Report of Examination

of

Blount County Mutual Fire Insurance Company

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Dept. Of Commerce & Insurance
Company Examinations

Calvin Lynch, Secretary
319 Sanderson Street
P.O. Box 319
Alcoa, TN 37701

Examination made as of: December 31, 2006

Examiner-In-Charge: James T. Pearce

Examination commenced: August 20, 2007

Examination completed: May 14, 2008

Table of Contents

Caption	Page
Introduction	4
Officers	4
Directors	4
Compensation of officers, directors, appraisers, adjusters, et al	5
Report of changes in the Charter or By-Laws, policy forms, or other agreements during the period covered by this examination	5
If copies have not been filed with the Department of Commerce and Insurance, are they filed with the work papers of this report	6
Report on reinsurance assumed and / or ceded	6
Appraisal and classification of risks taken	8
Annual rate of assessment per $1,000.00 for period covered	9
Rate of membership, policy and initial fees charged	10
Date of last assessment	10
Amount delinquent	10
Did that assessment provide for all losses, expenses and other liabilities, including borrowed money	10
Amount of money borrowed since date of last assessment	11
Exhibit of Risks	11
Claims Paid in 2006	11
Financial Statement	12
Assets	13
Schedule and description of all other assets, including real estate, mortgage loans, bonds, etc., and interest or rents due or accrued thereon	15
Assets pledged or hypothecated	15
Comments on claims, borrowed money and other liabilities	15
Analysis of Changes in Financial Statement and Comments Resulting From Examination	15
Total Ledger Assets	15

Cash In Banks 15
Other Assets 16
Summary Schedule for "Analysis Of Changes In Financial Statement" 16
Comments on acts of officers and directors; any apparent violations of the Association's By-Laws, or of the laws of the State of Tennessee; general comments regarding the conduct of business 16
Liability Premium Collected on Behalf of Farmers Mutual of Tennessee 16
Inaccurate Information Recorded on the Company's Financial Statement for Previous Years 16
Previous CPA Audits of the Company 17
Directors, Employees, Officers and Insurance Agent Insurance Coverage 17
Information Systems 17
Refunds Due on Premium Taxes 17
SUBSEQUENT EVENTS
Investments Held Without a Custodial / Safekeeping Agreement 17
Premium Billing 18
SUBSEQUENT EVENTS - New Legislation Requirements for County Mutual Insurance Companies 18
Revision of By-Laws 18
Revision of Policy Forms 18
Summary of Examiners' Recommendations 19
1. Office Furniture and Equipment 19
2. Liability Premium Collected on Behalf of Farmers Mutual of Tennessee 19
SUBSEQUENT EVENTS 19
3. Premium Billing 19
4. Revision of By-Laws 19
5. Revision of Policy Forms 19
Examination Affidavit 21

Date of Report: June 2, 2008

Examined as of: December 31, 2006

Last Examination as of: December 31, 2001

Honorable Leslie S. Newman
Commissioner of Commerce and Insurance
State of Tennessee
Nashville, Tennessee 37243

Commissioner,

Pursuant to your instructions, I have made an examination and submit the following report of the conditions and affairs of the

Blount County Mutual Fire Insurance Company

Alcoa, Tennessee

Officers

Title	Name	Address	Term
President	Dan Blevens	Walland, TN	January 2007
Vice President	W.T. Bowers, III	Walland, TN	January 2007
Secretary	Calvin Lynch	Friendsville, TN	January 2007
Treasurer	Stephanie P. Pierce	Maryville, TN	January 2007

Directors:

Name	Address	Term Expires
Mac Pate	Maryville, TN	January 2008
Dan Blevens, President	Walland, TN	January 2008
J.B. Snoderly	Alcoa, TN	January 2008
Calvin Lynch, Secretary	Friendsville, TN	January 2008
David Walker	Maryville, TN	January 2008
Jack Gillenwater	Maryville, TN	January 2009
John Keller	Maryville, TN	January 2009

Name	Address	Term Expires
W.T. Bowers, III, Vice President	Walland, TN	January 2009
Billy Robbins	Maryville, TN	January 2009
Max Coulter	Maryville, TN	January 2009
Lynn Morton	Louisville, TN	January 2007
Tom Peery	Maryville, TN	January 2007
Ron Campbell	Walland, TN	January 2007
Flora Simerly	Maryville, TN	January 2007
Elizabeth Gilmore	Maryville, TN	January 2007

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

Compensation of the Company's agent, officers, directors and employees was reviewed for the period of examination and found to be in compliance with Tennessee statutes.

