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Dept. of Commerce & Insurance
Company Examinations

Report on Examination

of the

Farmers Mutual Fire Insurance Company of Greene County, Tennessee

Greeneville, TN

as of

December 31, 2011

Department of Commerce and Insurance

State of Tennessee

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STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
INSURANCE DIVISION
500 JAMES ROBERTSON PARKWAY - 4TH FLOOR
NASHVILLE, TENNESSEE 37243-1135

June 3, 2013

The Honorable Julie M. McPeak
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway, 12th Floor
Nashville, Tennessee 37243

Commissioner McPeak:

Pursuant to your instructions and in accordance with Tennessee statutes and regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination has been made of the condition and affairs of

Farmers Mutual Fire Insurance Company of Greene County, Tennessee
110 South Main Street
Greeneville, Tennessee 37743

(Company) as of December 31, 2011, and a report thereon is hereby respectfully submitted.

INTRODUCTION

This examination was called by the Tennessee Department of Commerce and Insurance (TDCI) on November 28, 2011, and examination work commenced on October 12, 2012. The Company was authorized to write business only in the state of Tennessee and therefore was not classified as an Association Examination under NAIC Guidelines. The examination was conducted at the Company's office located at 110 South Main Street, Greeneville, Tennessee 37743, and at the office of the TDCI. The examination was performed by duly authorized representatives of the TDCI.

SCOPE OF EXAMINATION

This examination report covers the period from January 1, 2007, to the close of business on December 31, 2011, and includes any material transactions and events occurring during the course of the examination and subsequent events noted from January 1, 2012, to the date of this report.

This full scope financial examination was conducted in accordance with guidelines and procedures contained in the NAIC's *Financial Condition Examiners Handbook* (Handbook). During the course of examination, assets were verified and valued and liabilities were determined and estimated in accordance with Tennessee Code Annotated and the Compilation Rules and Regulations of the State of Tennessee. The financial condition of the Company and its degree of solvency were thereby established. Test checks were made of income and disbursement items for selected periods and a general review was made of the Company's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount, inherent risks and potential impact on solvency. Also, limited market conduct procedures were performed as part of this financial examination.

In addition, the following topics were examined:

Status of Prior Examination Findings
Company History
Charter and Bylaws
Management and Control
Compensation Expense Ratio – Tenn. Comp. R. & Regs. 0780-1-78-.03
Pecuniary Interest - Tenn. Code Ann. § 56-3-103
Corporate Records
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Reinsurance
Litigation, Contingent Liabilities and Regulatory Action
Loss Experience
Dividends
Accounts and Records
Subsequent Events
Financial Statement

STATUS OF PRIOR EXAMINATION FINDINGS

The previous examination of the Company was made as of December 31, 2006, by an examiner employed by the TDCI. The prior Report of Examination was dated June 2, 2008, and covered the period from January 1, 2002, through December 31, 2006. The Commissioner issued five (5) directives as set forth in the June 24, 2008 "Order Adopting Examination Report With Directives No. 08-119." A summary of each directive and the corrective actions taken by the Company are discussed as follows:

Directive # 1 Real Estate:
The Company was directed to comply with Tenn. Code Ann. § 56-22-109(a)(4) by reporting the depreciated book value of its home office land and building improvements costs on annual statements submitted to the Commissioner in accordance with Tenn. Code Ann. § 56-3-405 and the NAIC accounting procedures.

Corrective Action: The Company disclosed the depreciated book value of its home office land, building and building improvements pursuant to Tenn. Code Ann. § 56-22-109(a)(4) on Schedule A and page 2, line 4.1 in its 2007 through 2011 Annual Statements submitted to the TDCI.

Directive # 2 Premiums Held For Other Insurer:
The Company was directed to comply with Tenn. Code Ann. § 56-22-109(a)(4) by recording an offsetting liability for premiums held for other insurance companies listed as an asset on the financial statements filed with the TDCI, and show commissions received for producing these policies as income on the financial statements.

Corrective Action: The Company did not disclose in its 2007 through 2011 Annual Statements submitted to the TDCI a liability for premiums held for other insurance companies listed as an asset on the financial statements on page 3, line 10. Commission received for producing liability policies was properly reported on the Company's financial statements submitted to the TDCI. This issue is noted in the Analysis of Changes in Financial Statement and Comments Resulting from Examination and the Recommendations Section of this examination report.

Directive # 3 Licensed Agents:
The Company was directed to comply with Tenn. Code Ann. § 56-22-113 by requiring all persons who sell, solicit or negotiate insurance for the Company to hold an insurance producer license for property and / or casualty insurance in accordance with Tenn. Code Ann. § 56-6-107.

Corrective Action: All representatives of the Company who sold, solicited or negotiated insurance for the Company as of year-end 2011 held an insurance producer license issued by the TDCI for property and / or casualty insurance in accordance with Tenn. Code Ann. § 56-6-107 and Tenn. Code Ann. § 56-22-113.

Directive # 4 Premium Tax Filings:
The Company was directed to comply with Tenn. Code Ann. § 56-22-114 by ensuring that gross premiums subject to taxation and Schedule C premium taxes subject to reduction

are reflected on the annual statement and correctly calculated on tax returns submitted to the TDCI.

Corrective Action: The Company's premium tax returns submitted to the TDCI during the period of examination were properly calculated and reflected gross premiums subject to taxation as reported on the Company's 2007 through 2011 Annual Statements pursuant to Tenn. Code Ann. § 56-22-114.

Directive # 5 Outstanding Checks:
The Company was directed to comply with Tenn. Code Ann. § 66-29-101 et seq. by maintaining adequate records to ensure outstanding checks classified as unclaimed property are properly disposed of when appropriate.

Corrective Action: The Company during the period of examination reviewed all outstanding checks in order to ensure qualifying stale dated checks were included in an unclaimed property report submitted to the Unclaimed Property Division of the Tennessee Department of Treasury in accordance with Tenn. Code Ann. § 66-29-101 et seq.

HISTORY OF THE COMPANY

The Farmers Mutual Fire Association of Greene County, Tennessee, was incorporated on September 24, 1896, under the provisions of the Tennessee Business Corporation Act as a non-profit mutual benefit corporation, and was organized as a county mutual fire insurance company (county mutual) pursuant to Tennessee Code Annotated Title 56, Chapter 22, for the purpose of insuring loss or damage to property due to fire or lightning to residents of Greene County in the state of Tennessee. The Company commenced business on September 19, 1896.

The previous Certificate of Authority issued by the TDCI was dated September 3, 2008. The current Certificate of Authority was issued to the Company on October 19, 2010, and authorizes the transaction of the business of Property in Greene County, Tennessee, and all those counties contiguous to Greene County. The Certificate of Authority is valid until suspended or revoked.

Jean Drain and Patty Good were the Company's bookkeepers at various times during the period of examination. Brenda Sexton and Betty McNeese were the Company's customer service representatives at various times during the period of examination

The Company operates as a mutual company and, therefore, reports no authorized or issued common stock.

The Company's surplus position shown in the 2011 Annual Statement was as follows:

Policyholders' surplus	$2,106,300

The following exhibit depicts certain aspects of the growth and financial history of the Company since the previous examination according to annual statements filed with the TDCI.

Date	Earned Premium	Net Incurred Losses	Admitted Assets	Liabilities	Policyholders' Surplus	Net Income
12/31/2007	$572,264	$313,807	$2,452,459	$235,923	$2,216,536	$194,238
12/31/2008	505,284	490,004	2,398,671	257,763	2,140,908	(75,628)
12/31/2009	666,821	470,991	2,453,133	261,718	2,191,415	50,507
12/31/2010	525,214	335,470	2,505,199	260,072	2,245,127	53,712
12/31/2011	546,233	523,204	2,359,105	252,805	2,106,300	(163,621)

Date	*Gross In Force Business	**Written or Renewed	***Expirations or Cancels	****Amount Reinsured	Net In Force Business	Policy Count
12/31/2007	$119,484,130	$10,267,650	$9,689,500	$18,700,060	$100,784,070	2,770
12/31/2008	128,454,330	10,925,900	11,443,900	21,933,960	106,520,370	2,814
12/31/2009	5,569,500	552,433	862,632	219,339	5,340,161	2,739
12/31/2010	6,122,394	597,268	44,374	210,000	5,912,394	2,696
12/31/2011	126,562,055	12,665,405	10,217,750	630,000	125,932,055	2,639

*, **, *** The Company, without explanation, incorrectly reported the total amount of gross business in-force, coverage written or renewed and coverage expirations or cancellations for the 2009 and 2010 policy year shown in the above table.

**** The Company had specific and aggregate excess of loss reinsurance, but incorrectly reported the total amount reinsured for the 2009, 2010 and 2011 policy year shown in the above table.

