Report of Examination

of

The Farmers Mutual Fire Insurance Company of Sevier County

Sevierville, Tennessee

Bill Delozier, Secretary / Treasurer
144 West Main Street
Sevierville, Tennessee 37862

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

Date of Report: July 7, 2010

Examined as of: December 31, 2008

Last Examination as of: December 31, 2003

Commissioner Leslie Newman
Department of Commerce and Insurance
State of Tennessee
Nashville, Tennessee 37243

Commissioner,

Pursuant to TENN. CODE ANN. § 56-22-115 and your instructions, I have made an examination and submit the following report of the conditions and affairs of the

Farmers Mutual Fire Insurance Company of Sevier County

Sevierville, Tennessee

Officers

Title	Name	Address	Term Expires
President	Lillard Allen	Sevierville, TN	January 2009
Vice President	James E. Gibson	Sevierville, TN	January 2011
Secretary & Treasurer	Bill Delozier	Sevierville, TN	January 2011

Directors:

Name	Address	Term Expires
Lillard Allen, President	Sevierville, TN	January 2009
James E. Gibson, Vice President	Sevierville, TN	January 2011
Bill Delozier, Secretary & Treasurer	Sevierville, TN	January 2011 (resigned)
Dayton Douglas	Sevierville, TN	January 2009
Glenn Ellis	Sevierville, TN	January 2009
Curtis Wells	Sevierville, TN	January 2011
William Howard Montgomery	Sevierville, TN	January 2011
Warren N. Hurst	Sevierville, TN	January 2011

Directors (cont.):

Name	Address	Term Expires
A. Zachary Wade	Sevierville, TN	January 2010

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

Compensation for 2008 was as follows: the President received $6,000 or $500 per month, the Secretary / Treasurer received $14 per hour, the Directors received $200 per called meeting, the Officers received $100 per committee meeting, the Company's Bookkeeper received $37,014.25, and the Company's Office Clerk received $2,748.

Agents are paid 50% of the first year's premium for a new policy and the policies are issued on a continuous basis until cancelled. Agents are paid 50% of the first year's premium for an increase in coverage on an existing policy. As of May 11, 2001, agents were not paid an in-house commission. The Company's agents must conduct an on-site inspection in order to receive a commission on the first year's premium.

The Company had three (3) licensed agents and they are as follows: Bill Delozier, Virginia Newman, and Lillard Allen.

The Company's claim adjustments are mainly performed by Bill Delozier (Director / Officer / Agent) and James Gibson (Director / Officer / Agent).

The Company paid $75 for each loss adjustment made by Bill Delozier and James Gibson.

The Company paid its agents $10 for each dwelling inspected and $5 for each out building inspected for an existing policy.

The Company paid its agents $25 for reinsurance premiums, $25 on new premiums other than farms and $15 on farms.

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

January 31, 2004 - The Company approved a 15% discount on property within the city limits of Gatlinburg, Pigeon Forge and Sevierville, if located within 1000 ft. of a fire hydrant and if the property will justify it.

March 12, 2004 - The Company adopted a policy on return premiums. If the policy is cancelled by the policyholder within the first six months, the Company retains $100 or the first three months premium, which ever is greater. Writing agents are required to return to the Company appropriate pro-rated commissions.

October 8, 2004 - The Company approved listing each item on the Declaration page with the amount of coverage and price of each item.

January 29, 2005 - The Company Directors decided to discontinue coverage on old barns and houses that are vacant, especially when the Company doesn't provide coverage on the rest of the property.

October 14, 2005 - The Company amended its Bylaws.

December 9, 2005 - The Directors recommended HG&A Associated, Inc., to be hired as auditors for the 2005 year.

January 28, 2006 - The rate on barns was set at $10 per $1,000 of coverage when the Company doesn't have the residence insured and on barns that are in bad shape. The rate on all other barns will be $6 per $1,000 of coverage. All other rates remained the same.

March 10, 2006 - Acceptance of bids for replacement of the roof was recommended for the next meeting.

May 12, 2006 - The Company approved hiring J&W Roofing and Sheet Metal Co. for covering the roof with 29 gauge brown metal for $4,025.00. The Board approved purchasing a water cooler and dehumidifier from Wayne Blalock Home Supply.

July 14, 2006 - A rate of $6 per $1,000 of coverage is placed on all buildings and machinery.

