

# **EXHIBIT A**



**STATE OF TENNESSEE**  
**DEPARTMENT OF COMMERCE AND INSURANCE**

---

**REPORT ON EXAMINATION**  
**OF THE**  
**CITIZENS MUTUAL INSURANCE COMPANY**  
**OF**  
**LINCOLN COUNTY, TN**  
**(NAIC # 15978)**  
**FAYETTEVILLE, TENNESSEE**

---

**AS OF**  
**DECEMBER 31, 2016**

## TABLE OF CONTENTS

Introduction .....	1
Scope of Examination .....	1
Compliance with Previous Examination Findings .....	2
Company History .....	3
Management and Control .....	3
Management .....	3
Control .....	4
Conflicts of Interest and Pecuniary Interest .....	5
Affiliated Companies .....	5
Corporate Records .....	5
Service Agreements .....	6
Fidelity Bond and Other Insurance .....	6
Territory and Plan of Operation .....	7
Growth of Company .....	8
Loss Experience .....	8
Accounts and Records .....	8
Statutory Deposit .....	9
Litigation and Contingent Liabilities .....	9
Reinsurance .....	9
Market Conduct Activities .....	10
Subsequent Events .....	11
Financial Statements .....	12
Assets .....	12
Liabilities and Policyholders' Surplus .....	12
Statement of Income .....	13
Analysis of Changes in Financial Statements .....	15
Comments and Recommendations .....	15
Conclusion .....	17
Affidavit .....	18

Fayetteville, Tennessee  
April 2, 2018

Honorable Julie Mix McPeak  
Commissioner  
Tennessee Department of Commerce and Insurance  
500 James Robertson Parkway  
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Code Annotated ("Tenn. Code Ann.") § 56-22-115, a full-scope financial examination and market conduct review as of December 31, 2016, has been made of the condition and affairs of:

**CITIZENS MUTUAL INSURANCE COMPANY OF LINCOLN COUNTY, TN**

NAIC # 15978

118 College Street West

Post Office Box 46

Fayetteville, Tennessee 37334

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

**INTRODUCTION**

This examination was arranged by the Tennessee Department of Commerce and Insurance (TDCI or "Department") under the rules and regulations established by the State of Tennessee. The examination commenced on September 19, 2017, and was conducted by duly authorized representatives of the TDCI.

**SCOPE OF EXAMINATION**

The last examination of the Company was made as of December 31, 2011. This examination report covers the period from January 1, 2012, to the close of business on December 31, 2016, 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 rules and procedures as prescribed by the statutes of the State of Tennessee, and in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* ("Handbook"), as deemed appropriate. The examination sought to evaluate the overall financial statement presentation and management's compliance with statutory accounting principles and annual statement instructions. The examination also included an assessment of prospective risks faced by the Company based on information obtained during the course of the examination.

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

A limited market conduct review was also performed concurrently with the financial examination. See "Market Conduct Activities".

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

The Company provided a letter of representation certifying that management has disclosed all significant matters and records.

## **COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS**

Our examination included a review to determine the current status of the Comments and Recommendations in the previous Report on Examination, as of December 31, 2011, which covered the period from January 1, 2007, through December 31, 2011. A summary of the Commissioner's directive and the corrective action taken by the Company is discussed below:

### **Directive #1**

Pursuant to Statement of Statutory Accounting Principles (SSAP) No. 6, the Company was encouraged to develop a premium aging process to age premiums over ninety (90) days past due.

### Corrective Action

The Company changed its policy and accounts receivable system from a totally manual system to an automated system provided by Automated Insurance Management Systems (AIMS). Accounts receivable are reviewed on a monthly basis in AIMS and weekly via a manual diary system to ensure no premiums over ninety (90) days past due exist.

## **COMPANY HISTORY**

The Company was incorporated on July 21, 1932, under the provisions of the Tennessee Business Corporation Act. The Company is a non-profit mutual benefit corporation organized as a county mutual fire insurance company ("county mutual"), pursuant to Tenn. Code Ann. Title 56, Chapter 22. Its purpose is to insure against loss or damage to property due to fire, lightning, hail, tornado, and extended coverage. The Company is limited to providing coverage to residents of Lincoln County and contiguous counties in the State of Tennessee. The Company commenced business on August 9, 1932.

