Report of Examination

of

The Monroe County Mutual Fire Insurance Company of Madisonville, Tennessee

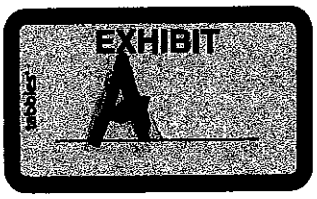
Clarence Hawkins, Vice President
Secretary/Treasurer Pro-Tem
442 Main Street
Madisonville, Tennessee 37354

RECEIVED
AUG 20 2010
Dept. of Commerce & Insurance
Company Examinations

Examination made as of: December 31, 2008

Examiner in Charge: Sandy M. Banks, Examiner II

Examination commenced: October 19, 2009



Date of Report: August 16, 2010

Examined as of: December 31, 2008

Last Examination as of: December 31, 2003

Commissioner Leslie A. Newman
Department of Commerce and Insurance
State of Tennessee
Nashville, Tennessee 37243

Commissioner:

Pursuant to TENN. CODE ANN. § 56-22-115 and your instructions, I have made an examination and submit the following report of the condition and affairs of the

Monroe County Mutual Fire Insurance Company

Madisonville, Tennessee

Officers

Title	Name	Address	Term Expires
President	John Thompson	Philadelphia, TN	2011
Vice President	Clarence Hawkins	Madisonville, TN	2010
Secretary & Treasurer	Harold E. Sloan	Tellico, TN	2011 (resigned)

Directors:

Name	Address	Term Expires
John Thompson, President	Philadelphia, TN	2011
Clarence Hawkins, Vice President	Madisonville, TN	2010
Harold E. Sloan, Secretary & Treasurer	Tellico, TN	2011 (resigned 7/17/09)
George W. Beaty	Tellico, TN	2010
Roger Raper	Madisonville, TN	2012
James S. Brown	Sweetwater, TN	2010
Michael Gray	Tellico, TN	2010
Marshall Raper, Agent	Madisonville, TN	2012

Directors (cont.):

Name	Address	Term Expires
Lee Turpin, Audit Committee	Madisonville, TN	2012
Wayne Thomas	Madisonville, TN	2010
Dale Patterson, Agent / Audit Committee	Madisonville, TN	2012
Jerry Lay	Madisonville, TN	2011
Paul D. Mason, Audit Committee	Madisonville, TN	2012
Bill Shadden	Tellico, TN	2011
Annie Ruth Clark	Tellico, TN	2011

Compensation of officers, directors, appraisers, adjusters, et al:

The President received $7,185.00 in 2008, the Vice-President received $7,075.00 in 2008 and the Secretary / Treasurer received $32,745.83 in 2008. The Directors received $100.00 per called meeting. In 2008, the Company's Office Clerk received $18,590.00, and an office employee received $2,950.00.

Agents are paid $2.50 per $1,000.00 of coverage per new policy written or endorsement adding new coverage to an existing policy. Agents are paid $2.50 per $1,000.00 of coverage for a renewal of an existing policy. Policies are issued for a 5-year term.

Agent # 1 received $24,548.23 (no claims adjustment expense included), and Agent/Adjuster # 2 received $34,581.25 in 2008.

Agents are paid $450.00 per month in travel expenses, and 15% of the commission and policy fee received is counted as travel by the Company.

Claims adjustment reimbursements in the amount of $15.00 per house adjusted, $0.40 per mile and $100.00 per month were paid to the Company's Agent solely responsible for adjusting claims.

Report of changes in the Constitution or Bylaws, policy forms, or other agreements during the period covered by this examination.

NONE

Rates and Policy Changes between 2003 and 2008

Approved on Feb. 7, 2004
Section II Deductible Clause was changed to read:

> The sum of $100.00 shall be deducted from the amount of loss of any one occurrence resulting from any of the perils insured against. This deductible shall apply separately to each building or structure and separately to all personal property, but in no event shall the aggregate amount deducted from loss in any one occurrence exceed $200.00.

