# EXHIBIT A

STATE OF TENNESSEE

DEPARTMENT OF COMMERCE AND INSURANCE

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REPORT ON EXAMINATION

OF

# FARMERS UNION MUTUAL FIRE INSURANCE COMPANY
OF

# BRADLEY COUNTY

CLEVELAND, TENNESSEE

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AS OF

## DECEMBER 31, 2013

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Nashville, Tennessee
May 28, 2015

Honorable Julie Mix McPeak
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tenn. Code Ann. § 56-22-115, regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), a full-scope individual financial examination and market conduct review, as of December 31, 2013, has been made of the condition and affairs of:

**FARMERS UNION MUTUAL FIRE INSURANCE COMPANY OF BRADLEY COUNTY**
915 25th Street NW
Cleveland, Tennessee 37311

hereinafter and generally referred to as the "Company", and a report thereon is submitted as follows:

## INTRODUCTION

This examination was arranged by the Commissioner of the Tennessee Department of Commerce and Insurance ("TDCI"), commenced on May 15, 2014, and was conducted by duly authorized representatives of the TDCI, pursuant to Tenn. Code Ann. § 56-22-115.

## SCOPE OF EXAMINATION

This examination report covers the period from January 1, 2009, to the close of business on December 31, 2013, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* and practices and procedures of the TDCI. The examination was

planned to evaluate the financial condition and to identify prospective risks of the Company, and to evaluate system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions.

Our examination included a review of the Company's business policies and practices, management and corporate matters, a verification and evaluation of assets, liabilities, income and disbursements. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable Tennessee laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was not required to file audited financial statements with the TDCI. Therefore, the examination did not include a review of audit workpapers.

## COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The previous examination report, as of December 31, 2008, contained no comments or recommendations.

## COMPANY HISTORY

The Company was incorporated on October 14, 1914, under the provisions of the Tennessee Business Corporation Act as a non-profit mutual benefit corporation, owned by its Members, who are referred to as policyholders. The Company 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, lightning or tornado to residents of Bradley County in the state of Tennessee. The Company commenced business on October 14, 1914.

As of December 31, 2013, and as of the date of this examination report, the Company was licensed to transact business in the state of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(a) and (b)(1).

# MANAGEMENT AND CONTROL

## MANAGEMENT

Management of the Company is vested in a Board of Directors ("Board") elected annually by the Members. The Company's Bylaws define a Member as a person having insurance with the Company. In accordance with the Bylaws, the Board shall consist of not less than six (6) or more than fifteen (15) Directors.

The following persons were duly elected by the Members to serve on the Board, as of December 31, 2013:

| Director | Home City and State |
|---|---|
| John F. Eads | Cleveland, TN 37311 |
| Charles P. Hannah | Cleveland, TN 37323 |
| David A. Campbell | Cleveland, TN 37311 |
| David E. Beaty | Cleveland, TN 37312 |
| Dana C. Burgner | Cleveland, TN 37323 |
| Lester L. Elkins | Charleston, TN 37310 |
| Milton G. Humberd, Jr. | Cleveland, TN 37323 |
| Robert K. Still | Cleveland, TN 37323 |

An annual meeting of the Members will be held on the first Saturday after the second Monday in January. The Secretary / Treasurer shall give all Members advance notice of the annual meetings and any called meeting of the Members. Notice of Member meetings is given by mail on each premium notice. This shall be deemed sufficient notice to all Members of such meetings. Members elect directors at the annual meeting. All directors on the Board are Members and serve a term of three (3) years.

Annual and special meetings of the Members shall be held at the call of the Board and shall be held at the office of the Company, or at such place as the Directors may designate. Board meetings are held annually on the same day as the Members' meetings in January, as well as in June and December of each year.

The Bylaws of the Company instruct the Board to appoint officers of the Company, annually, immediately following the annual meeting of the Members. The following persons were serving as the Company's officers, as of December 31, 2013:

| Name | Title |
|---|---|
| John F. Eads | President, Director |
| Charles P. Hannah | Vice President, Director |
| David A. Campbell | Secretary, Treasurer, Director |

The Board appointed the following Committee to provide oversight for the affairs of the Company:

**Executive Committee**

| Name | Title |
|---|---|
| John F. Eads | President, Director |
| Charles P. Hannah | Vice President, Director |
| David A. Campbell | Secretary, Treasurer, Director |

## CONTROL

The Company is equally owned by its Members. The Company has never issued any shares of capital stock or established guaranteed capital.