As of December 31, 2016, the Company was licensed to transact business in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(a).

## **MANAGEMENT AND CONTROL**

### **MANAGEMENT**

#### **Directors**

Management of the Company is vested in a Board of Directors ("Board"), elected annually by its policyholders ("members") at the annual members' meeting. In accordance with the Bylaws, the Board shall consist of six (6) directors.

The following persons were duly elected by the members to serve on the Board, as of December 31, 2016:

<b><u>Director</u></b>	<b><u>Address</u></b>
James Kidd	Fayetteville, Tennessee
H. D. Holman	Fayetteville, Tennessee
Joe Askew	Fayetteville, Tennessee
Betty Holman	Fayetteville, Tennessee
David Bagley	Fayetteville, Tennessee
Norman Spears	Fayetteville, Tennessee

One-third (1/3) of the directors are elected at each annual members' meeting, and each serves a term of three (3) years. A majority of the Board constitutes a quorum, as defined by the Bylaws.

### **Officers**

The Bylaws of the Company instruct the Board to annually appoint the officers of the Company, immediately following the annual meeting of the members.

The following persons served as the Company's officers, as of December 31, 2016:

<b><u>Name</u></b>	<b><u>Title</u></b>
James Kidd	President, Director
H. D. Holman	Secretary, Treasurer, Director

### **Committees**

The Board installed committees to provide oversight for the affairs of the Company. The Board appointed the following Committees:

#### **Executive Committee**

<b><u>Name</u></b>	<b><u>Title</u></b>
James Kidd	President, Director
Joe Askew	General Agent and Manager
H. D. Holman	Secretary, Treasurer, Director

#### **Finance Committee**

<b><u>Name</u></b>	<b><u>Title</u></b>
David Bagley	Director
Norman Spears	Director
H. D. Holman	Secretary, Treasurer, Director

### **CONTROL**

The Company's Bylaws define a member as a person having insurance with the Company. The Company is equally owned by its members. The Company has never issued any shares of capital stock or established guaranteed capital.

Annual and special meetings of the members shall be held at the call of the Board and shall be held at the office of the Company, or at such place as the Board may designate. Pursuant to the Bylaws, members are given advance notice of the date, time, and location of all membership meetings.

Each member is entitled to one (1) vote, irrespective of the number of policies owned by any member. No member shall vote by proxy. Pursuant to the Bylaws, a quorum for the transaction of business consists of those members actually present and in attendance at the meeting, provided there are as many as six (6) or more members of the Company in attendance.

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

### **CONFLICTS OF INTEREST AND PECUNIARY INTEREST**

On May 9, 2016, the Board adopted a formal, written "Conflict of Interest Policy". The policy prohibits any director, officer, or committee member having any investment authority from accepting any fee, brokerage, commission, gift, or other consideration for any loan, deposit, purchase, sale, payment, or exchange made by or on behalf of the Company, or from being pecuniarily interested in any such purchase, sale, or loan, in accordance with Tenn. Code Ann. § 56-3-103.

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.

### **AFFILIATED COMPANIES**

The Company is licensed as a "county mutual insurance company," owned by its members. It does not have any subsidiaries or affiliates and does not meet the definition of a holding company system as defined by Tenn. Code Ann. § 56-11-101(b)(7).

### **CORPORATE RECORDS**

#### **Charter**

The Charter recites the general and specific powers of the Company in detail. The Charter was amended effective September 26, 2012, in order to effect a name change from "Citizens Home Mutual Fire Insurance Company" to "Citizens Mutual Insurance Company of Lincoln County, TN", in order to comply with Tenn. Code Ann. § 56-22-106(g). The Charter, as currently stated, was inspected and found to have been duly issued and properly recorded.

#### **Bylaws**

The Bylaws were reviewed and are such as are generally found in companies of this type and contain no unusual provisions. The Bylaws may be amended or repealed, or new Bylaws may be drafted and adopted, by the affirmative vote of two-thirds (2/3)

of the members present at any regular or special meeting of the members. There were no amendments to the Bylaws during the period of examination.