A microorganism exclusion (absolute) was adopted. Section V, General Exclusions, Par. (j)., provides:

> This agreement shall exclude all losses of all types including but not limited to property damage, bodily injury, third party liability or any other claim, cost or expense directly or indirectly arising out of, resulting from or relating to: Mold, mildew, fungus, spores or other microorganisms of any type, nature or description or any by-product there of but not limited to any substance whose presence poses an actual or potential threat to human health.

Approved on July 23, 2005
By vote, all rates were raised by $1.00 per thousand dollars of coverage, and the $1.00 per thousand dollars of coverage policy fee on new insurance was discontinued. The new rates would be $0 .60 cents per hundred dollars of coverage on dwelling and contents where there is $50,000.00 or more coverage, and $0.70 cents per hundred dollars of coverage on everything else except chicken houses, trailers, cabins, and store buildings where the owner lives. Those exceptions were to be insured at the rate of $1.30 per hundred dollars of coverage. These changes were to be effective on October 1, 2005.

Approved on July 15, 2006
By vote, insurance limits were increased to up to $100,000.00, as permitted by state law.

Amendments to Bylaws subsequent to the prior examination

Approved Feb. 3, 2007
Paragraph nine: In the line of new business, Dale Patterson made the motion to amend the Bylaws and the Charter to comply with state requirements, those being: offering a nonassessable policy, adding, "a county mutual insurance company," any time the name of the company is used, and providing a ten days' notice for cancellation of policy.

Charter of Incorporation: Lines #7 and #8 were changed to include the term, "A County Mutual Insurance Company."

Bylaws; Article VIII, Section 2. Assessments: Beginning with line #8, the language was amended from, "It shall be the declared policy of the Board of Directors to make a careful study of the finances and risks of the company prior to the fixing of the annual assessment so as to avoid, if possible, more

than one assessment annually," to, "It shall be declared policy of the Board of Directors to make a careful study of the finances and risks of the company prior to the fixing of the annual advance assessment."

If copies have not been filed with the Department of Commerce and Insurance, are they filed with the work papers of this report?

It appears that all documents to be filed with the Department of Commerce and Insurance have been filed.

Report on reinsurance assumed and / or ceded.

At no time during the history of the Company has the Company entered into any reinsurance agreement.

Appraisal and classification of risks taken.

Policies are typically written for not more than 80% of the fair market value of insured property, and not less than one-half (1/2) of the property's fair market value. However, registered animals and others, if desired, may be insured individually in an amount approved by the Company. Livestock may be insured individually, in groups, or by class. Loss of animals insured by group or class shall not exceed the value of the animal at the time of loss, nor shall it exceed the amount per head specified in the policy for the group or class.

The agent performs the appraisal on the property during the application process, prior to the issuance of the policy. Property eligible to be insured includes dwellings and contents, church buildings, farm buildings and contents, hay in barns, chicken houses, farm machinery, cattle and commercial type property where the owner resides.

Annual rate of assessment per thousand dollars of coverage for period covered.

Starting October 1, 2005, the Company increased rates to $6.00 per thousand dollars of coverage, and discontinued the $1.00 per thousand dollars of coverage policy fee on new insurance. The new rates would be $6.00 per thousand dollars of coverage on dwelling and contents where there is $50,000.00 or more coverage, and $7.00 per thousand dollars of coverage on everything else except chicken houses, trailers, cabins, and store buildings where the owner lives. Those exceptions were to be insured at the rate of $13.00 per thousand dollars of coverage.

In February of 2004, the Company's Members and Directors approved a $100.00 deductible (aggregate of $200.00 for all risks covered under each policy) for all policies.

Rate of membership, policy and initial fees charged.

As of December 31, 2008, the Company had $84,228,660.00 of total insurance in force. New policyholders are charged $2.50 for each new policy written or endorsement adding new coverage to an existing policy. The Company charges a reinstatement fee of $50.00 on any policy that has been

cancelled for a period of less than a year.

Any new insurance policy cancelled within the first six months of the policy will have an administration cost of six months premium retained by the Company to cover that cost, and the remaining unearned premiums will be refunded to the policyholder. All other cancelled policies will be refunded according to the unearned premiums.