CHARTER AND BYLAWS

Charter:

The Company's original Charter was filed and recorded with the Tennessee Secretary of State on July 23, 1897. The Charter provided for the operation of a non-profit corporation with a perpetual existence and established its home office in Greeneville, Greene County, Tennessee. The original Charter indicated the Company's original name was "Farmers Mutual Fire Association of Greene County, Tennessee." The original Charter also disclosed a perpetual existence and established an association to insure its Members against loss by fire and lightning.

The Charter was amended on July 25, 1959, to add extended coverage to its policies in-force and future policies.

Bylaws:

The current Bylaws are such as are generally found in corporations of this type. The Company's Bylaws were amended in 2009 in order to reflect the cancellation requirements effective January 1, 2007, set forth in Tenn. Code Ann. § 56-22-109(b)(2) and Tenn. Code Ann. § 56-7-1902. No other amendments to the Bylaws were made during the period of examination.

The Bylaws provide for an annual meeting of the policyholders either in the month of January or February. The Secretary / Treasurer shall give all policyholders at least two weeks' notice of the annual meetings and any called meeting of policyholders. Notice of policyholders' meetings must be published at least three times on different dates in a newspaper published in Greene County. This shall be deemed sufficient notice to all policyholders of such meetings. Historically, the annual meeting of the policyholders has been in the month of January.

A Board of Directors (BOD) is elected at the annual meeting of the policyholders. Officers are elected by the Board annually at the first BOD meeting after the annual meeting of the policyholders. The Bylaws charge the Board of Directors with managing the business and affairs of the Company.

MANAGEMENT AND CONTROL

Members:

The Company is equally owned by its Members which are the Company's policyholders. The Company has never issued any shares of capital stock or established guaranteed capital.

Annual and special meetings of the Members shall be held at the call of the President and shall be held at the office of the Company, or at such place in the town where the office of the Company is located as the President may designate.

The Bylaws provide that each Member is entitled to one (1) vote irrespective of the number of policies owned by a Member. No Member shall be entitled to more than one (1) vote whether such policy is held individually, jointly or otherwise. No Members shall vote by proxy.

A quorum for the transaction of business is determined by the number of Members who attend such meetings, either annual or called. The affirmative vote of a quorum shall be necessary to pass any action.

The Company's Members held five (5) annual meetings and no special meetings during the examination period.

Board of Directors:

The Amended and Restated Bylaws requires the BOD to consist of fifteen (15) Members who are policyholders and who shall reside as close as possible to the twenty-six (26) civil districts of the county so as to give each portion of the county representation on the Board of Directors. However, the policyholders may elect any number of Directors from any one civil district if they so desire. Pursuant to the Company's Bylaws, Directors were elected at the annual meeting of the Members during the period of examination and all Directors were Members. Five (5) Directors shall be elected at each annual meeting and shall serve a term of three (3) years. A majority of Directors constitutes a quorum as defined by the Amended and Restated Charter.

The following persons were duly elected by the Members to serve on the BOD as of December 31, 2011:

Director	Home City and State	Principal Affiliation
James V. Carter	9545 Horton Hwy, Greeneville, TN 37745	Director and President of the Company
Johnny C. Ottinger	2596 Popular Springs, Greeneville, TN 37745	Director and Vice President of the Company
Willie Good	15295 Kingsport Hwy, Greeneville, TN 37745	Director and Secretary / Treasurer of the Company
Everette Burchett	45 Kite Road, Greeneville, TN 37745	Director of the Company
Robert Drain	940 Walkertown Road, Afton, TN 37616	Director of the Company
David Myers	355 Main Street, Mohawk, TN 37810	Director of the Company
Jack Renner	2905 Fish Hatchery Road South, Mohawk, TN 37810	Director of the Company
Lynn Rollins	3555 Houston Valley Road, Greeneville, TN 37743	Director of the Company
David Susong	2900 Old Kentucky Road, Greeneville, TN 37743	Director of the Company
Donald Swanay	230 Swanay, Chuckey, TN 37641	Director of the Company
Samuel Swecker	367 Baughard Hill Road, Greeneville, TN 37743	Director of the Company

Alford Taylor	1905 Bewley Chapel Road, Mosheim, TN 37818	Director of the Company
Bobby Wells	90 Amity Road, Greeneville, TN 37743	Director of the Company
Tim Wisecarver	4000 North Mohawk, Mohawk, TN 37810	Director of the Company

For the period under examination, annual BOD meetings were held on the same day as the Members' meeting dates as required by the Company's Bylaws. The Bylaws do not permit the payment of a salary to the BOD, but by resolution of the BOD, a fixed sum plus expenses to attend meetings and adjust claims was authorized.

<u>Executive Committee:</u>

Section 29 of the Bylaws established an Executive Committee authorized to bind and cancel insurance coverage. During the period of examination, this committee consisted of the Company's President and Secretary / Treasurer pursuant to the Bylaws. During the period of examination the Company's President and Secretary / Treasurer were paid a salary and a flat fee for each BOD meeting attended.

<u>Advisory Committee:</u>

Section 30 of the Bylaws requires the BOD to select an Advisory Committee of three (3) members of the BOD who shall be Directors of the Company and who shall advise and consult with the President regarding the management of the Company's affairs.

The Company's Advisory Committee at December 31, 2011, was as follows:

Name	Title
David Susong	Director
David Myers	Director
Alford Taylor	Director

<u>Audit Committee:</u>

The Company's Audit Committee at December 31, 2011, was as follows:

Name	Title
James V. Carter	Director
Lynn Rollins	Director
David Susong	Director

<u>Officers:</u>

Section 9 of the Bylaws states, "the officers of the Company shall consist of a President, Vice President, and Secretary / Treasurer who shall be elected annually by the Directors of the Company immediately following the annual meeting of the policyholders." All of the officers were Members of the BOD as of December 31, 2011.

As of December 31, 2011, the following persons were duly elected to and were serving in the position indicated:

President	James V. Carter
Vice President	Johnny C. Ottinger
Secretary / Treasurer	Willie Good

With the approval of the Executive Committee, certain services were purchased from outside contractors during the period of examination.

Financial Statement and Tax Preparation Services:	David M. Ellis, CPA Teresa Whaley CPA 132 West Depot Street Greeneville, Tennessee 37743
Legal Services:	Woolsey & Woolsey Law Offices Roger Woolsey 118 South Main Street Greeneville, Tennessee 37743
Policy Maintenance System:	Excalibur Data Solutions, Inc. Rick Clark 448 East Bernard Ave. Greeneville, Tennessee 37744

Pecuniary Interest:

The Directors and Officers of the Company complied with the provisions of Tenn. Code Ann. § 56-3-103. The statute prohibits Officers and Directors from having a pecuniary interest in investment or disposition of Company funds.

Conflicts of Interest:

The Company's BOD, Officers, Agents or employees were not required by the Company to complete a conflict of interest disclosure.

HOLDING COMPANY SYSTEM

The Company is licensed as a "county mutual insurance company" owned by its Members who are the policyholders. It does not meet the definition of a holding company system defined by Tenn. Code Ann. § 56-11-201.

COMPENSATION EXPENSE RATIO TENN. COMP. R. & REGS. 0780-1-78-.03

Tenn. Code Ann. § 56-22-107 and Tenn. Comp R. & Regs. 0780-1-78-.03 establishes legal requirements regarding compensation for Directors and Officers as follows:

> (1) No county mutual insurance company's compensation expense ratio may exceed thirty percent (30%) for any given year.
>
> (2) Any county mutual insurance company whose compensation expense ratio exceeds thirty percent (30%) for any given year shall be considered to be operating in a hazardous financial condition.

Year	Policy Count	Gross Premium	Total Compensation Expense	Compensation** Expense Ratio
2007	2,770	$634,223	$119,932	20.9%
2008	2,814	614,250	105,755	17.2%
2009	2,739	715,886	101,647	14.2%
2010	2,696	608,885	97,975	16.1%
2011	2,639	619,999	106,174	17.1%

** The Compensation Expense Ratio for the years 2007 through 2010 was calculated using amounts disclosed in Company's Annual Statements. The 2011 Compensation Expense Ratio was determined using the examination adjusted 2011 totals in the Financial Statement section of this report.

The Company did not borrow any money during the period under examination.

CORPORATE RECORDS

The minutes of the annual meetings of the Company's Members during the period of examination were provided to the Examiner. An annual meeting of Members was held in January 2007 and in February of each year, thereafter. The Members' primary function was to elect the BOD annually and pay their premiums.

The minutes provided a brief summary of the actions of the Company's BOD. Attachments and exhibits provided to the BOD were maintained with the minutes. During the period of examination, there were nine (9) regular BOD meetings and five (5) annual meetings of Members. Minutes of the referenced meetings were reviewed.