### **Meeting Minutes**

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 five (5) annual meetings of members and nineteen (19) regular Board meetings. Minutes of the referenced meetings were reviewed. Investment transactions were approved by the Executive Committee pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

### **SERVICE AGREEMENTS**

The Company had several verbal agreements in place for services during the period under examination. These agreements do not have set durations. The prices and terms associated with these agreements appear to be fair based on the services provided. See the "Comments and Recommendations" section later in the Report.

### **Financial and Tax Preparation Services**

David A. Kidd, CPA of Fayetteville, Tennessee provides limited accounting services related to regulatory filings, including preparation of statutory annual statements, quarterly statements, and federal income tax filings.

### **Policy Management Services**

AIMS of Richmond, Virginia provides policy management and premium accounting software and support services.

### **Claims Adjustment Services**

Sawyer Construction of Taft, Tennessee provides claims adjustment services on an as needed basis.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is listed as a named insured on a policy which provides employee dishonesty (fidelity) coverage. The Company's fidelity coverage meets the minimum amount suggested in the NAIC Handbook. The policy coverages were inspected and appear to be in-force as of the date of this examination.

Other insurance policies were reviewed and the Company is listed as a named insured on the following insurance coverages maintained by the Company as of December 31, 2016:

Forgery and Alteration  
Property, Liability, and Medical  
Cyber Coverage

Employment Practices Liability  
Directors & Officers Liability  
Insurance Company Professional Liability

All of the above policies were issued by companies licensed to transact business in the State of Tennessee or by authorized surplus lines insurers.

## **TERRITORY AND PLAN OF OPERATION**

### **Territory**

The Company's current Certificate of Authority was issued by the TDCI on December 14, 2012, and authorized the transaction of the business of 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 in Lincoln County and all counties contiguous thereto in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company writes policies in Lincoln, Giles, Marshall, Bedford, Moore, and Franklin counties in Tennessee.

### **Plan of Operation**

The Company provides its members with coverage on dwellings, rental homes, modular homes, mobile homes, farm buildings, livestock, personal property, farm machinery, and churches in case of loss due to fire, lightning, hail, extended coverage, and tornado. Liability coverage, provided by Farmers Mutual of Tennessee ("Farmers"), is also available to the members of the county mutual if they wish to purchase this additional protection through the Company. This additional protection has been arranged by the Company through a verbal agreement with Farmers. See the "Comments and Recommendations" section later in the Report.

Policyholders have the option of paying premium annually, semi-annually, or quarterly. The standard deductible is \$500, and the policyholder has the option of paying premium rates that are lower in exchange for a higher deductible.

The Company's agents perform a visual inspection, photograph the property, and determine its value prior to the issuance of a policy. The Company's President approves or rejects all policy applications prepared by the agents. Upon the signing of the completed application by the Company's President 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 member.

## GROWTH OF COMPANY

The following comparative data reflects the growth of the Company for the period under review as reported by the Company in its respective annual statements:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Incurred Losses</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders' Surplus</u>	<u>Net Income</u>
2016	\$196,471	\$15,729	\$604,010	\$140,346	\$463,664	\$49,861
2015	\$168,335	\$3,885	\$627,877	\$124,920	\$402,967	\$43,991
2014	\$151,014	\$71,839	\$448,039	\$115,274	\$332,765	(\$49,612)
2013	\$146,640	\$81,888	\$468,312	\$102,923	\$365,389	(\$75,351)
2012	\$144,523	\$62,637	\$545,816	\$97,054	\$448,764	(\$36,806)

## LOSS EXPERIENCE

The following comparative data reflects the loss experience of the Company for the period under review as reported by the Company in its respective annual statements:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Losses + LAE</u>	<u>Loss Ratio</u>	<u>Premiums Written</u>	<u>Other Expenses</u>	<u>Expense Ratio</u>	<u>Combined Ratio</u>
2016	\$196,471	\$18,004	9.2%	\$207,626	\$132,920	64.0%	73.2%
2015	\$168,335	\$4,335	2.6%	\$184,174	\$127,259	69.1%	71.7%
2014	\$151,014	\$81,885	54.2%	\$153,190	\$127,161	83.0%	137.2%
2013	\$146,640	\$96,344	65.7%	\$152,509	\$134,210	88.0%	153.7%
2012	\$144,523	\$66,986	46.3%	\$148,873	\$125,465	84.3%	130.6%

## ACCOUNTS AND RECORDS

The Company engaged David A. Kidd, CPA, assisted by the Company's Manager, to provide certain accounting services, preparation of income tax returns, and compilation of certain regulatory filings, including all required financial statements.

