examination period.

Corrective Action

The Company has correctly reported interest income due and accrued during the examination period pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions during the examination period.

Recommendation #7

It was recommended that the Company file with the TDCI its $50.00 reinstatement fee assessed on any policy cancelled for a period of less than one (1) year.

Corrective Action

The Company has filed with the TDCI its $50.00 reinstatement fee assessed on any policy cancelled for a period of less than one (1) year.

COMPANY HISTORY

The Company was incorporated on November 8, 1912, under the Tennessee Business Corporation Act as a non-profit mutual benefit corporation. The Company commenced business on August 9, 1913. On January 20, 2009, the Company was issued its most recent Certificate of Authority to transact the business of insurance pursuant to Tenn. Code Ann. § 56-22-101, *et seq*. The Certificate of Authority is valid until suspended or revoked and allows the Company to transact business operations in all counties contiguous to Monroe County to the third degree in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company is authorized to write policies in Anderson, Blount, Bradley, Cocke, Cumberland, Grainger, Hamilton, Jefferson, Knox, Loudon, McMinn, Meigs, Monroe, Morgan, Polk, Rhea, Roane, Sevier, and Union counties in Tennessee. The Company's business purpose is to insure loss or damage to property due to fire, lightning, hail, extended coverage, and tornado to residents of Monroe County, Tennessee.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in a Board of Directors ("Board"). Directors are elected for a term of three (3) years.

During the previous examination period, the Company changed the number of directors from fifteen (15) to eleven (11). This change was approved by the members of the Company, as is required by the Bylaws. However, the Company did not properly amend their Bylaws for this change. Instead of creating an amendment and appending the changes to their original Bylaws, which would show what was changed and when the change went into effect, they reworded their Bylaws. See the "Corporate Records" and "Comments and Recommendations" sections in this report.

The Company's Bylaws, as changed, require there to be eleven (11) directors. However, it was noted that the Company only had ten (10) directors at the date of this examination. One (1) of their eleven (11) directors passed away in 2016 and had not been replaced as of December 31, 2018. Therefore, the Company is not in compliance with their Bylaws. For additional details, please see the "Corporate Records" and "Comments and Recommendations" sections in this report.

The following persons were duly elected and serving as directors on the Company's Board as of December 31, 2018:

Director	Address
Bruce W. Thomas	Madisonville, Tennessee
Jerry Lay	Madisonville, Tennessee
George W. Beaty	Tellico Plains, Tennessee
Lee H. Turpin	Madisonville, Tennessee
Bill J. Shadden	Tellico Plains, Tennessee
Paul D. Mason	Madisonville, Tennessee
Brandon S. Hawkins	Athens, Tennessee
Roy J. Thompson	Philadelphia, Tennessee
Goldie M. Brown	Sweetwater, Tennessee
Michael W. Gray	Tellico Plains, Tennessee

During the examination period the Board held five (5) meetings.

Officers

Immediately after the annual meeting of the members, the Board shall elect a President, a Vice-President, a Secretary, and a Treasurer. Each officer shall serve a term of one (1) year.

The following individuals were duly elected by the Board and were serving as officers of the Company as of December 31, 2018:

Name	Title
Roy J. Thompson	President
Michael W. Gray	Vice President
Goldie M. Brown	Secretary/Treasurer

Executive Committee

The Board appointed an Executive Committee to provide oversight for the affairs of the Company. The following individuals were serving on the Executive Committee as of December 31, 2018:

Name	Title
Roy J. Thompson	President
Michael W. Gray	Vice President
Goldie M. Brown	Secretary/Treasurer

CONTROL

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

The annual meeting of the members shall be held each year at the home office or at such a place or date as may be designated by the management and of which the membership shall be informed by written or printed notice.

Special meetings of the members shall be held at the call of the Board at any time and shall be called upon petition of one-fourth (1/4) of the members. Pursuant to the Bylaws, members are given advance notice of the date, time, and location of all membership meetings.

Each member is entitled to one (1) vote in person. No member shall vote by proxy. A quorum for any membership meeting shall consist of ten percent (10%) of the membership or eleven (11) members, whichever is less.

During the examination period, five (5) annual meetings of the members were held. No special meetings were held.