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 Member shall vote by proxy.

A quorum for the transaction of business consists of ten percent (10%) of the membership or ten (10) Members, whichever is less. 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.

## CONFLICTS OF INTEREST AND PECUNIARY INTEREST

The Company does not have a written conflict of interest policy in place. A review of the Company's compliance with Tenn. Code Ann. § 56-3-103 found no director or officer of the Company had a pecuniary interest in the investment or disposition of Company funds. Please see "Comments and Recommendations" section of this report.

## CORPORATE RECORDS

### Charter

The Charter recites general and specific powers of the Company in detail. The Charter, as currently stated, was inspected and found to have been duly issued and properly recorded. There were no amendments to the Charter during the period of examination.

### Bylaws

The Bylaws are such as generally found in corporations of this type and contain no unusual provisions. They provide for the regulation of the business and for the conduct of the affairs of the Company, the Board and its Members.

The Bylaws may be amended or repealed, or new bylaws may be drafted and adopted by a majority vote of the Members present at any regular or called meeting of the Company. There were no amendments to the Bylaws during the period of examination.

### Minutes of Meetings

The minutes provided a brief summary of the actions of the Company's Board. Attachments and exhibits provided to the Board were maintained with the minutes. During the period of examination, there were fifteen (15) regular Board meetings, fifteen (15) Executive Committee meetings, and five (5) annual meetings of Members. Minutes of the referenced meetings were reviewed.

### AFFILIATED COMPANIES

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

## SERVICE AGREEMENTS

### Claims Adjustment Services

N & C Claims, Inc. provides claims adjustment services for the Company on an as needed basis.

### Financial Statement and Tax Preparation Services

Arnett, Kirksey, Kimsey, Sullivan, Lay and Hall, PLLC provides accounting services related to regulatory filings, including preparation of statutory annual statements and federal income tax filings.

## FIDELITY BONDS AND OTHER INSURANCE

### Professional Liability Policy and Directors & Officers

The Company's "Insurance Company Combined Professional Liability and Directors & Officers Liability Insurance" coverage was underwritten by NAMIC Insurance Company, Inc. of Indianapolis, Indiana. NAMIC Insurance Company, Inc. was an approved foreign surplus lines carrier in the state of Tennessee, as of the date of this examination.

The fidelity bond policy had an occurrence/aggregate limit of $1,000,000 and a $10,000 retention. The minimum range suggested by the NAIC for a Company of this size was $75,000 to $100,000. Therefore, the Company had fidelity coverage that exceeded the NAIC suggested minimum fidelity coverage.

**Commercial General Liability and Business Owners Property Policy**

The Company's combination Commercial General Liability and Business Owners Property coverage was underwritten by Travelers Indemnity Company of Connecticut, of Hartford, Connecticut, which operates as a licensed property and casualty company in the State of Tennessee. The policy's commercial general liability limit of insurance was (a) $2,000,000 for general aggregate and products-completed operations aggregate limit, (b) $1,000,000 for personal and advertising injury limit, (c) $300,000 damage to premises rented and (d) $5,000 medical payments (any one person).

The policy's business owners property insurance limits were: (a) business personal property $32,667, (b) accounts receivable $25,000, and (c) valuable papers $25,000.

**Workers' Compensation Policy**

The Company's Workers' Compensation and Employer's Liability Insurance Policy was underwritten by Massachusetts Bay Insurance Company of Worcester, Massachusetts, which operates as a licensed property and casualty company in the State of Tennessee. The policy's workers' compensation limit of insurance was defined by Tennessee statutes. The policy's employer's liability limit of insurance was $100,000 each accident, each employee and a $500,000 aggregate limit.

## TERRITORY AND PLAN OF OPERATION

The current Certificate of Authority was issued on September 15, 2005, and authorized the Company to write fire, lightning, hail, extended coverage, and tornado in the State of Tennessee. The Certificate of Authority is valid until suspended or revoked and allows the Company to transact business operations to all counties contiguous to Bradley County to the second degree in the State of Tennessee pursuant to Tenn. Code Ann. § 56-22-106(f)(1).

The Company writes policies in Bradley, Hamilton, McMinn, Meigs, and Polk Counties in Tennessee.

