Report of Examination

of

Farmers Mutual Fire Insurance Company of Washington County

Jonesborough, Tennessee

RECEIVED

JUN 0 2 2008

Dept. Of Commerce & Insurance
Company Examinations

Carol Ramsey, Secretary / Treasurer

106 Jackson Boulevard

P. O. Box 436

Jonesborough, TN 37659

Examination made as of: December 31, 2006

Examiner in Charge: James T. Pearce, Examiner III

Examination commenced: June 6, 2007

Examination completed: May 16, 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	5
Report on reinsurance assumed and / or ceded	5
Appraisal and classification of risks taken	6
Annual rate of assessment per $1,000.00 for period covered	7
Rate of membership, policy and initial fees charged	7
Date of last assessment	7
Amount delinquent	7
Did that assessment provide for all losses, expenses and other liabilities, including borrowed money	7
Amount of money borrowed since date of last assessment	8
Exhibit of Risks	8
Claims Paid in 2006	8
Financial Statement	8
Assets	10
Schedule and description of all other assets, including real estate, mortgage loans, bonds, etc., and interest or rents due or accrued thereon	12
Assets pledged or hypothecated	12
Comments on claims, borrowed money and other liabilities	12
Analysis of Changes in Financial Statement and Comments Resulting From Examination	13
Book Value of Bonds	13

Cash in Banks 13
Summary Schedule for "Analysis Of Changes In Financial Statement" 13
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 14
Investments Held With Only One Authorized Signer 14
Liability Premium Collected on Behalf of Farmers Mutual of Tennessee 14
Refunds Due on Premium Taxes 14
Gross Membership Fees 14
Directors, Employees, Officers and Insurance Agent Insurance Coverage 14
SUBSEQUENT EVENTS - New Legislation Requirements for County Mutual Insurance Companies 15
Revision of By-Laws 15
Revision of Policy Forms 15
Summary of Examiners' Recommendations 16
1. Investments Held Without a Proper Custodial / Safekeeping Agreement 16
2. Liability Premium Collected on Behalf of Farmers Mutual of Tennessee 16
3. Calculation of Premium Taxes during the Period of Examination 16
SUBSEQUENT EVENTS 16
4. Revision of By-Laws 16
5. Revision of Policy Forms 16
Examination Affidavit 18

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 Washington County

Jonesborough, Tennessee

Officers

Title	Name	Address	Term Expires
President	Walter Huffine, III	Jonesborough, TN	January 2007
Vice President	Sam Ford	Jonesborough, TN	January 2007
Vice President	Henry Walker	Jonesborough, TN	January 2007
Secretary & Treasurer	Carol Ramsey	Jonesborough, TN	January 2007

Directors:

Name	Address	Term Expires
Walter Huffine, III, President	Jonesborough, TN	January 2008
Sam Ford, Vice President	Jonesborough, TN	January 2009
Henry Walker, Vice President	Jonesborough, TN	January 2009
Daryl Rowe	Limestone, TN	January 2008
J. W. Jones	Jonesborough, TN	January 2008
William L. Carter	Johnson City, TN	January 2009
Clyde Harrison	Gray, TN	January 2009
Serl Fulwiler	Fall Branch, TN	January 2007

Name	Address	Term Expires
Rex Renfro	Jonesborough, TN	January 2008

The President, Vice-President, Secretary / Treasurer and one (1) director approved by the Board of Directors constitutes the Company's Executive Committee. All acts of the Executive Committee are subject to the approval of the Board of Directors.

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

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

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

The following are amendments to the Company's By-Laws voted on by the Board of Directors at their July 12, 2003, meeting:

Amendment 1 to Section 25 – The Company will pay a first responding fire department charge up to $250 for their help when the property is insured with the Company.

Amendment 2 to Section 1 – The Board of Directors for the Company shall consist of nine (9) members from any of the 18 districts in Washington County.

Amendment 2A to Section 4 – A majority of the Board of Directors (5 or more) shall be required to transact Company business.

Copies of the Company's Amended and Restated By-Laws, revised premium rates, new policy and application forms with an effective date of January 1, 2007 were filed and approval was granted on January 2, 2007 by the Property & Casualty Rating Section of the Department.

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

The changes to the Company's By-Laws voted on by the Board of Directors at their July 12, 2003, meeting were submitted to the T.D.C.I. by the Company in a letter dated January 23, 2004.

Report on reinsurance assumed and / or ceded.

