Report of Examination

of

Farmers Mutual Fire Insurance Company of

Jefferson County, Tennessee, Inc.

Julianne Martin, Secretary/Treasurer

1205 Gay Street, Suite A

P.O. Box 605

Dandridge, TN 37725

Examination made as of: December 31, 2008

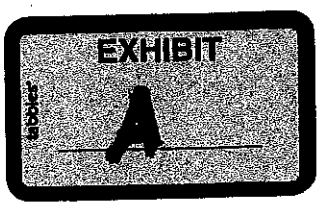
Examiner: Sandy M. Banks

Examination commenced: August 20, 2009

RECEIVED

AUG 20 2010

Dept. of Commerce & Insurance
Company Examinations



Date of Report: August 16, 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 Jefferson County, Tennessee, Inc.

Dandridge, Tennessee

Officers

Title	Name	Address	Term Expires
President	L.C. Batson	Dandridge, TN	2010
Vice President	Larry Ramsey	Dandridge, TN	2010
Secretary & Treasurer	Julianne Martin	Dandridge, TN	2012

Directors:

Name	Address	Term Expires
L.C. Batson	Dandridge, TN	2010
Larry Ramsey	Dandridge, TN	2010
Julianne Martin	Dandridge, TN	2012
Jimmy Townsend	Dandridge, TN	2011
Sandy Lee Miller	Dandridge, TN	2010
Bill Smelcer	Dandridge, TN	2011
Carol Ann Burgin	Dandridge, TN	2011
Mark Smelcer	Dandridge, TN	2010

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

The Company paid $1,750 to Directors and Officers in compensation and allowances. Directors' and Officers' salaries were paid in the amount of $60,415, with $42,380 of that amount being paid to the Secretary/Treasurer. Other employees' salaries were paid in the amount of $26,936.

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

Bylaws were amended on 07/26/2008 to include the following:

Article II: The Object -
Company removed "against losses by fire, lightning, wind and hail" to make the sentence more concise.

Article 5, Section 7: Duties of the Secretary/Treasurer -
The Company replaced the personal pronoun "he" with "she" to correctly acknowledge the current Secretary/Treasurer.

Article VI, Section 3: Deductibles -
This article was added to state that a $250 deductible was to be deducted from the amount of property loss insured as to any one occurrence resulting from any peril insured against.

Article VII, Section 1: Premiums -
Section 1 has gained the title of "Premiums" instead of "Assessments". The Secretary/Treasurer will inform each member (policyholder) by mail of the premium due and will provide sufficient notice thereof. Premiums paid in installments shall now include a four dollar ($4) service charge per installment. A minimum premium of $100 will be required of each policy.

Section 2: Neglect or Failure to Pay -
This section was revised to state that after the 60th day of non-payment, the liability of the Company ceases until the premium is paid and reinstated by the Secretary/Treasurer. A twenty dollar ($20) service charge is applied to premiums paid after the due date. The revision also gives the satisfaction of refusal or neglect of the policyholder to pay the premium to be addressed by the Secretary/Treasurer instead of the Executive Committee.

Article V, Section 1: Number of Directors, How Elected -
The Company deleted a statement providing that all members of the Board of Directors must be members of the Company.

Agents
The Company has had written agreements with two agents as of 2008: Karen Kay Surratt and Teena S. Hammer. Both Agents are also part-time office assistants for the Company. The agents

receive a 10% commission for any new business solicited and approved. The other Agent of record is Julianne Martin, Secretary/Treasurer. L.C. Batson, President, acts as inspector for the Company.

Insurance

The Company has had a written agreement with Farmers Mutual Fire Insurance Company of Tennessee, Knoxville, TN, for a contract of representation as of December 1, 2004. The commission for solicitation and binding of coverages for new and renewal business is 15% for Agents of Farmers Mutual Fire Insurance Company of Jefferson County for all lines of business insured. Inspection fees of $15 will be paid for new policies providing liability coverages other than farm liability. The Company will be paid an inspection fee of $15 for new policies providing farm liability and other liability coverages.

According to the Company's July 28, 2007, minutes, a 10% commission was to be paid to new agents. The new agents were to be Teena Hammer and Karen Kay Surratt.

Compensation

In 2004, this Company was under the supervision of TDCI. The following statements address compensation changes that were made under supervision:

-2/25/04: All fees to agents for re-underwriting and loss appraisal trips were eliminated to comply with TENN. CODE ANN. § 56-22-130. The Company eliminated paying health insurance for the Officers/Directors. Everett Gantte (resigned 5/20/04) reduced his salary to $50,000 annually.

-3/10/04: The President and Secretary/Treasurer eliminated their salaries. Directors would be paid $250 annually with a $50 reduction per meeting missed.