STATUTORY DEPOSIT

"County Mutual" insurance companies are not required to make a statutory deposit in accordance with Tenn. Code Ann. § 56-2-112.

FIDELITY BOND AND OTHER INSURANCE

The Company as of year-end 2011 maintained insurance coverage as follows:

Commercial General Liability and Business Owners Property Policy

The Company's combination Commercial General Liability and Business Owners Property coverage was underwritten by The Travelers Indemnity Company of Connecticut.

The Travelers Indemnity Company of Connecticut was a licensed property and casualty carrier in the state of Tennessee as of the date of this examination.

Commercial Crime Policy

The Company's Commercial Crime insurance coverage was underwritten by Fidelity and Deposit Company of Maryland. This policy had an occurrence/aggregate limit of twenty thousand dollars ($20,000) and a two hundred fifty dollar ($250) retention.

Fidelity and Deposit Company of Maryland was a licensed property and casualty carrier in the state of Tennessee as of the date of this examination.

TERRITORY

As of December 31, 2011, and as of the date of this examination report, the Company was licensed to transact business in the state of Tennessee with approval to write coverage in Greene County and those counties contiguous to Greene County pursuant to Tenn. Code Ann. § 56-22-106(f)(1).

Premiums written by Tennessee County in 2011 were disclosed on Schedule T in the Company's 2011 Annual Statement as follows:

County	Premiums
Cocke	$970
Greene	612,740
Hawkins	923
Washington	700
Total	$615,333

PLAN OF OPERATION

The Company provided insurance against loss by fire, lightning and extended coverage (including wind and hail) on rural and suburban property and churches, schools, residences, barns, outbuildings, carpenter shops, tools and equipment, all household goods, farm tools, farm equipment, and all other personal property commonly used in farming or to farm. In addition to houses, the Company insures double-wide and single-wide mobile homes. No one building or other property was insured for more than one hundred fifty thousand dollars ($150,000).

Policies issued by the Company did not cover damage caused by, or consisting of, microbial organisms including, but not limited to, mold, mold spores, fungus, bacterium, parasitic microorganisms and wet or dry rot.

The Company's insurance policies did not cover loss or damage to electric stoves, washing machines, refrigerators, water-heaters, and similar electric appliances, devices, apparatus or equipment caused by electric current, either normal or overload, unless fire ensued.

Electric stoves, washing machines, refrigerators, water-heaters, and similar electric appliances, devices, apparatus or equipment were covered as personal property or household goods as specified on the policy form.

The Company did not insure grain, hay, cotton, tobacco or other crops, livestock, radios, radio aerials, television sets, and television antennas, and did not insure against risk or damage resulting from fallen aerials or antennas from whatever cause.

The Company was not liable for any damage, loss, or destruction of property covered by contract when said property was an unoccupied dwelling at the time of such loss, damage or destruction, unless the insured gave written notice to the Company of the lack of occupancy prior to the loss, and the Company agreed to continue insuring said risk.

Policies were typically written for the actual cash value of the property insured at the time of loss, less deduction for depreciation, subject to policy limits of seventy-five thousand dollars ($75,000) per specific loss.

The Company, in accordance with Tenn. Code Ann. § 56-22-106(c)(1), was allowed to cover a single risk up to eighty-seven thousand, three hundred fifty-four dollars ($87,354) for the 2011 policy year. All policies that exceeded seventy-five thousand dollars ($75,000) were reinsured with Farmers Mutual of Tennessee (FMT), Knoxville, TN pursuant to Tenn. Code Ann. § 56-22-106(d). The largest single gross risk insured in 2011 was one hundred fifty thousand dollars ($150,000).

The policy period for each policy was one (1) year. Policyholders have the option to pay premium annually or semi-annually. Most policies issued since 1993 had premiums due on the policy anniversary date, but not in all cases. Most policies issued prior to 1993 had premiums due on April 30, but not in all cases.

On January 20, 2007, the Company increased its deductible from one hundred dollars ($100) to two hundred fifty dollars ($250). The Company increased its deductible from two hundred fifty dollars ($250) to five hundred dollars ($500) beginning effective March 1, 2012. This deductible increase was approved at the Members meeting on February 25,

2012. The five hundred dollar ($500) deductible applied to all losses, except for total losses.

The Company offered four (4) different types of liability policies through Farmers Mutual of Tennessee (Knoxville, TN) and they are as follows: 1) Owner, Landlord & Tenant, 2) Farm Comprehensive Personal Liability, 3) Comprehensive Personal Liability, and 4) Church Liability.

The Company writes business through three (3) licensed in-house agents (Wayland M. Huff, Grady E. Shelton & Alford F. Taylor). Each agent was issued a Property Insurance Producer License by the TDCI, Agent Licensing Division. The Company and its appointed agents were in compliance with the agent licensing requirements pursuant to Tenn. Code Ann. § 56-22-113.

The Company's agent assigned to the district where the risk was located performed a visual inspection and made an appraisal of the property during the policy application process prior to the issuance of a policy. During the period of examination the agents did not make photographs of the property insured by the Company.

The Company's agents determined the value of the property. A policy was bound upon the signing of a completed application by the Company's President, Secretary and policyholder upon collection of the initial billed premium. The Company's President and Secretary / Treasurer have the final approval to bind all coverage with the placement of their signatures on the policy.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2011, in conjunction with this examination. The following items were reviewed:

Policy Forms and Underwriting Practices

The Property and Casualty Rating Section of the TDCI approved all premium rates, policy forms and underwriting guidelines in effect during the period of examination on January 9, 2007.

Advertising

The Company's advertising during the period of examination consisted of a sign located on the Company's office building, pens distributed to the general public, advertisements placed in the local phone book, and advertisements placed in the local newspaper and on the internet.

Cancellation Policy

The Company mailed the notice of insurance premium due on the policy to the policyholder a minimum of thirty (30) days before the premium was due. If the Company did not receive payment by the due date, a late notice was sent notifying the policyholder

that the insurance policy will be canceled if not paid within thirty (30) days from the original due date. A copy of said notice is also sent to any lienholder(s) listed on the policy.
If payment was not received within that period of time (grace period), a cancellation notice was sent by certified mail to inform the policyholder and the lienholder that the policy was no longer in effect. The Company's Executive Committee approved the cancellation of all policies. If payment was made during the grace period, the Company paid legitimate claims after deducting the premium for the policy.

The Company adheres to the non-renewal provisions contained 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) that relate to the notice of intention to non-renew and the reason for non-renewal as disclosed in Section 29 in the Company's Bylaws.

Claims Review:

A sample of paid claim files reviewed during the examination indicated claims were paid in accordance with policy provisions and settlements were made upon receipt of proper evidence of the Company's liability.

The Company had ten (10) open claims at December 31, 2011, that were incurred in 2011 and reported in 2011. These ten (10) open claims were all settled by June 4, 2012.

The Company had one (1) open claim at December 31, 2011, that was incurred in 2011 and reported in January 2012. This open claim was settled on February 1, 2012.

Policyholder Complaints:

Inquiries made to the various sections within the TDCI indicated no specific regulatory concerns with the Company during the period under examination. No unusual practices, transactions, or items warranting significant concern with regard to the Company were noted.

Privacy of Non-Public Personal Information

The Company's policy for the disclosure of privacy of non-public personal information was reviewed. The examiners noted no instances of non-compliance with Tenn. Comp. R. & Regs. 0780-1-72, "Privacy of Consumer Information Regulations."

REINSURANCE

Effective January 1, 2007, thru year-end 2011, the Company ceded risk through an Excess of Loss Reinsurance Agreement with Farmers Mutual of Tennessee headquartered in Knoxville, Tennessee, as follows:

Type:	Exhibit A – Combination Per Risk and Aggregate Layer
Coverage:	Part 1 – Property Risk Excess of Loss: covers each loss in excess of the Company's $75,000 maximum retention up to the Reinsurers $150,000 maximum per risk, each loss occurrence.

Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 75% of the Company's gross net premium income or $330,000 and shall not exceed 100% of the lesser of 50% of the Company's gross premium income or $330,000.

Type: Exhibit B – Second Aggregate Layer
Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 75% of the Company's gross net assessment and / or premium income or $330,000 plus the lesser of 50% of gross net assessment and / or premium income or $330,000 and shall not exceed 100% of the lesser of 125% of the Company's gross assessment and / or premium income or $825,000.

Type: Exhibit C – Third Aggregate Layer
Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 250% of the Company's gross assessment and / or premium income or $1,100,000 and shall not exceed 100% of the lesser of 750% of the Company's gross assessment and / or premium income or $4,950,000.