Date of last assessment.

The Company makes advance assessments of its members on the premium due date annually.

Amount delinquent.

There have never been any delinquencies. The Company sends a notice of assessment to members thirty (30) days in advance of the due date.

Neglect or failure to pay a policy on the due date will result in the policy being void until the insured remits the payment. However, the Company may provide a grace period not to exceed thirty (30) days, after which the policy is suspended.

Did that assessment provide for all losses, expenses and other liabilities, including borrowed money?

Yes

Amount of money borrowed since date of last assessment.

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

Exhibit of Risks

		Amount
1.	Gross In Force, Dec. 31, Prior Year	$84,228,660
2.	Amount Written or Renewed During Year	7,844,100
3.	Expirations or Cancellations During Year	7,988,730
4.	Gross in Force, Dec. 31 Current Year	84,084,030
5.	Amount Reinsured	0
6.	Net in-force Dec. 31 Current Year	$ 84,084,030
7.	Policy Count	2377
8.	Having Not More than 1 Year to Run	385
9.	Having More than 1 and not More than 3 Years to Run	1312
10.	Having More than 3 Years to Run	680

There follows a statement of assets and liabilities as of December 31, 2008, together with a reconciliation of surplus, as established by this examination.

Assets

	Admitted Assets Per Company	Changes Per Examination	Net-Admitted Assets Per Examination
Bonds	$5,238,062		$5,238,062
Properties Occupied by the Company	284,580		284,580
Cash and Cash Equivalents	10,132	****$189	10,321
Interest Due and Accrued	193,777		**193,777
Furniture, Equipment, and Supplies	3,747	*(3,747)	0
EDP	7,916	***(7,916)	0
Total Assets	$5,738,214	$(11,474)	$5,726,740

*Company did not depreciate assets, however assets were non-admitted by Company. **Interest due and accrued appears to be reported on GAAP basis instead of statutory accounting. ***EDP was not depreciated. ****Keying error.

Liabilities, Surplus and Other Funds

	Liabilities and Surplus Per Company	Examination Adjustments	Liabilities and Surplus Per Examination
Total Unpaid Claims and Losses	$20,060		$20,060
Loss Adjustment Expense	4,272		4,272
Unearned Premiums	359,833		359,833
Advance Premiums	61,669	12,522	74,191
Account Payable and Accrued Expense Payable	497		497
Taxes, Licenses and Fees	4,109		4,109
Federal Income Taxes Payable and Interest Thereon	15,500		15,500
Amounts Withheld or Retained by Company for Account of Others	1,210		1,210
Total Liabilities	467,150	$12,522*	479,672
Policyholders' Surplus	5,271,064		5,247,068
Totals	$5,738,214		$5,726,740

*Advance premium was reported by the Company at an estimated value based on 2007 value.