On April 19, 2004 the Company and Farmers Mutual of Tennessee (reinsurer) signed an Excess of Loss Reinsurance Agreement with an effective date of January 1, 2004. 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. The Agreement contains Terrorism Exclusion, Pools, Associations & Syndicates Exclusion, Insolvency Fund Exclusion and a Nuclear Incident Exclusion Clause. This agreement replaced the Combination Per Risk and Aggregate Excess of Loss Reinsurance Agreements originally effective January 1, 2002.

Type: Exhibit A – Combination Per Risk and Aggregate Layer
Coverage: Exhibit A – Combination Per Risk and Aggregate Layer

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, per 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 of 100% of the Company's gross assessment and / or premium income or $132,000 and shall not exceed 100% of $400,000.

Estimated Gross Net Assessment and / or premium income for 2004 - $165,000

Farmers Mutual of Tennessee (reinsurer) and the Company on April 29, 2005 and May 26, 2005, respectively, signed Addendum Number 1 (with an effective date of January 1, 2005) as an attachment to the Company's Excess of Loss Reinsurance Agreement effective January 1, 2004. This Addendum amended the aforementioned Excess of Loss Reinsurance Agreement effective January 1, 2004 as follows:

For purposes of calculating the rate for 2004 and future years, the following Gross Net Assessments and / or Premium Income and Losses Incurred shall be deemed for the years 2001 to 2004. Actual 2005 Gross Net Assessments and / or Premium Income and Losses Incurred shall be included in the 2005 rate calculation when finally determined:

Year	Gross Assessments
2001	$169,353
2002	$167,223
2003	$168,838
2004	$174,174

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

Appraisal and classification of risks taken.

Policies are typically written for the full value of the property insured subject to policy limits of $50,000 per risk before reinsurance. The agent performs the appraisal on the property prior to the issuance of a policy during the application process. Property eligible to be insured includes farm dwellings (and all household goods), farm machinery, livestock, country stores, churches, commercial property, private residences and contents.

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

	2002	2003	2004	2005	2006
Regular Rate	$3.25	$3.25	$3.25	$3.25	$3.25
Double Rate	6.25	6.25	6.25	6.25	6.25

Regular Rate Risks: houses, household & personal property, barns, outbuildings, farm machinery, cattle, baled hay, church buildings, fraternal organization clubhouses, farming tools & supplies.

Double Rate Risks: single and double wide mobile homes, mills and woodworking shops.

Rate of membership, policy and initial fees charged.

The Company does not charge any membership or policy fees.

Date of last assessment.

The Company makes no additional assessments of its policyholders other than regular annual premium billed. Policies are written for one year. Premiums are due on the anniversary date of the policy. Premiums are not collected on an installment basis.

Amount delinquent.

There have never been any delinquencies. The Company sends a past due notice approximately 30 days after the premium due date (policy anniversary date). The Company sends a cancellation notice 60 days after the premium due date (policy anniversary date). The Company cancels policies if assessments are not paid within ten days of cancellation 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	$170,992.26	$168,838.28	$188,233.21	$204,148.26	$206,247.21
Less: Losses & Expenses	(155,088.98)	(232,579.85)	(202,988.69)	(395,345.52)	(196,975.19)
Underwriting Gain/(Loss)	15,903.28	(63,741.57)	(14,755.48)	(202,197.26)	(19,128.83)
Investment & Other					
Income	186,710.80	125,734.66	84,617.93	104,739.49	143,000.06
Net Income / (Loss)	$202,614.08	$61,993.09	$69,862.45	($86,457.77)	$152,272.08

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		$43,569,027.00
2.	Written		3,650,000.00
3.	Total		47,219,927.00
4.	Deduct those expired and marked off as terminated		(4,430,750.00)
5.	Gross In force, December 31, 2006 (before reinsurance)		$42,789,177.00

Claims Paid in 2006

Fire Losses Paid	$114,806.53
Tornado or Wind Losses Paid	12,043.88
Lightning Losses Paid	1,961.70
Gross Amount Paid Policyholders for Losses	$128,812.11

Financial Statement as Determined by this Examination

Income

Ledger Assets per Company, December 31, 2005		$4,661,603.99
Gross Membership Fees (Premium for Agent's Commission)	19,257.50	
Gross Assessments	158,588.86	
Deduct: Reinsurance Premiums Ceded	(1,393.87)	
Deduct: Return Assessments	(17,340.91)	
Net Assessments	139,854.08	
Investment Income Received	179,213.82	
IRS Refund	11.45	
Total Income per Company		338,336.85
Total Income and Balance per Company		4,999,940.84