-3/26/04: Julianne Martin's salary was increased by $165 per week, and her retirement was eliminated. Julianne Martin's salary was $42,380 annually. Teena Hammer and Kay Surratt's salaries were each $12,480 annually, or $10 per hour, the same as in 2003.

-5/24/04: Julianne Martin was appointed to fulfill Gantte's term with no change in salary. L.C. Batson's salary was increased from $12,000 annually to $15,000 annually. Alvin Carpenter's salary was increased from $2,520 annually to $3,120 annually.

-07/30/05: L.C. Batson's salary was increased to $17,400 annually from $15,000 annually (increase in price of gas).

-07/30/06: L.C. Batson's salary was increased to $19,800 annually from $17,400 annually (increase in price of gas).

-7/30/08: L. C. Batson's salary was increased to $21,000 annually from $19,800 annually. Julianne Martin's salary was decreased from $42,380 annually to $33,800 annually, which allowed the Company to draft health insurance payments which were approved by theTDCI Teena Hammer and Kay Surratt's salaries were each increased to $13,728 annually from $12,480 annually, or $11 per hour; both also receive a 10% commission for new business solicited as agents for the Company.

The Company's Certificate of Authority was updated on September 11, 2008, to include writing of business to counties contiguous to Jefferson County, and for compliance with TENN. CODE ANN. § 56-22-104.

Subsequent Events :

Sandy L. Miller resigned from his Board of Director's position effective December 31, 2008. Teena Hammer was appointed to replace Mr. Miller. At its meeting held July, 25, 2009, the Board of Directors removed Jimmy Townsend as a Director, effective immediately, for non-compliance with the request made by the TDCI for Mr. Townsend to complete and file with the Department a Biographical Affidavit.

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

It appears that all necessary documents have been filed with the Tennessee Department of Commerce and Insurance. Policy Forms were approved by the TDCI on December 27, 2006.

Report on reinsurance assumed and / or ceded.

Type:	Combination Per Risk and Aggregate Excess of Loss
Reinsurer:	Farmers Mutual of Tennessee
Term:	Continuous contract, effective January 1, 2008.
Coverage:	Part 1: Property Per Risk Excess of Loss Reinsurer is liable for each loss, each occurrence that exceeds $25,000 for 100% of the ultimate net loss each risk, each loss in excess of $25,000 not to exceed $75,000 Part 2: Aggregate Excess of Loss Reinsurer is liable for each loss in the aggregate that exceeds the greater of 65% of the Subject gross net premium income or $190,000 and the Reinsurer is liable for 100% of the ultimate net loss in excess of that amount but not to exceed 100% of the lesser of 60% of the net gross premium income or $265,000.

Type:	Second Aggregate Excess of Loss
Reinsurer:	Farmers Mutual of Tennessee
Term:	Continuous contract, effective January 1, 2008.
Coverage:	Reinsurer is liable for net loss in excess of the greater of 65% of the gross net premium income or $190,000 plus the lesser of 60% of the gross net premium or $265,000 and the Reinsurer shall be liable for 100% of the ultimate net loss in excess of the greater of 65% of the gross net premium income or $190,000 plus the lesser of 60% of the gross net premium or $265,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 125% of the gross net premium income or $600,000 in the aggregate.

Type:	Third Aggregate Excess of Loss
Reinsurer:	Farmers Mutual of Tennessee
Term:	Continuous contract, effective January 1, 2008.
Coverage:	Reinsurer is liable for net loss in excess of the greater of 250% of the gross net premium income or $850,000 and is liable for 100% of the net loss in excess of the greater of 250% of the gross net premium income or $850,000 but the Reinsurer's

liability shall not exceed 100% of the lesser of 750% of the gross net premium income or $3,600,000 in the aggregate.

The Company pays premium deposits in the amount of $17,300 on March 1 and September 1, each year, to Farmers Mutual of Tennessee.

The Company has not assumed any reinsurance throughout this examination period.

Appraisal and classification of risks taken.

The Company may insure dwellings, barns, farming equipment and other implements usually kept in barns and outbuildings, church buildings and contents, school buildings and contents, household goods and electrical appliances. Livestock may be insured individually, as a group, or by classes of animal.

Annual rate of premiums per one thousand dollars of coverage, for period covered.

Rental Mobile Homes - $21.00 with a $250 deductible
Personal Effects - $21.00 with a $250 deductible
Basic Fire, Windstorm, Hail:
-Dwellings/Personal Property - $10.50 with a $100 to $250 deductible
-Barns/Equipment/Tractors - $10.50 with a $100 to $250 deductible
-Single Wide Mobile Homes - $21.00 with a $100 to $250 deductible

The Company charges a deductible on all policies. The Bylaws state that there is a $250 deductible on any one loss occurrence. However, the Company also has a Property Owners' Program that offers deductibles based on insurance coverage and credit rating, those amounts being $100 to $250 deductible.