During the period under examination, the Company changed the date of their annual membership meeting from the first Saturday in February to the last Saturday in February. This change was approved by the members of the Company. However, the Company did not correctly amend their Bylaws. See the "Corporate Records" and "Comments and Recommendations" sections in this report.

CONFLICTS OF INTEREST AND PECUNIARY INTERESTS

The Company does have a written conflict of interest policy in place; however, the Company does not have a conflict of interest disclosure form. 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. For additional details, see the "Comments and Recommendations" section later in this report.

CORPORATE RECORDS

The minutes of the meetings were reviewed and appear to properly reflect the acts of the respective bodies, with one exception. While reviewing the minutes, it was noted that there was no documentation of the Company's approval of investments. Pursuant to Tenn. Code Ann. § 56-3-408(b)(1), the Board is required to approve all investments made by the Company. For additional details, see the "Comments and Recommendations" section later in this report.

Charter

The Charter recites the general and specific powers of the Company in detail. The Charter, as currently stated, was inspected and found to have been duly issued and properly recorded. There were no amendments to the Charter during the period of examination.

Bylaws

The Bylaws may be amended or repealed, or new Bylaws may be drafted and adopted, by the majority vote of the members present at any regular or special meeting of the members. As noted previously in this report, changes that affected the Company's Bylaws were approved by the members at an annual membership meeting. However, the manner in which the Bylaws were changed was incorrect. For additional details see the "Management", "Control", and "Comments and Recommendations" sections in this report.

SERVICE AGREEMENTS

The Company had several agreements in place for services during the period under examination, some of which are verbal agreements with various third parties. As a good business practice, the Company should formalize these verbal agreements in writing and execute with all parties. For additional details, see the "Comments and Recommendations" section later in this report.

Financial and Tax Preparation Services

A local certified public accounting (CPA) firm, in Sweetwater, Tennessee, provides limited accounting services related to regulatory filings, including preparation of statutory annual statements, quarterly statements, and federal income tax filings. This was a verbal agreement during the exam period.

Claims Adjustment Services

N & C Claims, Inc. provides claims adjustment services for the Company.

Insurance Management Systems

The Company uses AIMS (Automated Insurance Management Systems) to process policies, customer billings, endorsements, send out late notices, cancellations, mortgage clauses, and track new and renewal policies.

FIDELITY BONDS

During the examination, the Company's fidelity bond was reviewed and found to be lower than the amount recommended by the NAIC for companies of similar size. For additional details, see the "Comments and Recommendations" section later in this report.

TERRITORY AND PLAN OF OPERATION

Territory

The Company's current Certificate of Authority was issued by the TDCI on January 20, 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 all counties contiguous to Monroe County to the third degree in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company currently writes policies in Anderson, Blount, Bradley, Knox, Loudon, McMinn, Meigs, Monroe, Polk, Roane, and Sevier counties in Tennessee.

Plan of Operation

The Company provides its members with coverage on dwellings, rental homes, modular homes, mobile homes, farm buildings, livestock, personal property, farm machinery, and churches in case of loss due to fire, lightning, hail, extended coverage, and tornado.

The Company's policies are typically written for the amount between fifty percent (50%) to eighty percent (80%) of the fair value of the property insured, subject to policy limits of $150,000 per specific loss. Each policy is issued for one (1) year, and policyholders' premiums are due annually on the policy anniversary date. The standard deductible is $250, and is applied separately to each specific item listed on the policy. The aggregate amount deducted from loss for any one (1) occurrence shall not exceed $500.

Liability coverage, provided through an agreement with Farmers Mutual of Tennessee ("Farmers"), a Tennessee property and casualty insurer, is also available to the members of the Company if they wish to purchase this additional protection. The four (4) types of liability coverage offered include: 1) Personal Liability, 2) Commercial Liability, 3) Farm Personal Liability, and 4) Farm Employee Liability.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to financial statements filed with the TDCI:

Year	Gross Premiums Written	Admitted Assets	Liabilities	Policyholders' Surplus	Net Income
2018	$576,488	$6,517,864	$271,380	$6,246,484	$166,810
2017	$598,214	$6,328,829	$285,206	$6,044,067	$251,185
2016	$613,585	$6,065,139	$293,349	$5,771,790	$217,690
2015	$686,303	$5,856,921	$370,771	$5,486,150	$22,398
2014	$674,312	$5,009,473	$326,883	$4,685,767	$302,008