STATEMENT OF INCOME & POLICYHOLDERS' SURPLUS ACCOUNT

Underwriting Income	
1. Net Premiums and assessments earned	$ 590,374
2. Net losses incurred	457,965
3. Loss expenses incurred including claims adjustment expenses	4,272
4. Other underwriting expenses incurred	
4.1. Commission and brokerage:	
a. Directors and officers compensation and allowances	59,129
b. Agents compensation and allowances	14,260
c. Non-employee compensation and allowances	
d. Commissions received on reinsurance ceded	
e. Net commissions and brokerage	73,389
4.2 Field supervisory expenses	
4.3 Salaries and related items	
a. Employees' Salaries	21,540
b. Directors' and Officers' Salaries	30,242
c. Payroll taxes	14,631
d. Total salaries and related items	66,413
4.4 Directors fees	3,000
4.5 Advertising and subscriptions	1,065
4.6 Boards, bureaus and association dues	328
4.7 Surveys and underwriting reports	
4.8 Employee relations welfare	5,342
4.9 Insurance and fidelity bonds	1,037
4.10Travel and travel items	522
4.11Rent and rent items	17,000
4.12Equipment	
4.13Cost or Depreciation of EDP equipment and software	300
4.14Printing and Stationery	1,080
4.15Postage, telephone and telegraph	3,605
4.16Legal and auditing fees	1,285
4.17Taxes, licenses, and fees:	
a. State and local insurance taxes	4,751
b. Insurance department licenses and fees	180
c. All other (excluding federal income tax and real estate)	
d. Total taxes, licenses and fees	4,931
4.18Real estate expenses and repairs	
4.19Real estate taxes	1,780
4.20Aggregate write-ins for underwriting expenses	3,225
4.21Total underwriting expenses incurred	184,300
5. Total underwriting deductions	645,536
6. Net underwriting gain or (loss)	(53,161)
Investment Income	
7. Net investment Income earned	193,777
8. Net realized capital gains or (losses) from sale or maturity of assets	
9. Net investment gain or (loss)	193,777
Other Income	
10. Finance and service charges not included in premiums	31
11. Aggregate write-ins for miscellaneous income	30
12. Total other income	61
13. Dividends to policyholders	
14. Net income after dividends to policyholders and before federal income taxes	131,677
15. Federal income taxes incurred	53,060
16. Net income	$ 84,617
Policyholders' Surplus Account	
17. Policyholders surplus, December 31 of previous year	$ 5,086,239
Gains and (Losses) in Surplus	
18. Net Income	84,617

19. Change in net unrealized capital gains or (losses)	
20. Change in non-admitted assets from prior year	20,250
21. Cumulative effect of changes in accounting principles	96,462
22. Aggregate write-ins for gains and losses in surplus	
23. Policyholders surplus as of statement date	$5,247,068

Assets

Schedule of bank deposits:

Name of Bank	Amount on Bank Statement	Amount of O/S Checks	Adj. Items	Balance
FSG Bank, Checking	$93,501.14	$83,543.00	*$189.00	**$9,769.14

Company reported a total of $363.00 as petty cash to be included in cash and cash equivalents. *There is also a $189.00 discrepancy between cash reported by Company and the FSG Bank Statement. ** Reported by Company.

Schedule and description of all other assets, including real estate, mortgage loans, bonds, etc., and interest or rents due or accrued thereon:

Certificates of Deposit :

American Patriot Bank	$50,000
American Patriot Bank	50,000
American Patriot Bank	50,000
American Patriot Bank	50,000
American Trust Bank	101,740
Athens Federal Community	106,307
Athens Federal Community	106,305
Bank East	101,985
BB&T Bank	102,769
BB&T Bank	100,000
BB&T Bank	100,000
Capital Bank	125,042
CBBC	104,352
Citizens National Bank	100,000
Citizens National Bank	100,000
Citizens National Bank	100,000
Commercial Bank	101,835
First Bank of TN	103,218
First Bank of TN	117,185
First National Bank	102,220
First Peoples of TN	100,000
First Peoples of TN	100,000

First Tennessee Bank	50,000
First Tennessee Bank	50,000
First Tennessee Bank	50,000
First Tennessee Bank	50,000
First Volunteer Bank of TN	118,486
First Volunteer Bank of TN	59,243
First Volunteer Bank of TN	100,000
First Volunteer Bank of TN	100,000
Foothills Bank & Trust	101,054
Foothills Federal Credit Union	102,072
FSG Bank	100,000
FSG Bank	100,000
Green Bank	203,089
Home Federal Bank of TN	184,084
Mountain National Bank	108,161
Peoples Bank of East TN	118,106
Peoples Bank of East TN	116,609
Peoples Bank of East TN	116,609
Peoples Bank of East TN	105,697
Peoples Bank of East TN	103,236
Peoples Bank of East TN	106,397
Regions Bank	200,000
SouthEast Bank & Trust	103,547
SouthEast Bank & Trust	103,547
Sun Trust Bank	101,491
Tennessee State Bank	52,623
Tennessee State Bank	52,623
United Community Bank	106,323
United Community Bank	102,107
Volunteer Federal S&L	100,000
Volunteer Federal S&L	100,000
Total Certificates of Deposit	$5,238,062

Comments on assets:

Cash and Cash Equivalents

The Company reported a total of $363.00 as petty cash to be included in cash and cash equivalents. There is also a $189.00 discrepancy between cash reported by the Company and the FSG Bank Statement.