Report of changes in the Charter or By-Laws, policy forms, or other agreements during the period covered by this examination.

At the Company's Annual Policyholders Meeting on January 27, 2003 Article X, Section 4, Item C of the Company's By-Laws was amended by adding "with the exception of manufactured homes which shall be written for a period of one year". Article X, Section 4, Item C of the Company's By-Laws previously stated "Policies shall be written for a period of five years and shall commence at noon on the day issued and shall expire at noon five years from the date thereof."

There were no other changes to the Company's Charter or By-Laws that were implemented with an effective date during the period of examination (Jan 1, 2002 through December 31, 2006).

SUBSEQUENT EVENT:

At the Company's Annual Policyholders Meeting on January 22, 2007 the Company's By-Laws were approved to be changed in order to comply with "The Tennessee County Mutual Insurance Company Act of 2006".

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

Copies of the changes to the Company's By-Laws, premium rates, policy and application forms with an effective date of January 1, 2007 were filed and approval granted on December 14, 2006 by the Property & Casualty Rating Section of the Tennessee Department of Commerce and Insurance.

Report on reinsurance assumed and / or ceded.

The Company and Farmers Mutual of Tennessee (Reinsurer) signed a Property First Surplus Reinsurance Agreement in August 1992 with an effective date of April 1, 1992. This agreement was in effect continuously from April 1, 1992 through December 31, 2004. The agreements called for the Reinsurer to accept that portion of the Company's gross liability on any one (1) specific risk or all risks in aggregate which exceeded its net retained liability. During that time frame such sessions were limited to two (2) times the net liability of the Company subject to its maximum retention of $100,000 for any one (1) risk. However, the Company shall have the option to cede up to 50% of any property risk up to a $100,000 limit.

On October 24, 2005 and November 3, 2005 the Company and Farmers Mutual of Tennessee, respectively, signed an Excess of Loss Reinsurance Agreement with an effective date of January 1, 2005. The agreement calls for the Reinsurer to accept that portion of the Company's gross liability on any risk which exceeds its net retained liability on any one (1) specific risk and in the aggregate for all losses. The terms reflected a continuous contract until cancelled by either party with 60 days advance notice.

Type: Exhibit A – Combination Per Risk and Aggregate Layer-2005
Reinsurer: Farmers Mutual Fire Insurance Company of Tennessee
Coverage: Part 1 – Property Risk Excess of Loss: covers each loss in excess of the Company's $50,000 maximum retention up to the Reinsurers $100,000 maximum per risk, each loss occurrence.

Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater or 200% of the Company's gross assessment and / or premium income or $200,000 and shall not exceed 100% of the lesser of 100% of the Company's gross assessment and / or premium income or $180,000.

An annual deposit premium of $7,200 shall be paid to the Reinsurer in two (2) equal installments of $3,600 each on January 1 and July 1.

Minimum annual premium: 4% of annual gross net assessment and / or premium income

Type: Exhibit B – Second Aggregate Layer-2005
Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 300% of the Company's gross assessment and / or premium income or $360,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 300% of the Company's gross assessment and / or premium income or $105,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 450% of the Company's gross net assessment and / or premium income or $810,000 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $5,400 shall be paid to the Reinsurer in two (2) equal installments of $2,700 each on January 1 and July 1.

Minimum annual premium: $4,800

Term: Continuous coverage, effective January 1, 2005.

Estimated Gross Net Assessment and / or premium income for 2005 - $180,000

SUBSEQUENT EVENT:

On March 22, 2007 and April 5, 2007 Farmers Mutual of Tennessee (reinsurer) and the Company, respectively, signed Addendum Number 1 (with an effective date of January 1, 2007) as an attachment to the Company's Excess of Loss Reinsurance Agreement. This Addendum amended the aforementioned Excess of Loss Reinsurance Agreement effective January 1, 2005 as follows:

Coverage: Exhibit A – Combination Per Risk and Aggregate Layer-2007

Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater or 200% of the Company's gross assessment and / or premium income or $352,000 and shall not exceed 100% of the lesser of 100% of the Company's gross assessment and / or premium income or $264,000 in the aggregate on an annual basis.