August 13, 2006 - Policies that use Rural Housing Authority as a mortgagee will not be renewed due to the Company's experience with the organization.

January 26, 2007 - The Company's Directors agreed to meet monthly. The Board agreed to allow its Office Manager to determine whether the Company retains $50,000 or $100,000 per risk on reinsurance on losses. The Secretary's salary was increased to $14 per hour. The Office Manager's salary will be increased by $2,500 per year, to $22,500 annually.

May 11, 2007 - The Board approved that when a policy is cancelled during the first six months, the earned premium would be divided equally between the Company and the agent.

September 14, 2007 - The Directors determined to not put a 10% deductible on livestock.

February 8, 2008 - The Board passed a motion to place an exclusion on the coverage for frozen pipes and damage resulting there from.

August 8, 2008 - The Board approved a $100 minimum per policy. The Board agreed to drop the rate on Von & Steve Dekker single wide trailers to $10 per $1000 of coverage.

September 12, 2008 - The Board added Lillard Allen's name on the CD's. The Secretary's name and the Vice President's name were added on the signature card for the checking and savings accounts. The Board discussed issuing homeowners' insurance.

December 12, 2008 - The Office Manager and Secretary will be given a $200 bonus.

In 1999, the Company raised the deductible for all claims (except for theft) from $100 to $250. In 2001 the Company set the deductible for all claims, including theft (for the first time), at $250. The $250 deductible amount for all claims was still in place as of year-end 2008.

In 2001, the Company began allowing the policyholder to pay on a yearly, semi-annual or quarterly basis. Policyholders were charged a $5 fee for each semi-annual or quarterly payment.

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

Policy Ratings will be filed with the work papers of 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 $65,000, and then the reinsurer shall be liable for 100% of the Company's ultimate net loss each risk, each loss occurrence, in excess of $65,000, but the reinsurer's liability shall not exceed $135,000 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) 85% of the Company's gross written premium or (b) $578,000, and then the reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of that amount, but the reinsurer's liability for each calendar year shall not exceed 100% or the lesser of (a) 40% of the Company's gross written premiums or (b) $408,000.

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 85% of the Company's gross written premium or $578,000 plus the lesser of 40% of gross written premium or $408,000, and then the reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 85% of the gross net premium income or $408,000,,but the reinsurer's liability shall not exceed 100% of the lesser of 375% of the gross net premium income or $3,825,000 in the aggregate.

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 ultimate net loss in the aggregate for each calendar year exceeds the greater of 500% of the Company's gross written premium or $3,400,000, and the reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 500% of the gross net premium income or $3,400,000, but the reinsurer's liability shall not exceed 100% of the lesser of 500% of the gross net premium income or $5,100,000 in the aggregate.

The Company also states that any policy over $200,000 is considered facultative with Farmers Mutual of Tennessee.

The Company pays a premium deposit of $10,650 for each layer, bi-annually, for reinsurance coverage from Farmers Mutual of Tennessee. The Company did not experience any losses in excess of the Company's specific retention per policy of $65,000 in 2008. Neither did the Company experience any losses in excess of the Company's retention level of 85% of the Company's gross written premium or $578,000 in 2008. Nor did the Company experience any losses in excess of the aggregate loss retention level of 500% of the Company's gross written premium or $3,400,000. However, the Company did receive settlements from its reinsurer Farmers Mutual of Tennessee for 2007 losses in the amount of $764.42, each layer, on March 1, 2008.

The Company has a liability contract with Farmers Mutual of Tennessee. One year liability contracts cover homes less than five acres, farms more than five acres and/or including livestock.

Appraisal and classification of risks taken.

Policies are typically written for no more than 80% of the full value of the property but no less than 50% of its full value at the time it is insured. Buildings in the course of construction shall not be insured for more than two thirds (2/3) nor less than fifty percent (50%) of the value at the time said buildings are insured. The Company will pay half the amount of the policy for dwellings that have been vacant for forty-five (45) days until the dwelling is occupied, and then the policy will again be in full force and effect. The agent performs the appraisal on the property prior to the issuance of a policy during the application process.

The Company has (3) licensed agents and they are as follows: Bill Delozier, Virginia Newman, and Lillard Allen.

