Report of Examination

of

McMinn County Farmers Mutual Fire Insurance Company of

Athens, Tennessee

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Dept. Of Commerce & Insurance
Company Examinations

H. P. Moore, II, Secretary

403 West Madison Ave.

Athens, TN 37303

Examination made as of: December 31, 2006

Examiner in Charge: James T. Pearce, Examiner III

Examination commenced: May 3, 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

McMinn County Farmers Mutual Fire Insurance Company

Athens, Tennessee

Officers

Title	Name	Address	Term Expires
President	John Middleton	Englewood, TN	July 2005
Vice President	Marvin Powell	Riceville, TN	July 2003
Secretary & Treasurer	H. P. Moore, II	Niota, TN	July 2004

Directors:

Name	Address	Term Expires
John Middleton, President	Englewood, TN	July 2005
Marvin Powell, Vice President	Riceville, TN	July 2003
H. P. Moore, II, Sec. / Treas.	Niota, TN	July 2004
Jimmy Small	Athens, TN	July 2004
Edward Cate	Athens, TN	July 2005
Morris Clark	Charleston, TN	July 2005
Hazel Dake	Athens, TN	July 2005
John Gambill	Athens, TN	July 2005
Nellie Kyker Sliger	Athens, TN	July 2005

Committees:

Executive Committee:
John Middleton, President
Marvin Powell, Vice President
H. P. Moore, II, Sec. / Treas.

Building Committee:
Jimmy Small - Chairman
H. P. Moore, II
Hazel Dake

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

Compensation of the Company's officers, directors and employees was reviewed and found to be in compliance with Tennessee statutes. The Company did not pay commissions to its three (3) licensed agents.

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

On November 16, 2002 the By-Laws were amended.

1. The Company's retention was increased from $10,000 to $25,000 and By-Laws were changed to allow future retention changes without changing the Company's charter.
2. The Company added an endorsement to exclude mold damages.
3. The Company added an endorsement to exclude Acts of Terrorism.

In 2005 the By-Laws were amended.

1. The Company's maximum retention was increased from $25,000 to $35,000.

The Examiner found no record in the Company's meeting minutes for the Annual Membership meeting or the Board of Directors meeting that reflected an approval to increase the Company's maximum retention from $25,000 to $35,000.

SUBSEQUENT EVENTS:

The Company's meeting minutes for the Annual Membership Meeting on January 27, 2007, noted 130 eligible ballots were cast in favor of amending the Company's Charter as opposed to 4 ballots against. However, the Company's meeting minutes for the Annual Membership Meeting do not reflect exactly what amendments were made to the Company's Charter. Additionally, the Company did not provide the Examiner with a copy of the Amended Charter or By-Laws or any other documentation that specifically disclosed the approved changes referenced in the Company's meeting minutes for the Annual Membership meeting or the Board of Directors meeting.

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

A review of the Department's Charter and Analyst files did not reveal that By-Law changes made during the period of examination (2002 through 2006) were submitted to the Department.

Report on reinsurance assumed and / or ceded.

On October 15, 2002 the Company and Farmers Mutual of Tennessee (reinsurer) signed a Surplus Quota Share Reinsurance Agreement with an effective date of October 1, 2002. 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. Such sessions were limited to four (4) times the net liability of the Company subject to its maximum retention of $25,000 per risk.

On May 16, 2005 the Company and Farmers Mutual of Tennessee (reinsurer) 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
Coverage: Exhibit A – Combination Per Risk and Aggregate Layer-2005

Part 1 – Property Risk Excess of Loss covers each loss in excess of the Company's $35,000 maximum retention up to the Reinsurers $80,000 maximum per risk.

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 75% of the Company's gross assessment and / or premium income or $105,000 and shall not exceed 100% of the lesser of 50% of the Company's gross assessment and / or premium income or $105,000.

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 or 125% of the Company's gross assessment and / or premium income or $175,000 and shall not exceed 100% of the lesser of 125% of the Company's gross assessment and / or premium income or $262,500.

Type: Exhibit C - Third 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 or 250% of the Company's gross assessment and / or premium income or $350,000 and shall not exceed 100% of the lesser of 750% of the Company's gross assessment and / or premium income or $1,575,000.

SUBSEQUENT EVENT:

On February 23, 2007 the Company and Farmers Mutual of Tennessee (reinsurer) signed Addendum Number 1 (with an effective date of January 1, 2007) as an attachment to the Company's Excess of Loss Reinsurance Agreement effective January 1, 2005. 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 75% of the Company's gross assessment and / or premium income or $105,000 and shall not exceed 100% of the lesser of 50% of the Company's gross assessment and / or premium income or $120,000.

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 or 75% of the Company's gross net assessment and / or premium income or $120,000 plus the lesser of 50% of gross net assessment and / or premium income or $120,000 and shall not exceed 100% of the lesser of 125% of the Company's gross assessment and / or premium income or $300,000.

Type: Exhibit C - Third 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 or 250% of the Company's gross assessment and / or premium income or $400,000 and shall not exceed 100% of the lesser of 750% of the Company's gross assessment and / or premium income or $1,800,000.

Appraisal and classification of risks taken.

At year-end 2006 policies were typically written for the full value of the property insured subject to policy limits of $35,000 per risk before reinsurance. The Company increased its maximum retention per risk from $25,000 to $35,000 in 2005. The Company's maximum retention per risk increased from $10,000 to $25,000 in 2002.

The Company's three (3) licensed agents performed an on site appraisal of the property prior to the issuance of a policy during the application process. Property eligible to be insured included brick, masonry and frame owner or tenant homes, barns and other outbuildings, mobile homes, commercial property, cattle and building contents. Property theft and vandalism coverage was also available.

The Company wrote policies covering property located in Bradley, McMinn, Meigs and Monroe counties.

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

	2003	2004	2005	2006*
Owner homes brick or masonry	10.00	10.00	10.00	10.00
Tenant homes brick or masonry	10.50	10.50	10.50	10.50
Owner homes frame(over $25,000)	10.00	10.00	10.00	10.00

Owner homes frame and barns	10.50	10.50	10.50	10.50
Owner barns (alone)	11.00	11.00	11.00	11.00
Tenant homes frame and barns	11.00	11.00	11.00	11.00
Owner mobile homes	18.00 to 20.00	18.00 to 20.00	18.00 to 20.00	18.00 to 20.00
Tenant mobile homes	19.00 to 21.00	19.00 to 21.00	19.00 to 21.00	19.00 to 21.00
Owner double wide	11.50	11.50	11.50	11.50
Tenant double wide	12.50	12.50	12.50	12.50
Commercial	15.00	15.00	15.00	15.00
Theft (first $5,000)	11.00	11.00	11.00	11.00
Theft ($6,000 and above)	7.50	7.50	7.50	7.50
Vandalism	Same as structure	Same as structure	Same as structure	Same as structure
High risk mobile homes	20.00 – 25.00	20.00 – 25.00	20.00 – 25.00	20.00 – 25.00

* The Company's rating structure as shown above was effective through December 6, 2006.

The Company's rating structure was amended effective beginning December 7, 2006 and is summarized below.