An annual deposit premium of $16,500 shall be paid to the Reinsurer in two (2) equal installments of $8,250 each on January 1 and July 1.

The Estimated Gross Assessment and / or Premium Income for 2007 is $220,000.

For purposes of calculating the rate for 2006 and future years, the following Gross Net Assessments and / or Premium Income and Losses Incurred shall be deemed for the years 2003 to 2006. Actual 2006 Gross Net Assessments and / or Premium Income and Losses Incurred shall be included in the 2006 rate calculation when finally determined:

Year	Gross Assessments
2003	$145,558
2004	$169,970
2005	$203,688
2006	TBA

Type: Exhibit B – Second Aggregate Layer-2007

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 200% of the Company's gross assessment and / or premium income or $352,000 plus the lesser of 100% of gross net assessment and / or premium income or $264,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 200% of the Company's gross assessment and / or premium income or $352,000 plus the lesser of 100% of gross net

assessment and / or $264,000 premium income or $264,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 450% of the Company's gross net assessment and / or premium income or $1,188,000 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $6,600 shall be paid to the Reinsurer in two (2) equal installments of $3,300 each on March 1 and September 1.

Minimum annual premium: $6,000.
The Estimated Gross Assessment and / or Premium Income for 2007 is $220,000.

This Agreement contained a "Pools, Associations, Syndicates Exclusion Clause", an "Insolvency Funds Exclusion Clause", a "Nuclear Incident Exclusion Clause-Physical Damage-Reinsurance-USA" and a "Terrorism Exclusion Clause" including a "TRIA" provision.

During the period of examination (Jan. 1, 2002 through Dec. 31, 2006) the Company had one (1) claim that exceeded the $50,000 specific retention specified in the Company's "Property First Surplus Reinsurance Agreement" originally effective from April 1, 1992 through December 31, 2004 and the "Excess of Loss Reinsurance Agreement" effective January 1, 2005 through December 31, 2006 and beyond. Furthermore, the Company experienced no claims that exceeded the aggregate retention levels disclosed in the Company's "Property First Surplus Reinsurance Agreement" originally effective from April 1, 1992 through December 31, 2004 and the "Excess of Loss Reinsurance Agreement" effective January 1, 2005 through December 31, 2006 and beyond.

Appraisal and classification of risks taken.

The Company insures for its members in an amount not to exceed 80% of actual cash value against loss or damage by fire, lightning, and windstorm. Property eligible to be insured includes farm and suburban buildings, rural churches, silos, household and personal effects kept in residences (except money, jewelry, televisions, radios, antennas and electrical appliances) tractors, balers, corn pickers, stationary engines, farm wagons or trailers, contents of farm buildings (hay, straw, grain, feed and seed) and livestock.

The Company's Board of Directors on April 22, 2004 approved writing liability insurance through Farmers Mutual of Tennessee using an agent of the Company that was properly licensed by the by the State of Tennesseee.

The Company writes policies covering property located in Loudon, Monroe, Blount, Sevier and Knox counties.

The Company has one (1) agent, Linda S. Roberson that was issued an Insurance Producer License by the State of Tennesseee that was effective March 1, 2006 through March 1, 2007.

Annual rate of assessment per $1,000.00 for period covered:

	2002	2003	2004	2005	2006
All Lines	$3.00	$3.00	$3.00	$3.00	$3.00

NOTE: On January 24, 2005 the Company's Board of Directors approved the following rates for mobile homes:

Single Wide Manufactured Homes (All Ages)

Owner Occupied:	$10.00 per thousand
Rental:	$12.00 per thousand

Double Wide Manufactured Homes (All Ages)

Owner Occupied:	$6.00 per thousand
Rental:	$8.00 per thousand

During the period of examination and as of year-end 2006 the Company billed and collected premiums (assessments) at the end of the policy period. Also, the Company's policies had a five (5) year term of coverage. The Company charged $5.00 per $1,000 for the first year of the policy and $3.00 per $1,000 was paid to the agent who produced the policy. During the policy years two (2) through four (4) the Company charged and retained $3.00 per $1,000. At the end of the policy's fifth and final year the Company charged $3.00 per $1,000 and designated $2.50 per $1,000 as a "renewal fee" if the policy was renewed on its five (5) year anniversary date.

