Report of Examination

of

Farmers Mutual Fire Insurance Company of

Warren County, Tennessee

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Dept. Of Commerce & Insurance
Company Examinations

Ada Mai Church, Secretary and Treasurer
671 River Cliff Road
McMinnville, TN 37111

Examination made as of: December 31, 2006

Examiner in Charge: James T. Pearce, Examiner III

Examination commenced: August 1, 2007

Examination completed: May 15, 2008

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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

Farmers Mutual Fire Insurance Company of Warren County, Tennessee

McMinnville, Tennessee

Officers

Title	Name	Address	Term
President	Richard Woods	McMinnville, TN	January 2007
Vice President	Jerry Hildreth	Smithville, TN	January 2007
Secretary & Treasurer	Ada Mai Church	McMinnville, TN	January 2007

Directors:

Name	Address	Term Expires
Phillip Prater	McMinnville, TN	January 2008
Richard Woods	McMinnville, TN	January 2008
Robert Clendenon	McMinnville, TN	January 2008
Jimmy Milstead	McMinnville, TN	January 2007
David Pendergraph	McMinnville, TN	January 2007
Jerry Hildreth	Smithville, TN	January 2007
Anna Rhea Basham	McMinnville, TN	January 2009
Marvin Lusk	McMinnville, TN	January 2009

Name	Address	Term Expires
Ada Mai Church	McMinnville, TN	January 2009

Committees:

The Auditing Committee was composed of Jerry Hildreth and Phillip Prater with Marvin Lusk as alternate.

The Adjusting Committee was composed of Richard Woods, David Pendergraph and Jerry Hildreth.

The Committee of Appeal was composed of Richard Woods, Jimmy Milstead, Marvin Lusk, Robert Clendenon, Anna Rhea Basham and Phillip Prater. The Committee of Appeal, also, included an individual who was not an officer or director of the Company and his name was J. Morris Womack.

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

Compensation of the Company's agents, officers, directors and employees was reviewed and found to be in compliance with Tennessee Tenn. Code Ann. § 56-22-130.

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

NONE

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

Not Applicable

Report on reinsurance assumed and / or ceded.

In 1997 the Company cancelled its Aggregate Excess of Loss and its Supplemental Aggregate Excess of Loss Reinsurance Agreements with the Erie Insurance Exchange. The Agreement had been placed by Erie Indemnity Company, Attorney-In-Fact, through Balis Reinsurance Management a division of Guy Carpenter and Company, Inc. of Philadelphia, PA.

The Company continued to maintain a Facultative Binding Authority Reinsurance Agreement and most recently a Property Facultative Pro Rata Reinsurance Agreement with a consortium of reinsurers through Balis Reinsurance Management, a division of Guy Carpenter and Company, Inc. of Philadelphia, PA. Guy Carpenter and Company, Inc. is a wholly owned subsidiary of Marsh McLennan.

See the "Subsequent Events Recommendations Section" of this report for further discussion of aggregate excess insurance.

During the period of examination (2002 through 2006) the Company ceded reinsurance through a consortium of carriers including Arch Reinsurance Company, Aspen Insurance U.K. Limited, Farmers Mutual Hail Insurance Company of Iowa, Hartford Steam Boiler Inspection and Insurance Company and The TOA Reinsurance Company of America. All of the reinsurance agreements are brokered through Guy Carpenter of Philadelphia, PA. The Company as of December 31, 2006 had a Property Facultative Pro Rata Reinsurance Agreement which became effective January 1, 2006 as follows:

Type:	Property Facultative Pro Rata Reinsurance
Coverage:	Pro-Rata Share – Property Business Maximum Cession - $100,000 However, if the cession is greater than $250,000, the maximum cession as respects any one animal shall not exceed $250,000. Minimum Retention - $7,000 Special Acceptance Clause
Term:	Effective at 12:01 AM Central Standard Time, January 1, 2006 until 12:01 AM Central Standard Time, January 1, 2007
Deposit Premium:	The Company receives a 15.0% ceding commission on all premiums ceded to the reinsurers. The Company shall allow the reinsurers return commissions on return premiums at the same rate.

Retention and Limit: Submissions hereunder shall be limited to eight (8) times the net retained liability of the Ceding Company, as defined herein, and shall be subject to a maximum cession of $100,000 and a minimum retention of $7,000 as respects any one (1) risk, covering business classified Fire and Allied Lines. The agreement stated that the Company may request reinsurance for limits greater than those set above.