Coverage Codes

A. Fire, Lightning & Explosion
B. Fire, Lightning, Explosion & Extended Coverage
C. Fire, Lightning, Explosion, Extended Coverage & Vandalism
D. Theft

Basic Codes		**Rate Per $1,000**
DB1	Dwelling Brick Tenant	7.00 to 21.00
DB2	Dwelling Brick Owner (under $25,000)	6.67 to 20.00
DB3	Dwelling Brick Owner ($25,000 and above)	6.34 to 19.00
DF1	Dwelling Frame Tenant	7.34 to 22.00
DF2	Dwelling Frame Owner (under $25,000)	7.00 to 21.00
DF3	Dwelling Frame Owner ($25,000 and above)	6.67 to 20.00
RBS1	Related Private Structures Brick Tenant	7.00 to 21.00
RBS2	Related Private Structures Brick Owner (under $25,000)	6.67 to 20.00
RBS	Related Private Structures Brick Owner ($25,000 and above)	6.34 to 19.00
RFS1	Related Private Structures Frame Tenant	7.34 to 22.00
RFS2	Related Private Structures Frame Owner (under $25,000)	7.00 to 21.00
RFS3	Related Private Structures Frame Owner ($25,000 and above)	6.67 to 20.00
PP	Personal Property	Same as Structure
PPS	Personal Property Specific	Same as Structure
PPR	Personal Property Renters	15.00
PF	Permanent Fixtures	Same as Structure
T1	Tenant Mobile Homes (rate increases with age)	12.67 to 72.00
~~T2~~	~~Owner Mobile Homes (rate increases with age)~~	~~12.00 to 70.00~~
DW1	Tenant Double Wide (rate increases with age)	8.34 to 36.00
DW2	Owner Double Wide (rate increases with age)	7.67 to 30.00
C1	Commercial Business & Apartments	10.00 to 30.00
C2	Commercial Frame Schools, Churches & Public Buildings	7.00 to 21.00

C3	Commercial Brick Schools, Churches & Public Buildings	6.67 to 20.00
C4	Commercial Chicken Houses In Use	10.00 to 30.00
ALC	Additional Living Costs	Same as Structure
FSC	Fire Service Calls	2.00

FARM BASIC CODES

FB1	Farm Buildings (Barns)	7.00 to 21.00
FB2	Farm Buildings (Dairy Barns Block)	6.67 to 20.00
FB3	Farm Buildings (Old Barns, Barns Alone & Tenant Barns)	7.34 to 22.00
FB4	Farm Buildings (Other Farm Buildings)	7.00 to 21.00
FB5	Farm Buildings (Other Farm Buildings Alone)	7.34 to 22.00
FB6	Farm Buildings (Silo)	7.00 to 21.00
FB7	Farm Buildings (Grain Bins)	7.00 to 21.00
FB8	Farm Buildings (Barns Brick or Block)	6.67 to 20.00
FB9	Farm Buildings (Chicken Houses not in use with dwellings)	7.00 to 21.00
FB10	Farm Buildings (Chicken Houses not in use alone)	7.34 to 22.00
FPP1 – FPP4	Farm Personal Property	Same as Structure
FPP5 – FPP6	Farm Personal Property	7.00 to 21.00
FPP7 – FPP9	Farm Personal Property	Same as Structure
FPF	Farm Permanent Fixtures	Same as Structure

COVERAGE CODE D - Theft

THH1	Tenant Theft Household Effects ($5,000 max.)	11.50
TSI1	Tenant Theft Specific Item	8.00
THH2	Owner Theft Household Effects ($5,000 max.)	11.00
TSI2	Owner Theft Specific Item	7.50

Minimum Policy Amounts

The Company's minimum amount of insurance per policy is $5,000, minimum amount per specific item is $500 or minimum premium amount per class of insurance.

Deductible Credits

$250	standard – no credit
$500	10% credit
$1,000	15% credit
$1,500	20% credit
$2,000	25% credit

High Risk

The Company adds a surcharge for adverse policyholder conditions such as Bankruptcy and Claims (except for Wind, Hail & Lightning)

Total Loss Claim	increase base premium by 20%
Bankruptcy	increase base premium by 20%

Total Loss Claim & Bankruptcy	increase base premium by 30%

On October 23, 2004 the Company's Directors ruled that any building insured that was vacant, unoccupied or for sale would require the policyholder to pay one (1) full year's premium up front and six (6) months premium would be considered earned by the Company and not refundable upon sale of the building prior to the end of the first six (6) months of the policy. This policy was in effect as of year-end 2006.

On October 22, 2005 the Company's Directors ruled that policyholders that make monthly premium payments should pay a $3.00 fee each month to cover the increased cost of labor and paperwork associated with these monthly premium payments. This policy was in effect as of year-end 2006.

Rate of membership, policy and initial fees charged.

The Company's agents were paid $12.00 for each policy written or renewed.

Date of last assessment.

The Company makes advance assessments of its Members in January of each year. All policies have a three (3) year term. The last assessment during the period of examination was in January 2006 for the policy period January 1, 2006 through December 31, 2006.

Amount delinquent.

As of December 31, 2006, the Company stated in its 2006 Annual Statement that it had a due and uncollected premium balance of $31,564.86. The examination total for "Assessments Levied and Uncollected" as of December 31, 2006 was determined to be $2,649.98 or $28,914.88 less than the $31,564.86 amount shown on the 2006 Annual Statement. See the "Bills (Premiums) Receivable" heading under the "Analysis of Changes in Financial Statement and Comments Resulting From Examination" Section of this exam report for a further explanation.

Article VII. – Assessments, Section 2 - Notice of the Company's By-Laws requires that "all assessments upon members of this Company shall be due and payable within 30 days after date of notice, and should any member neglect or refuse to pay his or her assessment for a space of 60 days after notice, such members shall henceforth stand as a suspended member". The Company sends a past due notice approximately 30 days and then 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 for mortgaged property and five days of non-mortgaged property.

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	$128,205.67	$141,773.07	$176,367.66	$186,624.58	$188,519.48
Less: Losses & Expenses	(176,431.01)	(219,897.96)	(166,938.23)	(185,346.34)	(233,984.05)
Underwriting Gain/(Loss)	(48,225.34)	(78,124.89)	9,429.43	1,278.24	(45,464.57)
Investment & Other					
Income	29,343.76	16,536.72	25,765.69	34,702.04	49,761.86
Net Income / (Loss)	$(18,881.58)	$(61,588.17)	$35,195.12	$35,980.28	$4,297.29

* 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		$23,934,475.50
2.	New Business Written		3,008,600.00
3.	Renewal Business Increased		303,438.00
4.	Total		27,246,513.50
5.	Deduct those expired and marked off as terminated		889,900.00
6.	In force, December 31, 2006	475	$26,356,613.50

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

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$31,564.86

Financial Statement As Determined By This Examination

Income

Ledger Assets per Company, December 31, 2005		$628,149.90
Gross Assessments (Including Farmers Mutual)	$187,490.48	
Deduct : Reinsurance Premiums Ceded	(19,480.00)	
Deduct : Return Assessments	(3,257.21)	
Net Assessments	164,753.27	
Miscellaneous Income	1,029.00	
Investment Income Received	18,603.69	
Agency Commission	4,527.86	
Total Income		187,884.82
Total Income and Balance		816,034.72