SUBSEQUENT EVENT:

The Company's assessment rates effective January 1, 2007 as approved by the Property & Casualty Rating Section of the Tennessee Department of Commerce and Insurance on December 14, 2006 are as follows:

Site Built Homes	$4.00 per thousand
Barns	$4.00 per thousand
Outbuilding	$4.00 per thousand
Equipment	$4.00 per thousand
Machinery	$4.00 per thousand
Contents	$4.00 per thousand
Animals, etc.	$4.00 per thousand
Suburban Buildings	$4.00 per thousand
Rural Churches	$4.00 per thousand

Single Wide Manufactured Homes (Age: 1-5)

Owner Occupied:	$6.00 per thousand
Rental:	$8.00 per thousand

Single Wide Manufactured Homes (Age: 6-10)

Owner Occupied:	$8.00 per thousand
Rental:	$10.00 per thousand

Single Wide Manufactured Homes (Age: 10 years plus)

Owner Occupied:	$10.00 per thousand
Rental:	$12.00 per thousand

Double Wide Manufactured Homes (All Ages)

Owner Occupied:	$6.00 per thousand
Rental:	$8.00 per thousand

Rate of membership, policy and initial fees charged.

The Company charges $5.00 per thousand for new insurance written (year 1), $3.00 per thousand for assessments (years 2 – 5), and $2.50 for renewal and rewritten policies.

Date of last assessment.

During the period of examination the Company billed its Members for premiums in arrears. Policyholder premium payments become due at various times during the year on the date the policy's coverage had reached six (6) and twelve (12) months in duration. The Company during the period of examination did not assess its policyholders for any additional premium above the standard amount billed for that specific type of risk based upon their rate schedule.

Amount delinquent.

The Company sends a past due notice approximately 30 days after the due date and then 60 days after the premium due date (policy anniversary date) the Company cancels the coverage.

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

The Company's profitability during the period of examination is reflected in the following table:

	2002	2003	2004	2005	2006*
Gross Assessments	$128,006.85	$145,967.89	$171,970.66	$210,448.26	$200,074.50
Less: Losses & Expenses	(135,777.93)	(152,694.43)	(160,614.40)	(268,127.60)	(417,182.15)
Underwriting Gain/(Loss)	(7,771.08)	(6,726.54)	11,356.26	(57,679.34)	(217,107.65)
Investment and Other					
Income	163,207.65	130,403.63	146,421.23	139,293.81	221,055.94
Net Income / (Loss)	$155,436.57	$123,677.09	$157,777.49	$81,614.47	$3,948.29

* The 2006 income, expense, profit and loss totals were determined as a result of this examination and do not include examination adjustments for non-admitted assets.

Amount of money borrowed since date of last assessment.

The Company did not borrow any money during the period of examination (2002 through 2006).

Exhibit of Risks

		Number	Amount	
1.	In force, December 31, 2005	719	$47,677,365	
2.	New Business Written in 2006	69	7,213,600	
3.	Business Renewed in 2006		9.079,350	
4.	Total			63,970,315
5.	Deduct those expired and marked off as terminated	55	(12,231,500)	
6.	Gross Amount In Force, Dec. 31, 2006		51,738,815	
7.	Database Adjustment		2,111,240	
8.	Net In force, December 31, 2006	733	$53,850,055	

Claims Paid in 2006

Fire Losses Paid	7	$196,296.20
Tornado or Wind Losses Paid	27	23,103.29
Lightning Losses Paid	1	1,001.89
Gross Amount Paid Policyholders for Losses		$220,401.38

Financial Statement

Income

Ledger Assets per Company, December 31, 2005			$4,355,361.35
Gross Membership Fees	$41,797.50		
Deduct Return Membership Fees	(900.00)		
Net Membership Fees		$40,897.50	
Gross Assessments	128,079.72		
Deduct Reinsurance	(14,257.86)		
Deduct Return Assessments	(709.50)		
Net Assessments		113,112.36	
Renewal fees		30,197.28	
Interest Income		160,155.94	
Total Income			344,763.08
Total Income and Balance			4,700,124.43