Interest, Dividends and Real Estate Income Due and Accrued

The Company reported interest that was calculated on GAAP basis instead of Statutory Accounting basis.

Furniture, Fixtures and Equipment

The Company did not depreciate furniture, fixtures, and equipment for this examination period. However, the total of the assets reported was also non-admitted by the Company in annual statement reporting.

EDP
The Company did not depreciate EDP for this examination period.

Assets pledged or hypothecated:

NONE

Comments on claims, borrowed money and other liabilities:

Advance Premiums
Advance premiums were calculated based on an estimate of the prior years reported amount. The Examiner's calculation of reported advance premiums amounted to $74,190.90. The Company reported $61,669.00. The difference of $12,521.90 is shown as an examination adjustment.

Claims appear to be paid promptly and to the satisfaction of the policyholders.

No money was borrowed during the period of examination.

Comments on acts of officers and directors; any apparent violations of the Association's Bylaws, or of the laws of the State of Tennessee; general comments regarding the conduct of business:

Significant Events
The Company sold its old Company building for $41,500.00 in 2005.

Location of Books and Records
All of the Company's books and records were kept in its office building located at 442 Main Street in Madisonville, Tennessee, 37354.

There were no apparent violations of the Company's Bylaws.

There were no other apparent violations of the statutes of the state of Tennessee during the period under examination.

Recommendations:

It is recommended that the Company implement the following measures of corrective action:

1. SSAP No. 16, PP 3: EDP equipment and software shall be depreciated for a period not to exceed three years using methods detailed in SSAP No. 19—Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements.

2. SSAP No. 19, PP 2: Furniture, fixtures and equipment generally meet the definition of assets established in SSAP No. 4—Assets and Nonadmitted Assets (SSAP No. 4). Within that definition, such items also meet the criteria defining nonadmitted assets. Accordingly, these assets shall be depreciated against net income as the estimated economic benefit expires, and the undepreciated portion of these assets shall be reported as nonadmitted assets and charged against surplus.

3. SSAP No. 53, PP 13: Advance premiums result when the policies have been processed, and the premium has been paid prior to the effective date. These advance premiums are reported as a liability in the statutory financial statement and not considered income until due. Such amounts are not included in written premium or the unearned premium reserve.

4. TENN. COMP. R. & REGS. 0780-01-78-.04(4) requires that when a county mutual insurance company has greater than one million dollars ($1,000,000) in gross premium in a given year, it shall be required, in addition to other requirements contained in the Rule, to file an opinion of an appointed actuary in accordance with the NAIC's Quarterly and Annual Statement Instructions—Property/Casualty.

Conclusion

It was determined that, as of December 31, 2008, the Company had admitted assets in the amount of $5,726,740.00,and liabilities, exclusive of capital, in the amount of $479,672.00. Thus, there existed for the additional protection of the policyholders, the amount of $5,247,068.00 in the form of policyholder surplus.

It appears that the Company is being operated in the best interest of the policyholders.

The complete and courteous cooperation of Mr. Patrick Dalton and Mrs. Goldie Brown, Office Management, and Mr. Clarence Hawkins, Vice-President and Secretary / Treasurer Pro Tem, extended during the course of the examination is hereby acknowledged.
Respectfully submitted,

Sandy M. Banks
Insurance Examiner in Charge
State of Tennessee

Examination Affidavit:

The undersigned deposes and says that she has duly executed the attached examination report of The Monroe County Mutual Fire Insurance Company of Madisonville, Tennessee dated August 16, 2010, and made as of December 31, 2008, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

Sandy M. Banks, MBA
Insurance Examiner
State of Tennessee

County Davidson
State Tennessee

Subscribed and sworn to before me
this 20th day of
August, 2010.

Helen W. Dorsey
(Notary)

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

My Commission Expires.
03/03/2014