The Company's 2016 annual statement was reconciled to the corresponding general ledger account balances. All of the Company's investment securities were confirmed with the custodian of such securities as of the date of this examination. All annual statements for the period under examination were reviewed for completeness and adequacy of disclosure. These test checks and reviews revealed no material discrepancies.

Pursuant to Tenn. Comp. R. & Regs. 0780-1-78-.04(3), the Company was not required to file financial reports audited by a certified public accountant during the period under examination.

The Company was not required to file the Management's Discussion and Analysis Report (MD&A) section of the NAIC *Annual Statement Instructions for Property and Casualty Companies*, pursuant to Tenn. Comp. R. & Regs. 0780-01-37.

In accordance with Tenn. Code Ann. § 56-46-110, the Company was exempted from filing a Risk-Based Capital Report.

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

The Company's books and records are located in Fayetteville, Tennessee.

## **STATUTORY DEPOSIT**

Pursuant to Tenn. Code Ann. § 56-20-117, the Company was not required to pledge a deposit to the Commissioner of the TDCI in order to lawfully conduct business in the State of Tennessee.

## **LITIGATION AND CONTINGENT LIABILITIES**

The Company is not party to any pending legal proceedings, nor were any commitments or contingencies found that would materially affect the Company's financial position or operating results as of December 31, 2016.

## **REINSURANCE**

### **Specific and Aggregate Excess of Loss Reinsurance**

The Company has an excess of loss reinsurance treaty in effect with Farmers for the purpose of limiting exposure on larger risks. Under the terms of this agreement, the Company retains the first \$25,000 of each risk, per occurrence, and reinsures up to \$1,600,000 through a series of three (3) layers of coverage.

The agreement was found to contain such language as recommended by the NAIC and as required for reinsurance credit pursuant to Tenn. Code Ann. § 56-2-207(a)(2). This agreement appears to effectuate proper transfer of risk in accordance with

SSAP No. 62 and NAIC guidelines. The agreement was found to meet the requirements set forth in Tenn. Code Ann. § 56-22-110.

## **MARKET CONDUCT ACTIVITIES**

In conjunction with this examination, a limited market conduct review was made of the Company, as of December 31, 2016. The following areas were addressed:

### **Policy Forms and Underwriting Practices**

Pursuant to Tenn. Code Ann. §§ 56-5-303, 56-5-304, 56-5-305, and 56-22-109(b)(1), the Company's policy forms in effect from January 1, 2012, through December 31, 2016, were approved by the TDCI on December 12, 2006.

The Company's premium rates in effect from January 1, 2012, through June 30, 2015, were approved by the TDCI on April 30, 2009.

The Company's premium rates in effect from July 1, 2015, through December 31, 2016, were approved by the TDCI on April 10, 2015.

### **Advertising**

The Company's advertising during the period of examination consisted of a listing in the Yellow Pages. The Company's reputation and products are communicated to potential policyholders by the Board and the Company's appointed agents via word of mouth.

### **Policy Cancellation**

The Company mails a premium notice to its members thirty (30) days before the due date. Policyholders are given thirty (30) days to make their premium payment and then policyholders are notified of past due premium and given a thirty (30) day grace period before a cancellation notice is sent to the member and lienholder(s). If the premium payment is made during the thirty (30) day grace period, the Company will pay any legitimate claim, after a reduction for the policy premium due and the deductible.

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), which relate to the notice of intention to non-renew and the reason(s) 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. 0780-01-72.

### **Claims Review**

All claims open and unpaid, as of the examination date, and a random sample of claims closed during 2016, were examined for compliance with the Company's policy terms and Tenn. Code Ann. § 56-8-105.

Due to significant losses subsequent to the period under examination, a random sample of claims closed during the first six (6) months of 2017 were examined for compliance with the Company's policy terms and Tenn. Code Ann. § 56-8-105.

