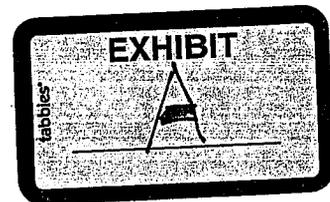


Report of Examination  
of  
Tennessee Valley Mutual Insurance Company  
Morristown, Tennessee

J.L. Gardner, Secretary/Treasurer  
406 East Morris Blvd.  
Morristown, Tennessee 37816

Examination made as of: December 31, 2008  
Examiner in Charge: Sandy M. Banks, MBA  
Examination commenced: September 15, 2009



**RECEIVED**

MAY 25 2010  
Dept. of Commerce & Insurance  
Company Examinations

Date of Report: May 11, 2010

Examined as of: December 31, 2008

Last Examination as of: December 31, 2003

Commissioner  
Department 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

**Tennessee Valley Insurance Company**

**Morristown, Tennessee**

**Date Incorporated: 1903**

**Commenced Business: 1903**

**Officers and Directors:**

Title	Name	Address	Term Expires
President	Jeffrey C. Gardner	Morristown, TN	2011
Vice President	Michael Jarnigan	Morristown, TN	2011
Secretary/Treasurer	Jacob L. Gardner	Morristown, TN	2011 (resigned 10/15/2009)
Director	Jeffrey C. Gardner	Morristown, TN	2011
Director	Craig D. Gardner	Morristown, TN	2011
Director	Jacob L. Gardner	Morristown, TN	2011
Director	Margaret Gardner	Morristown, TN	2011
Director	William D. Gardner	Morristown, TN	2011

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

This Company only provided salary for one employee, the Office Manager who is also the Secretary/Treasurer for the Company. The Office Manager received compensation of \$30,591 (including payroll tax).

However, the President and Secretary are compensated \$75 each plus mileage for each board

meeting attended and \$30 per application and adjustment approved.

Independent Contractor (Agent) Commission: The Company has written agreements with Price Ramey Insurance Agency, Inc. dba Gardner Insurance Agency, C.D. Fisher Co., Inc., Massengill-McCrary-Gregg Co., Sam Neil Insurance Agency, and Tri-State Insurance Service, Inc. to provide services as an agent in the capacity as Independent Contractors. The commission for each company is 15% for new and renewal fire and allied lines, homeowners, farm owners, and mobile homeowners insurance for the Company.

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

During the period of this examination there appears to be a complete amendment to the Charter and By-Laws. The original Charter and By-Laws was amended in 2004 and approved in 2005 by TDCI. However, the 2007 minutes contain a statement that suggests changes were made to the By-Laws and/or Charter. At the time of this report the Secretary/Treasurer could not locate the changes made by the Company. A change should have been made to include "A County Mutual Insurance Company" as part of the Company's name in the Charter and Bylaws, per Tenn. Code Ann. § 56-22-106(g).

The policy forms appear to be the same as those in effect at the last prior examination.

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

At the time of this Examination, it appears that there are changes that may have occurred before the untimely death of the previous President of this Company. However, it is unknown by the current Secretary/Treasurer if the changes were filed with the TDCI.

No additional work papers are filed with this report.

**Report on reinsurance assumed and / or ceded.**

Type: Combination Per Risk/Aggregate Excess of Loss  
Reinsurer: Farmers Mutual of Tennessee  
Term: Continuous contract, effective January 1, 2008.  
Coverage: Section I – Property Risk Excess of Loss: The reinsurer shall not be liable for any loss hereunder until the Company's ultimate net loss, each risk, each loss occurrence, exceeds \$20,000 and then the reinsurer shall be liable for 100% of the Company's ultimate net loss, each risk, each loss occurrence, in excess of \$20,000 but the reinsurers liability shall not exceed \$80,000 each risk, each occurrence.

Section II – Aggregate Excess of Loss: The reinsurer shall not be liable for any loss hereunder until the Company's ultimate net loss, in the aggregate for each calendar year, exceeds the greater of (a) 75% of the Company's gross net premium income or

(b) \$90,000 and then the reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of that amount, but the reinsurers liability, for each calendar year, shall not exceed 100% of the lesser of (a) 50% of the Company's gross net premium or (b) \$90,000.