Disbursements

Gross amount paid policyholders for losses	129,062.11	
Deduct reinsurance	(26,630.31)	
Net amount paid policyholders for losses	102,431.80	
Expenses of adjustment and settlement of losses	750.00	
Agents Commissions	2,701.19	
Salaries and compensation of officers, directors, & employees	41,557.07	
Advertising	5,253.53	
Postage, telegrams, telephones and express	5,041.03	
Legal Expenses and Professional Fees	0.00	
Office, Equipment, Lock Box & P.O. Box Rent	5,877.88	
Insurance department licenses and fees	2,781.87	
All other licenses, fees and taxes	10,623.64	
Other office supplies	1,085.78	
Education	240.00	
Miscellaneous	652.80	
Dues & Subscriptions	1,507.69	
Meals & Travel	1,071.93	
Building and Equipment Maintenance	172.50	
Liability Premium (Farmers Mutual)	2,573.50	
Charitable Contributions	294.32	
Total disbursements		184,616.53
Ledger Assets per Exam before Adjustment		631,418.19
Examination Adjustment to Assets and Surplus		(39,433.84)

Ledger Assets per Exam after Adjustment		$591,984.35

Assets

Book Value of Common Stocks	$9,372.41	
Cash in Company's Office	300.00	
Premiums Due and Uncollected	31,564.86	
Cash in Banks	580,453.39	
Total Ledger Assets Per Company		$621,690.66

Non-Ledger Assets

Furniture and Equipment	9,889.57	
Total Non-Ledger Assets Per Company		9,889.57
Gross Assets Per Company		$631,580.23

Assets Not Admitted

Furniture and Equipment	9,889.57
Total Admitted Assets per Annual Statement	$621,690.66
Non Admission of Premiums Due and Uncollected Per Examination (Over 90 Days Past Due)	(28,914.88)
Non Admission of Difference Between Annual Statement and Examination Value of Common Stock	(791.43)
Total Admitted Assets per Examination	$591,984.35

Liabilities

Three (3) Claims for Losses in Process of Adjustment	$9,437.29
Payroll Taxes	1,021.80
Advance Premiums	26,206.51
Total Liabilities Per Examination	36,665.60
Surplus Over All Liabilities Per Exam	555,318.75
Total Liabilities and Surplus per Examination	$591,984.35

Assets

Schedule of Bank Deposits:

Name of Bank	Amount on Bank Statement	Amount of O/S Checks	Adj. Items	Balance
Citizens National Bank, Checking	$10,611.16	($497.17)	$103.00	$10,216.99
Athens Federal, Checking	1,952.91	(1,982.83)		(29.92)
Bank of Athens, Checking	51,202.32	(9,812.50)	3,146.91	44,536.73

Name of Bank	Amount on Bank Statement	Amount of O/S Checks	Adj. Items	Balance
Bank of Athens, Savings	27,682.16	0.00	0.00	27,682.16
	$91,448.55	($12,292.50)	$3,249.91	$82,267.93

NOTE : The adjusting items were deposits in transit.

Certificates of Deposit:

Athens Federal Community Bank	$108,911.72
BB&T	43,563.12
Citizens National Bank	65,000.97
Citizens National Bank	65,000.97
FS&G Bank	106,107.70
Peoples Bank of East TN	109,462.95
Total Certificates of Deposit per Exam	$498,047.43

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

Common Stock:

Federal City Bancorp, Inc.	628 Common Shares	MV $4.61	$2,895.08
NAMIC Insurance Co.	30 Class B Common Shares	MV $189.53	5,685.90
Total Market Value of Common Stock per Exam			$8,580.98

Premiums Due and Uncollected:

73 Policies with Outstanding Premium Balances Due to the Company	$25,477.97
Less: 63 Policies with Outstanding Premium Balances Over 90 Days Past Due	(22,827.99)
Total Premiums Due and Uncollected Balance Per Exam	$2,649.98

Assets pledged or hypothecated:

None of the Company's assets were pledged or hypothecated during the period of examination.

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

Bills (Premiums) Receivable **$2,649.98**

The above amount is $28,914.88 less than the $31,564.86 amount reported by the Company on line 48 in its 2006 Annual Statement. Documentation provided by the Company revealed the Company had 111 policies with $36,539.10 premium due and uncollected at year-end 2006 or $4,974.24 more than $31,564.86 amount reported by the Company in its 2006 Annual Statement.

The Company's detailed "Credit Memo List" report provided to the Examiner showed 30 policies with $11,061.13 premium due and uncollected over 60 days past due. All 30 of these policies were cancelled on January 13, 2007 for non-payment of premium. This $11,061.13 premium due and uncollected total for the 30 policies that were cancelled on January 13, 2007 for non-payment of premium was considered a non-admitted asset by the Company and is considered a non-admitted asset for purposes of this examination as of year-end 2006.

The Company's detailed "Customer List" report provided to the Examiner showed 81 policies with $25,477.97 premium due and uncollected at year-end 2006. Of these 63 Policies had $22,827.99 premium due and uncollected balances over 90 days past due. This $22,827.99 premium due and uncollected total for the 63 policies that had uncollected premium balances over 90 days past due is considered a non-admitted asset for purposes of this examination.

Therefore, the examination total for "Assessments Levied and Uncollected" as of December 31, 2006 was determined to be $2,649.98 or $28,914.88 less than the $31,564.86 amount shown on the 2006 Annual Statement.

Based on the documentation provided to the Examiner it does not appear that the Company cancels policies over 60 days past due on a timely basis in accordance with the Company's By-Laws.

Book Value (Market Value) of Stocks **$8,580.98**

The above amount is $791.43 less than the $9,372.41 market value amount reported by the Company on line 44 in its 2006 Annual Statement. Using NAIC-SVO market value information, the Examiner determined the combined market value total of the two (2) common stock holdings was $8,580.98 as of year-end 2006.

Total Unpaid Losses and Claims **$9,437.29**

The above amount is $1,766.56 more than the $7,670.73 liability amount reported by the Company on line 68 in its 2006 Annual Statement filed with the Tennessee Department of Commerce and Insurance. The Company incurred three (3) claims in 2006 that were settled and paid in 2007 for a total of $9,437.29.

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
Bills (Premiums) Receivable		($28,914.88)
Book Value (@NAIC Market Value) of Stocks		(791.43)
Total Unpaid Losses and Claims		(1,766.56)
Totals	$0.00	$(31,472.87)
Net Change In Surplus		$(31,472.87)

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:

Agency Operations:

During the period of examination (2002 through 2006) licensed employees of the Company acted in the capacity of an agent. Certain employees of the Company would collect premiums and assist in binding coverage on behalf of other property and casualty companies licensed to transact business in the State of Tennessee. Premiums collected would be deposited into the Company's bank accounts until forwarded to the companies issuing coverage. Certain employees of the Company received commission payments as compensation for their duties as agents representing other companies issuing coverage.

Approval of By-Law Changes:

In 2005 the By-Laws were amended and the Company's maximum retention was increased from $25,000 to $35,000. The Examiner found no record in the Company's meeting minutes for the Annual Membership meeting or the Board of Directors meeting that reflected an approval to increase the Company's maximum retention from $25,000 to $35,000.