Disbursements

Gross amount paid policyholders for losses	$77,416.05	
Less: Reinsurance recoveries	(28,400.85)	
Net amount paid policyholder for losses	49,015.20	
Expenses of adjustment and settlement of losses	6,889.50	
Agents Commissions	20,783.40	
Salaries and compensation of officers, directors, & employees	31,376.20	
Advertising	5,535.70	
Printing and stationery	615.11	
Postage, telegrams, telephones and express	4,517.34	
Professional Fees (CPA)	775.00	
Office Rent	5,400.00	
Insurance department licenses and fees	3,955.72	
All other licenses, fees and taxes	6,670.31	
Other disbursements – NAMIC Dues & Liability Ins.	8,167.33	
Other disbursements – TN State Mutual Dues	300.00	
Other disbursements - Electricity	1,395.39	
Other disbursements – Surety Bond	194.91	
Other disbursements – Office Supplies	3,246.09	
Other disbursements – Bad Checks	1,002.36	
Total disbursements per Company		149,839.56
Ledger Assets per Exam before Adjustments		4,850,101.28
Examination Adjustment to Assets and Surplus		(2,208,714.05)
Admitted Ledger Assets per Exam after Adjustment		$2,641,387.23

Assets

Book Value of Bonds [Investments Held at Merrill Lynch (Cost)]	$2,221,978.00
Cash in Banks (Certificates of Deposit, Checking & Money Mkt. Acct.)	2,641,387.23
Total Assets per Examination	4,863,365.23

Assets Not Admitted

Investments Held Through Merrill Lynch (Cost)	(2,221,978.00)

Admitted Assets per Exam

Total admitted assets per examination	$2,641,387.23

Liabilities

Total Liabilities per examination	-0-
Surplus over all Liabilities per Exam	$2,641,387.23
Total per Examination	$2,641,387.23

Assets

Schedule of Bank Deposits:

Name of Bank	Amount on Bank Statement	Amount of O/S Checks	Adj. Items	Balance
First Tennessee Bank , Checking	$136,639.64	($3,469.99)	$17,732.47	$150,902.12
Regions Bank, Money Market	107,707.39	0	0	107,707.39
TOTAL	$244,347.03	($3,469.99)	$17,732.47	$258,609.51

NOTE : The adjusting item was a deposit in transit.

Certificates of Deposit Issued By Local Banks:

Andrew Johnson Bank	$40,000.00	
	20,000.00	
	40,000.00	$100,000.00
Bank of America	50,000.00	
	50,000.00	100,000.00
Bank of Greeneville	100,000.00	100,000.00
Bank of Tennessee	20,000.00	
	20,000.00	
	20,000.00	
	20,000.00	
	20,000.00	100,000.00
Branch Banking & Trust (BB&T)	60,000.00	
	40,000.00	100,000.00
BB&T (formerly First Vantage/Tri-Cities)	20,000.00	
	40,000.00	

	10,000.00	
	22,920.37	92,920.37
Carter County Bank	20,000.00	
	20,000.00	
	60,000.00	100,000.00
Citizens Bank	80,000.00	
	20,000.00	100,000.00
Elizabethton Federal	20.000.00	
	20.000.00	
	20.000.00	
	20.000.00	
	20.000.00	100,000.00
Farmers State Bank (Mtn. City, TN)	100,000.00	100,000.00
First Bank & Trust Co. (Johnson City, TN)	69,151.01	
	39,443.50	108,594.51
First Community Bank (Rogersville, TN)	30,000.00	
	70,000.00	100,000.00
Greene Bank	40,000.00	
	20,000.00	
	40,000.00	100,000.00
Greeneville Federal Bank	20,000.00	
	20,000.00	
	20,000.00	
	40,000.00	100,000.00
Jefferson Federal Bank (Morristown, TN)	100,000.00	100,000.00
Johnson County Bank (Mtn. City, TN)	40,000.00	
	40,000.00	80,000.00
Mountain Commerce Bank	81,086.58	81,086.58
National Bank of Tennessee (Newport, TN)	60,000.00	60,000.00
People's Community Bank (Johnson City, TN)	20,013.70	
	40,012.33	
	20,000.00	