Type: Second Aggregate Excess of Loss  
Reinsurer: Farmers Mutual of Tennessee  
Term: Continuous contract, effective January 1, 2008.  
Coverage: The reinsurer shall not be liable for any loss hereunder until the ultimate net loss, in the aggregate for each calendar year, exceeds the greater of 75% of the Company's gross net premium or \$90,000, plus the lesser of 50% of gross net premium or \$90,000 and then the reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 75% of the Company's gross net premium income or \$90,000 plus the lesser of 50% of gross net premium income or \$90,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 125% of the Company's gross net premium income or \$225,000 in the aggregate, during each annual period this agreement is in effect.

Type: Third Aggregate Excess of Loss  
Reinsurer: Farmers Mutual of Tennessee  
Term: Continuous contract, effective January 1, 2008.  
Coverage: The reinsurer shall not be liable for any loss hereunder until the Company's ultimate net loss, each risk, each loss occurrence, exceeds the greater of 250% of the gross net premium or \$300,000 and then the reinsurer shall be liable for 100% of the Company's ultimate net loss, each risk, each loss occurrence, in excess of the greater of 250% of the net gross premium or \$300,000 but the reinsurers liability shall not exceed 100% of the lesser of 750% of the Company's gross net premium income or \$1,350,000, in the aggregate.

The Company experienced an occurrence of loss in excess of the Company's specific retention per policy of \$20,000 in 2008. The Reinsurer provided reinsurance under the First Layer of Aggregate Loss for the Company. Furthermore, the Company did not experience any losses in excess of the Second Aggregate layer or in Third Aggregate layer Excess of Loss in 2008.

Amounts ceded to Reinsurer are per the Reinsurance Contract as follows: (a.) First layer ceded, annual deposit of \$7500, paid in two equal installments of \$3750 on March 1 and Sept. 1. (b.) Second layer ceded, annual deposit of \$4500, payable of \$2250 at March 1 and Sept. 1. (c.) Third Layer ceded, annual deposit payable of \$3750, \$1850 each at March 1 and Sept. 1.

The Company is compliant with TCA § 56-22-110. It has aggregate excess of loss reinsurance for (5%) of business in force.

### **Appraisal and classification of risks taken**

Policies are typically written based on the appraisal value of the tax appraisal value within each county. No policies were written above \$85,000.

Properties eligible to be insured includes dwellings (and all household goods), barns (equipment, tobacco, hay, etc.), cribs, cattle, mules, horses, farming utensils (tractors, binders, reapers, mowers, gearing, plows, harrows, saddles, buggies, wagons, and things usually stored in barns and houses).

The Company also has available reinsurance from Farmers Mutual of Tennessee based in Knoxville, TN. The reinsurer provides coverage for each risk, each loss in excess of \$20,000, but the reinsurer's liability shall not exceed \$80,000 each risk, each loss. The Company may write up to \$100,000 per risk and continue its' compliance with TCA § 56-22-106 (B).

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

The Company set up a rate schedule in 2006. The rate schedule will be submitted with this report. As such, the schedule does not specifically break down rates per \$1,000.

Assessment rates are not required to be approved by TDCI.

### **Rate of membership, policy and initial fees charged.**

As of December 31, 2008, the Company had 324 policies issued and in force based on the Examination Report as of December 31, 2008.

There is no stated membership fee, however, the Company does charge a one time fee of \$20 which is referred to as an inspection fee.

### **Date of last assessment.**

The Company makes advance assessments of its members prior to the effective date of policy. The date of the last assessment was January 1, 2008.

### **Amount delinquent.**

There are no amounts delinquent.

Premiums are automatically renewed unless the policyholder chooses to cancel the policy. Policyholders are given a total of sixty days to remit payment; however, throughout the period at least two notices will be mailed to the policyholder for remittance.

All late payments are assessed a \$10 fee.

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

Yes.

**Amount of money borrowed since date of last assessment.**

None

**Location of Books and Records**

406 East Morris Blvd.  
Morristown, TN 37816

**Exhibit of Risk**

Gross in Force (PY)	\$17,316,585
Gross in Force (CY)	\$15,487,710
Amount Reinsured	\$ 9,614,815
Net in Force, Dec. 31 (CY)	\$ 5,872,605
Policy Count	324.