Non-Ledger Assets:

The Company showed a $9,889.57 amount for non-ledger assets in each of its Annual Statements submitted to the Tennessee Department of Commerce and Insurance covering the period of examination since 2002. The Company gave no description of these non-ledger assets in its Annual Statements covering the period of examination, except for the 2002 Annual Statement which described them as "net property and equipment". However, in each Annual Statement since 2002 the Company not-admitted the full amount of non-ledger assets disclosed.

Statement of Accounting:

The Company's Assets, Liabilities and Surplus shown in its 2006 Annual Statement were presented on a partial accrual basis as compared to cash basis accounting.

For example, the Company presented premium income on a net received basis for the year in which it was due instead of calculating premiums on a net earned basis which encompasses all net written premium for the year in which it was due.

Tax Consultant:

The Company hired a tax consultant to prepare all State and Federal Tax Forms for the 2003 tax year.

Refunds Due on Premium Taxes during the Period of Examination:

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 $50.31 for the 2006 tax year, a refund of $15.12 for the 2005 tax year, a refund of $37.34 for the 2004 tax year and a refund of $6.67 for the 2003 tax year.

Rating Approval

The Company submitted its underwriting rating schedule to the Tennessee Department of Commerce and Insurance for approval pursuant to "The Tennessee County Mutual Insurance Company Act of 2006". Approval was granted by the Property and Casualty Rating Section of the TDCI in December 2006.

Subsequent Events:

Investment in Home Office Land and Building

The Company on October 31, 2007 purchased a home office land and building located on 403 West Madison Avenue in Athens, Tennessee for a consideration of $160,000 which is approximately 26% of the Company's assets as determined by this examination. The Company's investment in real estate is limited to 10% of admitted assets upon excluding real estate from the calculation pursuant to Tenn. Code Ann. §56-3-405. Therefore, the excess will be required to be reported as a non-admitted asset in future statutory filings.

Subsequent Events - 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.

Amendment to Charter and By-Laws

As a result of the "The Tennessee County Mutual Insurance Company Act of 2006" the Company's Board of Directors decided to allow the Company's policyholders to vote and approve changes to the Company's Charter. It was disclosed at the Company's Annual Membership meeting held on January 27, 2007 that 130 out of 153 ballots received voted in favor of amending the Company's Charter in order to comply with "The Tennessee County Mutual Insurance Company Act of 2006". The Company mailed ballots to 475 policyholders that were eligible to vote. However, the Company did not provide the

Examiner with a copy of an Amended Charter or By-Laws or any documentation that specifically disclosed the approved changes referenced in the Company's January 27, 2007 meeting minutes for the Annual Membership meeting or the Board of Directors meeting.

Revision of Charter and By-Laws:

The Company's Charter and By-Laws did not include the non-renewal provisions denoted in Tenn. Code Ann. § 56-7-1901 and Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007). Tenn. Code Ann. §56-7-1901 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". 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 as required by Tenn. Code Ann. § 56-22-109(a)(4):

1. Agency Operations:

It is recommended that the Company should refrain from showing the collection or disbursement of premiums on policies written by other property and casualty companies in its Annual Statement on the Income Statement. Furthermore, the Company should not show premiums collected and held on behalf of other property and casualty companies in the Company's bank accounts as an asset of the Company on its balance sheet listing of assets in its Annual Statement submitted to the Tennessee Department of Commerce and Insurance without a specific offsetting liability for these amounts held for others. The Company's Income Statement should only reflect commission income received from other property and casualty companies as compensation for the Company acting in the capacity of an agent.

2. Premiums Receivable:

It is recommended that the Company cancel all policies over 60 days past due in accordance with its By-Laws. Furthermore, it is recommended that the Company non-admit all premium due and uncollected asset balances over 90 days past due in accordance with NAIC Accounting Practices and Procedures Statement of Statutory Accounting Principal (S.S.A.P.) #6.

SUBSEQUENT EVENTS:

New Legislation Requirements for County Mutual Insurance Companies

3. Revision of Charter and 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).

4. 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 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. Vicki Anderson Moore, General Manager and Mr. H. P. Moore, Secretary / 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 McMinn County Farmers Mutual Fire Insurance Company of Athens, 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

Philip Blustein - Letter of Written Submission to Examination report of McMinn County Farmers as of December 31, 2006

RECEIVED
JUN 17 2008
Dept. Of Commerce & Insurance
Company Examinations

From: "Vicki S. Moore" <mcfm@comcast.net>
To: "Philip Blustein" <philip.blustein@state.tn.us>
Date: 6/17/2008 12:37 PM
Subject: Letter of Written Submission to Examination report of McMinn County Farmers as of December 31, 2006
CC: "James Pearce" <James.Pearce@state.tn.us>
Attachments: Vicki S Moore.vcf; BYLAWSTHE McMINN COUNTY FARMERS MUTUAL INSURANCE COMPANYARTICLE 1.pdf; AMENDED AND RESTATED CHARTEROFMcMINN COUNTY FARMERS MUTUAL.pdf; minutes june 14 2008.pdf; Letter of response to examination 123106.pdf; Letter Hui Wattanaskolpant analyst 6 17 2008.pdf; Letter John Duncan P and C filings 6 17 2008.pdf

Hi Philip and James,

I hope you both are well, I am sure you are busy. We have been covered up but I am not complaining I like things to be busy and that means business is good.

I am attaching the formal letter, Copy of By-Laws, Copy of Amended Charter, Copy of Endorsement to policy forms and both letters one to Mr. Duncan and One to Hui. By the way, it cost us $ 75.00 dollars to overnight out three packages to the state.

You should have yours in by 10:30 a.m. June 18, 2008.
The Tracking # is : Fed Ex # 798962910040 Package ID # 6394 Shipment ID # 6346

Hope to hear from you soon

Vicki

Call us for all your insurance needs

Vicki S Moore
General Manager/General Agent

McMinn County Farmers Mutual Insurance Co., Inc.
P.O. Box 321
403 W. Madison Ave.
Athens, TN 37371-0321
tel: 423-745-4341
fax: 423-745-9955
mobile: 423-333-4039

mcfm@comcast.net

McMinn County Farmers Mutual
Insurance Company, Inc.
"A County Mutual Insurance Company"
P.O. Box 321
Athens, TN, 37371-0321
423-745-4341 Phone
423-745-9955 fax
mcfm@comcast.net e-mail

June 16, 2008

Mr. Philip Blustein, CFE
Insurance Examinations Director
State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

Dear Mr. Blustein:

Following is our written submission addressing the copy of the Examination Report of McMinn County Farmers Mutual Insurance Co., Inc. Made as of December 31, 2006.

Page 5 **Report of changes in the Constitution or By-Laws, policy forms, or other agreements during the period covered by this examination.**

Please find attached a copy of updated by-laws for submission to the Dept. Of Commerce and Insurance for the examination period of 2002 - 2006, I am also submitting to Mr. John E. Duncan, Manager of P.& C. Filings.

Please find attached a copy of amended Charter being submitted to the Commissioner of Insurance for approval and the Secretary of State of Tennessee for approval .Upon approval of the Secretary of State an official copy will be filed with the Department of Commerce and Insurance in order to receive an updated Certificate of Authority.