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 financial statements filed with the TDCI:

Year	Net Premiums Earned	Net Incurred Losses & LAE	Loss Ratio	Other Expenses	Expense Ratio	Combined Ratio
2018	$585,953	$258,354	44.09%	$289,296	49.37%	93.46%
2017	$604,906	$175,945	29.09%	$284,448	47.02%	76.11%
2016	$622,664	$260,068	41.77%	$266,093	42.73%	84.50%
2015	$654,241	$397,343	60.73%	$314,611	48.09%	108.82%
2014	$677,439	$260,022	38.38%	$221,239	32.66%	71.04%

REINSURANCE

Specific and Aggregate Excess of Loss Reinsurance

In accordance with Tenn. Code Ann. § 56-22-110, the Company has Excess of Loss coverage through Farmers. Under the agreement's specific coverage for the policy period beginning January 1, 2018, the excess insurer agreed to indemnify the amount in excess of $75,000 for each occurrence, up to $100,000. In accordance with Tenn. Code Ann. § 56-22-110, the Company has the required aggregate excess of loss coverage. This coverage protects the Company from losses that exceed the greater of seventy-five percent (75%) of the Company's gross net earned premium income or $430,000, but do not exceed the lesser of one hundred percent (100%) of gross net earned premium income or $400,000.

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.

ACCOUNTS AND RECORDS

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). During the review of the Company's accounts and records, a number of discrepancies were noted as detailed below.

During a review of the Company's annual statements, an issue was noted regarding the Company's office building that it constructed on October 1, 2001. The Company did not begin depreciating its building until 2008. To make up for the missed depreciation, since 2008, the Company has been including a write-in amount of $17,000 in the line 'Rent and Rent Items' in the Statement of Income of their annual statements. However, this does not have any impact on the depreciation of the Company's building. The Company should properly determine the asset's valuation and the reflect the appropriate accounting treatment. For additional details, see the "Comments and Recommendations" section later in this report.

During the period under examination, the Company did not segregate the value of its land and building for depreciation purposes in order to determine adjusted carrying value for the building structure. The depreciated book value of the building was reported incorrectly in each year, 2014 through 2018. For additional details, see the "Comments and Recommendations" section later in this report.

The Company has been reporting a write-in amount for Amortized Bond Expense in the 2014 through 2018 annual statements. For additional details, see the "Comments and Recommendations" section later in this report.

The Company did not correctly non-admit "Furniture, equipment, and supplies" on their 2014 through 2018 annual statements. For additional details, see the "Comments and Recommendations" section later in this report.

The Company reported "Cumulative effect of changes in accounting principles" on their 2014 through 2018 annual statements. This amount consists primarily of write-in items, including $21,810 in 2018, of which $17,000 was the 'Rent and Rent Items', and the remainder was a balancing figure. For additional details, see the "Comments and Recommendations" section later in this report.

The Company is currently combining loss adjustment expenses (LAE) and claims expenses in the same line item on their annual statement. The Company should report any expenses paid in the course of adjudicating losses as LAE. For additional details, see the "Comments and Recommendations" section later in this report.

During the review of the Company's Policyholders' Surplus Account in their 2018 annual statement, it was noted that the amount reported for "Policyholders' surplus, December 31, previous year" did not agree with the amount reported as the ending policyholders' surplus amount on the Company's 2017 annual statement. This is not in compliance with the Instructions and Tenn. Code Ann. § 56-22-109. For additional details, see the "Comments and Recommendations" section later in this report

The Company did not correctly answer the General Interrogatories in its financial statements for the examination period. The Company answered "No" in their 2015 annual statements to General Interrogatories question one (1), which asks, "Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?". Although the changes were approved by the members during the previous examination period, the Company did not actually change the Bylaws until 2015 and answered "No" to this question, when they should have answered "Yes".

General Interrogatories question two (2) asks, "State as of what date the latest financial examination of the reporting entity was made or is being made." In their 2014 through

2018 annual statements, the Company answered this question with "February, 2015". The Company's response to this question is incorrect, as the last examination was as of December 31, 2013. See the "Comments and Recommendations" section later in this report.

