



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

**REPORT ON EXAMINATION
OF THE
FARMERS MUTUAL FIRE INSURANCE COMPANY OF
WASHINGTON COUNTY
JONESBOROUGH, TENNESSEE**

**AS OF
DECEMBER 31, 2021**

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Jonesborough, Tennessee
May 19, 2023

Honorable Carter Lawrence
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Dear Commissioner:

In accordance with your instructions and pursuant to Tennessee Code Annotated (“Tenn. Code Ann.”) § 56-22-115, a full-scope financial examination and market conduct review, as of December 31, 2021, has been made of the condition and affairs of:

FARMERS MUTUAL FIRE INSURANCE COMPANY OF WASHINGTON COUNTY

NAIC # 15973

125 E. Jackson Blvd, Suite 4
Jonesborough, Tennessee 37659

hereinafter 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”). The examination was conducted by duly authorized representatives of the Department.

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2016. This examination covers the period from January 1, 2017, through December 31, 2021, 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 practices and procedures promulgated by 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 the *Annual Statement Instructions for Tennessee County Mutual Insurers* ("Instructions"), using substantive procedures where applicable. The examination also included an assessment of prospective risks faced by the Company, based on information obtained during the course of the examination.

The 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.

Change in Scope of Examination

During the examination, the examination team was unable to verify all of the Company's accounts and perform the testing required to verify the information reported on the Company's annual statements.

The examination team was able to obtain the documentation required to verify the following:

- Bank Accounts
- Certificates of Deposit
- Reinsurance
- Claim Payments
- Compensation expense ratio

The examination team also reviewed the Company's policies and procedures, Charter, Bylaws, minutes of meetings provided, and other corporate documents to assess whether the Company was in compliance with applicable laws, rules, and regulations.

However, the Company did not provide the following items for any years under the examination period:

- Trial Balances
- Chart of Accounts
- Claim files for all paid or denied claims
- An accurate listing of policies in-force and canceled policies
- Detailed listing of amounts comprising the Annual Statement line items for premiums written and unearned premiums
- Bank Reconciliations

Because of the significance of the limitations described above, the examination team was not able to obtain sufficient audit evidence to provide a basis for a conclusion on accuracy, completeness, or reliability of the Company's financial statements. See the "Comments and Recommendations" section of this report for more information on this issue.

A separate market conduct review was performed concurrently with the financial examination. See the "Market Conduct Activities" section of this report.

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

COMPLIANCE WITH PREVIOUS EXAMINATION FINDINGS

The examination included a review to determine the current status of the comments and recommendations noted in the previous report on examination, as of December 31, 2016. A summary of the Commissioner's directives and the corrective actions taken by the Company are discussed below:

Comments

1. The Company did not have a formal conflict of interest policy to govern the actions of its directors, officers, and employees. As a good business practice and to evidence compliance with Tenn. Code Ann. § 56-3-103, the Company was advised to implement such a policy and require annual disclosures of conflicts or potential conflicts of interest.

Corrective Action

The Company did not comply with this comment. See the "Conflict of Interest and Pecuniary Interest" and "Comments and Recommendations" sections of this report.

2. The Company did not maintain a complaint register that was compliant with Tenn. Code Ann. § 56-8-104(11). The Company did have a record of its complaints but did not have a formal complaint register with all of the required information per this statute.

Corrective Action

The Company did not comply with this comment. See the "Market Conduct Activities" and "Comments and Recommendations" sections of this report.

3. The Company's policy application form did not have the fraud warning required by Tenn. Code Ann. § 56-53-111(b).

Corrective Action

The Company complied with this comment by adding the fraud statement to its applications.

4. The Company had not complied with the previous examination report's comments and recommendations by clarifying a director's period of service or the number of directors to be elected each year and amending the Company's Bylaws accordingly.

Corrective Action

The Company complied with this comment by amending its Bylaws.

5. The Company had not complied with the previous examination report's comments and recommendations regarding the appointment of a Claims Adjuster.

Corrective Action

The Company complied with this comment by appointing a Claims Adjuster.

Recommendations

1. The Company's website did not contain the phrase, "county mutual insurance company", as required by Tenn. Code Ann. § 56-22-106(g). It was recommended that the Company add the required phrase to its website.