## INSURANCE PRODUCTS AND RELATED PRACTICES

The Company provides its Members coverage on dwelling homes, rental homes, modular homes, mobile homes, farm buildings, livestock, personal property, farm machinery and churches in case of loss due to fire, wind, hail, lightning and theft.

Policies are typically written for sixty-seven percent (67%) of the replacement value of the property insured, subject to policy limits of $415,000.00 per specific loss. The policy

period for each policy was three (3) years. Premiums are paid annually and are due on the policy anniversary date, except for policyholders that pay semi-annually. The standard deductible is $500 on all policies with no premium rate deduction. Members have the option of paying lower premium rates for a $1,000 deductible policy.

The Company offered four (4) different types of liability policies through Farmers Mutual of Tennessee (Knoxville, Tennessee) 1) Personal Liability Coverage; 2) Commercial Liability Coverage (Premises Only-Landlords); 3) Farm Personal Liability Coverage and; 4) Farm Employee Liability Coverage.

The Company writes business through one (1) licensed in-house agent. The Company's agent did not receive commission payments for new and renewal business written, but was paid a salary approved by the Board.

The Company's agent performs a visual inspection of the property, photographs the property and determines the value of the property prior to the issuance of a policy. As the Company's agent, the Company's manager approves or rejects all policy applications he prepares. Upon the signing of the completed application by two (2) of the Company's officers and collection of the initial billed premium, the policy is bound. The policy is issued upon the signature of the President and Secretary and then mailed to the customer.

## GROWTH OF COMPANY

The following comparative data reflected the growth of the Company for the period under review:

| Year | Net Earned Premium | Net Incurred Losses | Admitted Assets | Liabilities | Policyholders' Surplus | Net Income |
|---|---|---|---|---|---|---|
| 2013 | $166,373 | $50,117 | $2,297,773 | $178,550 | $2,119,223 | $25,166 |
| 2012 | $141,979 | $81,725 | $2,273,641 | $179,584 | $2,094,057 | $16,855 |
| 2011 | $124,409 | $126,000 | $2,250,884 | $173,682 | $2,077,202 | ($38,284) |
| 2010 | $137,813 | $121,442 | $2,301,201 | $185,715 | $2,115,486 | $38,956 |
| 2009 | $117,680 | $74,847 | $2,255,257 | $178,727 | $2,076,530 | $70,631 |

## LOSS EXPERIENCE

The following comparative data reflected the loss experience of the Company for the period under review:

| Year | Net Premiums Earned | Incurred Losses & LAE | Underwriting Ratio | General & Adm. Expense | Gen. & Adm. Expense to Premium | Combined Ratio |
|---|---|---|---|---|---|---|
| 2013 | $166,373 | $50,117 | 30.12% | $154,623 | 92.94% | 123.06% |
| 2012 | $141,979 | $81,725 | 60.38% | $106,626 | 74.68% | 132.24% |
| 2011 | $124,409 | $126,000 | 98.06% | $103,498 | 83.19% | 184.47% |
| 2010 | $137,813 | $121,442 | 88.12% | $69,075 | 50.12% | 138.24% |
| 2009 | $117,680 | $74,847 | 63.60% | $77,391 | 65.76% | 129.37% |

## ACCOUNTS AND RECORDS

The Company accounts for its business on a cash basis using a computer-generated general ledger and trial balance. In order to report balance sheet and income statement items on a statutory accrual basis, the Company makes manual entries to their Annual Statements, using source documents and various electronic and handwritten subsidiary ledgers (e.g., cash receipts, cash disbursements and policy files).

The Company's general ledger and annual statements reflected variances from generally accepted insurance accounting practices, as prescribed by the NAIC, Tennessee county mutual annual statement instructions, Tennessee Statutes and

Rules. Examination findings are noted below or otherwise commented upon in the sections marked, "Analysis of Changes in Financial Statements" and "Comments and Recommendations."

In light of the Company's accounting 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 2013, including verification of supporting documentation.

The 2013 Annual Statement originally submitted to the TDCI was amended and resubmitted once due to errors and omissions.

The Company was exempt from filing an annual audited financial statement per Tenn. Comp. R. & Regs. 0780-1-78-.04(3).

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

The Company was exempt from filing an Actuarial opinion by a qualified actuary with their Annual Statement with the Commissioner on or before March 1, pursuant to Tenn. Comp. R. & Regs. 0780-1-78-.04(4).