	20,000.00	100,026.03
Regions Bank (formerly Union Planters)	60,000.00	60,000.00
Security Federal (Elizabethton, TN)	20,000.00 20,000.00 60,000.00	100,000.00
State of Franklin Savings Bank (Johnson City)	100,000.00	100,000.00
SunTrust Bank	20,000.00 60,000.00 20,000.00	100,000.00
Tennessee State Bank (Pigeon Forge, TN)	100,000.00	100,000.00
U. S. Bank (formerly Firstar & Citizens Union)	20,000.00 60,000.00 20,000.00	100,000.00
TOTAL CERTIFICATES OF DEPOSIT		$2,382,777.72

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

Bonds:

Held through Merrill Lynch	$4,045.00

Marketable Certificates of Deposit:

Held through Merrill Lynch	$2,207,628.00

Assets pledged or hypothecated:

NONE

Comments on claims, borrowed money and other liabilities:

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

The Company borrowed no money during the period of examination.

Analysis of Changes in Financial Statement and Comments Resulting From Examination

Book Value of Bonds **$-0.00-**

The above amount is $0.00 or the same as the amount reported by the Company in its 2006 Annual Statement. For purposes of this examination the $2,221,978.00 examination total (cost or cash basis) of the Company's investments held through broker / dealer, Merrill Lynch, have been re-classified to Book Value of Bonds from Total Ledger Assets in order to properly classify these investments in accordance with N.A.I.C. accounting practices and procedures. However, the Company's investments are being non-admitted because the securities were being held through broker / dealer, Merrill Lynch which isn't a permissible method for holding securities per Tenn. Code Ann. § 56-3-112, which includes deposit with a "clearing corporation" as defined by Tenn. Code Ann. § 47-8-102. Furthermore, these securities were being held without a proper custodial / safekeeping agreement as required by Tenn. Code Ann. § 56-3-112 and Tenn. Comp. R. & Regs. 0780-1-46. Therefore, $2,221,978.00 is non-admitted for purposes of this examination.

The $2,221,978.00 examination value of the Company's investments held through Merrill Lynch is $12,913.26 more than the $2,209,064.74 Annual Statement total due to the Company reporting these investments at market value instead of cost in order to properly account for these securities on a cash basis.

Cash in Banks **$2,641,387.23**

The above amount is $2,641,387.23 more than the $0.00 amount reported by the Company in its 2006 Annual Statement. For purposes of this examination the $2,382,777.72 examination total of the Company's certificates of deposit with local banks, the $107,707.39 examination total of the Company's money market account with Regions Bank and the $150,902.12 examination total of the Company's First Tennessee Bank checking account have been re-classified to Cash in Banks from Total Ledger Assets in order to properly classify these investments in accordance with N.A.I.C. accounting practices and procedures.

The $2,641,387.23 examination value of the Company's Cash in Banks is $350.69 more than the $2,641,036.54 Annual Statement total due to the Company understating the total amount of principal of its certificates of deposit as of year-end 2006. The Examiner used bank confirmations in order to determine the $2,490,485.11 exam total for the Company's certificates of deposit.

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
Book Value of Bonds (Merrill Lynch Investments)	$12,913.26	$2,221,978.00
Cash in Banks (Certificates of Dep., Checking & Money Mkt.)	350.69	
Totals	$13,263.95	$2,221,978.00
Net Change In Surplus		$2,208,714.05

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:

Investments Held With Only One Authorized Signer:

The Company at year-end 2006 and on June 6, 2007 had one (1) authorized signer, the Secretary / Treasurer, for its Merrill Lynch account. The Company should make sure that its current President becomes a signer on this account as soon as possible in order to strengthen its internal controls over its investments. The Company's current President has been given prior authorization to make investment decisions on behalf of the Company by the Board of Directors. He is currently a signer on all of the Company's other bank accounts, including certificates of deposit invested with local banks.

Liability Premium Collected on Behalf of Farmers Mutual of Tennessee

The Company's 2006 Annual Statement did not specifically reflect the receipt and transfer of liability premiums collected from the Company's policyholders on behalf of Farmers Mutual of Tennessee. However, the Company's Secretary / Treasurer confirmed that the $158,588.86 Gross Assessment total on line 4 and the $17,340.91 Return Assessments total on line 6 on the Income Section of the 2006 Annual Statement included the Company's premiums and liability premiums collected from the Company's policyholders on behalf of Farmers Mutual of Tennessee. These liability premiums reported in the 2006 Annual Statement are not the Company's premiums and should not be disclosed 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 producing these liability policies for Farmers Mutual of Tennessee.