Corrective Action

The Company complied with this recommendation by adding the required language to its website.

2. The Company amended its Bylaws on January 9, 2013, in order to reduce the size of its Board. It did not file this amendment with the TDCI as required by Tenn. Code Ann. § 56-19-107(b)(2). It was recommended that the Company comply by filing with the Department any amendments to its Bylaws within thirty (30) days of the amendment.

Corrective Action

The Company complied with this recommendation by filing with the Department any amendments to its Bylaws.

3. The Company did not keep a clear record of the annual members' meeting as required by Tenn. Code Ann. § 48-66-101(e)(4). It was recommended that the Company maintain the required records for its members' meetings.

Corrective Action

The Company did not comply with this recommendation. See the "Management and Control" and "Comments and Recommendations" sections of this report.

4. It was noted that the Company facilitated the sale of liability insurance coverage on behalf of Farmers Mutual of Tennessee (FMT) as a service to policyholders who wished to obtain such coverage on properties insured by the Company. The Company accepted premium payments for its policies and the FMT liability policies, often in one check. The Company remitted the FMT liability policy premiums, minus a commission, to FMT after receiving a quarterly statement from FMT. There was no written agreement between the Company and FMT regarding the holding of funds. It was recommended that the Company either discontinue the practice of accepting FMT's premiums or enter into a written agreement with FMT which provides how FMT's funds should be held by the Company and for the monthly settlements of premiums.

Receipt of commissions on the liability policies sold on behalf of FMT was a violation of Tenn. Code Ann. § 56-6-113(b). It was recommended that the Company discontinue the practice of accepting commissions on policies sold on behalf of other companies.

Corrective Action

The Company complied with this recommendation. The Company entered into an Other Products Contract with FMT and is no longer listed as a producer on FMT's liability policies.

5. The Company had not received approval from the Department for a 2013 premium rate change as required by Tenn. Code Ann. § 56-22-109(b). It was recommended that the Company comply by filing all rate changes for approval prior to implementing them.

Corrective Action

The Company complied with this recommendation. The Company filed its rates with the Policy Analysis Section of the Department.

COMPANY HISTORY

The Company was incorporated on June 4, 1898, 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, pursuant to Tenn. Code Ann. Title 56, Chapter 22. The Company's purpose is to insure against loss or damage to property due to fire, lightning, hail, extended coverage, and tornado to Washington County and all counties contiguous to Washington County, Tennessee.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in a Board of Directors ("Board"). The Company's policyholders are members of the Company. The annual meeting of the members shall be held at the Company's principal office on the second Saturday of January each year to elect directors of the Company and for the transaction of such other business as may be properly brought before the meeting. Each member is entitled to one (1) vote at any membership meeting.

In accordance with the Bylaws, the Board shall not be less than five (5) directors. The directors are elected for three (3) year terms at the annual meeting of the members. Should the office of any director become vacant, the President will appoint a director or substitute to serve until the next general election, at which time the policyholders will elect a replacement in accordance with the Bylaws.

The following persons were duly elected and serving as directors on the Company's Board, as of December 31, 2021:

<u>Director</u>	<u>Address</u>
Walter Huffine III	Jonesborough, Tennessee
Henry Walker	Jonesborough, Tennessee
Sam Ford	Fall Branch, Tennessee
Carol Ramsey	Erwin, Tennessee
David Little	Chuckey, Tennessee
Daryl Rowe	Limestone, Tennessee

Officers

The Bylaws of the Company instruct the Board to elect the Company's officers immediately following the annual meeting. At that meeting, the Board shall elect a President, Vice President, and Secretary/Treasurer. Each officer shall serve a term of one (1) year. Should any of the offices become vacant at any time, the remaining officers shall call a meeting of the Board, who shall elect a successor to the vacant office. During the review of the Company's officers, it was noted that the Company has two (2) Vice Presidents. However, the Company's Bylaws only allow the Company to have a President, Vice President, and Secretary/Treasurer. See the "Comments and Recommendations" section of this report.

The following individuals were duly elected by the Board and were serving as officers of the Company, as of December 31, 2021:

<u>Name</u>	<u>Title</u>
Walter Huffine III	President
Henry Walker	Vice President
Sam Ford	Vice President
Carol Ramsey	Secretary/Treasurer

Committees

Executive Committee

Executive Committee decisions are discussed in the Board meetings. The Executive Committee meets as needed. During the period under examination, no meeting occurred, as such there are no Executive Committee meeting minutes.