Disbursements

Gross amount paid policyholders for losses	$220,401.38	
Deduct Salvage	(500.00)	
Deduct Reinsurance	(60,000.00)	
Net amount paid policyholders for losses	159,901.38	
Expense of adjustment and settlement of losses	0.00	
Commission or brokerage, including membership fees retained by agents	42,468.11	
Salaries and compensation of officers, directors, & employees	65,955.50	
Advertising	5,082.06	
Printing and stationery	2,564.43	
Postage, telegrams, telephones and express	4,755.64	
Legal expenses	6,233.70	
Furniture and Fixtures	2,372.23	
Rent	5,400.00	
Insurance department licenses and fees	396.43	
All other licenses, fees and taxes	19,162.90	
Mileage, Miscellaneous, Dues	17,949.91	
Liability Premiums	3,043.15	
Directors Meetings	594.05	
Utilities	1,335.30	
Audit	3,600.00	
Total disbursements		340,814.79
Balance per Examination before Adjustment		4,359,309.64
Examination Adjustment to Assets and Surplus		(1,186,024.37)
Ledger Assets per Examination after Adjustment		$3,173,285.27

Assets

Cash in Company's office	$162.98
Cash in Banks (First TN - Checking)	53,684.46
Cash in Banks (Suntrust - Checking)	80.15
Cash in Banks (Sevier County Bank - Savings)	8.95
Cash in Banks (ORNL Federal Credit Union – Savings)	49.20
Certificates of Deposit (with local banks)	3,119,299.53
Investments Held Through PFIC Securities Corp. (@ cost)	219,417.32
Investments Held Through First Tennesseee Brokerage (@ cost)	974,512.88
Other assets (office furniture and equipment)	16,813.73
Total assets per examination	4,384,029.20

Assets Not Admitted

Other assets (office furniture and equipment)	($16,813.73)
Investments Held Through PFIC Securities Corp. (@ cost)	(219,417.32)
Investments Held Through First Tennesseee Brokerage (@ cost)	(974,512.88)
Total Assets Not Admitted	(1,210,743.93)
Total Admitted Assets	$3,173,285.27

Liabilities

Total Liabilities	-0-
Surplus over all liabilities	3,173,285.27
Total	$3,173,285.27

Assets

Schedule of Bank Deposits:

Name of Bank	Amount on Bank Statement	Amount of O/S Checks	Deposits in Transit	Balance
First Tennessee Bank (Check.)	$55,420.21	($1,735.75)	$0.00	$53,684.46
Suntrust Bank (Checking)	80.15	(0.00)	0.00	80.15
Sevier County Bank (Savings)	8.95	(0.00)	0.00	8.95
ORNL Federal Credit Union	49.20	(0.00)	0.00	49.20
	$55,558.51	($1,735.75)	$0.00	$53,822.76

Certificates of Deposit

American Trust Bank	$100,000.00
Athens Federal Savings & Loan	100,004.00
Bank East	75,000.00
Benton Banking Company	100,000.00
Branch Banking & Trust (BB&T) (Knoxville, TN)	100,000.00
Citizens Bank of Blount County	70,000.00
Citizens National Bank - Sevierville, TN	100,000.00
Citizens National Bank - Vonore, TN	104,295.15
Commercial Bank – Knoxville, TN	100,000.00
FSG Bank	100,000.00
First Bank of Tennessee – Rockwood, TN	100,000.00
First Century Bank - Powell, TN	100,000.00
First National Bank – Maryville, TN	100,000.00
First Peoples Bank – Jefferson City, TN	100,000.00
First Tennessee Bank – Maryville, TN	100,000.00
Green Bank - Alcoa, TN (formerly American Fidelity)	90,000.00
Home Bank - Alcoa, TN (currently One Bank)	90,000.00
Home Federal Bank – Maryville, TN	100,000.00
Mountain National Bank - Sevierville, TN	100,000.00
ORNL Federal Credit Union - Oak Ridge, TN	100,000.00
People's Bank of Monroe County - Madisonville, TN	100,000.00
People's Community Bank – Johnson City, TN	100,000.00
Regions Bank - (formerly Union Planters) Maryville, TN	100,000.00
Regions Bank (formerly AmSouth)	100,000.00
Sevier County Bank - Seymour, TN	100,000.00
State Farm Bank - Alcoa, TN	100,000.00
SunTrust Bank (formerly National Bank of Commerce)	90,000.00
SunTrust Bank – Alcoa, TN	100,000.00
Tennessee Bank of Knox County – Knoxville, TN	100,000.00
Tennessee State Bank - Sevierville, TN	100,000.00
United Community Bank – Alcoa, TN	100,000.00
Volunteer Federal Bank	100,000.00
TOTAL CERTIFICATES OF DEPOSIT	$3,119,299.53

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

Petty Cash	$162.98
Office Furniture	(Not admitted)

Assets pledged or hypothecated:

None.