Cessions covering perils other than fire, wherever the Company carries fire liability upon the same risk, shall be ceded at least in an equal proportion of such fire liability to this contract.

The Reinsurer shall pay to the Company the Reinsurer's proportional share of Loss Adjustment Expense.

Appraisal and classification of risks taken.

Policies are typically written for the full value of the property insured, subject to policy limits of $14,000 per loss. The policy period for each policy was three (3) years. There was a $100 deductible for all wind losses. The agent performs the appraisal on the property prior to the issuance of a policy. Property eligible to be insured includes residential dwellings (and all household goods), barns, livestock, farm equipment, feed mills and church buildings.

The Company writes policies covering property located in Warren County, Tennessee.

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

	2002	2003	2004	2005	2006
All Lines	$9.00	$9.00	$9.00	$9.00	$9.00

Rate of membership, policy and initial fees charged.

As of December 31, 2006, the Company had 402 policies issued and in force.

The agent collects a fixed rate "Policy Fee" for new and renewal business. The Company charges an additional fee per $1,000.00 of Insurance in force. The agent that writes the policy keeps both sets of fees.

Date of last assessment.

The date of the last assessment was February 1, 2006. Policyholders have 60 days to pay before the policy is cancelled and a six (6) month grace period that allows the premiums due to be paid on an installment basis.

Amount delinquent.

There have never been any delinquencies. The Company cancels policies if assessments are not paid within sixty (60) days of notification.

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	$100,634.56	$97,278.49	$91,713.63	$94,089.08	$91,949.60
Less: Losses & Expenses	(145,543.60)	(123,599.69)	(57,701.40)	(71,429.02)	(113,559.28)
Underwriting Gain/(Loss)	(44,909.04)	(26,321.20)	34,012.23	22,660.06	(21,609.68)
Investment & Other					
Income	31,547.74	31,137.51	2,622.58	2,920.13	38,645.59
Net Income / (Loss)	$(13,361.30)	$4,816.31	$36,634.81	$25,580.19	$17,035.91

* These income, expense, profit and loss totals were determined as a result of this examination.

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		$15,591,100
2.	Written		3,462,200
3.	Total		15,053,300
4.	Deduct those expired and marked off as terminated		(3,136,300)
5.	In force, December 31, 2006		11,817,000
6.	Amount Reinsured		(5,852,356)
7.	Net Amount In-Force	402	$5,964,644

Claims Paid in 2006

Fire Losses Paid	$47,000.00
Tornado or Wind Losses Paid	22,909.55
Lightning Losses Paid	795.83
Gross Amount Paid Policyholders for Losses	$70,705.38

Financial Statement

Income

Ledger Assets Per Company, December 31, 2005		$104,442.78
Gross Membership Fees (Policy Fees & Agent Fees)	$3,810.70	
Gross Assessments	88,138.90	
Deduct : Reinsurance Premiums	(11,422.00)	
Net Assessments	76,716.90	
Interest Income	630.65	
Commissions from Reinsurance (Guy Carpenter)	1,818.60	
Total Income		82,976.85
Total Income and Balance		$187,419.63

Disbursements

Gross amount paid policyholders for losses	70,705.38	
Deduct : Reinsurance paid	(36,196.34)	
Net Amount paid policyholders for losses	34,509.04	
Expenses of adjustment and settlement of losses	1,815.56	
Commission or brokerage, including membership fees Retained by agent	4,113.70	
Salaries and compensation of officers, directors, & employees	19,530.00	
Printing and stationery (Office Supplies)	241.97	
Postage	357.86	
Legal Expense	500.00	
Insurance department licenses and fees	1,544.58	
All other licenses, fees and taxes	2,727.00	
Miscellaneous Expenses	496.93	
Bank Service Charge	4.30	
Security bond expense	100.00	
Total disbursements		65,940.94
Balance		$121,478.69

Assets

Cash in banks (checking)	$2,452.71
Cash in banks (savings)	119,025.98
Total admitted assets	121,478.69

Liabilities

Total Liabilities	-0.00-
Surplus over all liabilities	121,478.69
Total	$121,478.69

Assets

Schedule of Bank Deposits:

Name of Bank	Amount on Bank Statement	Amount of O/S Checks	Adjustment Items	Balance
Union Planters Bank, Business Checking	$3,172.86	($720.15)	NONE	$2,452.71
Union Planters Bank, Business Savings	119,025.98	-0-	NONE	119,025.98
TOTALS	$122,198.84	($720.15)	NONE	$121,478.69

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

NONE

Assets pledged or hypothecated:

NONE

Comments on claims, borrowed money and other liabilities:

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

The Company has not borrowed any money since it borrowed $35,000 in 1997.