## Balance Sheet

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

	<u>Assets</u>		
	<u>Admitted Assets Per Company</u>	<u>Non-Admitted Assets Per Examination</u>	<u>Net-Admitted Assets Per Examination</u>
Cash in Company's Office	0	*100	100
Cash in Banks	39,913	*1358	41,271
Savings Account	55,712		55,712
Certificates of Deposit	156,942		156,942
Interest Receivable	717	*270	987
Premiums Receivable	18,267		18,267
<b>TOTAL ASSETS</b>	<b><u>\$ 271,551</u></b>	<b><u>\$1,728</u></b>	<b><u>\$273,279</u></b>
<b>TOTAL ADMITTED ASSETS</b>	<b><u>\$273,279</u></b>		

\*Petty cash was not admitted by the Company. Community National Checking Account balance is not consistent with the reported value for this account. Interest receivable was incorrectly reported.

## Liabilities, Surplus and Other Funds

	<u>Liabilities and Surplus Per Company</u>	<u>Examination Adjustments</u>	<u>Liabilities and Surplus Per Examination</u>
Gross Losses Adjusted and Unpaid	\$20,000		\$20,000
Unearned Premiums	29,026		29,026
Advance Premiums	18,867		18,867
Commissions payable, contingent commissions	557		557
Taxes, Licenses and fees	<u>502</u>		<u>502</u>
<b>TOTAL LIABILITIES</b>	<b>\$68,952</b>	<b>\$0</b>	<b>\$68,952</b>
<b>Surplus as Regards Policyholders</b>	<b><u>\$204,327</u></b>	<b><u>\$0</u></b>	<b><u>\$204,327</u></b>
<b>TOTALS</b>	<b><u>\$273,279</u></b>	<b><u>\$0</u></b>	<b><u>\$273,279</u></b>

## STATEMENT OF INCOME & POLICYHOLDERS' SURPLUS ACCOUNT

### *Underwriting Income*

1. Net Premiums and assessments earned	61,556
2. Net losses incurred	62,165
3. Loss expenses incurred including claims adjustment expenses	658
4. Other underwriting expenses incurred	
4.1. Commission and brokerage:	
a. Directors and officers compensation and allowances	
b. Agents compensation and allowances	
c. Non-employee compensation and allowances	12,063
d. Commissions received on reinsurance ceded	
e. Net commissions and brokerage	12,063
4.2 Field supervisory expenses	
4.3 Salaries and related items	
a. Employees' Salaries	9,728
b. Directors' and Officers' Salaries	
c. Payroll taxes	771
d. Total salaries and related items	10,499
4.4 Directors fees	
4.5 Advertising and subscriptions	229
4.6 Boards, bureaus and association dues	1,209
4.7 Surveys and underwriting reports	12,199
4.8 Employee relations welfare	
4.9 Insurance and fidelity bonds	1,539
4.10 Travel and travel items	2,050
4.11 Rent and rent items	
4.12 Equipment	
4.13 Cost or Depreciation of EDP equipment and software	2,589
4.14 Printing and Stationery	1,077
4.15 Postage, telephone and telegraph	
4.16 Legal and auditing fees	500
4.17 Taxes, licenses, and fees:	
a. State and local insurance taxes	443
b. Insurance department licenses and fees	1,834
c. All other (excluding federal income tax and real estate)	
d. Total taxes, licenses and fees	2,277
4.18 Real estate expenses and repairs	
4.19 Real estate taxes	
4.20 Aggregate write-ins for underwriting expenses	
4.21 Total underwriting expenses incurred	46,231
5. Total underwriting deductions	109,054
6. Net underwriting gain or (loss)	(47,498)

### *Investment Income*

7. Net investment income earned	5,455
8. Net realized capital gains or (losses) from sale or maturity of assets	
9. Net investment gain or (loss)	5,455

### *Other Income*

10. Finance and service charges not included in premiums	2,165
11. Aggregate write-ins for miscellaneous income	322
12. Total other income	2,487
13. Dividends to policyholders	
14. Net income after dividends to policyholders and before federal income taxes	(39,556)
15. Federal income taxes incurred	

16. Net income (39,556)

*Policyholders' Surplus Account*

17. Policyholders surplus, December 31 of previous year 242,155

*Gains and (Losses) in Surplus*

18. Net Income (39,556)

19. Change in net unrealized capital gains or (losses)

20. Change in non-admitted assets from prior year 1,728

21. Cumulative effect of changes in accounting principles

22. Aggregate write-ins for gains and losses in surplus

23. Policyholders surplus as of statement date \$204,327

Assets

**List of Bank Deposits:**

Name	Bank Statement Amount	Balance Per Examination
Community National Bank, Checking Account	\$41,271.48	\$41,271
Community National Bank, Savings Account	\$55,712.23	\$55,712
Green Bank, CD	**\$102,273.00	\$102,273
Citizens Bank, CD	**\$54,669.44	\$ 54,669

\*\* The Certificates of Deposit are not maintained at book value, interest is capitalized when accrued and CD is reinvested at maturity.