The Company experienced losses in 2011 that exceeded the seventy-five thousand dollar ($75,000) specific retention and the First, Second and Third Aggregate Layer of reinsurance coverage. FMT is licensed as a "Domestic Property and Casualty Insurer" by the TDCI.

The "Excess of Loss Reinsurance Agreement" in effect as of December 31, 2011, was standard in form and contained acceptable clauses for insolvency, arbitration, and termination. The agreement effectuated proper transfer of risk in accordance with NAIC SSAP # 62 – Property and Casualty Reinsurance and did not create any commission equity.

LITIGATION, CONTINGENT LIABILITIES AND REGULATORY ACTION

Based upon data provided during the course of this examination, there were no matters at law in which the Company was involved during the period under review. Also, the examiners did not note any agreements or pending matters of a contingent nature that would materially affect its financial position or operating results as of December 31, 2011.

There was no regulatory action taken by TDCI against the Company during the period under review except for minor issues related to late payment of premium taxes or late filing of its Annual Statement.

DIVIDENDS OR DISTRIBUTIONS

No dividends or distributions were paid during the period under examination.

ACCOUNTS AND RECORDS

The Company accounted for its assets, liabilities, cash receipts, and disbursements using Microsoft Money software during the five (5) year period of examination.

In addition to paper files, the Company used a software package created by Excalibur Data Solutions, Inc. to maintain policy file information, perform premium billing and record premium payments.

During the period of examination, a limited segregation of duties existed. The Company's Bookkeeper, Patty Good, assisted the Company's CPA with the preparation of Annual Statements and Tennessee premium tax returns, and performed the Company's accounting duties, reconciled the bank statements, prepared checks to be signed, performed all reinsurance transactions (except for signing the agreements). Patty Good also helped the other bookkeepers record policy information, helped collect and record premium income and made deposits of Company funds at local banks.

The Company's Customer Service Representatives, Brenda Sexton and Betty McNeese, were responsible for meeting with customers in the office, collecting premium payments, recording premium payments, recording and deleting policy file information on the computer and making sure documents were properly filed in filing cabinets.

During the course of the examination, the Examiner became aware of premium, reinsurance, and liability accounting deficiencies. Therefore, the Company's Annual Statements reflected inaccuracies in these areas of financial reporting. Variances from generally accepted insurance accounting practices as prescribed by the NAIC, Tennessee county mutual annual statement instructions, Tennessee Statutes and Rules are noted below or otherwise commented upon in the section marked Analysis of Changes in Financial Statement and Comments Resulting From Examination, Comments and Recommendations.

In light of the Company's accounting system deficiencies and limited segregation of duties, the Examiner performed tests and audit procedures that were considered necessary to verify the balance sheet and income statement item balances as of year-end 2011, including substantial verification of supporting documentation.

The 2011 Annual Statement originally submitted to the TDCI was amended and resubmitted once due to errors and omissions.

Beginning in January 2012, the Company, with the assistance of its CPA, Teresa Whaley, began the transition from Microsoft Money to QuickBooks software for its balance sheet and income statement accounting.

Audited Financial Statements

The Company met the filing exemption allowed under Tenn. Comp. R. & Regs., 0780-1-65-.03 due to having less than 1,000 policyholders during each year under examination.

Management Discussion and Analysis

County Mutual Insurance Companies were not required to file a Management Discussion and Analysis (MEDIA) Report with the TDCI pursuant to Tenn. Comp. R. & Regs., 0780-1-37-.04(1).

Risk Based Capital Report

The Company was exempt from filing a Risk Based Capital (RBC") Report pursuant to Tenn. Code Ann. § 56-46-110.

Actuarial Opinion

Tenn. Code Ann. § 56-1-501(d) requires every property and casualty insurer doing business in Tennessee to file an opinion by a qualified actuary with their Annual Statement with the Commissioner on or before March 1. However, the Company met the exemption requirements set forth in the Actuarial Opinion Section of the NAIC Annual Statement Instructions for Property and Casualty Companies.

SUBSEQUENT EVENTS

Theft of Company Funds

On January 3, 2013, the Company's attorney informed the TDCI by telephone that theft of Company funds occurred in 2012. Initial documentation of theft from the Company's bank accounts was provided to the TDCI on January 15, 2013, by the Company.

From February 24, 2012, through December 12, 2012, forged checks cleared the Company's Andrew Johnson Bank and Capital Bank accounts that were not for legitimate business expenses. It was not until December 2012 that one (1) of the Company's bookkeepers discovered the theft of Company funds and notified the Company's President. The Company's attorney determined a total of six hundred sixty-six thousand, nine hundred eighty-nine dollars ($666,989) was disbursed fraudulently from the Company's bank accounts in 2012.

A lack of internal controls, a lack of segregation of duties, and a lack of employee competence were exploited by people known to the Company's Bookkeeper, Patty Good, and her father-in-law, Willie Good, the Company's Secretary / Treasurer. On December 15, 2012, the BOD decided that it was in the best interest of the Company that the Secretary / Treasurer and Bookkeeper resign immediately or their employment would be terminated.

The Greeneville Police Department and the Tennessee Bureau of Investigation are conducting a criminal investigation of this matter.

The Company filed a claim with The Travelers Indemnity Company of Connecticut and Fidelity and Deposit Company of Maryland who provided the Company coverage through a Commercial General Liability policy and Commercial Crime policy, respectively.

Company Resignations and Replacements

Effective Monday December 17, 2012, the Company's Secretary / Treasurer, Willie Good, and the Company's bookkeeper, Patty Good, resigned from the Company. James V. Carter resigned as President effective January 7, 2013, but remained as a Director of the Company.

A new Secretary/Treasurer, Donald Swanay, was elected on December 19, 2012, by the Company's BOD. Beginning January 10, 2013, Misty Barkley was hired to replace Patty Good as a bookkeeper. The Company's BOD elected Johnny C. Ottinger to become President on January 7, 2013.

Specific Risk Minimum Retention

Based on the one million, eighty-seven thousand, thirty-nine dollar ($1,087,039) total amount of policyholders' surplus that was reported in the Company's 2012 Annual Statement, the Company, beginning January 1, 2013, could not retain more than fifty-two thousand, six hundred eleven dollars ($52,611) for any single specific risk insured pursuant to Tenn. Code Ann. § 56-22-106(c)(1)(A). This conflicts with the seventy-five thousand dollar ($75,000) minimum specific retention disclosed in the Company's Excess of Loss Reinsurance with FMT in effect during 2013.

Policies and Procedures Manual

The Company's Attorney developed and the Company implemented on, April 20, 2013, a Personnel Policies and Procedures Manual. The Company's Personnel Policies and Procedures Manual provided a summary of the personnel policies and procedures pertaining to Company employees, general provisions of employment, employee benefits and expected standards of employee conduct.

Excess of Loss Reinsurance Agreement

Effective January 1, 2012, the Company ceded risk through an Excess of Loss Reinsurance Agreement with FMT as follows:

Type: Exhibit A – Combination Per Risk and Aggregate Layer
Coverage: Part 1 – Property Risk Excess of Loss: covers each loss in excess of the Company's $75,000 maximum retention up to the Reinsurer's $75,000 maximum per risk, each loss occurrence.

Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 75% of the Company's gross net premium income or $330,000 and shall not exceed 100% of the lesser of 50% of the Company's gross premium income or $330,000.

Type: Exhibit B – Second Aggregate Layer
Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 75% of the Company's gross net

assessment and / or premium income or $330,000 plus the lesser of 50% of gross net assessment and / or premium income or $330,000 and shall not exceed 100% of the lesser of 125% of the Company's gross assessment and / or premium income or $825,000.

Type: Exhibit C – Third Aggregate Layer

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 250% of the Company's gross assessment and / or premium income or $1,100,000 and shall not exceed 100% of the lesser of 750% of the Company's gross assessment and / or premium income or $4,950,000.

In addition to the aforementioned coverage, Exhibit A, Section 2, Part 1 of the Excess of Loss Reinsurance Agreement provided the Company facultative coverage for specific risks. The facultative attachment point was one hundred fifty thousand dollars ($150,000) for each specific loss occurrence up to the reinsurer's one hundred thousand dollar ($100,000) maximum per risk.

Policy Premium Rate and Deductible Change

The Company's Board of Directors, on January 21, 2012, approved an increase in premium rates and a deductible increase effective March 1, 2012. Standard Premium rates increased from four dollars and fifty cents ($4.50) per one thousand dollars ($1,000) to five dollars and fifty cents ($5.50) per one thousand dollars ($1,000) for policies in effect more than twelve (12) months, and the deductible increased from two hundred fifty dollars ($250) to five hundred dollars ($500). However, these changes were not submitted to the Property and Casualty Rating Section of the TDCI for approval pursuant to Tenn. Code Ann. § 56-22-109(b)(1), Tenn. Code Ann. § 56-5-303, Tenn. Code Ann. § 56-5-304 and Tenn. Code Ann. § 56-5-305.