In order to be in compliance with TENN. CODE ANN. § 56-22-107(b)(1), the Company, as of May 11, 2001, had each agent submit all new policies to be approved by an Officer / Director, other than themselves, as follows:

Ms. Virginia Newman (Bookkeeper / Agent) has her underwriting approved by the Company's Secretary / Treasurer, Bill Delozier (Director / Officer / Agent).

Bill Delozier (Director / Officer / Agent) has his underwriting approved by the Company's President, Lillard Allen (Director / Officer).

Lillard Allen (President / Agent) has his underwriting approved by the Company's Secretary / Treasurer, Bill Delozier (Director / Officer / Agent).

Property insured by the Company includes dwellings and contents, church buildings, farm buildings and contents, hay in barns, farm machinery, cattle and some commercial type property (same rate as dwellings).

According to the Company's Bylaws, a policy application is approved when two members of the Executive Committee sign the application. At the time of this Examination, the Company was in violation of its Bylaws by approving applications when one member of the Executive Committee signs the application.

Annual rate of assessment per $1,000 of coverage for period covered:

The Company's premium rate for dwellings was $5 per $1000 of coverage up to $100,000, and $3 per $1000 of coverage over $100,000(except for rental property), as of December 31, 2003.

The Company's premium rate for building and machinery is $6 per $1000 of coverage..

The Company's single-wide mobile home rate was $15 per $1000 of coverage as of December 31, 2003. The Company's double-wide mobile home rate was $6 per $1000 of coverage up to $50,000 of coverage, and the Company's double-wide mobile home rate was $5 per $1000 of coverage for double-wide mobile homes insured for more than $50,000, as of December 31, 2003.

Barns, outbuildings, livestock and hay were insured at $6 per $1000 of coverage.

The rate for barns insured by the Company when the Company does not insure the residence is $10 per $1000 of coverage as of January 28, 2006.

For any dwelling over $80,000, the policyholder was automatically given liability and theft coverage at no cost. However, the provided liability and theft coverage violates TENN. CODE ANN. § 56-22-106 (b) (1-2). Please see comment section.

Rate of membership, policy and initial fees charged.

As of December 31, 2008, the Company had $165,274,544 of total insurance in force.

In 2001, the Company started allowing the policyholder to pay on a yearly, semi-annual or quarterly basis. The Company charged a $5 fee for each semi-annual or quarterly payment.

The Company assesses a $250 deductible on all claims.

Date of last assessment.

The Company makes advance assessments of its members on the policy renewal date.

Amount delinquent.

There were no delinquencies. According to the Bylaws, the Company suspends policies if assessments are not paid within thirty (30) days after the date of notice. After the expiration of the thirty days, the member is given a second notice. Bylaws do not specifically state the total number of past due days that will lead to cancellation of policy.

According to the present Secretary/Treasurer, a past due notice is mailed to the customer within two days of the past due date. Then, twenty days prior to the 30th day that the assessment is delinquent, a second past due bill is mailed. The policy is cancelled on the 30th day.

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.

Exhibit of Risks

		Amount
1.	Gross Amount In-force, December 31, 2007	$165,863,820
2.	New Business Written or renewed in 2008	21,131,200
3.	Total	186,995,020
4.	Expirations or Cancellations during 2008	21,720,476
5.	Gross Amount In-force, December 31, 2008	165,274,544
6.	Amount Re-insured	(51,785,728)
7.	Net Amount In-force, December 31, 2008	$113,488,816

The Company as of December 31, 2008 had approximately 2,288 policyholders.

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.

Assets

	Admitted Assets Per Company	Non-Admitted Assets Per Examination	Net-Admitted Assets Per Examination
Bonds, and Long-term Certificate of Deposits	$1,611,628		$1,611,628
Properties Occupied by the Company	70,869	$2,551	***73,420
Cash and cash equivalents	853,430		853,430
Premium receivables and agents' balances	8,743	*(8,743)	0
Federal income tax recoverable	29,820		29,820
Interest income due and accrued	9,330		9,330
Electronic data processing equipment and software	768	**(30)	738
Total Assets	$2,584,588	$(6,222)	$2,578,366

* Amount was non-admitted due to Company not being able to provide documentation for this line item. **Amount was non-admitted due to Company depreciating the equipment beyond the useful life or three years. ***Company includes the building sign, outside light, and heating/air of the building as apart of the real estate, increase of $2,551.