**Assets pledged or hypothecated:**

None

**Comments on claims, borrowed money and other liabilities:**

There were paid claims totaling \$60,415 for 2008, a decrease from a \$75,256 total of paid claims in 2007. Claims appear to be paid in accordance with policy provisions and settlements were made promptly upon receipt of proper evidence of the Company's liability.

**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:**

The Company experienced a significant loss in August 2008; the President, Charles Gardner passed away. Subsequently, Jeffery Gardner was elected President and Mr. J.L. Gardner as Secretary/Treasurer. At the time of this Examination, a new President, Derrick Raines, had been elected. Mr. Jeffery Gardner resigned as Secretary/Treasurer on Oct. 19, 2009.

It appears that the annual statement is correct due to computerization of the record keeping system. The Company uses RCC Mutual Insurance Processing System Database of premiums and Quick Books for bookkeeping purposes. The Company has utilized an accountant for assistance with the Annual Statement Filing.

The Company has a contract of representation agreement with Farmers Mutual of Tennessee, Knoxville, Tennessee. The agreement became effective May 1, 2004. A 15% commission is paid to the County Mutual for new and renewal business on the following: farmer's comprehensive personal liability, comprehensive personal liability, and owners, landlords, and tenant's liability. Farmers Mutual of Tennessee, Knoxville, Tennessee also pays an inspection fee to the County Mutual on certain new policies for the following: 1. new policies providing liability coverages only, other than farm liability; \$15 inspection fee and 2. new policies providing farm liability and other liability coverages only, \$25 inspection fee. The maximum amount of insurance for farm personal property (per farmstead) is \$300,000. The maximum amount of insurance for farmers comprehensive personal liability, comprehensive personal liability, and premises liability (owners, landlords, and tenants) per occurrence and aggregate, bodily injury and property damage is \$300,000 and \$1000 for medical payments per person.

### **Additional Comments**

At December 31, 2008, The Company had surplus of \$204,327 and a policy count of 324.

#### **Recommendations:**

It is recommended that the Company implement the following measures of corrective action for purposes of complying with statutory requirements:

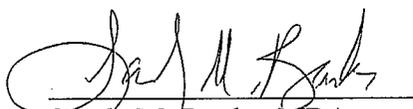
1. It is recommended that Company file Form 990 for federally tax-exempt organizations.
2. It is recommended that certificates of deposit be maintained at book value.
3. It is recommended that the Company adhere to TCA § 56-22-106(g). Any company operating under this chapter must use the words "county mutual insurance company" in their name or the words must be displayed any time the name of the company is used. No name shall be used that is similar to any name already in use by any existing company organized and doing business in the United States, as to be confusing or misleading.

**Conclusion**

It was determined that, as of December 31, 2008, the Company had admitted assets of \$273,279 and liabilities, exclusive of capital, of \$68,952. Thus, there existed for the additional protection of the policyholders, the amount of \$204,327.

The courteous cooperation of J. L. Gardner, Secretary/Treasurer which was extended during the course of the examination is hereby acknowledged.

Respectfully submitted,



Sandy M. Banks, MBA  
Insurance Examiner in Charge  
State of Tennessee

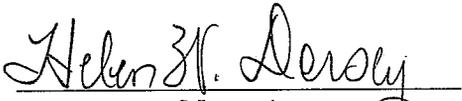
**Examination Affidavit:**

The undersigned deposes and says that she has duly executed the attached examination report of Tennessee Valley Insurance Company dated May 11, 2010 and made as of December 31, 2008, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says she is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of her knowledge, information and belief.

  
Sandy M. Banks, MBA  
Insurance Examiner  
State of Tennessee

County Davidson  
State Tennessee

Subscribed and sworn to before me  
this 25th day of  
May, 2010.

  
(Notary)



Commission expires:  
03/03/2014