During the review of the Company's annual statements, it was noted that the Company was not listing their Bonds in 2014, 2016, and 2017. For additional details, see the "Comments and Recommendations" section later in this report.

During the review of the Company's annual statements, it was noted that the Company, in its 2014 through 2018 annual statements, did not report long-term certificates of deposit and bonds purchased on Schedule D - Part 3 Bonds and Stocks Acquired. For additional details, see the "Comments and Recommendations" section later in this report.

During the review of the Company's annual statements, it was noted that the Company did not report long-term certificates of deposit that matured or were redeemed on Schedule D - Part 4 Bonds and Stock Sold During the Year. For additional details, see the "Comments and Recommendations" section later in this report.

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

The Company was exempt from Tenn. Comp. R. & Regs. 0780-1-78.04(4), which requires filing an actuarial opinion by a qualified actuary with the Commissioner on or before March 1.

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

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a limited market conduct review was made of the Company, as of December 31, 2018. The following items were addressed:

Policy Forms and Underwriting Practices

Pursuant to Tenn. Code Ann. §§ 56-5-103, 56-5-104, 56-5-105, and 56-22-109(b)(1), the Company's policy forms in effect from January 1, 2014, through December 31, 2015, were approved by the TDCI on December 6, 2006. On January 1, 2016, the Company made changes to their policies, reducing the renewal period from every five (5) years to every three (3) years; added a rewrite fee to expired or cancelled policies over thirty (30) days old; and added skylights to the general exclusions in their policy forms. These policy forms were in effect from January 1, 2016 through December 31, 2017, and were approved by the TDCI on October 1, 2015. On January 1, 2018, the Company made changes to their policy forms to change policy renewals from every three (3) years to every one (1) year. These policy forms were in effect from January 1, 2018 through June 30, 2018, and were approved by the TDCI on October 4, 2017. On July 1, 2018, the Company added a section on manufactured house roofing and a section on late fees to their policy forms. These policy forms were in effect from July1, 2018, through December 31, 2018. These policy forms were approved by the TDCI on May 2, 2018.

The Company's premium rates in effect from January 1, 2014, through December 31, 2018, were approved by the TDCI on November 2, 2012. No rate changes were made during the examination period.

Producer Licensing

During a review of producer licensing and appointments, it was noted that some of the Company's producers were not appointed by the Company, as required by Tenn. Code Ann. § 56-6-115. This issue was addressed and corrected during the examination. For additional details, see the "Comments and Recommendations" section later in this report.

Advertising

The Company's advertising during the period of examination consisted of pens, calendars, and newspaper ads. The Company's reputation and products are also communicated to potential members by the Board and the Company's agents via word of mouth.

Policy Cancellation

The Company mails a notice to its members at least thirty (30) days before cancellation. All cancellations reviewed included proper notice of cancellation as required by Tenn. Code Ann. § 56-22-109(b)(3).

The Company adheres to the non-renewal provisions contained in Tenn. Code Ann. §§ 56-7-1901 and 56-7-1902, in accordance with Tenn. Code Ann. § 56-22-109(b)(2), which relate to the notice of intention to non-renew and the reason(s) for non-renewal.

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

A sample of claims was reviewed for unfair claims practices as defined by Tenn. Code Ann. § 56-8-105. Testing included timeliness of contact and resolution, adequacy of claims documentation, claims handling procedures, and reasonableness of denials. No issues were noted during the claims review.

Complaint Handling

The Company's complaint handling practices were reviewed for compliance with Tenn. Code Ann. § 56-8-104(11). It was noted that during the examination period, the Company did not maintain a complaint log as required by this statute. This issue was corrected during the examination, as the Company documented its complaint handling procedures and created a complaint log in accordance with Tenn. Code Ann. § 56-8-104(11). For additional details, see the "Comments and Recommendations" section later in this report.