## STATUTORY DEPOSIT

The Company was not required to make a statutory deposit in accordance with Tenn. Code Ann. § 56-2-112 during the period of examination.

## COMMITMENTS AND CONTINGENCIES

No financially material commitments and contingencies were found that would materially affect the Company's financial position or operating results as of December 31, 2013.

# REINSURANCE

## Specific and Aggregate Excess of Loss Reinsurance

Effective January 1, 2013, the Company ceded risk through three (3) reinsurance agreements with a consortium of re-insurers brokered by Guy Carpenter and Company, Inc. of Philadelphia, PA. Guy Carpenter and Company, Inc. is a wholly-owned subsidiary of Marsh McLennan. A summary of the Company's reinsurance program is as follows:

| | |
|---|---|
| Type: | Property First Surplus Reinsurance Contract |
| Coverage: | The Company retained between $7,500 and $25,000 of each risk and ceded the remaining amount up to $75,000 to the reinsurers on a pro rata basis. All specific risks above $100,000 were reinsured on a facultative basis. |
| Type: | Aggregate Excess of Loss Reinsurance Contract |
| Coverage: | The reinsurer was liable for all losses in the aggregate that exceeded ninety percent (90%) of the Company's ultimate net loss equal to or greater than $94,500 or eighty-seven and one-half percent (87.5%) of the Company's gross net earned premium income, subject to a limit of liability to the reinsurer of the lesser of $249,300 or ninety percent (90%) of one hundred seventy-one percent (171%) of gross net earned premium income. |
| Type: | Supplemental Aggregate Excess of Loss |
| Coverage: | In the event the Company's ultimate net loss in the aggregate during the term of this contract exceeded the lesser of $249,300 or 90 percent of 171 percent of gross net earned premium income, the reinsurer shall be liable for one hundred percent (100%) of the Company's ultimate net loss, at the option of the Company. The reinsurer's liability shall not exceed one hundred percent (100%) of the lesser of $1,350,000 or one thousand percent (1,000%) of gross net earned premium income. |

As of January 1, 2013 and 2014, the maximum amount of coverage the Company was allowed to retain for a single risk was $82,822 and $83,577, respectively, in accordance with Tenn. Code Ann. § 56-22-106(c)(1).

The reinsurance agreement in effect as of December 31, 2013, did not require approval by the TDCI pursuant to Tenn. Code Ann. § 56-11-106. The agreement contained acceptable provisions of reporting responsibility of the ceding entity, payment terms, premium taxes, termination clauses and ceding clauses. The agreement transferred risk in accordance with SSAP # 62R and NAIC guidelines.

## MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a market conduct review was made of the Company as of December 31, 2013. The following areas were addressed:

### Policy Forms and Underwriting Practices

Pursuant to Tenn. Code Ann. § 56-22-109(b)(1) and Tenn. Code Ann. §§ 56-5-303, 56-5-304, and 56-5-305, the Company's application, policy form and premium rates in effect from January 1, 2009, through July 17, 2012, were approved by the Policy Analysis Section of the TDCI on December 14, 2006 and May 13, 2008. On July 18, 2012, the TDIC approved revisions made to the Company's Dwelling and Farm Property Form. On June 3, 2013, the TDCI approved a $500 standard deductible and an optional $1,000 deductible with lower premium rates.

The Company's rating structure in effect as of December 31, 2013, is summarized below.

| Type of Coverage | Rate Per $1,000 |
|---|---|
| Owner Occupied Dwelling and Contents (over $60,000) | $4.00 |
| Owner Occupied Dwelling and Contents (over $40,000) | $5.00 |
| Owner Occupied Dwelling and Contents (over $30,000) | $6.00 |
| Owner Occupied Dwelling and Contents (over $20,000) | $7.00 |
| Owner Occupied Dwelling and Contents (under $20,000) | $8.00 |
| Rental Dwelling and Contents (over $40,000) | $7.00 |
| Rental Dwelling and Contents (under $40,000) | $9.00 |
| Rental Dwelling and Contents (poor condition or low value) | $10.00 |
| Double Wide Mobile Home (over $30,000 with shingle roof)* | $8.00 |
| Double Wide Mobile Home (under $30,000 with shingle roof)* | $10.00 |
| Single Wide Mobile Home (with metal roof)* | $12.00 |
| Rental Mobile Home (over $7,500 with metal roof)* | $15.00 |
| Rental Mobile Home (under $7,500 with metal roof)* | $20.00 |
| Church Property and Contents | $7.00 |
| Barns and Out Buildings | $9.00 |
| Barns and Out Buildings (poor condition or unusual) | $10.00 |
| Chicken Houses | $12.00 |
| Crops in Barns (Hay, Feed and Tobacco) | $9.00 |
| Farm Machinery | $9.00 |
| Cattle | $10.00 |
| Commercial Property (unusual property) | $20.00 |