Rate of membership, policy and initial fees charged.

The Company charges a $20 membership/inspection fee on all new policies.

Premiums:

	2008	2007
Total Gross Premiums	$388,061	$455,503
Reinsurance Ceded	40,996	28,671
Net Premiums Written	347,065	426,832
Unearned Prem. (PY)	15,829	0
Unearned Prem. (CY)	16,470	15,829
Premiums Earned During Year	$346,424	$411,003

Premiums are due in January, however, premiums may be paid in quarterly installments (including a $4 processing charge) according to the Company's Bylaws. New policies are written on a calendar

year from their inception date, making premiums due according to the month written.

Net Losses Incurred:

	2008	2007
Direct Losses Paid	$140,543	$123,562
Net Losses Paid	140,543	123,562
Net Losses Unpaid (CY)	5,246	22,679
Net Losses Unpaid (PY)	22,679	0
Net Losses Incurred, During 2008	$123,110	$146,241
No. of Reported Claims	67	88

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	Adjustments Per Examination	Net-Admitted Assets Per Examination
Bonds	$160,000		$160,000
Cash and Cash Equivalents	365,732		365,732
Premiums Receivables and Agents Balance	21,994		21,994
Federal Income Tax Recoverable	33,129		33,129
Interest Due and Accrued	994		994
Furniture, Equipment, and Supplies	**7,000	$7,000	0
EDP	3,000	3,000	0
Pre-Paid Expenses	**721	721	0
Total Assets	$592,570	($10,721)	$581,849
Total Admitted Assets			$581,849

*Please see comments below regarding the non-admitted assets. **
Company non-admitted these assets.

Liabilities, Surplus and Other Funds

	Liabilities and Surplus Per Company	Examination Adjustments	Liabilities and Surplus Per Examination
Total Unpaid Claims and Losses	$5,246	$	$5,246
Unearned Premiums	16,470	(187)	16,283
Advance Premiums	124,473		124,473
Account Payable and Accrued Expense Payable	237		237
Taxes, Licenses and fees	5,566	173	5,739
TOTAL LIABILITIES	$151,992	($14)	151,978
Surplus as Regards Policyholders			429,871

TOTALS	**$581,849**

STATEMENT OF INCOME & POLICYHOLDERS' SURPLUS ACCOUNT

Underwriting Income

1. Net Premiums and assessments earned	$346,424
2. Net losses incurred	123,110
3. Loss expenses incurred including claims adjustment expenses	
4. Other underwriting expenses incurred	
4.1. Commission and brokerage:	
a. Directors and officers compensation and allowances	1,750
b. Agents compensation and allowances	
c. Non-employee compensation and allowances	
d. Commissions received on reinsurance ceded	
e. Net commissions and brokerage	750
4.2 Field supervisory expenses	
4.3 Salaries and related items	
a. Employees' Salaries	26,936
b. Directors' and Officers' Salaries	60,415
c. Payroll taxes	7,057
d. Total salaries and related items	94,408
4.4 Directors fees	
4.5 Advertising and subscriptions	205
4.6 Boards, bureaus and association dues	2,984
4.7 Surveys and underwriting reports	325
4.8 Employee relations welfare	3,613
4.9 Insurance and fidelity bonds	502
4.10Travel and travel items	165
4.11Rent and rent items	11,400
4.12Equipment	
4.13Cost or Depreciation of EDP equipment and software	
4.14Printing and Stationery	3,765
4.15Postage, telephone and telegraph	5,628
4.16Legal and auditing fees	1,358
4.17Taxes, licenses, and fees:	
a. State and local insurance taxes	10,892
b. Insurance department licenses and fees	30
c. All other (excluding federal income tax and real estate)	
d. Total taxes, licenses and fees	10,922
4.18Real estate expenses and repairs	546
4.19Real estate taxes	32
4.20Aggregate write-ins for underwriting expenses	11,060
4.21Total underwriting expenses incurred	148,664
5. Total underwriting deductions	271,774
6. Net underwriting gain or (loss)	74,650

Investment Income

7. Net investment Income earned	15,938
8. Net realized capital gains or (losses) from sale or maturity of assets	0
9. Net investment gain or (loss)	15,938

Other Income

10. Finance and service charges not included in premiums	
11. Aggregate write-ins for miscellaneous income	6,799
12. Total other income	6,799

13. Dividends to policyholders	
14. Net income after dividends to policyholders and before federal income taxes	97,387
15. Federal income taxes incurred	
16. Net income	$97,387