Comments on claims, borrowed money and other liabilities:

Claims seem to be paid correctly, timely, and to the satisfaction of the policyholders.

The Company did not borrow any money during the period of examination (January 1, 2002 through December 31, 2006).

In presenting their 2006 Annual Statement on a cash basis the Company disclosed no liabilities.

Analysis of Changes in Financial Statement and Comments Resulting From Examination

Total Ledger Assets **$4,384,029.20**

The above amount is $24,719.56 more than the $4,359,309.64 amount reported by the Company in its 2006 Annual Statement. The Examiner using broker account confirmations and bank confirmations determined the Company understated the book value on a cash basis of certificates of deposit held by Athens Federal Savings and Loan and Citizens National Bank, a money market balance held through Citizens Bank of Blount County and a money market account balance and a cash balance held through First Tennessee Brokerage as of December 31, 2006.

Cash in Banks **$3,173,122.29**

The above amount as determined by this examination is $1,169,210.64 less than the $4,342,332.93 amount reported by the Company in its 2006 Annual Statement, and $1,193,930.20 less than the $4,367,052.49 "Cash in Banks" total asset value per exam as of December 31, 2006. The Company's investments are being non-admitted because the securities were being held through First Tennessee Brokerage, Inc. and PFIC Securities, Corp., which are broker / dealers, and do not fall under the Tenn. Code Ann. § 47-8-102 definition of a "clearing corporation." As such, this is not a permissible method for holding securities pursuant to Tenn. Code Ann. § 56-3-112. Furthermore, these securities were being held without a proper custodial / safekeeping agreement as required by Tenn. Code Ann. § 56-3-112 and Regulation 0780-1-46. Therefore, $1,193,930.20 is non-admitted for purposes of this examination.

PFIC Securities Corp. provided brokerage services on behalf of Citizens Bank of Blount County. The $24,719.56 difference between the $4,342,332.93 Cash in Banks total per Company and $4,367,052.49 Cash in Banks total per examination is explained under the Total Ledger Assets heading above.

Other Assets **$0.00**

The above amount is $16,813.73 less than the amount reported by the Company in its 2006 Annual Statement. This total was composed of the un-depreciated cost of furniture and equipment, including information systems hardware and software. Tenn. Code Ann. § 56-1-405 and the NAIC Accounting Practices and Procedures Manual (SSAP # 19) prohibit these assets of the Company from being shown as admitted on the Annual Statement form. Therefore, the full $16,813.73 amount of "Other Assets" is non-admitted for purposes of this examination.

Summary Schedule for "Analysis Of Changes In Financial Statement"

The following depicts the change in surplus as outlined in the previous section of this report:

Item	Surplus Increase	Surplus Decrease
Certificates of Deposit, Money Market Accounts and Cash	$24,719.56	
Cash in Banks		$1,193,930.20
Other Assets		16,813.73
Totals	$24,719.56	$1,210,743.93
Net Change In Surplus		$1,186,024.37

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

Liability Premium Collected on Behalf of Farmers Mutual of Tennessee

The Company's 2006 Annual Statement reflected the collection and transfer of liability premiums collected from the Company's policyholders on behalf of Farmers Mutual of Tennessee. These premiums as shown on the Income and Disbursements Sections of the 2006 Annual Statement are not the Company's premiums. Therefore, these premiums collected on behalf of Farmers Mutual of Tennessee should not be shown on the Company's Annual Statements. The Company should only show commissions received from Farmers Mutual of Tennessee on the Income Section of its Annual Statement as compensation for writing these liability policies for Farmers Mutual of Tennessee.

Inaccurate Information Recorded on the Company's Financial Statement for Previous Years

The Company engaged in the process of transferring the Company's policy information into the Company's new computer system in 2007. During this process numerous discrepancies were discovered regarding the amount of insurance in-force for individual policies. In some cases the Company had to contact the policyholders in order to obtain accurate policy information.