The following persons served on the Executive Committee, as of December 31, 2021:

<u>Name</u>	<u>Title</u>
Walter Huffine III	President
Henry Walker	Vice President
Sam Ford	Vice President
Carol Ramsey	Secretary/Treasurer

CONTROL

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

CONFLICTS OF INTEREST AND PECUNIARY INTEREST

During the examination, a review of the Company's compliance with Tenn. Code Ann. § 56-3-103, which prohibits Company directors, officers, and employees from having a pecuniary interest in any funds of the Company, was performed. It was noted that the Company did not have a conflict of interest policy or require annual disclosures of possible conflicts of interest. Creating a conflict of interest policy and requiring annual disclosures of possible conflicts of interest helps document the Company's compliance with Tenn. Code Ann. § 56-3-103. See the "Compliance with Previous Examination Findings" and the "Comments and Recommendations" sections of this report.

CORPORATE RECORDS

The minutes of the meetings of the Company's members and Board were reviewed for the period under examination. During the review of the Company's Board meeting minutes, it was noted that the Company could not provide all of its meeting minutes for 2019. This is not in compliance with Tenn. Code Ann. § 48-66-101(a), which requires that a company keep as permanent records minutes of all meetings of its members and board of directors, a record of all actions taken by the members or directors without a meeting, and a record of all actions taken by committees in place of the board of directors. See the "Comments and Recommendations" section of this report.

During this review, it was noted that the Company did not have any meetings for 2021 and 2020. This is not in compliance with the Company's Bylaws, which require the Company to have at least an annual meeting and a Board meeting following the annual meeting. Due to not having these meetings, the Company could not elect its directors or officers per the Bylaws in 2021 and 2020. In addition to not electing its officers in 2020, the Company did not elect its officers in 2019 and 2018 in accordance with its Bylaws. See the "Comments and Recommendations" section of this report.

During the review of the Company's Board meeting minutes, no documentation of the Board's approval of the Company's investments or investment transactions was provided for 2018 through 2021. This is not in compliance with Tenn. Code Ann. § 56-3-408(b)(1) which states: "No investment or loan, except premium finance loans, shall be made by any insurance company, unless the investment or loan has first been authorized by the board of directors or by a committee appointed by the board of directors and charged with the duty of supervising the investment or loan." See the "Comments and Recommendations" section of this report.

Charter

The Charter recites the general and specific powers of the Company in detail. The Charter, as currently stated, was reviewed, 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 were reviewed and found to contain key provisions noted within insurance companies. The Bylaws may be amended or repealed, or new Bylaws may be drafted and adopted, by the affirmative vote of the majority of the members present at any regular or special meetings of the members. During the period of examination, there were no amendments to the Bylaws.

SERVICE AGREEMENTS

The Company had the following significant service agreement during the period under examination.

Claims Adjustment Services

David Little provided claims adjustment services on an as needed basis.

TERRITORY AND PLAN OF OPERATION

TERRITORY

The Department issued the Company's current Certificate of Authority (COA) authorizing the transaction of property insurance business pursuant to Tenn. Code Ann. § 56-22-106(f)(1) on October 15, 2008. The COA is valid until suspended or revoked and authorizes the transaction of the business of fire, lightning, hail, extended coverage, and tornado in Washington County and counties contiguous to Washington County in the State of Tennessee. The Company, as of December 31, 2021, wrote policies in Carter, Greene, Sullivan, Unicoi, and Washington Counties.

PLAN OF OPERATION

The Company provides its members with coverage on dwellings, rental homes, mobile homes, farm buildings, livestock, personal property, and farm machinery in case of loss due to fire, lightning, hail, extended coverage, and tornado. Liability coverage, provided by FMT, is also available to the members of the Company, if they elect to purchase this additional protection through the Company.

Policyholders can pay premiums annually, semi-annually, or quarterly. Premiums are due on the policy anniversary date. The standard deductible is \$500 and \$750 for mobile homes.