Liabilities, Surplus and Other Funds

	Liabilities and Surplus Per Company	Examination Adjustments	Liabilities and Surplus Per Examination
Gross Losses Adjusted and Unpaid	$1,250		$1,250
Unearned Premiums	359,444		359,444
Advance Premiums	80,503		80,503
Account Payable and Accrued Expense Payable	1,001		1,001
Taxes, Licenses and Fees	4,129		4,129
Amounts Withheld or Retained by Company for Accounts of Others	816		816
TOTAL LIABILITIES	447,143		447,143
Surplus as Regards Policyholders	2,137,445		2,131,223
TOTALS	$2,584,588		$2,578,366

STATEMENT OF INCOME & POLICYHOLDERS' SURPLUS ACCOUNT

Underwriting Income

1. Net Premiums and assessments earned	$778,691
2. Net losses incurred	531,314
3. Loss expenses incurred including claims adjustment expenses	9,470
4. Other underwriting expenses incurred	
4.1. Commission and brokerage:	
a. Directors and officers compensation and allowances	60,637
b. Agents compensation and allowances	
c. Non-employee compensation and allowances	
d. Commissions received on reinsurance ceded	
e. Net commissions and brokerage	60,637
4.2 Field supervisory expenses	
4.3 Salaries and related items	
a. Employees' Salaries	60,069
b. Directors' and Officers' Salaries	
c. Payroll taxes	9,952
d. Total salaries and related items	70,021
4.4 Directors fees	22,100
4.5 Advertising and subscriptions	1,880
4.6 Boards, bureaus and association dues	2,395
4.7 Surveys and underwriting reports	
4.8 Employee relations welfare	10,349
4.9 Insurance and fidelity bonds	2,047
4.10Travel and travel items	1,048
4.11Rent and rent items	4,407
4.12Equipment	
4.13Cost or Depreciation of EDP equipment and software	532
4.14Printing and Stationery	1,077
4.15Postage, telephone and telegraph	5,027
4.16Legal and auditing fees	4,780
4.17Taxes, licenses, and fees:	
a. State and local insurance taxes	
b. Insurance department licenses and fees	10,356
c. All other (excluding federal income tax and real estate)	738
d. Total taxes, licenses and fees	11,094
4.18Real estate expenses and repairs	2,377
4.19Real estate taxes	1,432
4.20Aggregate write-ins for underwriting expenses	16,208
4.21Total underwriting expenses incurred	216,336
5. Total underwriting deductions	767,120
6. Net underwriting gain or (loss)	21,571

Investment Income

7. Net investment Income earned	104,424
8. Net realized capital gains or (losses) from sale or maturity of assets	
9. Net investment gain or (loss)	104,424

Other Income

10. Finance and service charges not included in premiums	7,128
11. Aggregate write-ins for miscellaneous income	
12. Total other income	7,128
13. Dividends to policyholders	
14. Net income after dividends to policyholders and before federal income taxes	133,122
15. Federal income taxes incurred	23,975

16. Net income	$109,147

Policyholders' Surplus Account

17. Policyholders surplus, December 31 of previous year	$2,015,005

Gains and (Losses) in Surplus

18. Net Income	109,147
19. Change in net unrealized capital gains or (losses)	
20. Change in non-admitted assets from prior year	(4,922)
21. Cumulative effect of changes in accounting principles	
22. Aggregate write-ins for gains and losses in surplus	11,993
23. Policyholders surplus as of statement date	$2,131,223

Assets

Schedule of Bank Deposits:

Name of Bank	Amount on Bank Statement	Amount of O/S Checks	Adj. Items	Balance
Sevier County Bank, Checking	$133,315	$83,714	0	$49,601

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

Certificates of Deposit :

Citizens National Bank	$156,442
Citizens National Bank	100,000
Sun Trust Bank	200,701
Sun Trust Bank	214,079
Sun Trust Bank	101,771
Sun Trust Bank	131,387
Tennessee State Bank	100,000
Mountain National Bank	100,000
Mountain National Bank	183,776
Edward Jones	65,000
Bank East	107,064
Smart Bank	79,209
Smart Bank	50,000
Smart Bank	205,974
Smart Bank	107,998
Smart Bank	161,855
Sevier Co. Bank	250,000
Sevier Co. Bank	100,000
Total Certificates of Deposit	$2,415,256

*CD's interest is capitalized as accrued.