Claims appeared to have been paid promptly and to the satisfaction of policyholders.

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:

Financial Condition of the Company

The Company raised its rate of Assessment on all lines of business from $6.50 to $9.00 per $1,000, effective January 1, 1998. In 1998 the Company repaid the principal and interest in full pertaining to the $35,000 loan proceeds received in 1997.

Year:	Surplus over Liabilities:
1997	($27,789.65)
1998	$2,465.43
1999	$19,711.68
2000	$27,683.63
2001	$50,772.77
2002	$37,411.47
2003	$42,227.78
2004	$78,862.59
2005	$104,442.78
2006	$121,478.69

In conclusion, the Company's financial condition improved steadily since 1997.

Surety Bond

The Company as of year-end 2006 had a Surety Bond covering its directors and officers issued by CNA Surety.

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:

Subsequent Events:

1. Minimum Surplus Requirements

The Company's "surplus over all liabilities" at no time since January 1, 2007 has met or exceeded $200,000 on an accrual basis. Therefore, the Company was not in compliance with the minimum surplus requirements of Tenn. Code Ann. § 56-22-105(c) (effective January 1, 2007) as of the date of this examination report was submitted to the Commissioner. It is recommended that the Company take the necessary steps to become compliant with Tenn. Code Ann. § 56-22-105(c).

2. Aggregate Reinsurance

As previously stated in the "Report on reinsurance assumed and / or ceded" section of this report the Company has not maintained aggregate reinsurance coverage since 1997. As of January 1, 2007, Tenn. Code Ann. § 56-22-110 requires all county mutual insurance companies to carry an aggregate excess of loss insurance policy of no less than 5% of business in force. The amount required for such a policy shall be reduced by the county mutual insurance company's accumulated surplus. Therefore, the Company has not been in compliance with Tenn. Code Ann. § 56-22-110 since the January 1, 2007 effective date of this statute. It is recommended that the Company purchase the proper amount of aggregate reinsurance coverage in order to become compliant with Tenn. Code Ann. § 56-22-110.

3. Agent's Licensing

The Company's agents were Richard Woods, David Pendergraph and Jerry Hildreth. These agents as of December 31, 2006 were issued a special "Limited Insurance Producer" agent's license specifically designed for those agents that worked for "county mutual" insurance companies. As of July 1, 2007 these "Limited Insurance Producer" agent's licenses were no longer effective. It is recommended that the Company's agents comply with Tenn. Code Ann. § 56-22-113 by taking the necessary steps in order to receive a "property" license in order to write "insurance coverage for the direct or consequential loss or damage to property of every kind" from the Tennessee Department of Commerce and Insurance pursuant to Tenn. Code Ann. § 56-6-105, 106 and 107.

There were no other apparent violations of the Company's By-Laws, Tennessee Insurance Code or NAIC Accounting Practices and Procedures during the period under examination.

The complete and courteous cooperation of Mrs. Ada Mai Church, Secretary and Treasurer, extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

James T. Pearce

James T. Pearce
Insurance Examiner in Charge
State of Tennesseee

Examination Affidavit:

The undersigned deposes and says that he has duly executed the attached examination report of The Farmers Mutual Fire Insurance Company of Warren County, Tennessee dated June 2, 2008 and 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

WARREN COUNTY FARMERS MUTUAL FIRE INSURANCE CO.
ADA MAI CHURCH SEC'Y
P. O. Box 294
McMINNVILLE, TN 37111-0294
Phone 931- 473 2352
Fax 931- 474 2352
June 16, 2008

Mr. James T. Pearce, Jr.
Examiner 111, EIC
State of Tennessee
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway, 4th Floor
Nashville, TN 37243-1135

Re: Financial Examination of Farmers Mutual Fire Insurance Company of Warren County, Made as of December 31, 2006.

Dear Mr. Pearce,

Our Company accepts the report as furnished to us.

You may finalize this report and make it a public document.

Sincerely,

Farmers Mutual Fire Insurance Company of Warren County

Ada Mai Church

Ada Mai Church
Sec'y & Treas

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June 16, 2008

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Tennessee Department of Commerce and Insurance
500 James Robertson Parkway, 4th Floor
Nashville, TN 37243-1135

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Sincerely,

Farmers Mutual Fire Insurance Company of Warren County

Ada Mai Church

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