Previous CPA Audits of the Company

Representative of Ingram, Overholt and Bean, Certified Public Accountants prepared the Company's audited financial statements for the first three (3) years of the period of examination. The Company's Directors made the decision in December 2005 to replace them with Hamilton, Price and Associates, P.C., Certified Public Accountants for assistance in preparing the Company's un-audited financial statements and providing consulting services.

Directors, Employees, Officers and Insurance Agent Insurance Coverage

The Company was the named insured of an Insurance Company Combined Professional Liability and Directors and Officers Liability Insurance policy as of year-end 2006. This policy was issued by the Scottsdale Insurance Company which is an approved surplus lines carrier in Tennessee. The policy specified a $5,000 deductible for each claim and the limits of liability were $1,000,000 for each claim and $1,000,000 in the aggregate for all claims for the Insurance Company Professional Liability and the Directors and Officers Liability coverage provided.

The Company was the named insured of an Insurance Agents and Omissions Liability Insurance policy as of year-end 2006. This policy was issued by the Scottsdale Insurance Company which is an approved surplus lines carrier in Tennessee. The policy specified a $1,500 deductible for each claim and the limits of liability were $500,000 for each claim and $500,000 in the aggregate for all claims for the Insurance Agents and Omissions Liability Insurance coverage provided.

Information Systems

The Company as of year-end 2006 utilized QuickBooks to account for all income, disbursements as well as policyholder premium bills and receipts. QuickBooks also was used to track policyholder membership. The Company utilized QuickBooks in order to record each policyholder's name, policy number, billing address, specific policy information for each risk insured, total amount of insurance in-force by policy, mortgage clause information and transfer forms.

Refunds Due on Premium Taxes

A review of the Company's calendar year 2002 through 2006 Statement of Premiums and Fees For Taxation revealed that the Company was due a refund of $3,549.70 for the 2005 calendar year and a refund of $3,320.84 for the 2006 calendar year. However, the Company failed to pay the $50 annual statement filing fee on the March 1, 2006 due date as required by Tenn. Code Ann. § 56-22-133, and the $515 annual statement filing fee on the March 1, 2007 due date as required by Tenn. Code Ann. §§ 56-4-101(a)(4) and (b), and 56-22-109. These fees have since been paid.

SUBSEQUENT EVENTS:

Investments Held Through a Custodial / Safekeeping Agreement:

Subsequent to the December 31, 2006 date of this examination, the Company on December 17, 2007 executed a Custodial Agreement with First Tennessee Bank, a member of the United States Federal Reserve System, that met the requirements of Tenn. Code Ann. § 56-3-112, Tenn. Code Ann. § 47-8-102 and Regulation 0780-1-46 (revised effective July 12, 2005). Therefore, the Company's investments which were non-admitted for purposes of this exam are now held through a proper Custodial Agreement with First Tennessee Bank and will be treated as admitted assets in future Annual Statement filings with the Department.

Premium Billing:

The Company's directors approved a plan to allow the Company to move from the collection of all premium payments in arrears (post assessment) to the collection of all policy premiums at the beginning of the policy's anniversary date (pre-assessment). Beginning August 1, 2007, the Company required all premium payments for new or renewal policies to be made in advance.

Based upon the rate filing approved by the P & C Section of the Department on December 14, 2006, the Company did not receive approval to waive any premium payments. The Company was only approved to bill and collect $4.00 per thousand for all risks insured, except for mobile homes, for the full policy period. Therefore, the Company billed and collected premiums at a rate that was contrary to the rates filed and approved by the Department in violation of Tenn. Code Ann. § 56-22-109(b)(1) and Tenn. Code Ann. § 56-5-305. Furthermore, the Company did not disclose in their rate filing submitted to the Department its intentions to bill prior to the policy anniversary dates and collect premium in advance on policies with anniversary dates beginning August 1, 2007.

New Legislation Requirements for County Mutual Insurance Companies

"The Tennessee County Mutual Insurance Company Act of 2006" required the Company to make certain changes to their Charter, By-Laws, Application Forms, Policy Forms, Claim Forms, Stationary, etc. with the approval of the Tennessee Department of Commerce and Insurance (TDCI) prior to the January 1, 2007 effective date. Another important change involves the submission of future annual statements in accordance with NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual.