I am also submitting minutes from the called Board of Directors meeting June 14, 2008 to correct the minutes of the October 22, 2005 meeting.

Recommendations:

1. Agency operations:

The company will refrain from showing the collection or disbursements of premiums on policies written by other property and casualty companies in its Annual Statement on the Income Statement. The money in this account is commission received by the company and will show a offsetting liability for any amount held for others from now on, the company's income statement will only reflect commission income received from other property and casualty companies as compensation for the company acting in the capacity of an agent.

2. Premiums Receivable:

The company is currently cancelling policies over 60 days past due in accordance with its By-Laws. If for any reason there is premium due and uncollected over 90 days this will be non-admitted.

3. Revision of Charter and By-Laws:

Please find attached copy of Amended and Restated charter and By-Laws.

4. Revision of Policy Forms:

Please find attached endorsement to policy forms to update cancellation and non-renewal provisions of Tennessee Code Ann. 56-7-1901 and 1902 in accordance with Tenn. Code Ann. 56-22-109(b)(2)(effective January1, 2007).

Should you require any more documentation or action to be taken we will do our best to meet your requirements.

Sincerely,

Horace P. Moore II
Secretary/Treasurer

Enclosures

McMinn County Farmers Mutual
Insurance Company, Inc.
"A County Mutual Insurance Company"
P.O. Box 321
Athens, TN, 37371-0321
423-745-4341 Phone
423-745-9955 fax
mcfm@comcast.net e-mail

RECEIVED
JUN 1 8 2008
Dept. Of Commerce & Insurance
Company Examinations

June 16, 2008

Mr. Philip Blustein, CFE
Insurance Examinations Director
State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

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Sincerely,

Horace P. Moore II

Horace P. Moore II
Secretary/Treasurer

Enclosures

BY-LAWS

THE McMINN COUNTY FARMERS MUTUAL INSURANCE COMPANY

ARTICLE 1. Name and location of principal office.
Sec. 1 The Name: The corporation shall be known as the McMinn County Farmers Mutual Insurance Company and shall embrace the County of McMinn and such other territory as this Company may hereafter elect under the State law in force at any time. Any person owning property within the bounds of such territory may become a member of this Company by insuring therein.
Sec. 2 Principal Office: The principal office of the company shall be located at 403 West Madison Avenue, Athens, McMinn County , Tennessee, 37303
ARTICLE II. The Object: The object of this Company shall be to mutually insure the property of its members against loss or damage, by fire, lightning, hail, extended coverage, theft, vandalism and tornadoes.
ARTICLE III. Members.
Sec. 1 Membership: Any person at the discretion of the Office of this Company may become a member from the Secretary and President a policy setting forth the property insured with its specific value mentioned, and shall cease when such insurance is cancelled or terminates for any cause. The application shall be a part of the policy and a warranty on the part of the applicant of the truth of all statements contained therein.
Sec. 2. Legal Representative: Any Trustee or other legal representative in charge of farm property may be admitted to membership in this Company, and any incorporated stock Company owning farm property, real or personal, may by its proper officer become a member, but shall be represented in the company only by one vote.
Sec. 3 Death: On your death, protection on your covered property passes to your legal representative, or any other persons having proper temporary custody of covered property.
ARTICLE IV. Meetings of members.
Sec. 1 Annual Meeting: The annual meeting of members shall be held at the principal office of the Company at 10:00 A.M., on the fourth Saturday of January each year, for the purpose of electing Directors of the Company and for the transaction of such other business as may be properly brought before the meeting.
Sec. 2 Special Meetings: Special meetings of members of the Company may be held on the call of the President, or on the written request of five members.
Sec. 3 Notice of Meetings: Written or printed notice stating the time and place of the meeting, shall be delivered not less than ten, or more than sixty days before the date thereof, by mail.
Sec. 4 Quorum: Five percent (5%) of the members entitled to vote, represented In person or by ballot, shall constitute a quorum at meetings of members. If there is no quorum at the opening of a meeting of members, such meeting may be adjourned from time to time by the vote of a majority of the members voting on the motion to adjourn and at any adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the original meeting. The members at a meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough members to leave less than a quorum.

Sec. 5 Voting by Members: Each member shall be entitled to one (1) vote only irrespective of the number of policies owned by such a member. No policy shall be entitled to more than one (1) vote whether such policy is held individually, jointly or otherwise. No members shall be allowed to vote by proxy.

ARTICLE V. Directors.

Sec. 1. General Powers: The business and affairs of the Company shall be managed by the Board of Directors or by such executive or other committees as the Board may establish.

Sec. 2 Election, Qualifications and Term of Directors: The Board of Directors shall be elected by ballot by the members of policyholders in the following manner. To wit, the first Board to be elected one third for one year, one third for two years, and one third for three years, thereafter, one third each year for a period of three years.

Sec.3 Executive Committee: The President, Vice-President and Secretary shall be members of the Board, and shall also constitute the executive committee which is authorized to conduct the business of the Company under the authority of and subject to the Board of Directors.

Sec. 4 Vacancies: Any Vacancies occurring between election in these various offices may be filled by the Board of Directors until the next general meeting of the members of the Company. The Executive Committee may appoint any other agent of the Company as it deems necessary for the proper transaction of business.

Sec. 5 Regular Meetings: The Board of Directors shall meet at least twice each year before and after the annual meeting of members, and at such times as the President may call. It shall make a complete investigation of the business transacted in the preceding year and report its findings and recommendations to the annual meeting of members.

Sec. 6 Notice of Meetings: Written or printed notice stating the time and place of the meeting, shall be delivered not less than five days before the date thereof , by mail.

ARTICLE VI: Officers

Sec. 1 Number: The officers of this Company shall consist of a President, Vice-President, Secretary, Treasurer and Ten Directors, whose duties shall be the same as those usually performed by such officers, and who shall serve until their successors are elected and qualified and whose renumeration shall be such as the company may prescribe from time to time.

Sec. 2 Election: The president, Vice-President, Secretary and Treasurer shall be elected by the Board of Directors from its own body. The duties of the Secretary and Treasurer may be performed by one person at the discretion of the Board.

Sec. 3 President: The President shall be the principal executive officer of the Company and subject to the control of the Board of Directors shall supervise and control the management of the Company in accordance with these By-Laws. The President and Secretary shall execute any deed of conveyance of real property. The President is authorized to enter into any contract or execute and deliver any instrument, other than a deed, in behalf of the Company and the President shall sign any contracts or other instrument which may be lawfully executed in behalf of the company, except where required or permitted by law be otherwise signed and executed, and except where the signing and execution thereof shall be delegated by the Board of Directors to some other officer or agent. The President shall, in general, perform all duties incident to the office of President and such other duties as may be prescribed by the Board of Directors from time to time.

Sec. 4. Vice-President: The Vice-President shall , in the absence or disability of the President, perform the duties and exercise the powers of the office. In addition, they shall perform such other duties and have such other powers as the Board of Directors shall prescribe.