FINANCIAL STATEMENT*

There follows a statement of assets, liabilities, surplus, and statement of income at December 31, 2011, as established by this examination:

ASSETS

	Current Year
Bonds and Long-Term Certificates of Deposit	$407,453
Real Estate (Properties Occupied by the Company)	35,868
Cash and Cash Equivalents	1,533,456
Premium Receivables & Agents Balances (Installments Booked but Not Yet Due)	19,850
Reinsurance Recoverable on Paid Losses and Loss Adjustment Expenses	406,944
Interest, Dividends and Real Estate Income Due and Accrued	2,363
Electronic Data Processing Equipment and Software	5,268
Aggregate Write-Ins for Other Than Invested Assets	11,190
Gross Assets	$2,422,482
DEDUCT ASSETS NOT ADMITTED	
Premium Receivables & Agents Balances Over 90 Days Past Due	(0)
Electronic Data Processing Equipment and Software	(5,268)
Non-Admitted Assets Due to Investment Limitation (Excess Of Net Book Value of Real Estate Over 10% of Admitted Assets)	(0)
Aggregate Write-Ins For Other Assets Non-Admitted	(0)
Total Assets Non-Admitted	($5,268)
Total Admitted Assets	$2,417,214

*The Examiner established a total of two million, four hundred seventeen thousand, two hundred fourteen dollars ($2,417,214) for admitted assets. The three hundred forty-six thousand, nine hundred six dollar ($346,906) liability total was inclusive of a known liability of at least two hundred seventy-two thousand, two hundred eighty-nine dollars ($272,289) for unearned premium and was exclusive of a federal income tax liability amount. The Examiner could not verify, within material respects, a liability for federal income taxes payable and unearned premiums. Therefore, as of the date of this examination report, the Examiner could not determine a materially accurate total for liabilities or a materially accurate policyholders' surplus total.

LIABILITIES & POLICYHOLDERS' SURPLUS

	Current Year
Gross Losses and Claims Reported, Unpaid	$59,749
Gross Losses and Claims Incurred But Not Reported	3,220
Reinsurance Recoverable on Unpaid Losses and Claims	62,969
Total Unpaid Claims and Losses Net of Reinsurance	0
Loss Adjustment Expenses	0
Unearned Premiums	272,289
Advance Premiums	0
Ceded Reinsurance Premium Payable	68,393
Commissions Payable, Contingent Commissions and Other Similar Charges	0
Accounts Payable and Accrued Expense Payable	1,885
Taxes, Licenses and Fees (Excluding Federal Income Taxes)	2,076
Federal Income Taxes Payable	0
Amounts Withheld or Retained by Company for Account of Others	2,263
Total Liabilities	346,906
Policyholders' Surplus	
Total Liabilities and Policyholders' Surplus	$2,417,214

*The Examiner established a total of two million, four hundred seventeen thousand, two hundred fourteen dollars ($2,417,214) for admitted assets. The three hundred forty-six thousand, nine hundred six dollar ($346,906) liability total was inclusive of a known liability of at least two hundred seventy-two thousand, two hundred eighty-nine dollars ($272,289) for unearned premium and was exclusive of a federal income tax liability amount. The Examiner could not verify, within material respects a liability for federal income taxes payable and unearned premiums. Therefore, as of the date of this examination report, the Examiner could not determine a materially accurate total for liabilities or a materially accurate policyholders' surplus total.

STATEMENT OF INCOME & POLICYHOLDERS' SURPLUS ACCOUNT

UNDERWRITING INCOME	
Net Premiums and Assessments Earned(1)	$538,915
DEDUCTIONS:	
Net Losses Incurred(2)	502,536
Loss Expenses Incurred Including Claims Adjustment Expenses	2,000
Other Underwriting Expenses Incurred:	
Commissions and Brokerage:	
Directors and Officers Compensation and Allowances	0
Agents Compensation and Allowances	36,098
Non-Employee Compensation and Allowances	0
Net Commissions and Brokerage	36,098
Salaries and Related Items	
Employees' Salaries	46,860
Directors' and Officers' Salaries	23,324
Payroll Taxes	8,025
Total Salaries and Related Items	78,209
Directors Fees	26,570
Advertising and Subscriptions	3,136
Boards, Bureaus and Association Dues	5,025
Employee Relations and Welfare	1,395
Insurance and Fidelity Bonds	2,118
Travel and Travel Items	0
Equipment	50
Cost or Depreciation of EDP Equipment or Software	5,268
Printing and Stationery	6,778
Postage, Telephone and Telegraph	9,273
Taxes, Licenses and Fees:	
State and Local Insurance Taxes	18,002
Insurance Department Licenses and Fees	0
All Other (Excluding Federal Income Tax and Real Estate	0
Total Taxes, Licenses and Fees	18,002
Real Estate Expenses and Repairs	15,617
Real Estate Taxes	1,436
Aggregate Write-Ins for Underwriting Expenses	11,803
Total Underwriting Expenses Incurred	226,914
Total Underwriting Deductions	731,449
Net Underwriting Gain or (Loss)	(192,534)
INVESTMENT INCOME	
Net Investment Income Earned	24,151
Net Realized Capital Gains (Losses)	0
Net Investment Gain (Loss)	24,151

OTHER INCOME	
Finance and Service Charges Not Included In Premium	0
Aggregate Write-Ins For Miscellaneous Income	18,113
Total Other Income	18,113
Net Income Before Dividends To Policyholders, After Capital Gains Tax and Before All Other Federal and Foreign Income Taxes	(150,270)
Dividends To Policyholders	0
Net Income After Dividends To Policyholders, After Capital Gains Tax and Before All Other Federal and Foreign Income Taxes	(150,270)
Federal and Foreign Income Taxes Incurred	0
Net Income (Loss)(3)	(150,270)
CAPITAL AND SURPLUS ACCOUNT	
Surplus as Regards Policyholders, December 31 Prior Year	2,245,127
Net Income (Loss)(3)	(150,270)
Change In Net Unrealized Capital Gains (Losses)	0
Change In Non-Admitted Assets From Prior Year	0
Cumulative Effect of Changes In Accounting Principles	0
Aggregate Write-Ins For Gains and Losses in Surplus (Examination Adjustment)(4)	
Surplus As Regards Policyholders as of December 31, 2011(5)	$

(1) Based on documentation provided by the Company the Examiner calculated a total of five hundred thirty-eight thousand, nine hundred fifteen dollars ($538,915) for Net Premiums and Assessments Earned. Due to errors in the Company's premium accounting system the Examiner could not establish a materially accurate total for unearned premiums as of year-end 2010 and 2011. Therefore, the Examiner could not establish a materially accurate total for Net Premiums and Assessments Earned.

(2) Using the annual statement instructions for Tennessee county mutual insurance companies the Examiner determined a total of five hundred two thousand, five hundred thirty-six dollars ($502,536) for Net Losses Incurred as of December 31, 2011, based on information provided by the Company.

(3) Due to errors in the Company's premium accounting system the Examiner could not establish a materially accurate total for Net Premiums and Assessments Earned. Therefore, the Examiner could not verify a materially accurate total for the Company's Net Loss as of year-end 2011.

(4) The Examiner could not verify, within material respects, a liability for federal income taxes payable, unearned premiums as of year-end 2010 and 2011 and net premiums and assessments earned. Therefore, the Examiner could not establish a materially accurate total for Aggregate Write-Ins for Gains and Losses in Surplus that encompasses all examination adjustments to the balance sheet and income statement.

(5) The Examiner could not verify, within material respects, a liability for federal income taxes payable and unearned premiums. Therefore, as of the date of this examination report the Examiner could not determine a materially accurate policyholders' surplus total.

Analysis of Changes in Financial Statement and Comments Resulting From Examination

Assets

Premium Receivables and Agents Balance **$19,850**

The above balance is nineteen thousand, eight hundred fifty dollars ($19,850) more than the zero dollar ($0) amount shown by the Company on line 8 of the Assets Page in its 2011 Annual Statement as explained below.

The Company did not account for installment premium receivable as an asset on the Assets Page (page 2, line 8) in their 2007 through 2011 Annual Statements. Uncollected installment premium balances meet the definition of an asset pursuant to NAIC SSAP # 4 – Assets and Nonadmitted Assets. The Examiner verified a total amount of nineteen thousand, eight hundred fifty dollars ($19,850) for installment premium billed but not yet due as of December 31, 2011.