The Company's agent performs a visual inspection, photographs the property, and determines its value before issuing a policy. The agent also reviews the county tax assessor's website to assess property value. The agent will, if needed, consult with the claims adjuster when determining the value of a particular property. The Company's President approves or rejects all policy applications the agent prepares. The policy is issued and bound upon the President and agent signing the completed application and collecting the initial billed premium.

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to its annual statements filed with the Department and examination findings:

<u>Year</u>	<u>Gross Premiums Written</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders' Surplus</u>	<u>Net Income</u>
2021	\$457,295	\$2,038,972	\$225,801	\$1,763,182	(\$497,972)
2020	\$507,892	\$2,666,163	\$128,275	\$2,537,888	(\$158,369)
2019	\$535,261	\$2,835,837	\$139,580	\$2,696,257	(\$127,811)
2018	\$532,650	\$3,073,513	\$144,998	\$2,928,515	(\$30,037)
2017	\$492,835	\$3,107,498	\$148,946	\$2,958,552	\$28,094

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 annual statements filed with the Department:

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Incurred Losses & LAE</u>	<u>Loss Ratio</u>	<u>Other Expenses</u>	<u>Expense Ratio</u>	<u>Combined Ratio</u>
2021	\$354,310	\$696,846	196.7%	\$161,257	45.5%	242.2%
2020	\$403,457	\$375,131	92.9%	\$206,610	51.2%	141.1%
2019	\$422,141	\$390,778	92.6%	\$184,042	43.6%	136.2%
2018	\$427,031	\$289,669	67.8%	\$199,633	46.7%	114.5%
2017	\$365,425	\$134,578	36.8%	\$211,562	57.9%	94.7%

REINSURANCE

Specific and Aggregate Excess of Loss Reinsurance

In accordance with Tenn. Code Ann. §§ 56-22-110 and 56-22-106(d), the Company has maintained Specific and Aggregate Excess of Loss coverage through FMT for the purpose of limiting its exposure on larger risks. Under the terms of the agreement, the Company retains the first \$50,000 of each risk, per occurrence, and reinsures up to \$3,500,000 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 Statement of Statutory Accounting Principles (SSAP) No. 62 and NAIC guidelines. The agreement was found to meet the requirements set forth in Tenn. Code Ann. § 56-22-110.

ACCOUNTS AND RECORDS

As noted in the "Change in Scope of Examination" section, the examination team was unable to verify all of the Company's accounts and records and perform the testing required to verify the information reported on the Company's annual statements. During the review of the Company's records, several discrepancies were noted as detailed below.

During the review of the Company's Unclaimed Property, it was noted that the Company was not complying with Tenn. Comp. R. & Regs. 1700-02-01 and Tenn. Code Ann. §§ 66-29-101, *et seq.*, due to the Company not correctly accounting for and escheating the unclaimed property to the Department as required by the Rule. See the "Comments and Recommendations" section of this report.

During the review of the Company's 2021 Annual Statement, there were numerous issues of non-compliance with the Instructions and Tenn. Code Ann. § 56-22-109 identified. See the "Comments and Recommendations" section in this report.

During the review of the Company's premiums, it was noted that the Company did not maintain premium accounting records in accordance with SSAP No. 6, 53 and 65, as they relate to Written Premium, Earned Premium, Unearned Premium, Premiums Receivable and Advance Premium. See the "Comments and Recommendations" section in this report.

During the review of the Company's 2021 Annual Statement, it was noted that the Company was including loss adjustment expense (LAE) in claims expenses, which is not in compliance with SSAP No. 55 paragraph 6(c), the Instructions, and Tenn. Code Ann. § 56-22-109. See the "Comments and Recommendations" section in this report.

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

The Company is not required to have audited financial statements, as written premiums are less than \$1,000,000, per Tenn. Comp. R. & Regs. 0780-01-78-.04(3).

The Company was exempt from Tenn. Comp. R. & Regs. 0780-01-78-.04(4), which requires the filing of an actuarial opinion by a qualified actuary with the Commissioner on or before March 1.

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

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a limited market conduct review was made of the Company, as of December 31, 2021. The following items were addressed:

Operations and Management Standards

The Company's antifraud initiatives were reviewed to determine if the initiatives are reasonably designed to prevent, detect, or mitigate fraudulent insurance acts as required by Tenn. Code Ann. §§ 56-53-111(a) and (b). During the review, it was noted that the Company's applications and claims forms have the required fraud statements. No issues were noted with the Company's antifraud initiatives.