Sec. 5 Secretary: It shall be the duty of the Secretary to keep accurate records of the acts and proceedings of all meetings of members and Directors. He shall give all notices required by law and these by-laws. He shall have general charge of the corporate books and records and of the corporate seal and he shall affix the corporate seal to any lawfully executed instrument requiring it. He shall have general charge of the membership books of the company and shall keep, at the principal office of the company, a record of members showing the name and address of each member and the number of policies held by each. He shall sign such instruments as may require his signature, and, in general, shall perform all duties incident to the office of Secretary and such other duties as may be assigned him from time to time by President or by the Board of Directors.
Sec. 6 Treasurer: The Treasurer shall have custody of all funds and securities belonging to the Company and shall receive, deposit or disburse the same under the direction of the President or the Board of Directors. He shall keep full and accurate accounts of the finances of the Company in books especially provided for that purpose, and he shall cause a true statement of its assets and liabilities as of the close of each fiscal year and of the results of its operations and of changes in surplus for such fiscal year in reasonable detail , to be made and filed at the physical office of the company within three months after the end of such fiscal year. The statement so filed shall be kept available for inspection by any member for a period of ten years. The Treasurer shall, in general, perform all duties incident to his office and such other duties as may be assigned to him from time to time by the President or by the Board of Directors.
Sec. 7 Authorized Agent: The officers of the Company are authorized agents of the Company.
Sec. 8 Bonds: The Board of Directors shall require from time to time such bonds to be given by the Secretary and treasurer as it may deem best for the Company.
ARTICLE VII. Assessments of Premium.
Sec. 1. Annual Advance Assessments of Premium: The Board of Directors shall levy on the members such annual advance Premiums as based on the amount insured and the class of property, and hazard covered, as may be necessary for losses and expenses and may include reasonable additions to the safety fund. The rate of premium shall be uniform for all property in each class or group. 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 Advance Premium Rates.
Sec. 2 Notice: All assessment of premium upon members of this Company shall be due and payable within 30 days after date of notice, and should any member neglect or refuse to pay his or her assessment for a space of 60 days after date of notice, such members shall henceforth stand as a suspended member.
ARTICLE VIII. Policy Provisions.
Sec. 1 Application: The form of application of membership shall be prescribed in print by the Company and no changes or alteration will be allowed by the applicant or any Agent of the Company, and such application shall be filed by the Secretary and shall constitute a part of the insurance contract.
Sec. 2 Term: Policies of Insurance shall be issued for a period of three years. All policies of insurance to commence at 12:00 A.M. , of the day issued and continue in force an exact number of days, calendar months or years, and expire at 12:00 A.M.
Sec. 3 Transfer of Policies: Any person disposing of his or her property must inform the Secretary of such disposition within thirty days thereafter and cease to be a member from date of sale, but is not exempt from liabilities insuring previous to said notice to the Secretary. Policies

may be transferred by paying a membership fee and obtaining the written consent of the Secretary.

ARTICLE IX. General Exclusions.

Sec. 1 Intentional Acts: This Company will not be liable for any loss or damage by fire when caused by design of the assured, or which may happen by the entrance of a hostile Army or insurrection of Citizens of the State or any part of the United States.

Sec. 2 Vacancy: No vacant building or dwelling house will be insured, nor will any loss be paid on dwellings which at any time had remained vacant for thirty day, You may endorse policy with Permission of Company that will extend this period of vacancy for a reduction in the limit of coverage applicable.

Sec. 3 Unoccupancy: No losses shall be paid on unoccupied premises that have been unoccupied for 30 day. You may endorse policy with Permission of Company that will extend this period of unoccupancy for a reduction in the limit of coverage applicable.

Sec. 4 Roofs: Insurance Company will not be liable for any kind of roll roofing damaged by wind.

ARTICLE X. In Case of Loss.

Sec. 1 Notice: Any member suffering loss by a covered peril shall within five(5) days notify the Secretary, the Board through its executive committee.

Sec. 2 Loss Settlement Terms: Subject to the deductible, we pay the lesser of the limit that applies, your interest in the property or the amount determined under the actual cash value terms.

Sec.3 Actual Cash Value Terms: Actual cash value includes a deduction for depreciation, however caused. The smallest of the following amounts is used in applying the loss settlement terms. The cost to repair or replace the property with materials of like kind and quality to the extent practical. Or the actual cash value of the property at the time of loss.

Sec. 4 Depreciation: All asphalt shingle roofs will be depreciated over a 20 year period. All metal roofs will be depreciated over a 40 year period. All appliances and electrical equipment will be depreciated depending on the life time of the appliance or equipment. Trailer roofs will be depreciated over a 12 year period.

ARTICLE XI. Policy Conditions.

Sec. 1 Certificate of Authority: No insurance shall take effect until bona-filed application for insurance to amount to fifty thousand dollars is made to this Company. If at any time thereafter and during the life of this Company, the total amount of property insured is less than fifty thousand dollars, it shall be the duty of the Secretary, with consent of the President, to call a meeting of the members of the Company, and such meeting may take such action as it deems best, and shall have the authority by a two-thirds vote of all the members of the Company.

Sec. 2 Loans: No debt shall be created by the Company except for the purpose of paying losses.

Sec. 3 Increase in Hazard: It is expressly stipulated that in case the property included in this policy of insurance in this Company shall at any time after the making, and during the time this policy is in force, be so altered or appropriated and applied for the purpose of caring on or exercising therein any trade business or vocation which would increase the hazard, unless it be by consent of the Company, added to or endorsed on this policy, then if any loss or damage occurs in consequences of such increased hazard, the Company will not be responsible for such loss.

Sec. 4 Mortgages: This Company shall not be released from any obligation in case of loss because of liens or mortgages, but when it shall appear that the insured is not the exclusive owner of the property then the insurance of such part of the same as does not belong to the insured shall be paid to the property owner.