Reinsurance Recoverable on Paid Losses and L. A. E. **406,944**

The above balance is thirty-one thousand, six hundred twenty-two dollars ($31,622) more than the three hundred seventy-five thousand, three hundred twenty-two dollar ($375,322) amount reported by the Company on line 9 of the Assets Page in its 2011 Annual Statement. Based on the examination procedures performed, the Examiner increased the account by fifty-nine thousand, two hundred fifty one dollars ($59,251) and reduced the account via reclassification by twenty-seven thousand, six hundred twenty-nine dollars ($27,629).

The account total was increased by fifty-nine thousand, two hundred fifty-one dollars ($59,251) upon discovery of four claims that were paid by the company in 2011 but not included as part of this accounts total. The examiner compared the reinsurers listing of claims paid in 2011 to the Company listing of claims incurred in 2011 that were eligible for an aggregate reinsurance recovery. This procedure identified four 2011 claims eligible for reinsurance recoverable, but the Company failed to identify and include these claims in their reinsurance recoverable filings with FMT.

The account was reduced by the Examiner to reflect the reclassification of six claims totaling twenty-seven thousand, six hundred twenty-nine dollars ($27,629) that were reported in 2011 and paid in 2012. The reclassification resulted in a direct reduction in this accounts balance and direct increase in the liability account titled Gross Losses and Claims Reported, Unpaid.

Interest, Dividends and Real Estate Income Due and Accrued **$2,363**

The above balance is seven hundred fifteen dollars ($715) more than the one thousand, six hundred forty-eight dollar ($1,648) amount shown by the Company on line 11 of the Assets Page in its 2011 Annual Statement.

The Company did not accrue interest for a savings account, a money market account and a certificate of deposit as of year-end 2011.

Electronic Data Processing Equipment and Software **$0**

The five thousand, two hundred sixty-eight dollar ($5,268) depreciated book value of premium accounting software reported on page 2, line 13 in the Company's 2011 Annual Statement was accepted for purposes of this examination.

However, the five thousand, two hundred sixty-eight dollar ($5,268) total amount of depreciated book value of non-operating system software should have been shown as a non-admitted asset on page 2, line 23 in the Company's 2011 Annual Statement pursuant to NAIC SSAP # 16 – Electronic Data Processing Equipment and Software, Section 2 and Annual Statement Instructions for a Tennessee County Mutual.

Aggregate Write-Ins For Other Than Invested Assets **$11,190**

The above balance is eleven thousand, one hundred ninety dollars ($11,190) more than the zero dollar ($0) amount shown by the Company on line 11 of the Assets Page in its 2011 Annual Statement.

In October 2012, the TDCI issued the Company a premium tax refund in the amount of eleven thousand, one hundred ninety dollars ($11,190) for the 2011 tax year. However, the Company did not establish an asset for the amount of 2011 premium taxes overpaid. Every year during the period of examination the Company overpaid premium taxes and received a refund from the TDCI.

Liabilities

Gross Losses and Claims Reported, Unpaid **$59,749**

The above balance is fifty-nine thousand, seven hundred forty-nine dollars ($59,749) more than the zero dollar ($0) amount reported by the Company on line 1.1 of the Liabilities and Policyholders' Surplus Page in its 2011 Annual Statement. The Company had ten (10) open claims at December 31, 2011, that were incurred in 2011, reported in 2011 and settled in 2012.

Gross Losses and Claims Incurred but Not Reported **$3,220**

The above balance is three thousand, two hundred twenty dollars ($3,220) more than the zero dollar ($0) amount reported by the Company on line 1.2 of the Liabilities and Policyholders' Surplus Page in its 2011 Annual Statement. The Company had one (1) open claim at December 31, 2011, that was incurred in 2011, reported in 2012 and settled in 2012.

Reinsurance Recoverable on Unpaid Losses and Claims **$62,969**

The above balance is sixty-two thousand, nine hundred sixty-nine dollars ($62,969) more than the zero dollar ($0) amount reported by the Company on line 1.3 of the Liabilities and Policyholders' Surplus Page in its 2011 Annual Statement.

The Company was eligible for an aggregate excess of loss reinsurance recovery from its reinsurer for ten (10) open claims at December 31, 2011, that were incurred in 2011, reported in 2011 and settled in 2012 totaling fifty-nine thousand, seven hundred forty-nine dollars ($59,749), and one (1) open claim at December 31, 2011, that was incurred in 2011, reported in 2012 and settled in 2012 totaling three thousand, two hundred twenty dollars ($3,220).

For purposes of this examination the twenty-seven thousand, six hundred twenty-nine dollar ($27,629) amount for six (6) claims incurred in 2011 and paid in 2012 was reclassified from Reinsurance Recoverable on Paid Losses and L. A. E. to Reinsurance Recoverable on Unpaid Losses and Claims, and the twenty-seven thousand, six hundred twenty-nine dollar ($27,629) amount is included in the sixty-two thousand, nine hundred sixty-nine dollar ($62,969) examination total for this balance sheet item.

Unearned Premiums **$272,289**

The above total was estimated to be at least twenty-one thousand, three hundred sixty-nine dollars ($21,369) more than the Annual Statement total of two hundred fifty thousand, nine hundred twenty dollars ($250,920) as shown pg. page 3, Line 3 of the 2011 Annual Statement. The increase consists of understated unearned premium amounts for individual policies with a semi-annual premium payment mode determined by the Examiner. A description of unearned premium accounting problems is noted below.

The Company's premium accounting system that computed the December 31, 2011, total for unearned premium produced inaccurate calculations at the policy level when the policy was written on a semi-annual basis or had an anniversary date of April 30.

The premium accounting system treated all policies that were paid semi-annually as if they were written for only six months instead of a complete year. This error resulted in unearned premium totals to be calculated only for a six-month period as opposed to a year. For example, a policy being paid on a semi-annual basis that was written on March 1, 2011, would only calculate unearned premium through August 30, 2011, or six months. Thereafter, the system would not compute unearned premium for this policy from September 1 through December 31, 2011, thus understating unearned premium by four months.

All policies with a premium due date of April 30 were unique as the system would only calculate the unearned premium for the period January 1 to April 30. This caused unearned premium to be understated or overstated for this set of policies because the policy anniversary date was missing in the calculation of this set of policies.

The number of policies with April 30 due dates approximated one-half of all policies. The impact on the financial statements for earned and unearned premium could not be determined by the Examiner

Advanced premiums were not accounted for as an independent account. All advance premium payments were included in the unearned premium total for policies and the amount of advanced premium could not be determined by the Examiner.

Advance Premiums **$0**

The above total is the same as the zero dollar ($0) amount reflected by the Company on line 4 of the Liabilities and Policyholders' Surplus Page in its 2011 Annual Statement.

The Company's policy accounting software was programmed to combine advance premium with unearned premium on a policy by policy basis. Therefore, the Company's liability for unearned premium included advance premium. The Examiner could not determine the amount of advance premium as of December 31, 2011.

Ceded Reinsurance Premiums Payable **$68,393**

The above total is sixty-eight thousand, three hundred ninety-three dollars ($68,393) more than the zero dollar ($0) amount reflected by the Company on line 5 of the Liabilities and Policyholders' Surplus Page in its 2011 Annual Statement.

The Company paid Farmers Mutual of Tennessee sixty-eight thousand, three hundred ninety-three dollars ($68,393) (Check #037805) on April 26, 2012, for the remainder of 2011 reinsurance premium owed in accordance with the terms of the Company's Excess of Loss Reinsurance Agreement.

Therefore, the Company should have established a liability for unpaid excess of loss reinsurance premium at year-end 2011 in the amount of sixty-eight thousand, three hundred ninety-three dollars ($68,393) pursuant to NAIC SSAP # 62 – Property & Casualty Reinsurance, Section 43 – Ceded Reinsurance.

Taxes Licenses and Fees (Excluding F. I. T.) **$2,076**

The above total is two thousand, seventy-six dollars ($2,076) more than the zero dollar ($0) amount reflected by the Company on line 8 of the Liabilities and Policyholders' Surplus Page in its 2011 Annual Statement.

The Company did not establish a liability for the payment of a 2011 Annual Statement filing fee to the TDCI and 2011 city and county taxes in its 2011 Annual Statement.

Federal Income Taxes Payable and Interest Thereon **$0**

The above total is the same as the zero dollar ($0) amount reflected by the Company on line 9 of the Liabilities and Policyholders' Surplus Page in its 2011 Annual Statement.

Pursuant to Internal Revenue Code section 501(C)(15)(i)(I) and 501(C)(15)(i)(II), insurance companies are exempt from federal income taxation if gross receipts do not exceed six hundred thousand dollars ($600,000) and not less than 50% percent of the receipts consists of premiums. For the years ended December 31, 2005, 2006, 2007, 2008, 2009, 2010, 2011 and 2012 the Company's gross receipts as defined by Internal Revenue Code section 501(C)(15) exceeded six hundred thousand dollars ($600,000).