The Company's Manager adjusted or supervised the adjudication of all claims tested. Tested claims were handled properly, in accordance with policy provisions and applicable statutes.

## **SUBSEQUENT EVENTS**

During the examination, a review of subsequent events was performed. Examiners noted that the Company suffered significant losses during 2017. The Company experienced an overall decrease in surplus of twenty-three percent (23%), which is (\$108,501), as of December 31, 2017. The majority of losses suffered during the year were related to hail damage from severe storms occurring in March of 2017.

Based upon this information, the TDCI Financial Analysis Section requested a three-year projection of balance sheet and income statement information, along with any significant assumptions used in the preparation of this projected information. The Company expects earned premiums to increase over the next three (3) years, primarily through updated policy valuations. Projected losses are conservative, based on actual losses experienced over the period from 2006 through 2016. The Company expects to fully recover from these significant subsequent losses by December 31, 2019.

## FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income as of December 31, 2016, together with a reconciliation of policyholders' surplus for the period under review, as reported by the Company:

### ASSETS

	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$403,101		\$403,101
Real estate (properties occupied by the company)	64,179	\$3,778	60,401
Cash, cash equivalents, and short-term investments	85,951		85,951
Premium receivables and agents balances	52,828		52,828
Interest, dividends, and real estate income due and accrued	1,030		1,030
Furniture, equipment, and supplies	273	273	
Electronic data processing equipment and software	699		699
Prepaid expenses	<u>3,504</u>	<u>3,504</u>	
<b>Totals</b>	<u><b>\$611,565</b></u>	<u><b>\$7,555</b></u>	<u><b>\$604,010</b></u>

### LIABILITIES AND POLICYHOLDERS' SURPLUS

Unearned premiums	\$114,226
Ceded reinsurance premiums payable	11,438
Commissions payable, contingent commissions and other similar charges	10,566
Account payable and accrued expense payable	1,490
Taxes, licenses and fees (excluding federal income taxes)	515
Amount withheld or retained by company for account of others	<u>2,111</u>
<b>Total liabilities</b>	<b>140,346</b>
Policyholders' surplus	<u><b>463,664</b></u>
<b>Total liabilities and policyholders' surplus</b>	<u><b>\$604,010</b></u>

## STATEMENT OF INCOME

### UNDERWRITING INCOME

Premiums earned	<u>\$196,471</u>
<b>DEDUCTIONS</b>	
Net losses incurred	15,729
Loss adjustment expenses incurred	2,275
Other underwriting expenses incurred	<u>132,920</u>
Total underwriting deductions	<u>150,924</u>
Net underwriting gain (loss)	45,547

### INVESTMENT INCOME

Net investment income earned	1,001
Net realized capital gains (losses) less capital gains tax	<u>0</u>
Net investment gain (loss)	1,001

### OTHER INCOME

Finance and service charges not included in premiums	1,816
Aggregate write-ins for miscellaneous income	<u>1,497</u>
Total other income	<u>3,313</u>
Net income before dividends to policyholders and federal income taxes	49,861
Federal income taxes incurred	<u>0</u>
<b>Net income</b>	<u><b>\$49,861</b></u>

**POLICYHOLDERS' SURPLUS ACCOUNT**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Policyholders' Surplus					
December 31, previous year	<u>\$402,967</u>	<u>\$332,765</u>	<u>\$365,389</u>	<u>\$448,764</u>	<u>\$486,579</u>
Net income or (loss)	49,861	43,991	(49,612)	(75,351)	(36,806)
Change in non-admitted assets from prior year	10,836	8,344	976	(8,024)	(1,009)
Aggregate write-ins for gains and losses in surplus	<u>0</u>	<u>17,867</u>	<u>16,012</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>60,697</u>	<u>70,202</u>	<u>(32,624)</u>	<u>(83,375)</u>	<u>(37,815)</u>
Policyholders' surplus					
December 31, current year	<u>\$463,664</u>	<u>\$402,967</u>	<u>\$332,765</u>	<u>\$365,389</u>	<u>\$448,764</u>

## ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus

\$463,664

Total policyholders' surplus, as established by this examination, is the same as what was reported by the Company in its 2016 annual statement. There were no changes made to any asset or liability items as a result of our examination performed as of December 31, 2016.