Sec. 5 Commercial Property: All commercial property is to be referred to the Executive Committee who will appraise and insure with restrictions not to write anyone that sells intoxicating beverages. The policy not to exceed $ 200,000.00
Sec. 6 Re-insurance: The Company shall maintain a Re-insurance Contract at all times, The retention amount of the Company to be set by a committee appointed by the Board of Directors at each Contract renewal.
Sec. 7 Other Insurance: On loss or damage to property insured in any other Company or Companies, as well as this, the loss sustained shall be this Company ratably borne with the other company or companies.
Sec. 8 General Limits: Insurance on any building or personal property shall not exceed 3/4 of the cash value of described property, or less than ½ of its normal value.
Sec. 9 Cattle: Damage will be paid for cattle that are injured or killed by fire, wind or lightning in barns or fields where usually kept. Cattle shall not be considered as contents of barn unless otherwise insured. $500.00 will be paid per head $ 250.00 per half head not to exceed 3/4 the cash value when insured in classes or groups, provided that fifty percent or more of the herd is insured except registered animals insured individually in the amount as may be approved by the management of the company.
Sec. 10 Minimum Policy Amount: Minimum amount of Insurance per policy is $ 5,000.00, minimum amount per specific item is $ 500.00 or minimum premium amount per class of insurance.
Sec. 11 Stove Pipe or Flue: All stove pipes must enter direct into stove or brick chimneys, or flues with cold air terra cotta lined with metal or iron pipes.
Sec. 12 By-Laws: These by-laws shall be printed or attached on the back of every policy issued pursuant of the Law and for the guidance of the member. They may be altered or amended by a majority of the Directors at any regular meeting.
Sec. 13 By-Laws: These by-laws were assembled by the General Agent sanctioned by the President, Vice-President, Secretary/Treasurer also passed by all the Directors as of this date January 23, 1993. Article IX Section 3 and Section 4, Article X Section 4, Article XI Section 13, updated by Board of Directors on January 28 1995. Article XI Section 6, updated by the Board of Directors on November 16, 2002. Article XI Section 6, updated by the Board of Directors on October 22, 2005. Article XI Section 9 and Section 10 Article XII. Sec. 1 , updated by the Board of Directors on November 18, 2006.Article XII Sec. 2 added by the Board of Directors on November 18, 2006.
ARTICLE XII. Cancellation.
Sec. 1 Cancellation: You may cancel this policy by returning the policy to us or by giving us written notice and stating at what future date coverage is to stop. We may cancel this policy by written notice to you at the address shown on the Declarations. During the first 60 days this policy is in effect, we may cancel for any reason. After this policy has been in effect 60 days or more, we may cancel only at the anniversary date. Unless the premium has not been paid when due, or the policy was obtained through fraud, material misrepresentation or omission of fact, or , there has been a material change or increase in hazard of the risk. If we cancel this policy for nonpayment of premium we will give you notice at least (10) days for Mortgaged properties and (5) days for Non-Mortgaged properties before cancellation is effective.
Sec. 2 Non-Renewal: We will give you notice of intent not to renew at least 30 days prior to the expiration of the policy. "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 insured 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." " There shall be no liability on the part of, and no cause of action of any nature shall arise against any insurer, its Authorised representative, its agents its employees, or against any firm, person or corporation furnishing information to the insurer, as to the reason for non-renewal".

AMENDED AND RESTATED CHARTER
OF
McMINN COUNTY FARMERS MUTUAL INSURANCE COMPANY

1.The name of the corporation is McMINN COUNTY FARMERS MUTUAL INSURANCE COMPANY.

2. The Corporation is a mutual benefit corporation.

3. (a) The complete street address of the Corporation's initial registered office is:403 W. Madison Ave., Athens, McMinn County, Tennessee 37303. (b) The name of its initial registered agent at the office listed in 3.(a) is: Vicki Anderson Moore.

4. The complete address of the initial principal home office of the Corporation is: 403 W. Madison Avenue, Athens, McMinn County, Tennessee 37303.

5. The Corporation is not for profit.

6. The Corporation will have members.

7. Upon dissolution the assets of the Corporation shall be distributed to its members or in some other manner not inconsistent with the law of non-profit corporations of Tennessee, as the Board of Directors resolves.

Be it known that W. Gettys, H.H. Matlock, S.T. Porter, A.M. Keith, J.A. Reagan, John Gregory and S.F. Gettys are hereby constituted a body politic and corporate by the name and style of McMinn County Farmers Mutual Insurance Company, for the purpose of mutually insuring against loss , or damages by fire, lightning, hail, extended coverage, theft, vandalism and tornadoes, on Dwellings and related structures, Personal Property, Commercial buildings, Farm buildings and Farm personal property, cattle and farm products. The purpose for which the corporation is organized are to engage in and carry on the business of a mutual insurance company (and any and all phases and aspects thereof), providing insurance for its members, all pursuant to Chapter 22 of Title 56 of the Tennessee Code Annotated as the same now exists or as it may be hereafter amended from time to time.

THE GENERAL POWERS OF SAID CORPORATION ARE:

1. To sue and be sued by the corporate name.
2. To have and use a common seal, which it may alter at pleasure, if no common seal, then the signature of the name of the corporation by any duly authorized officer shall be legal and binding.
3. To puchase and hold, or receive by gift, in addition to the personal property owned by said corporation , any real estate necessary for the transaction of the corporate business, and also to purchase or accept any real estate in payment or part payment of any debt due to the corporation, and sell realty for corporation purposes.

4. To establish By-laws and make all rules and regulations not inconsistant with the laws and constitution deemed expedient for the management of Corporate affairs.
5. To appoint such subordinate officers and agents in addition to a President and Secretary or Treasurer, as the business of the Corporation may require.
6. To designate the name of the office and fix the compensation of the officer.
7. The officers of the Corporation shall not enter into any contract or agreement or make any debt of any kind, except for the payment of losses.
8. The Corporation is authorized to borrow money for the purpose of paying losses .
9. All dues or premiums shall be made pro rata upon all property insured according to its classification and according to the amount insured.
10. The corporation may maintain an action against any member thereof to recover all premiums which he may neglect or refuse to pay when due, made upon him under the provisions of Title 56 Chapter 22 of the T.C.A. or the By-Laws of the Corporation. If the Corporation is compelled to bring such action to collect any, premium, it may recover the amount due, together with reasonable attorneys' fees and all other costs of collection.

THE FOLLOWING PROVISIONS AND RESTRICTIONS ARE COUPLED WITH SAID GRANT OF POWERS:

11. A failure to elect officers at the proper time does not dissolve the Corporation, but those in office hold until the election or appointment and qualification of their successors.
12.The term of all officers may be fixed by the By-Laws of the Corporation; the same not, however, to exceed two years.
13. The Board of Directors, which may consist of not less than 6 or more that 15 members, but may include 2 non-members at the option of the Corporation, to be elected either in person or by ballot transmitted by mail, as may be provided by the By-Laws by a majority of the vote cast, each policy holder being entitled to one vote, shall keep a full and true record of their proceedings, and an annual statement of receipts and disbursements shall be kept on the minutes subject at all time to the inspection of any policyholder. A majority of the Board of Directors shall constitute a quorum, and shall fill all vacancies until the next election.
14. The right is reserved to repeal, annul or modify this charter. If it is repealed, or if the amendments proposed being not merely auxiliary but fundamental, are rejected by a vote representing more than half of the policyholders of the Corporation, the Corporation shall continue to exist for the purpose of winding up its affairs but not to enter upon any new business.
15. If the amendments or modification, being fundamental are accepted in a general meeting to be called for that purpose, any minor or other person under disability , or any policyholder not agreeing to the acceptance of the modifications, shall cease to be a policyholder; and the Corporation shall be liable to pay said withdrawing policyholder the only actual losses sustained to date of said meeting, provided that the claims of all creditors are to be in preference to said withdrawing policyholders.
16. By no implication of construction shall the Corporation be deemed to possess any powers except those hereby given, or necessarily implied from the nature of the business for which the charter is granted, and by no inference whatever shall said Corporation posses the power to ~~discount notes or bills, deal in gold or silver coin, issue any evidence of debts as currency, buy~~ and sell any agricultural products, deal in merchandise, or engage in any business outside the purpose of the charter.

17. No Director may be liable to the Corporation or its members for breach of his or her fiduciary duty to the Corporation, provided, however, that this provision shall not absolve a Director from a breach of his or her duty of loyalty, for acts or omissions not in good faith or which involved intentional misconduct or a knowing violation of the law, or for distributions in violation of T.C.A. Section 48-58-304.