During the review of the Company's documentation retention, it was noted that the Company was not in compliance with Tenn. Code Ann. § 56-8-104(10), which requires an insurer to maintain its books, records, documents, and other business records in such an order that data regarding claims, rating, underwriting, and marketing are accessible and retrievable for examination by the Department. See the "Comments and Recommendations" section in this report.

Underwriting and Rating Standards

During the examination of the Company's underwriting procedures and policy administration, a sample of policies in-force were reviewed for compliance with Tenn. Code Ann. § 56-8-104(7) and Tenn. Comp. R. & Regs. 0780-01-34. During this review, it was noted that the Company stated that it did not have any written underwriting procedures and policies. As the Company does not have written procedures or policies, it is not possible to review them for compliance with Tenn. Code Ann. § 56-8-104(7), and Tenn. Comp. R. & Regs. 0780-01-34. See the "Comments and Recommendations" section in this report.

A sample of canceled and non-renewed policies was reviewed for timely notification and compliance with Tenn. Code Ann. § 56-8-104(7), and Tenn. Comp. R. & Regs. 0780-01-34. During this testing, it was noted that the Company could not provide any documentation for any canceled or non-renewed policies. Therefore, it was not possible to test for compliance with Tenn. Code Ann. § 56-8-104(7), and Tenn. Comp. R. & Regs. 0780-01-34. See the "Compliance with Previous Examination findings" and "Comments and Recommendations" section in this report.

Producer Licensing Standards

During the examination, the Company's producer's state-issued license and appointment information was reviewed for compliance with Tenn. Code Ann. § 56-6-115. Tenn. Code Ann. § 56-6-115 requires the Company to sell its products and services through producers who are properly licensed and appointed by the Company. The Company is required to file a notice of appointment with the Department within fifteen (15) days from the date the agency contract is executed, or the first insurance application is submitted.

During this review, it was noted that the Company did not correctly appoint its agent until March 26, 2020. See the “Comments and Recommendations” section in this report.

Marketing and Sales Standards

The Company's products are communicated to potential members via its website and social media advertisements. In addition, the Company's reputation and products are communicated to potential members by the Board and the Company's agent via word of mouth.

Policyholder Services Standards

The Company's timeliness of policy issuance, premium billing, response to policyholder requests, provision of adequate disclosures, and compliance with applicable statutes and rules could not be examined due to the issues noted in this section with the Company's records. Due to the state of the Company's records, it was not possible to test for compliance with Tenn. Code Ann. § 56-8-104(10). See the “Comments and Recommendations” section in this report.

Claims Handling Standards

A sample of claims was reviewed for unfair claims practices defined by Tenn. Code Ann. § 56-8-105. Testing included timeliness of contact and resolution, adequacy of claims documentation, and claims handling procedures. In conducting the examination, random samples were selected from the claims.

During the review of the Company's claims files, it was noted that a lack of documentation prevented testing for compliance with Tenn. Code Ann. §§ 56-8-105(2), (3), and (4). Due to this lack of documentation in the Company's claims files, the Company is not in compliance with Tenn. Code Ann. §§ 56-8-104(10) and 56-8-105(2), (3), and (4). See the “Comments and Recommendations” section in this report.

During the review of the Company's denied claims, it was noted that the Company is not keeping records of any denied claims. This is not in compliance with Tenn. Code Ann. § 56-8-104(10), which requires an insurer to maintain its books, records, documents, and other business records in such an order that data regarding claims, rating, underwriting, and marketing are accessible and retrievable for examination by the insurance Commissioner. See the "Comments and Recommendations" section in this report.

Complaint Handling Standards

The Company's complaint handling practices were reviewed for compliance with Tenn. Code Ann. § 56-8-104(11). During the review of the Company's complaint handling procedures and register, it was noted that the Company does not maintain complaint records, which does not comply with Tenn. Code Ann. § 56-8-104(11). Tenn. Code Ann. § 56-8-104(11) requires the Company to maintain a complete record of all the complaints it receives. This record shall indicate the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of each complaint, and the time it took to process each complaint. See the "Compliance with Previous Examination Findings" and "Comments and Recommendations" sections in this report.