Assets pledged or hypothecated:

None.

Comments on assets:

Properties Occupied by Company

The Company added the building sign, building heating and air conditioning, and an outside light to the actual cost of the building and depreciated those items along with the building. This line item was applied a value of $2,551 that was incorrectly deducted and depreciated. Additions were not included in the Annual Statement as additions or capitalizations to the property.

Cash

The Company maintains $200 of petty cash in the office vault.

Premium Receivables

The Company could not provide documentation for premium receivables. It is recommended that Company maintain adequate record keeping of premium receivables. This line item was non-admitted.

EDP

The Company phone was listed as equipment and depreciated over 7 years. This item is not admitted based on SSAP No. 79, p3-5.

Comments on claims, borrowed money and other liabilities:

Premium Taxes

The Company completed premium tax returns incorrectly for the years 2005, 2007 and 2008 by applying a 100% computation instead of 60%. The Company is expecting refunds from TNDOI for $4,309, $13,114 and $12,397, respectively.

Claims

Claims appear to be paid promptly and in accordance with the terms of the policy.

Comments on acts of officers and directors; any apparent violations of the Association's Bylaws, or of the laws of the State of Tennessee; general comments regarding the conduct of business (continued):

Policy Rate Schedule

The Company was issued a directive order to eliminate the liability and theft coverage provisions to certain policies in 2005 and appeared to have been compliant with the Directives issued by the Commissioner's order #05 -010 dated January 31, 2005.

Statement of Accounting
The Company contracted with H G & A Associates, P. C. (Certified Public Accountants) to prepare their 2007 and 2008 Annual Statements on a statutory basis.

Location of Books and Records
All of the Company's books and records were kept in its office building located at 144 West Main Street in Sevierville, Tennessee, 37862.

Subsequent Events:
Mr. Bill Delozier resigned as Secretary / Treasurer in October, 2009. Mrs. Virginia Newman was appointed the new Secretary / Treasurer by the Board of Directors.

Recommendations:

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

1. The Company will comply with Article V, Section 5 of the Farmers Mutual Fire Insurance Bylaws. Article V, Section 5. It shall be the duty of the agent and assistant agents to value all property and submit all applications to the Company for approval. The application will be considered approved by the Company when it is signed by any two members of the Executive Committee. The agent shall collect and account for to the Secretary-Treasurer the required writing fee and shall be paid a commission on this fee, the same to be fixed by the Directors.

2. Premium receivables are to be recorded and documented appropriately as so defined by SSAP No.6.

3. All property capitalizations are to be recorded properly.

4. The Company should comply with SSAP No. 16, Paragraph 3: EDP equipment and software shall be depreciated for a period not to exceed three years using methods detailed in SSAP No. 19—Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements.

5. The Company is to complete premium taxes correctly in accordance with TENN. CODE ANN. § 56-22-114(b). In addition to the premium taxes levied on county mutual insurance companies

under subsection (a), any county mutual insurance company writing fire insurance and lines of business having fire coverage as a part of the risk rate shall pay additional taxes as found in TENN. CODE ANN. § 56-4-208 for the purpose of executing the fire marshal law. For the purposes of this subsection (b), the following portions of the amounts required to be reported by line of business in the annual statement required by TENN. CODE ANN. § 56-22-109 shall be considered premiums for insurance covering the peril of fire: (1) Fire lines, one hundred percent (100%); (2) Farmowners and homeowners multiple peril, fifty-five percent (55%); and (3) Combined coverages, including fire, extended coverages, vandalism, malicious mischief and theft, sixty percent (60%).

6. The Company shall comply with TENN. CODE ANN. § 56-22-106 (b) (1-2).

Conclusion

It was determined that, as of December 31, 2008, the Company had admitted assets of $2,578,366 and liabilities of $447,142. Thus, there existed for the additional protection of the policyholders the amount of $2,131,223 in the form of unassigned funds (surplus).

The complete and courteous cooperation of Mrs. Virginia Newman, Bookkeeper and Mr. Bill Delozier, Secretary / Treasurer, 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 The Farmers Mutual Fire Insurance Company of Sevier County, Tennessee dated July 7, 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 9th day of
July, 2010.

Helen W. Dorsey
(Notary)

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

Commission expires:
03/03/2014