Therefore, the Company was required to file Form 1120PC with the Internal Revenue Service. However, the Company did not file Form 1120PC and pay federal income tax for the years ending December 31, 2005 through 2012. Furthermore, the Company could not find evidence that it filed Form 990 with the I. R. S. for tax years prior to 2005. Therefore, the Company had an unknown material liability for "Federal Income Taxes Payable" as of December 31, 2011.

The Company has engaged its CPA firm to prepare and file Form 1120PC for the 2005 through 2012 tax years with the Internal Revenue Service.

Amounts Withheld or Retained by Company for Account of Others $2,263

The above total is two thousand, four hundred three dollars ($2,263) more than the zero dollar ($0) amount reflected by the Company on line 10 of the Liabilities and Policyholders' Surplus Page in its 2011 Annual Statement.

The Company did not disclose in its 2011 Annual Statement liability premium held by the Company on behalf of Farmers Mutual of Tennessee in the amount of two thousand, two hundred sixty-three dollars ($2,263) as of year-end 2011.

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS

Item	Policyholders' Surplus	
	Increase	Decrease
Premium Receivables and Agents Balances	$19,850	
Reinsurance Recoverable on Paid Losses and L. A. E.	$31,622	
Interest, Dividends and Real Estate Income Due and Accrued	$715	
Electronic Data Processing Equipment and Software		$5,268
Aggregate Write-Ins for Other Than Invested Assets	$11,190	
Gross Losses and Claims Reported, Unpaid		$59,749
Gross Losses and Claims Incurred but Not Reported		$3,220
Reinsurance Recoverable on Unpaid Losses and Claims	$62,969	
Unearned Premiums		$21,369
Ceded Reinsurance Premiums Payable		$68,393
Taxes Licenses and Fees (Excluding F. I. T.)		$2,076
Federal Income Taxes Payable and Interest Thereon		$0
Amounts Withheld or Retained by Company for Account of Others		$2,263
Totals	$126,346	$164,628
Net change in policyholders' surplus		$38,282

COMMENTS AND RECOMMENDATIONS

Comments:

(1) Greene County incurred severe storm damage of historical proportion in 2011. The Company paid two million, four hundred sixteen thousand, six hundred ninety-five dollars ($2,416,695) and sixty-two thousand, nine hundred sixty-nine dollars ($62,969) in 2011 and 2012, respectively, for claims incurred in 2011. However, the Company in 2011 received specific risk excess of loss reinsurance recoveries from FMT in the amount of fifty-one thousand, nine hundred dollars ($51,900) for two (2) claims incurred in 2011. Also, the Company received aggregate excess of loss reinsurance recoveries from FMT in the amount of one million, eight hundred seventy-four thousand, five hundred twenty-one dollars ($1,874,521) in 2011 and 2012 for losses incurred in 2011. As of the date of this examination report the Company was due an additional aggregate excess of loss reinsurance recovery in the amount of fifty-nine thousand, two hundred fifty-one dollars ($59,251) for claims incurred in 2011 and paid in 2011, and an additional aggregate excess of loss reinsurance recovery in the amount of thirty-five thousand, three hundred forty dollars ($35,340) for claims incurred in 2011 and paid in 2012.

Therefore, as of December 31, 2011, net claim losses incurred in 2011 were limited to five hundred fifty-three thousand, two hundred forty-two dollars ($553,242) based on reinsurance recoveries received in 2011 and 2012. Upon receipt of the aggregate excess of loss reinsurance recovery in the amount of fifty-nine thousand, two hundred fifty-one dollars ($59,251) for claims incurred in 2011 and paid in 2011, and the aggregate excess of loss reinsurance recovery in the amount of thirty-five thousand, three hundred forty dollars ($35,340) for claims incurred in 2011 and paid in 2012, the Company's net losses incurred in 2011 will be four hundred ninety-six thousand, ninety-six dollars ($496,096).

The Company's Specific Risk and its First, Second and Third Layer of Aggregate Excess of Loss Reinsurance coverage in place in 2011 prevented the Company from becoming statutorily impaired.

Recommendations:

Installment Premium Receivable

During the period of examination, the Company did not account for installment premium receivable as an asset on the Assets Page (page 2, line 8). Uncollected installment premium balances less than 90 days past due meet the definition of an asset pursuant to NAIC SSAP # 4 – Assets and Nonadmitted Assets.

It is recommended that the Company account for installment premium receivable in accordance with NAIC SSAP # 4, NAIC SSAP # 6 and Tenn. Code Ann. § 56-22-109(a)(4).

Premium Accounting

The Company posted total "premium receipts" including liability premium collected on behalf of FMT not gross written premium in Column 1 on the Underwriting and Investment Exhibit – Part 2A, Net Premiums Earned in its 2007 through 2011 Annual Statements as required by annual statement instructions for Tennessee county mutual insurance companies and Tenn. Code Ann. § 56-22-109(a)(4).

The Company during the period of examination did not properly account for earned and unearned premium for policyholders that made semi-annual premium payments in accordance with Annual Statement Instructions for a Tennessee County Mutual and NAIC SSAP # 53 – Property Casualty Contracts - Premiums.

Also, during the period of examination, the Company did not properly account for written and earned premium for policies that were canceled after their policy effective or anniversary date. Written and earned premium should be recorded to reflect the period of time the policy was in-force from the effective or anniversary date of the policy through the date the policy was canceled.

Additionally, the Company, during the period of examination, did not properly account for earned and unearned premium for policyholders because in numerous cases the proper policy effective or anniversary date was not used when calculating earned and unearned premium as of year-end.

Earned and unearned premium as of December 31 was calculated for the period January 1 to April 30 for all policies with a premium due date of April 30. The number of policies with April 30 due dates approximated one-half of all policies. The impact on the financial statements for earned and unearned premium could not be determined by the Examiner.

Finally, the Company did not separately account for advance premium on an individual policy basis. The Company combined advance premium with unearned premium on line 3 of the Liabilities and Policyholders' Surplus Page in its 2007 through 2011 Annual Statements.

NAIC SSAP # 53 requires "written premiums ... shall be recorded as of the effective date of the contract. Upon recording written premium, a liability, the unearned premium reserve, shall be established to reflect the amount of premium for the portion of the insurance coverage that has not yet expired."

It is recommended that the Company account for written, earned and unearned premium for each policy in accordance with NAIC SSAP # 53 in order to comply with annual statement instructions for Tennessee county mutual insurance companies and Tenn. Code Ann. § 56-22-109(a)(4).

Ceded Reinsurance Premium Accounting

The Company, in April 2012, paid Farmers Mutual of Tennessee for the remainder of 2011 reinsurance premium owed in accordance with the terms of the Company's Excess of Loss Reinsurance Agreement.

The Company's 2011 Annual Statement did not reflect a liability for unpaid excess of loss reinsurance premium. It is recommended that the Company account for ceded reinsurance premiums payable pursuant to NAIC SSAP # 62 – Property & Casualty Reinsurance, Section 43 – Ceded Reinsurance, the annual statement instructions for Tennessee county mutual insurance companies and Tenn. Code Ann. § 56-22-109(a)(4).

Accounting for Federal Income Taxes Payable

The Company did not establish a liability for "Federal Income Taxes Payable" in its 2007 through 2012 Annual Statements in accordance with NAIC SSAP # 10 and 10R – Income Taxes.

It is recommended that the Company file Form 1120PC and pay any taxes, penalties and interest due to the United States Department of the Treasury, Internal Revenue Service (IRS) division for the 2005 through 2012 tax years as directed by the IRS.

It is further recommended that the Company account for federal income taxes payable in future annual statement filings pursuant to NAIC SSAP # 101 – Income Taxes, the annual statement instructions for Tennessee county mutual insurance companies and Tenn. Code Ann. § 56-22-109(a)(4). Beginning in 2012, NAIC SSAP # 101 replaced NAIC SSAP # 10R.

Accounting for Amounts Withheld or Retained by Company for Account of Others

The Company did not disclose in its 2011 Annual Statement liability premium held by the Company on behalf of Farmers Mutual of Tennessee as required by NAIC SSAP # 67 – Other Liabilities, and as directed by the Commissioner as set forth in the June 24, 2008 "Order Adopting Examination Report With Directives No. 08-119."

It is recommended that the Company account for premium held by the Company on behalf of other insurance companies in future annual statement filings pursuant to the Commissioner's directive, NAIC SSAP # 67, the annual statement instructions for Tennessee county mutual insurance companies and Tenn. Code Ann. § 56-22-109(a)(4).