*Contents of a building carry the same rate as the building.
Insured property with unusual features or in poor condition is generally written at the next higher rate.

Property without central heat and air conditioning and property located more than five (5) miles from an incorporated city may be written at the next higher rate.

Theft coverage is $25 plus $1.00 per thousand of coverage.

Household effects may be written as blanket coverage.

Farm machinery which is specifically insured must be listed by serial number on the policy. Fire and theft insurance rates must be charged for each item of farm machinery individually insured.

## Advertising

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

## Policy Cancellation

A premium notice is mailed out two (2) weeks prior to the premium due date. Thirty (30) days after the premium due date, the Company sends a "Second Notice" letter stating the premium balance is due. After ten (10) days the Company will send a Cancellation Notice. If the policyholder notifies the Company that coverage is still needed after the Cancellation Notice is sent, steps can be taken to reinstate the policy. The Company does not charge policyholders a late fee for premium payments paid after the premium due date.

The Company adheres to the non-renewal provisions contained in Tenn. Code Ann. §§ 56-7-1901 and 56-7-1902, in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007) that relate to the notice of intention to non-renew and the reason for non-renewal.

## Privacy of Non-Public Personal Information

The Company's policy for the disclosure of non-public personal information was reviewed. There were no instances noted of non-compliance with Tenn. Comp. R. & Regs. R. 0780-01-72, "Privacy of Consumer Information Regulations."

## Claims Review

A random sample of claims closed during 2013 were examined for compliance with Company's policy terms and Tenn. Code Ann. § 56-8-105. The Company's Secretary / Treasurer and N & C Claims, Inc. adjusted all claims tested. Tested claims were handled properly in accordance with policy provisions and applicable statutes.

# FINANCIAL STATEMENTS

There follows a balance sheet and a statement of operations and fund balance as of December 31, 2013, for the period under review, as established by this examination:

## ASSETS

| | |
|---|---|
| Bonds and Long-Term Certificates of Deposit | $1,900,013 |
| Common stocks | 7,251 |
| Cash and cash equivalents | 292,700 |
| Interest, dividends and real estate income due and accrued | 4,075 |
| Aggregate write-ins for other than invested assets | 93,734 |
| Gross assets | 2,297,773 |
| DEDUCT ASSETS NOT ADMITTED | |
| Aggregate write-ins for other than invested assets | (93,734) |
| Total assets non-admitted | (93,734) |
| Total admitted assets | $2,204,039 |

## LIABILITIES, SURPLUS AND OTHER FUNDS

| | |
|---|---|
| Gross losses and claims reported, unpaid | $ 0 |
| Loss adjustment expenses | 0 |
| Unearned premiums | 176,376 |
| Advance premiums | 0 |
| Ceded reinsurance premiums payable | 0 |
| Account payable and accrued expense payable | 2,174 |
| Taxes, licenses and fees | 1,714 |
| Total Liabilities | 180,264 |
| Policyholders surplus | 2,023,775 |
| Total liabilities and policyholders surplus | $ 2,204,039 |