Revision of By-Laws:

The Company's By-Laws did not include the non-renewal provisions denoted in Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007). Tenn. Code Ann. §56-7-1902(a) states "(a) Unless the non-renewal notice contains a reason for such non-renewal action, such notice shall advise the insured that upon written request of the named insured, mailed or delivered to the insurer not later than fifteen (15) days after the effective date of the non-renewal, the insurer will within twenty (20) days mail to the named insured a written statement specifying a reason for such non-renewal action." Tenn. Code Ann. §56-7-1902(b) states "(b) There shall be no liability on the part of, and no cause of action of any nature shall arise against, any insurer, its authorized representative, its agents, its employees, or against any firm, person or corporation furnishing information to the insurer, as to the reason for non-renewal."

Revision of Policy Forms:

The Company's policy forms did not reflect the cancellation and non-renewal provisions disclosed in Tenn. Code Ann. § 56-7-1901 and 1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007). Tenn. Code Ann. §56-7-1901 states "Except as provided in § 56-7-1304, if an insurance company does not intend to renew a contract of any kind of personal risk insurance identified in § 56-5-302(5), the company shall mail or deliver to the named insured, at the address shown in the policy, notice of its intention not to renew at least thirty (30) days prior to the expiration of the policy". See the "Revision of By-Laws" comment above for the non-renewal provisions disclosed in Tenn. Code Ann. § 56-7-1902.

Recommendations:

It is recommended that the Company implement the following measures of corrective action for purposes of complying with statutory requirements and accepted insurance accounting procedures:

1. Office Furniture and Equipment:

It is recommended that the Company cease from reporting office furniture and equipment as admitted assets on the Annual Statement form in accordance with the NAIC Accounting Practices and Procedures Manual (SSAP # 19).

2. Liability Premium Collected on Behalf of Farmers Mutual of Tennessee

It is recommended that the Company only show commissions received from Farmers Mutual of Tennessee on the Income Section of its Annual Statement as compensation for writing these liability policies on behalf of Farmers Mutual of Tennessee.

SUBSEQUENT EVENTS:

3. Premium Billing:

It is recommended that the Company bill premium in compliance with the rates submitted and approved by the Rating Section of the Department pursuant to Tenn. Code Ann. § 56-22-109(b)(1), Tenn. Code Ann. § 56-5-303, 304, 305 and 308. Also, future rate changes must be approved by the Department prior to implementation.

New Legislation Requirements for County Mutual Insurance Companies

4. Revision of By-Laws:

It is recommended that the Company update its By-Laws to include non-renewal provisions of Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007).

5. Revision of Policy Forms:

It is recommended that the Company update its policy forms to reflect the cancellation and non-renewal provisions of Tenn. Code Ann. § 56-7-1901 and 1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007).

There were no other apparent violations of Tennessee Insurance Code or NAIC Accounting Practices and Procedures during the period under examination.

The complete and courteous cooperation of Mrs. Stephanie P. Pierce, Treasurer and Mr. Dan Blevens, President, extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

James T. Pearce

James T. Pearce, EIC
Insurance Examiner III
State of Tennesseee

Examination Affidavit:

The undersigned deposes and says that he has duly executed the attached examination report of Blount County Mutual Fire Insurance Company, dated June 2, 2008 made as of December 31, 2006, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

James T. Pearce

James T. Pearce
Insurance Examiner III
State of Tennessee

County Davidson
State Tennessee

Subscribed and sworn to before me
this 2nd day of
June, 2008.

Helen W. Dorsey
(Notary)

HELEN W. DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010

Blount County Mutual Fire Insurance Company

"A County Mutual Insurance Company"

P.O. Box 496 Phone (865) 983-0402 Alcoa, TN 37701-0496

Stephanie P. Pierce-Office Administrator Linda Roberson-Agent

Mr. Philip Blustein , CFE
Insurance Examinations Director
Department of Commerce & Insurance
4th Floor Examination
500 James Robertson Parkway, 4th Floor
Nashville, TN 37243

June 12, 2008

Dear Mr. Blustein,

The Executive Committee of Blount County Mutual Fire Insurance Company has reviewed your letter dated June 2, 2008, and the attached Report of Examination dated December 31, 2006, and we agree with the report and wish to waive our right to a rebuttal. If you need further information please feel free to contact our Treasurer Stephanie P. Pierce.

Sincerely,

Dan F. Blevens
President

RECEIVED

JUN 23 2008

Dept. Of Commerce & Insurance
Company Examinations