## COMMENTS AND RECOMMENDATIONS

### Comments

As noted in the "Service Agreements" section, the Company has several verbal agreements in place with its service providers. As a "best practice," the Company should consider formalizing these verbal agreements by reducing them to writing.

### Recommendations

As noted in the "Plan of Operation" section of this report, the Company facilitates the sale of liability insurance coverage on behalf of Farmers as a service to policyholders who wish to obtain such coverage on properties insured by the Company. The Company has been listed as the producer on Farmers' liability policies. This is a violation of Tenn. Code Ann. § 56-6-106(b), which states, "A business entity may obtain an insurance producer's license; however, only an individual licensed producer or limited lines producer shall sell, solicit or negotiate a contract of insurance in this state." The Company should discontinue the practice of acting as an insurance producer.

The Company accepts premium payment for its policies and Farmers' liability policies, often in one check. The Company remits Farmers' liability policy premiums, minus a commission, to Farmers after receiving a quarterly statement from Farmers. As noted above, there is no written agreement between the Company and Farmers regarding the holding of funds. The Company should discontinue the practice of accepting premium payments for Farmers' liability policies in the same check as payment of its premiums. Premium payments should be received in separate checks. If the Company wishes to accept Farmers' liability policy premiums, it should enter into a written agreement with Farmers detailing the terms of how funds are to be held, and Farmers' funds should be deposited into a separate account and settled monthly. If a single payment method is allowed for customer convenience, the payments should be made to the licensed insurance producer, who then remits the appropriate premiums to the respective insurers.

Further, the Company receives a commission on every Farmers' liability policy sold. This is a violation of Tenn. Code Ann. § 56-6-113(b), which states "A person shall not accept a commission, service fee, brokerage or other valuable consideration for selling, soliciting or negotiating a contract of insurance in this state if that person is required to be licensed under this part and is not so licensed". The Company should discontinue the practice of accepting commissions on Farmers' liability policies.

The Company is currently working with Farmers to remedy these issues by coming to an agreement that is satisfactory to both parties and in compliance with Tennessee statutes, rules and regulations.

## CONCLUSION

Rules and procedures as prescribed by the statutes of the State of Tennessee, and guidance from the NAIC Handbook, as deemed appropriate, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Citizens Mutual Insurance Company of Lincoln County, TN.

In such manner, it was determined that, as of December 31, 2016, the Company had admitted assets of \$604,010 and liabilities, exclusive of policyholders' surplus, of \$140,346. Thus, there existed for the additional protection of the policyholders surplus funds of \$463,664. Tenn. Code Ann. § 56-22-105(c) requires an insurer of this Company's type to maintain a minimum surplus of \$200,000. For this examination, as of December 31, 2016, the Company maintains surplus in excess of the amount required pursuant to Tenn. Code Ann. § 56-22-105(c).

The courteous cooperation of the officers, directors, and employees of the Company extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, Jay Uselton, CFE, Insurance Examiner, from the State of Tennessee, participated in the work of this examination.

Respectfully submitted,



Daniel O. Clements, CPA  
Examiner-in-Charge  
State of Tennessee

**AFFIDAVIT**

The undersigned deposes and says that he has duly executed the attached examination report of Citizens Mutual Insurance Company of Lincoln County, TN located in Fayetteville, Tennessee, dated April 2, 2018, and made as of December 31, 2016, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and the facts therein set forth are true to the best of his knowledge, information, and belief.



Daniel O. Clements, CPA  
Examiner-in-Charge  
State of Tennessee

State Tennessee

County Davidson

Subscribed to and sworn before me

this 21<sup>st</sup> day of May, 2018

Mindy C. Walker  
(NOTARY)

My Commission Expires: 7.6.2020



# **EXHIBIT B**

**CITIZENS MUTUAL INSURANCE COMPANY  
OF LINCOLN COUNTY  
118 COLLEGE STREET WEST  
FAYETTEVILLE, TN 37334**

May 22, 2018

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

**RE: Report of Examination – Citizens Mutual Insurance Company of Lincoln County**

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for **Citizens Mutual Insurance Company of Lincoln County**. By signing below, we indicate acceptance of the report, as transmitted, and without rebuttal.

Sincerely,

  
James S. Kidd  
President