## STATEMENT OF INCOME

| | |
|---|---|
| UNDERWRITING INCOME | |
| Net premiums and assessments earned | $166,373 |
| DEDUCTIONS: | |
| Net losses incurred | 50,117 |
| Loss expenses incurred including claims adjustment expenses | 0 |
| Other underwriting expenses incurred: | |
| Commissions and brokerage: | |
| Agents compensation and allowances | 0 |
| Field Supervisory Expenses | 1,183 |
| Salaries and related items: | |
| Employees' salaries | 93,275 |
| Directors' and officers' salaries | 0 |
| Payroll taxes | 7,136 |
| Total salaries and related items | 100,411 |
| Directors fees | 3,925 |
| Advertising and subscriptions | 3,363 |
| Boards, bureaus and association dues | 2,806 |
| Employee relations and welfare | 0 |
| Insurance and fidelity bonds | 5,480 |
| Travel and travel items | 5,981 |
| Rent and rent items | 12,000 |
| Equipment | 120 |
| Cost or depreciation of EDP equipment and software | 0 |
| Printing and stationery | 2,128 |
| Postage, telephone and telegraph | 8,148 |
| Legal and auditing fees | 1,802 |
| Taxes, licenses and fees: | |
| State and local insurance taxes | 4,257 |
| Insurance department licenses and fees | 0 |
| All other | 2,389 |
| Total taxes, licenses and fees | 6,646 |
| Total underwriting expenses incurred | 154,623 |
| Total underwriting deductions | 204,740 |
| Net underwriting gain or (loss) | (38,367) |
| INVESTMENT INCOME | |
| Net investment income earned | 46,893 |
| Net realized capital gains or (losses) from sale or maturity of assets | 0 |
| Net investment gain or (loss) | 46,893 |

## OTHER INCOME

| | |
|---|---|
| Aggregate write-ins for miscellaneous income | 16,640 |
| Total other income | 16,640 |
| Dividends to policyholders | 0 |
| Net income after dividends to policyholders and before federal income taxes | 25,166 |
| Federal income taxes incurred | 0 |
| Net income | 25,166 |

## CAPITAL AND SURPLUS ACCOUNT

| | |
|---|---|
| Surplus as regards policyholders, December 31 prior year | 2,094,057 |
| Net income | 25,166 |
| 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) | (95,448) |
| Policyholders' surplus as of December 31, 2013 | $2,023,775 |

## ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

**Aggregate Write-Ins For Other Than Invested Assets** **$0**

The above balance is $93,734 less than the $93,734 amount shown by the Company on line 16 of the Assets Page in its 2013 Annual Statement as explained below.

The Company did not remit premiums to its reinsurance broker prior to the effective date of its contracts in order to be considered an admitted write-in asset pursuant to NAIC SSAP # 62R – Property and Casualty Reinsurance.

**Taxes Licenses and Fees (Excluding Federal Income Taxes)** **$1,714**

The above total is $1,714 more than the zero dollar ($0) amount reflected by the Company on line 8 of the Liabilities and Policyholders' Surplus Page in its 2013 Annual Statement.

The Company did not establish a liability for the payment of a 2013 Annual Statement filing fee and 2013 premium taxes to the TDCI in its 2013 Annual Statement.

**Analysis of Impact on Surplus**

| Item | Policyholders' Surplus | |
|---|---|---|
| | Increase | Decrease |
| Aggregate Write-Ins for Other Than Invested Assets | | $93,734 |
| Taxes Licenses and Fees (Excluding Federal Income Taxes) | | $1,714 |
| Totals | | $95,448 |
| Net Change in Policyholders' Surplus | | $95,448 |

## SUBSEQUENT EVENTS

In January 2015, the Members voted to add Charles McSpadden to the Company's Board.

# COMMENTS AND RECOMMENDATIONS

## COMMENTS

The Company does not have a Conflict of Interest Policy to govern the actions of all directors, officers, and employees. It is suggested the Company implement such a policy and require annual disclosures of conflicts or possible conflicts of interest.

## RECOMMENDATIONS

### Accounts and Records

(a) The Company reported prepaid reinsurance premiums as an aggregate write-in for other than invested assets on page 2, line 16 in its 2009 through 2013 Annual Statements. The reported amounts did not meet the definition of prepaid reinsurance premiums pursuant to Section 44 of NAIC SSAP # 62R – Property and Casualty Reinsurance. This resulted in the Company overstating assets and policyholders' surplus in its 2009 through 2013 Annual Statements.

It is recommended that the Company account for prepaid reinsurance premiums in accordance with NAIC SSAP # 62R – Property and Casualty Reinsurance, and report aggregate write-ins for other than invested assets pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and annual statement instructions for Tennessee county mutual insurance companies.

(b) During the period of examination, the Company (January 1, 2009 through December 31, 2013) did not account for unearned premiums in accordance with NAIC SSAP # 53 – Property Casualty Contracts – Premiums. The Company did not account for and record the amount of written, earned and unearned premium for each policy in-force. NAIC SSAP # 53 requires the calculation of earned and unearned premium using either the daily pro-rata or monthly pro-rata methods.

