RECEIVED
AUG 0 3 2004
Dept. Of Commerce & Insurance
Company Examinations

# Report of Examination

of

# Farmers Mutual Fire Insurance Company of Sullivan County

Blountville, Tennessee

Secretary

G. Julia Lambert

3188 Highway 126

Blountville, TN 37617

Examination made as of: December 31, 2003

Examiner in Charge: Donnie R. Nicholson

Examination commenced: January 27, 2004

Examination completed: August 2, 2004

Examined as of: December 31, 2003

Last Examination as of: December 31, 1998

Commissioner Paula A. Flowers
Department of Commerce and Insurance
State of Tennessee
Nashville, Tennessee 37243

Commissioner:

Pursuant to your instructions, I have made an examination and submit the following report of the conditions and affairs of the.

**Farmers Mutual Fire Insurance Company of Sullivan County**

**Blountville, Tennessee**

**Officers**

| Title | Name | Address | Term Expires |
|---|---|---|---|
| President | William H. Pierce | Bluff City, TN | March 2004 |
| Vice President | Jim D. Droke | Gray, TN | March 2005 |
| Secretary & Treasurer | G. Julia Lambert | Bluff City, TN | August 2004 |

**Directors:**

| Name | Address | Term Expires |
|---|---|---|
| Tom Lambert | Piney Flats, TN | March 2004 |
| Sara Morrell | Bristol, TN | March 2005 |
| William H Pierce | Bluff City, TN | March 2004 |
| Jonathan Morrell | Bristol, TN | March 2006 |
| Clay Rodefey | Kingsport, TN | March 2004 |
| James Mahaffey | Bristol, TN | March 2005 |
| Billy Geisler | Piney Flats, TN | March 2004 |
| G. Julia Lambert | Bluff City, TN | March 2005 |
| Charles Newland | Kingsport, TN | March 2004 |
| Jim D. Drake | Gray, TN | March 2005 |
| Allen Hickman | Blountville, TN | March 2006 |

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

President receives $800.00 per month
Vice President receives $500.00 per month
Secretary/Treasurer receives $2080.00 for eleven months and $2,400.00 for one month

Agents receive $75.00 per policy written
Directors receive $100.00 per meeting
One part time office worker receives $10.00 per hour

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

The Company adopted new bylaws on August 6, 2003
Amended and Restated Charter was approved by the Department of Commerce and Insurance State of Tennessee September 23, 2003.

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

N/A

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

The Company has a Combination Per Risk / Aggregate Excess of Loss Reinsurance Agreement with Farmers Mutual of Tennessee effective January 1, 2002.

Property Risk Excess Loss: The Reinsurer shall not be liable for any loss hereunder until the Company's ultimate net loss, each risk, each loss occurrence, exceeds $50,000 and then the Reinsurer shall be liable for 100% of the Company's ultimate net loss each risk, each loss occurrence in excess of $50,000 but the Reinsurers liability shall not exceed $150,000 each risk, each occurrence.

Aggregate Excess of Loss: The Reinsurer shall not be liable for any loss hereunder until the ultimate net loss, in the aggregate of each calendar year, exceeds the greater of (a) 85% of the Company's gross written premium, or (b) $100,000 and then the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of that amount, but the Reinsurers' liability, for each calendar year, shall not exceed 100% of the lesser of (a) 165% of the Company's gross written premiums or (b) $265,000.

**Appraisal and classification of risks taken.**

Property appraisals are done by an agent at the time of the application and are approved by the Director of the District in which the property is located.

No property shall be insured for more than 80% of the full value.

Risks taken on farm dwellings and out buildings, personal household effects, farm equipment, livestock and heat pumps
**Annual rate of assessment per $1,000.00 for period covered:**

| | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|
| Fire, Wind | $3.00 | $3.00 | $3.00 | $3.00 | $3.00 |
| and Lighting | | | | | $4.00 |

| | | | | | |
|---|---|---|---|---|---|
| Rate based on Condition | | | | | $5.00 |
| Homes, Dwellings | $3.00 | $3.00 | $3.00 | $3.00 | $3.00 |
| Heat Pumps | | | | | $4.00 |
| Rate based on age | | | | | $5.00 |
| Mobile Homes | $10.00 | $10.00 | $10.00 | $10.00 | $10.00 |
| Rate based on age | | | | | $12.00 |
| | | | | | $15.00 |
| Cattle | Under 1 year Grade $300.00 | | | | |

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

$3.00 per $1,000 of insurance written

**Date of last assessment.**

The Company makes and approves assessments at annual meeting in March of each year.

**Amount delinquent.**

None

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

Yes

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

The Company has not borrowed any money during the period of examination.

**Exhibit of Risks**

| | | Amount |
|---|---|---|
| 1. | In force, December 31, 2002 | $46,793,020 |
| 2. | Written | 7,804,567 |
| 3. | Total | $54,597,587 |
| 4. | Deduct those expired and marked off as terminated | (2,850,000) |
| 5. | In force, December 31, 2003 | $51,747,587 |

## Financial Statement

### Income

| | | |
|---|---|---|
| Gross Membership Fees | $25,604 | |
| Deduct Returns | 0 | |
| Net Membership Fees | 25,604 | |
| Gross Assessments | 190,479 | |
| Deduct Reinsurance | (20,160) | |
| Deduct Return Assessments | (2,410) | |
| Net Assessments | 167,909 | |
| Gross Interest on savings, an CDs | 96,474 | |
| Total Income | 289,987 | |
| Ledger Assets, December 31, 2002 | 2,506,372 | |
| Total Income and Balance | | $2,796,359 |