SUBSEQUENT EVENTS

No subsequent events were noted during the course of the examination.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income, as of December 31, 2018, together with a reconciliation of policyholders' surplus for the period under review, as reported by the Company in its 2018 annual statement:

ASSETS

	Assets	Non-Admitted Assets	Net Admitted Assets
Bonds and Long-term Certificates of Deposit	$5,844,646		$5,844,646
Preferred stocks	150,000		150,000
Properties occupied by the company	216,706		216,706
Cash and cash equivalents	274,183		274,183
Premium receivables and agents' balances	26,204		26,204
Furniture, equipment and supplies	6,125		6,125
Total Admitted Assets	$6,517,864	$0	$6,517,864

LIABILITIES AND POLICYHOLDERS' SURPLUS

Unearned premiums	$253,472
Advance premiums	14,734
Accounts Payable and Accrued Expenses Payable	249
Taxes, licenses and fees (excluding federal income taxes)	2,925
Total liabilities	271,380
Policyholders' surplus	6,246,484
Total Liabilities and Policyholders' Surplus	$6,517,864

STATEMENT OF INCOME

UNDERWRITING INCOME	
Net premiums and assessments earned	$585,953
DEDUCTIONS	
Net Losses incurred	258,354
Salaries and related items	131,632
Director fees	3,000
Advertising and subscriptions	4,571
Board, bureaus and association dues	5,039
Insurance and fidelity bonds	5,795
Travel and travel items	1,101
Rent and rent items	17,000
Printing and stationery	1,132
Postage, telephone and telegraph	12,612
Legal and auditing fees	1,790
Taxes, licenses and fees	13,953
Real estate expenses and repairs	233
Real estate taxes	2,235
Aggregate write-ins for underwriting expenses	89,203
Total underwriting expenses incurred	289,296
Total underwriting deductions	547,650
Net underwriting gain (loss)	38,303
INVESTMENT INCOME	
Net investment income earned	129,655
Net investment gain (loss)	129,655
OTHER INCOME	
Aggregate write-ins for miscellaneous income	11,916
Total other income	11,916
Net income after dividends to policyholders and before federal income taxes	179,874
Federal income taxes incurred	13,064
Net Income	$166,810

POLICYHOLDERS' SURPLUS ACCOUNT

	2018	2017	2016	2015	2014
Policyholders' Surplus December 31, previous year*	$6,057,864	$5,771,790	$5,486,150	$4,685,767	$4,712,325
Net income or (loss)	166,810	251,185	217,690	22,398	302,008
Change in non-admitted assets from prior year	0	0	0	846,292	(331,693)
Cumulative effect of changes in accounting principles*	21,810	21,092	67,950	(68,307)	3,127
Net change in capital and surplus for the year	188,620	272,277	285,640	800,383	(26,558)
Policyholders' Surplus December 31, current year	$6,246,484	$6,044,067	$5,771,790	$5,486,150	$4,685,767

* See "Comments and Recommendations" section (Recommendation 10)

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus $6,246,484

Total policyholders' surplus, as established by this examination, is the same as what was reported by the Company in its 2018 annual statement. There were no changes made to any asset or liability item as a result of our examination performed as of December 31, 2018.

COMMENTS AND RECOMMENDATIONS

Comments

1. As noted in the "Management and Control" section of this report, the Company does not require conflict of interest disclosure forms to be completed by directors or officers. Maintaining a conflict of interest disclosure form and requiring annual disclosures of officers and directors is considered a best practice because it documents the Company's compliance with Tenn. Code Ann. § 56-3-103, which prohibits Company officers from having a pecuniary interest in any funds of the Company.

   It is suggested that the Company create a conflict of interest disclosure form and require annual disclosures from officers and directors.

2. As noted in the "Management and Control" section of this report, the Company is operating under several verbal agreements with various third parties.

   It is suggested that the Company formalize verbal agreements in writing and execute with all parties.

3. As noted in the "Management and Control" section of this report, the Company's fidelity bond is lower than the amount recommended by the NAIC for companies of similar size.

   It is suggested that the Company evaluate the adequacy of its coverage and modify its fidelity bond protection, as appropriate.

4. As noted in the "Market Conduct Activities" section of this report, during the period under examination, the Company did not have any formal complaint procedures, or a complaint log as required in Tenn. Code Ann. § 56-8-104(11). During the examination, the Company documented its complaint procedures and created a complaint log.