Also, the Company did not deduct unearned premium ceded to its reinsurer in its 2009 through 2013 Annual Statements. This resulted in the Company overstating its unearned premium liability. It is recommended that the Company account for unearned premiums pursuant to NAIC SSAP # 53 – Property Casualty Contracts – Premiums and report unearned premium in accordance with Tenn. Code Ann. § 56-22-109(a)(4) and annual statement instructions for Tennessee county mutual insurance companies.

(c) The Company did not report an amount for advance premium on page 3, line 4 in its 2013 Annual Statement. The Company received premium in December 2013 that was due in January 2014. It is recommended that the Company report advance premium

pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and annual statement instructions for Tennessee county mutual insurance companies.

(d) The Company did not report an amount for taxes, licenses and fees payable on page 3, line 3 in its 2009 through 2013 Annual Statements. The Company did not establish a liability for the payment of premium taxes and Annual Statement filing fees to the TDCI during the period of examination. It is recommended that the Company report taxes, licenses and fees payable pursuant to Tenn. Code Ann. § 56-22-109(a)(4) and annual statement instructions for Tennessee county mutual insurance companies.

## 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 Union Mutual Fire Insurance Company of Bradley County, Tennessee.

In such manner, it was determined that, as of December 31, 2013, the Company had admitted assets of $2,204,039 and liabilities, exclusive of policyholders' surplus, of $180,264. Thus, there existed for the additional protection of the policyholders surplus funds of $2,023,775.

The courteous cooperation of the officers, directors 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

## AFFIDAVIT

The undersigned deposes and states that he has duly executed the attached examination report of Farmers Union Mutual Fire Insurance Company of Bradley County, dated May 28, 2015, and made as of December 31, 2013, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further states 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

State Tennessee

County Davidson

Subscribed to and sworn before me

this 24th day of June, 2015

Notary Helen W. Dorsey

My Commission Expires: 11/06/2017

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY

# EXHIBIT B

**STATE OF TENNESSEE**
**DEPARTMENT OF COMMERCE AND INSURANCE**
**500 JAMES ROBERTSON PARKWAY**
**NASHVILLE, TENNESSEE 37243**

June 23, 2015

**CERTIFIED MAIL**
7012 1010 0003 2379 5469

Mr. David A. Campbell
Secretary/Treasurer
Farmers Union Mutual Fire Insurance Company
of Bradley County
P.O. Box 1016
Cleveland, TN 37364

RE: **Report of Examination of Farmers Union Mutual Fire Insurance Company of Bradley County**

Dear Mr. Campbell:

Enclosed please find a FINAL copy of the Report of Examination for Farmers Union Mutual Fire Insurance Company of Bradley Coiunty, made as of December 31, 2013. If you are in agreement with the report, please respond immediately, in writing, to that effect. A sample response letter is attached for your convenience. Your response may be submitted via email to my attention at joy.little@tn.gov.

If you wish to make a written submission or rebuttal with respect to any matter contained within the report, pursuant to Tenn. Code Ann. 56-1-411(d)(1), please provide this office with your company's position as soon as possible. When preparing your submission or rebuttal, please quote the Comment, Recommendation or page number from the report and detail your comments, providing any supporting documentation.

Should you have questions, you may reach me at (615) 741-6796. We appreciate your timely assistance with this matter and your courteous cooperation during the examination.

Sincerely,

E. Joy Little, CPA, CFE, MCM
Insurance Examinations Director/Chief Examiner
Enclosure

John Eads, President
Charles Hannah, Vice President

David A. Campbell
Manager, Sec. & Treas.

# FARMERS' UNION MUTUAL
Fire Insurance Company of Bradley County
A County Mutual Insurance Company
915 25th Street NW • P.O. Box 1016
Cleveland, Tennessee 37364-1016

Telephone: (423) 476-8761
Fax: (423) 479-2852
*Serving Policyholders Since 1914*

Insurance For
Homes, Farms
& Mobile Homes

June 25th, 2015

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

**RE: (Farmers' Union Mutual Fire Insurance Company of Bradley County)**
– Report of Examination

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **(Farmers' Union Mutual Fire Insurance Company of Bradley County).** By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

David A. Campbell

David A. Campbell, Secretarty, Treasurer,and Manager