18. The Board of Directors all have the power to adopt and amend the By-Laws of the Corporation

19. At any meeting of the members of the Corporation, either regular or special, five percent(5%) of the members entitled to vote at such meeting shall constitute a quorum.

20.CERTIFICATE PURSUANT TO T.C.A. 48-60-106(h). This restatement of the charter which contains amendments to the charter which requires approval of the members. The restated charter was submitted to the membership pursuant to T.C.A. 48-60-106, and was duly adopted by the members on the 27th day of January, 2007.

21.This restated charter was duly adopted by the Board of Directors of the Corporation on the 27th day of January , 2007.

23. This restated charter is filed pursuant to the Tennessee Non-Profit corporation act compiled in chapters 61-68 of Title 48, T.C.A.

June 14, 2008

The Board of Directors met at the McMinn County Farmers Mutual Insurance Company on Saturday , June 14, 2008, President Middleton called the meeting to order at 10:30 a.m. Jimmy Small gave the invocation.

H.P. Moore read the minutes of the February 23, 2008 called membership and board of Directors meeting. President Middleton called for any changes or corrections. Being none he asked for a motion to accept the minutes as read. Jimmy Small made the motion to accept as read. 2nd by Ed Cate, Motion carried.

The Financial Condition Examination of McMinn County Farmers Mutual Fire Insurance Company made as of December 31, 2006 was the next item on the agenda. Vicki Moore advised they board that there needed to be a correction to the minutes dated October 22, 2005. Vicki Moore also advised the board that the copy of the updated by-laws had not been filed yet with the Department of Commerce and Insurance and the Restated and amended Charter also had not been submitted yet.

The updated by-laws and Restated and Amended Charter were going to be filed the Week of June 16, 2008 to the appropriate Departments with the State of Tennessee. The corrected minutes were also going to be submitted to the State of Tennessee with our letter of response to the Final Examination of the Company's Financial Condition.

The minutes of the October 22, 2005 meeting read that there was a discussion of the New Reinsurance Excess Combination per risk contract that replaced the first surplus contract January 1, 2005. Omitted was the retention amount that was increased from $25,000.00 to $35,000.00. Secretary/Treasurer H.P. Moore and President Middleton were advised at the June 25, 2005. Board of Directors meeting to make the decision on which contract to accept.

Alan Dyke made the motion to approve the retention amount being raised from $25,000.00 to $35,000.00 effective January 1, 2005. 2nd by Jimmy Small. Motion carried.

The next item on the agenda was the estimate on the roof, after much discussion Alan Dyke made the motion to postpone putting new roof on the building until after the January 1, 2009. To place the roof on the agenda at the annual meeting and have new estimates at that time. 2nd by Ed Cate. Motion carried.

There was a discussion of the remodeling of the inside of the building, the work was complete on the side occupied by the company at the cost of $6,248.46. Secretary/Treasurer H.P. Moore advised the board that to complete the inside of the other half of the building would be approximately one thousand dollars less since that side is just one open room. John Middleton made the motion to complete the remodeling of the other half of building, 2nd by Alan Dyke. Motion carried.

The next item was renting the other side of the building, Vicki Moore advised the board that we had two people inquire about renting but no one has called back. The rent had been set at $500.00 per month plus utilities. Alan Dyke made the motion to separate the power (and water if required)before leasing the building. 2nd by Hazel Dake . Motion carried.

Alan Dyke also recommended that we call the Fire Chief to make sure the other side of the Building to be leased meets the building code while we make our renovations.

Alan Dyke made the motion that any alterations to leased side of building for Tenants must meet the approval of the Board of Directors. 2nd by Jimmy Small. Motion carried.

The next item discussed was setting up a meeting with some of the other Mutual Insurance Company's for a round table discussion on company operations. This had been brought up before and not followed up on. It was agreed to set up this meeting and mail notices of the date and place to meet.

John Middleton made the motion to adjourn, Ed Cate 2nd.

Meeting Adjourned

Directors Present:

POLICY CONDITIONS ENDORSEMENT

This endorsement effective November 18 2006 replaces Sec. 4 of the **Policy Conditions** in forms MF-100, MF-200, MF-203, MF-300, MF-400.

4. CANCELLATION AND NON-RENEWAL - You may cancel this policy by returning the policy to **US** or by giving **US** written notice and stating at what future date coverage is to stop. WE may cancel or not renew this policy by written notice to **YOU** at the address shown on the Declarations. Proof of delivery or mailing is sufficient proof of notice.
During the first 60 days this policy is in effect, **WE** may cancel for any reason. After this policy has been in effect 60 days or more, or if it is a renewal of a policy issued by **US, WE** may cancel or not renew only at the anniversary date.
UNLESS:
A. The premium has not been paid when due:
B. The policy was obtained through fraud, material misrepresentation or omission of fact, which if known by **US**, would have caused **US** not to issue the policy ; or
C. There has been a material change or increase in hazard of the risk.
If we cancel this policy for nonpayment of premium, **WE** will give **YOU** notice at least 10 days before cancellation is effective. Otherwise, **WE** will give you notice of cancellation or notice of intent not to renew at least 30 days prior to the expiration of the policy. " 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."
YOUR return premium, if any, will be refunded at the time of cancellation or as soon as practical. Payment or tender of the unearned premium is not a condition of cancellation.
D."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".

McMinn Farmers Mutual, Inc.
"A County Mutual Insurance Company"
P.O. Box 321
Athens, TN, 37371-0321
423-745-4341 Phone 423-745-9955 fax
866-616-2364 TOLL FREE
mcfm1@bellsouth.net

Mr. Hui Wattanaskolpant
Property and Casualty Analyst
State of Tennessee
Department of Commerce and Insurance
Financial Affairs Section/Analytical Unit
500 James Robertson Parkway 4th Floor
Nashville, TN 37243

Dear Mr. Wattanaskolpant,

Please find enclosed our Restated and Amended Charter for your consideration, upon your approval we will submit to the Secretary of State of Tennessee. I am also enclosing a copy of our Updated By-Laws, which we print on a Blue Back with the Charter that holds our policy forms and Declarations page for the benefit of our members.

All submissions are Duplicate with an addressed and stamped envelope as requested.

Respectfully,

Vicki S. Anderson-Moore
General Agent
General Manager

McMinn Farmers Mutual, Inc.
"A County Mutual Insurance Company"
P.O. Box 321
Athens, TN, 37371-0321
423-745-4341 Phone 423-745-9955 fax
866-616-2364 TOLL FREE
mcfm1@bellsouth.net

John E. Duncan, Manager P.& C. Filings
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway, Fourth Floor
Nashville, TN 37243-1133

Dear Mr. Duncan,

Please find enclosed for your approval:

Copy of our updated By-Laws per request of Examinations Department as of examination December 31, 2006.
New Forms list
New Endorsement MF-157 - Language correction per examination December 31, 2006.
Copy of our Amended and Restated Charter is also enclosed , we print a copy of the Charter and By-Laws on a Blue Back Binder that holds our policy forms and Declarations page for the benefit of our members.

All submissions are Duplicate with an addressed and stamped envelope as requested.

Respectfully,

Vicki S. Anderson-Moore
General Agent
General Manager