Recommendations

1. As noted in the "Management and Control" section of this report, the Company did not comply with their Bylaws in regard to the number of directors required to be on the Board. The Bylaws, as changed, require the Company to have eleven (11) directors. From 2016, through the date of this report, the Company's Board only had ten (10) directors, due to the passing of one director in 2016.

   It is recommended that the Company comply with its Bylaws or amend its Bylaws to accurately reflect the number of directors serving on the Board.

2. As noted in the "Management and Control" section of this report, the Company's members approved changes affecting the Company's Bylaws during the previous examination period. The Company changed the number of directors required by the Bylaws from fifteen (15) to eleven (11). They also changed the date of their annual membership meeting from the first Saturday in February to the last Saturday in February. However, when the Company made the changes to the Bylaws during this examination period, they should have created amendments and appended those to their original Bylaws, or amended and restated the Bylaws.

   It is recommended that the Company properly maintain its Bylaws, reflecting the original language before any changes, and create amendments which clearly show the changes and the effective date of these changes.

3. As noted in the "Compliance with Previous Examination Findings" and "Management and Control" section of this report, no evidence of the Board's approval of the Company's investments or investment transactions was provided for the examination period. This is not in compliance with the approval requirement set forth in Tenn. Code Ann. § 56-3-408(b)(1) which states: "No investment or loan, except premium finance loans, shall be made by any insurance company, unless the investment or loan has first been authorized by the board of directors or by a committee appointed by the board and charged with the duty of supervising the investment or loan."

   It is recommended that the Company ensure all investment activities are reviewed and approved by the Board in accordance with Tenn. Code Ann. § 56-3-408(b)(1).

4. As noted in the "Compliance with Previous Examination Findings" and "Accounts and Records" sections of this report, the Company began using the office building that it constructed on October 1, 2001; however, the Company did not start depreciating its building until 2008. To make up for the missed depreciation, since 2008, the Company has been including a write-in amount of $17,000 in the line 'Rent and Rent

Items' in the Statement of Income of their annual statement. However, this does not have any effect on the building's depreciation and should be removed as it has no underlying support from the general ledger/trial balance.

It is recommended that the Company account for and report the depreciated book value of its office building in accordance with SSAP No. 40 (Real Estate Investments), in order to comply with the Instructions and Tenn. Code Ann. § 56-22-109(a)(4).

5. As noted in the "Compliance with Previous Examination Findings" and "Accounts and Records" sections of this report, the Company did not segregate the value of its land and building for depreciation purposes in order to determine adjusted carrying value for the building structure. The depreciated book value of the building was reported incorrectly in its 2014 through 2018 annual statements.

   It is recommended that the Company account for and report the depreciated book value of its office building in accordance with SSAP No. 40 (Real Estate Investments), in order to comply with the Instructions and Tenn. Code Ann. § 56-22-109(a)(4).

6. As noted in the "Compliance with Previous Examination Findings" and "Accounts and Records" sections of this report, the Company has been including a write-in amount instead of calculating the amount for Amortized Bond Expense in the 2016 through 2018 annual statements.

   It is recommended that the Company account for and report the value of its bond investments using amortized cost in accordance with SSAP No. 26, Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions.

7. As noted in the "Accounts and Records" section of this report, the Company did not correctly account for their "Furniture, equipment and supplies". The Company admitted their "Furniture, equipment and supplies" instead of non-admitting it as is required by the Instructions, prescribed by the Commissioner in accordance with Tenn. Code Ann. § 56-22-109 and SSAP No. 19.

   It is recommended that the Company always comply with the Instructions prescribed by the Commissioner in accordance with Tenn. Code Ann. § 56-22-109 and SSAP No. 19.

8. As noted in the "Accounts and Records" section of this report, the Company is reporting "Cumulative effect of changes in accounting principles" in the Policyholders' Surplus Account of their annual statements for years 2014 through 2018. This

amount consists primarily of write-in items, including $21,810 in 2018, of which $17,000 was the 'Rent and Rent Items', and the remainder was a balancing figure.

The Company should comply with the Instructions and properly report items affecting policyholders' surplus.

9. As noted in the "Accounts and Records" section of this report, the Company is currently combining LAE and claims expenses in the same line item in the Statement of Income of their annual statement. The Company should report any expenses paid in the course of adjudicating losses separately as LAE.