Hazardous Financial Condition and Future Examinations

The Examiner determined the Company was operating in Hazardous Financial Condition as defined under Tennessee Rule 0780-1-66-.03(1)(a), (h), (k). The findings in this report indicate the Company has ongoing material operational problems, failed to identify and file federal tax returns, and by default demonstrates that management in place through year-end 2012 lacked the competence necessary to oversee operations to the extent required to properly address and maintain timely oversight over the Company as evidenced by the problems and violations noted in this report.

The Examiner recommends the Company should be subjected to limited and full scope examinations in the next two years after it has addressed the problems noted with the premium accounting system, complied with all reporting requirements regarding their Federal Income Tax account, and corrects other errors noted in this report. The TDCI should determine the status of the efforts to remediate the issues noted in this report and should monitor the financial condition of the Company that has suffered material losses due to theft and has a possible material contingent liability with the IRS that is only now being addressed by management.

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Farmers Mutual Fire Insurance Company of Greene County, Tennessee.

In such manner, it was determined that, as of December 31, 2011, the Company had admitted assets of two million, four hundred seventeen thousand, two hundred fourteen dollars ($2,417,214). The Examiner verified liabilities totaling at least three hundred forty-six thousand, nine hundred six dollar ($346,906) as of December 31, 2011. The three hundred forty-six thousand, nine hundred six dollar ($346,906) liability total was inclusive of a known liability of at least two hundred seventy-two thousand, two hundred eighty-nine dollars ($272,289) for unearned premium and was exclusive of an unknown federal income tax liability amount. The Examiner could not verify, within material respects, a liability for federal income taxes payable and unearned premiums. Therefore, as of the date of this examination report the Examiner could not determine a materially accurate total for liabilities or policyholders' surplus as of December 31, 2011.

The courteous cooperation of the President, Secretary / Treasurer, attorney and employees of the Company extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

James T. Pearce, Jr.

James T. Pearce, Jr.
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

Examination Affidavit

The undersigned deposes and says that he has duly executed the attached examination report of the Farmers Mutual Fire Insurance Company of Greene County, Tennessee, dated June 3, 2013, and made as of December 31, 2011, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information, and belief.

James T. Pearce, Jr.

James T. Pearce, Jr.
Insurance Examiner
State of Tennessee
Southeastern Zone, NAIC

County Davidson
State Tennessee

Subscribed and sworn to before me
this 3rd day of
June, 2013

Helen W. Dorsey
(Notary)

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

03/03/2014

DIRECTORS

OFFICERS

Farmers Mutual Fire Insurance Company
Of Greene County

Directors		Officers
Everette Burchette	Grady Shelton	Johnny C. Ottinger
James V. Carter	Brenda Saxton	*President*
Robert Drain	David Susong	Alford Taylor
Curtis Holland	Bobby Wells	*Vice-President*
Wayland Huff	Tim Wisecarver	Donald E. Swanay
David B. Myers		*Secretary-Treasurer*
Jack Renner		

Since 1896

110 S. Main St/ P.O. Box 156

Greeneville, TN 37743

Office 423-6: Fax 423-638-2006

EXHIBIT

B

June 14, 2013

State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

IN RE: Financial Condition Examination Farmers Mutual Fire Insurance Company of Greene County Tennessee

RESPONSE OF FARMERS MUTUAL FIRE INSURANCE COMPANY OF GREENE COUNTY TENNESSEE TO THE REPORT ON EXAMINATION BY THE DEPARTMENT OF COMMERCE AND INSURANCE

Comes now the Farmers Mutual Fire Insurance Company of Greene County, Tennessee and for response to the Report on the Examination would show as follows:

As noted on Page 4 of the Report on Examination, the Farmers Mutual Fire Association of Greene County, Tennessee hereinafter referred to as "Company" was incorporated on September 24, 1896 and for the past 116 years has provided a valuable service to the mostly rural communities of Greene County by providing property insurance protection against natural perils to the citizens and residents of those rural communities.

For 116 years the Company operated without any significant issues. However, in 2012 the Company did suffer significant loss when its bookkeeper and the bookkeeper's daughter with other individuals forged over $660,000 in checks on the Company's account. The company self-reported the loss to the Department of Commerce and Insurance.

Upon discovery of the forged instruments, the Company immediately moved to terminate the bookkeeper, Patty Good from the Company. Also, the Secretary-Treasurer who overall managed the day to day operation of the Company was also separated from employment.

A new Secretary-Treasurer, Donald Swanay was elected. A new President, John A. Ottinger was elected. A new bookkeeper, Misty Barkley was hired. The Company Board of Directors went to great effort to right the ship. The Company sought to amend its by-laws to comply with State law. The Board of Directors approved policies and procedures for the actual day to day operations of the office and in addition thereto, approved a personnel policy handbook or manual as it relates to the requirements, responsibilities and functions of the employees of the Company. Those and other notable changes in the operation of the Company on a day to day basis which have been implemented greatly enhanced and improved the viability and profitability of the Company.

In reviewing the status of prior examination findings from Page 3, the Company either complied or attempted to comply with each directive issued from the examination through December 31, 2006. The management team is presently addressing directive No. 2 as it relates to premiums held for other insurance companies which would necessarily refer to premiums held for the re-insurance company. The accountant for the Company is attempting to make those calculations.

On Page 17 under "Subsequent Events" the Company does acknowledge that it lost some $666,000.00 from the forged checks on the Company accounts. It acknowledges the lack of internal controls, lack of segregation of duties, and a lack of employee competence during a period of time when the Company suffered the losses. However, the report fails to note the corrective action taken by the Company Board of Directors. The Board immediately mandated internal controls to ensure the accuracy and completeness of the bookkeeping functions for the Company. The Board of Directors did institute checks and balances to ensure that other employees of the Company were double-checking the Company accounts, including the issuance of Company checks, the liabilities for Company expenditures, claims administration, as well as deposits in the Company accounts. The Board of Directors by approving policies and procedures for the day to day operation of the Company went to great lengths to ensure the accuracy of all reporting of the financial accounts of the Company, as well as to ensure that the Company will not suffer losses for theft by forged instrument or otherwise from the Company.

As noted on Page 17, the Company immediately reported the criminal conduct to the Greeneville Police Department and the Tennessee Bureau of Investigation. The investigation is ongoing and it has been reported to the Company that indictments are expected in July of 2013 against the alleged perpetrators of the theft from the Company.

Reviewing the financial statement and the paragraph at the bottom of Page 20 concerning unearned premiums, the issue of unearned premiums was first addressed to the Company during this most recent audit. The Company cannot find any records where the issue of unearned premiums had been previously addressed to the Company or its Board of Directors by the auditors. The Company is working with its accountant, Teresa Whaley to attempt to determine unearned premiums during the examination period as well as unearned premiums for previous years.

By the same token, on Page 23, paragraph No. 4, evidently prior to this examination, the Company did not know that it was necessary to file federal income taxes. No previous examination had dealt with that issue nor had the Internal Revenue Service ever advised the Company that it was not meeting the filing requirements required of the Company by the Internal Revenue Service. Now having been duly advised of the need to file federal income tax returns, the Company has employed and directed its accountant to file the necessary income tax returns for the Company and those returns are ready to be filed subject to advice by the State auditors.

On page 32 the report finds that the Company has a hazardous financial condition which would warrant more rigid and more frequent future examinations. With reinsurance in place, the Company has more than adequate reserves to meet the needs of its policyholders. Reinsurance with Farmers Mutual of Tennessee provides reinsurance coverage for the Company for any losses above $75,000.00 per claim and an aggregate amount per year of $517,222.08 (total out of the pocket losses from reserves that the Company can have for 2013) that limited the total losses that the Company will have to pay.

To that end while the financial report for the Company for the year ending December 31, 2012 show cash reserves of $1,089,000, the actual financial condition as of June 17, 2013 shows cash reserves of $1,296,576.00. Those cash reserves include $45,000.00 already recovered from two insurance policies, one a commercial policy and the other a criminal policy each have paid their policy limits to the Company of a combined $45,000.00. Additionally, a reinsurance check of $37,000.00 has been received by the Company but the Company expects an additional check of approximately $70,000.00 for reinsurance for the losses incurred by the Company in 2012.

Lastly, Capital Bank upon which the majority of the forged instruments passed has acknowledged that it owes the Company at least $100,000.00 but the Company actually expects to receive approximately $200,000.00 from Capital Bank and Andrew Johnson Bank. Based on the foregoing, the Company expects its cash reserves to be in excess of $1,600,000.00 within the next forty-five days.

Coupled with the cash reserves that the Company has with the implementation of policies and procedures to cover the day to day operations as well as the accounting functions for the Company, the Company disagrees that it is presently in hazardous financial condition.

Respectfully submitted,

Donald E Swanay

Don Swanay, Secretary-Treasurer
Greene County Farmers Mutual
Insurance Company of Greene
County, Tennessee