### Disbursements

| | | |
|---|---|---|
| Gross amount paid policyholders for losses | $89,649 | |
| Deduct Salvage | 0 | |
| Deduct Reinsurance | 0 | |
| Net amount paid policyholders for losses | 89,649 | |
| Expenses of adjustment and settlement of losses | 6,474 | |
| Commissions or brokerage, inc. membership fees retained by agents | 51,213 | |
| Salaries and compensation of officers, directors, & employees | 54,515 | |
| Advertising | 8,260 | |
| Printing and stationery | 285 | |
| Postage, telegrams, telephones and express | 726 | |
| Legal expenses | 189 | |
| Furniture and fixtures | 492 | |
| Insurance department licenses and fees | 239 | |
| All other licenses, fees and taxes | 17,268 | |
| Other disbursements | 56,038 | |
| Total disbursements | | 285,348 |
| Balance | | $2,511,011 |

## Assets

| | |
|---|---|
| Real Estate | $34,817 |
| Cash in banks and on hand | 323,700 |
| Bonds | 1,823,559 |
| Raymond James Financial Services, Inc. | 53,321 |
| Common Stock (Money Market Fund) | 275,614 |
| Total Assets | 2,511,011 |
| Assets Not Admitted | 53,321 |
| Total Assets Admitted | $2,457,690 |

## Liabilities

| | |
|---|---|
| Total Liabilities | $2,369 |
| Surplus over all liabilities | 2,455,321 |
| Total | $2,457,690 |

**Schedule of Bank Deposits:**

| | |
|---|---|
| BB&T-Checking | $83,092.14 |
| First Tennessee Bank-Savings | 7,833.93 |

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

**Certificate of Deposits**

| | |
|---|---|
| BB&T | $81,943.97 |
| BB&T | 10,000.00 |
| Twin City Bank | 53,856.46 |
| Twin City Bank | 14,371.51 |
| Twin City Bank | 8,867.35 |
| Twin City Bank | 22,914.40 |
| First Tennessee | 10,928.16 |
| First Tennessee | 29,691.64 |
| **Total** | $232,573.49 |

**Investment Accounts**

| | |
|---|---|
| Bonds (First Tennessee Bank) | $1,823,559.50 |
| Raymond James Financial Services Inc. | $53,320.88 |

**Real Estate**

| | |
|---|---|
| Main Office | $34,817.00 |

| | |
|---|---|
| **Petty Cash** | $200.00 |

| | |
|---|---|
| **Common Stock** | $275,614.00 |

**Assets pledged or hypothecated:**

None

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

None

**Comments on acts of officers and directors; any apparent violations of the Association's By-Laws, or of the laws of the State of Tennessee; general comments regarding the conduct of business:**

The Company mistakenly classified a money market account at First Tennessee Bank as Cash instead of Short-Term Investments in accordance with Tennessee Code and N.A.I.C. Accounting Practices and Procedures. The Company classified their First Funds U.S. held through First Tennessee Bank as "Cash" in their 2003 Annual Statement. For the purpose of this examination these funds were changed to Common stock.

In the process of examining this Company it was determined they were in violation of Tennessee Code Annotated § 56-3-112. The Company had an investment account with Raymond James Financial Services, Inc., A Division of Citizens Bank of Tri-Cities. Raymond James Financial Services is an independent broker/dealer, and are not insured by the FDIC or any other bank insurance, are not deposits or obligations of the bank, are not guaranteed by the bank. Therefore for the purpose of this examination the aggregate total of $53,320.88 invested in this account was non-admitted.

The Company is in violation of Tennessee Code Annotated § 56-4-210. In 2003 the Company took a reduction in premium tax for investments in Tennessee securities. These were U.S. Treasury Obligations and U.S. Government Agencies held in a Tennessee Bank not Tennessee securities.

The Company's custodian agreement with First Tennessee Bank does not meet the requirements of Tennessee Regulation 0780-1-46.

**Recommendations:**

To be in compliance with Tennessee Code Annotated § 56-3-112 it is recommended that the Company close the account with Raymond James Financial Services, Inc. and move these funds to an FDIC insured bank.

It is recommended that the Company make the necessary changes in their custodian agreement with First Tennessee Bank so that will meet the requirement of Tennessee Regulation 0780-1-46.

**Subsequent Events:**

Since the beginning of this examination the Company has provided documentation showing the account at Raymond James Financial Services Inc. has been closed and funds moved to First Tennessee Bank.

The Company has amended and restated their Investment Management and Safekeeping Agreement with First Tennessee Bank and a copy received. It now meets the requirements for Tennessee Regulation 0780-1-46.

As of the date of this report the Company had not resolved the issue of being in violation of Tennessee Code Annotated § 56-4-21 reduction in tax for state investments.

**Location of Books and Records:**

3188 Highway 126
Blountville, TN 37617

Respectfully submitted,

Donnie R. Nicholson
Insurance Examiner in Charge

**Examination Affidavit:**

The undersigned deposes and says that he has duly executed the attached examination report of The Farmers Mutual Fire Insurance Company of Sullivan County, Tennessee dated August 2, 2004 and made as of December 31, 2003, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the content thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Donnie R. Nicholson
Insurance Examiner
State of Tennessee

County Davidson
State Tennessee

Subscribed and sworn to before me
this 2nd day of
August, 2004

Helen W. Dorsey
(Notary