   It is recommended that the Company account for and report LAE in accordance with the Instructions.

10. As noted in the "Accounts and Records" section of this report, the Company did not correctly report their "Policyholders' surplus, December 31, previous year" in their 2018 annual statement. In the Company's 2018 annual statement, the Company reported $6,057,864 as the previous year's policyholders' surplus, as of December 31, 2017. However, in the 2017 annual statement, the policyholders' surplus as of December 31, 2017 was reported as $6,044,067, which is $13,797 less than what was reported on the 2018 annual statement for the previous year's policyholders' surplus. This is not in compliance with the Instructions, which requires that the ending policyholders' surplus balance from the prior year should be reported on the "Policyholders' surplus, December 31, previous year" line 17, and Tenn. Code Ann. § 56-22-109.

    It is recommended that the Company always comply with the Instructions prescribed by the Commissioner in accordance with Tenn. Code Ann. § 56-22-109.

11. As noted in the "Accounts and Records" section of this report, the Company did not correctly answer questions one (1) and two (2) of the General Interrogatories in its annual statements for the examination period.

    It is recommended that the Company always comply with the Instructions prescribed by the Commissioner in accordance with Tenn. Code Ann. § 56-22-109.

12. As noted in the "Compliance with Previous Examination Findings" and "Accounts and Records" sections of this report, the Company did not report long-term certificates of deposit and bonds purchased in its 2014 through 2018 annual statements on Schedule D – Part 3 Bonds and Stocks Acquired.

It is recommended that the Company account for and report the acquisition and disposal of bonds and long-term certificates of deposit pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions.

13. As noted in the "Compliance with Previous Examination Findings" and "Accounts and Records" sections of this report, during the examination period, the Company did not report long-term certificates of deposit that matured or were redeemed on "Schedule D – Part 4 Bonds and Stocks Sold During the Year" of its annual statements.

    It is recommended that the Company account for and report the acquisition and disposal of bonds and long-term certificates of deposit pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions.

14. As noted in the "Accounts and Records" section of this report, the Company did not list all their Bonds in 2014, 2016, and 2017, on Schedule D – Part 1.

    It is recommended that the Company account for and report all investments in accordance with Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions.

15. As noted in the "Market Conduct Activities" section of this report, the Company did not properly appoint its agents, as required by Tenn. Code Ann. § 56-6-115.

    It is recommended that the Company appoint all its agents within the fifteen (15) day timeframe as is outlined in Tenn. Code Ann. § 56-6-115.

CONCLUSION

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

In such manner, it was found that as of December 31, 2018, the Company had admitted assets of $6,517,864 and liabilities, exclusive of policyholders' surplus, of $271,380. Thus, there existed for the additional protection of the policyholders, the amount of $6,246,484 in the form of policyholders' surplus. 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, 2018, the Company maintains surplus sufficient to satisfy those requirements.

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

In addition to the undersigned, Trang Truong, Insurance Examiner, and Daniel Clements, CPA, Supervising Examiner, from the State of Tennessee, participated in the work of this examination.

Respectfully submitted,

Dustin Rice

Dustin Rice
Examiner-in-Charge
State of Tennessee

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Monroe County Mutual Fire Insurance Company located in Madisonville, Tennessee, dated March 18, 2020, and made as of December 31, 2018, 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.

Dustin Rice

Dustin Rice
Examiner-in-Charge
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 18th day of June, 2020

Mindy C. Walker
(NOTARY)

My Commission Expires: 7.6.2020

MINDY C WALKER
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY
MY COMMISSION EXPIRES 7-6-2020

EXHIBIT B

Monroe County Mutual Fire Insurance Co.

"A County Mutual Insurance Company"

442 Main Street
MADISONVILLE, TENNESSEE 37354

PHONE (423) 442-2915
FAX (423) 442-9611

OFFICE HOURS
8:30 - 4:00 Mon. - Fri.

Closed Saturday

June 23, 2020

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

RE: **Report of Examination-Monroe County Mutual Fire Insurance Company**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Monroe County Mutual Fire Insurance Company, made as of December 31, 2018.

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

Sincerely,

Roy John Thompson
President
Monroe County Mutual Fire Insurance Company

RJT:gmb