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 approximately $812.20 for the 2006 tax year which included the $15.78 premium tax refund amount plus a refund of the $796.42 amount of tax payment made to the Department in error. Additionally, the Examiner determined that the Company is due an approximate $2,558.23 total premium tax refund for the 2003 through 2005 tax years as compared to the $579.45 net amount of refunds due the Company after deducting payments made to the Department as previously reported by the Company on their final calendar year 2003 through 2005 Statement of Premiums and Fees For Taxation.

A further review of the Company's calendar year 2002 through 2006 Statement of Premiums and Fees For Taxation revealed that the Company in each case failed to correctly calculate the amount of premium tax subject to reduction on Schedule C based upon the amount of Tennessee investments held by the Company as defined by Tenn. Code Ann. §56-4-210 and the annual premium tax form's instructions. Furthermore two (2) types of calculation errors made by the Company resulted in the amount of premiums subject to taxation as shown on line 1 of the 2002 through 2006 annual tax returns to be understated.

Gross Membership Fees

The Company receives no gross membership fees from policyholders. However, the Company listed Gross Membership Fees in the 2006 Annual Statement on the Income Statement. These were actually agents' commissions derived from written premium.

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 the State of 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.

Also, 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 $2,500 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 Agents and Omissions Liability Insurance coverage provided.

Finally, the Company was the named insured of a Commercial Blanket insurance policy issued by Western Surety Company. Western Surety Company is a licensed property and casualty company in the State of Tennessee.

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, Declaration Page, 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.

Subsequent Events:

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 form provided to the Examiner did not reflect the cancellation and non-renewal provisions disclosed in Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007). See the "Revision of Charter and 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 as required by Tenn. Code Ann. § 56-22-109(a)(4):

1. Investments Held Through a Broker / Dealer without a Proper Custodial Agreement

It is recommended that the Company become compliant with Tenn. Code Ann. § 56-3-112 and Regulation 0780-1-46 (revised effective July 12, 2005). This can be accomplished by either moving its investments out of its broker / dealer account and investing directly with banks in accounts that are insured up to $100,000 by the Federal Deposit Insurance Corp., or establishing a proper custodial relationship with a bank that is a member of the federal reserve system and transferring these investments that are currently held by investment brokers into a custodial account that meets the requirements of Tenn. Code Ann. § 56-3-112 and Regulation 0780-1-46. Furthermore, any investments not held through proper safekeeping arrangements with approved custodians are to be reported as non-admitted assets on future annual statement filings per Tennessee Regulation 0780-1-46-.03(4).

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 for Farmers Mutual of Tennessee.

3. Calculation of Premium Taxes during the Period of Examination:

It is recommended that the Company properly disclose the gross premiums subject to taxation on their calendar year-end Statement of Premiums and Fees for Taxation as reflected on their Annual Statements pursuant to Tenn. Code Ann. § 56-22-114 and according to the tax return's instructions. It is further recommended that the Company correctly calculate the amount of premium tax subject to reduction on Schedule C based upon the amount of Tennessee investments held by the Company as defined by Tenn. Code Ann. §56-4-210 and the annual premium tax form's instructions.

Subsequent Events:

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 the non-renewal provisions contained in 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. § 56-7-1902 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. It appears that the Company is being operated in the best interest of the policyholders.

The complete and courteous cooperation of Mrs. Carol Ramsey, Secretary & Treasurer, Mr. Walter Huffine III, President and Mr. Rex Renfro, Director extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

James T. Pearce, Jr.

James T. Pearce, Jr.
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 Washington 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, Jr.

James T. Pearce, Jr.
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

Farmers' Mutual Insurance Company
Of Washington County
(A County Mutual Insurance Company)
106 Jackson Blvd.
P. O. Box 436
Jonesborough, TN 37659
(423) 753-2891
* * * * *

June 11, 2008

Philip Blustein
Insurance Examinations Director
TN Department of Insurance
500 James Robertson Parkway
Nashville, TN 37243

Dear Mr. Blustein:

Farmers' Mutual Fire Insurance Company of Washington County find no corrections necessary in the examination report conducted by Mr. James Pearce of the state of our company as of December 31, 2006.

Sincerely,

Carol Ramsey

Carol Ramsey
Secretary-Treasurer

RECEIVED
JUN 13 2008
Dept. Of Commerce & Insurance
Company Examinations