Policyholders' Surplus Account

17. Policyholders surplus, December 31 of previous year	$335,288

Gains and (Losses) in Surplus

18. Net Income	97,387
19. Change in net unrealized capital gains or (losses)	
20. Change in non-admitted assets from prior year	2,804
21. Cumulative effect of changes in accounting principles	
22. Aggregate write-ins for gains and losses in surplus	
23. Policyholders surplus as of statement date	$429,871

Assets

Schedule of bank deposits:

Name of Bank	Amount on Bank Statement	Amount of O/S Checks	Balance
First TN Checking	$64,037	$100	$63,937
First TN CD	12,658		12,658
BB&T MM	10,296		10,296
BB&T CD	30,598		30,598
First Peoples Bank CD	40,000		40,000
First Peoples Bank CD	50,000		50,000
CNB MM	8,233		8,233
CNB CD	100,000		100,000
CNB CD	50,000		50,000
FSG CD	50,000		50,000
FSG CD	60,000		60,000
Citizens National	50,000		50,000
Total	$525,822	$100	$525,722

*Company reports $10 of petty cash.

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

Company maintains a rental lease agreement with Farmers Mutual of Tennessee for property at 1205 Gay Street, Dandridge, TN. There is no real estate owned by this Company.

The Company has reported Furniture, Equipment and Supplies in the amount of $7000,and EDP in the amount of $3000 as admitted assets, but failed to amortize the assets. However, the Furniture, Equipment and Supplies are non-admitted by the Company as well. The Company also reported pre-paid expenses in the amount of $721 as an asset, but failed to maintain documentation regarding same.

The Company reported $21,994 in premium receivables for 2008. The amount is more than 1000% higher than reported in 2007.

The Company amended Form 1120 for Years 2006-2008 for overpayments plus a refund for an IRS

error attributed to a Federal Tax Recoverable for a total in the amount of $33,129.

Other assets include interest due and accrued in the amount of $994.

Assets pledged or hypothecated:

None.

Comments on claims, borrowed money and other liabilities:

Claims appear to be paid promptly and to the satisfaction of the Policyholders.

The Company did not borrow any money throughout this examination period.

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:

Total Non-Admitted Assets Per Examination
The Examiner deducted $7,721 as the non-admitted portion of the Company's statement value of its Furniture, Equipment, and Supplies along with the pre-paid expenses. Also deducted is $3,000 of Electronic Data Processing equipment and software that the Company failed to depreciate properly. The Company could not provide documentation for the pre-paid expenses.

Business Insurance
State Auto Property and Casualty Insurance Company provides a Business Owners' Policy that includes insurance for the following: Business Personal Property, Commercial Building Premise (which includes terrorism coverage), Accounts Receivable, Employee Dishonesty, Newly Acquired or Constructed Building, Commercial General Liability Coverage, Workers' Compensation and Employers' Liability (for accident and disease of employees) .

Statement of Accounting
This examination, as of December 31, 2008, was conducted on a Statutory Accounting Basis as prescribed by the TDCI.

Location of Books and Records
All of the Company's books and records were kept in its office building located at 1205 Gay Street in Dandridge, Tennessee, 37725.

Recommendations:

It is recommended that the Company implement the following measures of corrective action for

1. SSAP No. 19, Paragraph 2: Furniture, fixtures and equipment generally meet the definition of assets established in SSAP No. 4—Assets and Nonadmitted Assets (SSAP No. 4). Within that definition, such items also meet the criteria defining nonadmitted assets. Accordingly, these assets shall be depreciated against net income as the estimated economic benefit expires and the undepreciated portion of these assets shall be reported as nonadmitted assets and charged against surplus.

2. 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.

3. In the future, the Company needs to maintain all records pertaining to the completion of the Annual Statement.

Conclusion

It was determined that, as of December 31, 2008, the Company had admitted assets in the amount of $581,849, and liabilities, exclusive of capital, in the amount of $151,978. Thus, there existed for the additional protection of the policyholders the amount of $429,871 in the form of unassigned funds (surplus).

The complete and courteous cooperation of Kay Surrat and Teena Hammer, Office Clerks, Mrs. Julianne Martin, Secretary/Treasurer, and Mr. L. C. Batson, President, for their extended cooperation throughout the course of the examination is hereby acknowledged.

Respectfully submitted,

Sandy M. Banks, MBA
Insurance Examiner II

Examination Affidavit:

The undersigned deposes and says that she has duly executed the attached examination report of Farmers Mutual Fire Insurance Company of Jefferson County, Tennessee, Inc. dated August 16, 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 II
State of Tennessee

County Davidson
State Tennessee

Subscribed and sworn to before me
this 20th day of
August, 2010.

Helen W. Dorsey
(Notary)

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

My commission expires:
03/03/2014