SUBSEQUENT EVENTS

During the examination, a review of subsequent events was performed. No events were noted that required additional disclosure in this examination. Management stated in its Letter of Representation that they unaware of any events subsequent to December 31, 2021, that could have a material effect on the Company's financial condition.

However, it was noted that the Company entered into a Custodial Agreement with Banklowa that meets the requirements of Tenn. Comp. R. & Regs. 0780-01-46 on December 2, 2022.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income, as of December 31, 2021, together with a reconciliation of policyholders' surplus for the period under review, as established by this examination:

	<u>ASSETS</u>		
	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds, and long-term certificate of deposits	\$781,610		\$781,610
Cash and cash equivalents	1,257,362		1,257,362
Reinsurance recoverable on paid losses and loss adjustment expenses	48,731	\$48,731	0
Furniture, equipment, and supplies	<u>10,000</u>	<u>10,000</u>	<u>0</u>
Total Admitted Assets	<u>\$2,097,703</u>	<u>\$58,731</u>	<u>\$2,038,972</u>

LIABILITIES AND POLICYHOLDERS' SURPLUS

Gross loss and claims reported, unpaid	<u>\$112,341</u>
Unearned premiums	<u>113,460</u>
 Total liabilities	 225,801
 Policyholders' surplus	 <u>1,763,182</u>
 Total Liabilities and Policyholders' Surplus	 <u>\$2,038,972</u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Net premiums and assessments earned \$354,310

DEDUCTIONS

Net Losses incurred 682,230

Loss expenses incurred including claims adjustment
expenses 14,616

Commissions and brokerage 40,746

Salaries and related items 37,504

Director fees 3,200

Advertising and subscriptions 13,886

Board, bureaus, and association dues 10,436

Insurance and fidelity bonds 698

Travel and Insurance Items 15,995

Printing and stationery 9,510

Postage, telephone, and telegraph 12,117

Legal and auditing fees 3,163

Taxes, licenses, and fees 14,001

Total underwriting expenses incurred 161,257

Total underwriting deductions 858,104

Net underwriting gain (loss) (503,794)

INVESTMENT INCOME

Net investment income earned 5,822

Net investment gain (loss) 5,822

OTHER INCOME

Net income after dividends to policyholders and before
federal income taxes (497,972)

Net Income (\$497,972)

POLICYHOLDERS' SURPLUS ACCOUNT

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Policyholders' Surplus December 31, previous year*	<u>\$2,587,577</u>	<u>\$2,696,257</u>	<u>\$2,928,515</u>	<u>\$2,958,552</u>	<u>\$2,930,458</u>
Net income or (loss)	(497,972)	(158,369)	(127,811)	(30,037)	28,094
Aggregate write-ins for gains and losses in surplus (examination changes ***)	<u>(326,423)</u>	<u>0</u>	<u>(104,447)</u>	<u>0</u>	<u>0</u>
Net change in capital and surplus for the year	<u>(824,395)</u>	<u>(158,369)</u>	<u>(232,258)</u>	<u>(30,037)</u>	<u>28,094</u>
Policyholders' Surplus December 31, current year**	<u>\$1,763,182</u>	<u>\$2,537,888</u>	<u>\$2,696,257</u>	<u>\$2,928,515</u>	<u>\$2,958,552</u>

* The Company's 2021 'Policyholders' Surplus December 31, previous year' was incorrectly reported and should be \$2,537,888.

** The Company's 2021 'Policyholders' Surplus December 31, current year' should be \$1,763,182 due to the error made on the 'Policyholders' Surplus December 31, previous year' line item above and due to examination changes made to 2021 Annual Statement asset, liability, and surplus line items.

*** The (\$326,423) for 2021 is a change per examination. The (\$104,447) for 2019 is not an examination change, the amount is as reported by the Company.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus \$1,763,182

Total policyholders' surplus, as established by this examination is \$1,763,182, or \$326,423 less than the amount of \$2,089,605 that the Company reported on line 15 of the Liabilities and Surplus Page in its 2021 Annual Statement. A summary of the changes made to asset, liability, and surplus items, resulting in a reduction of surplus as of December 31, 2021, is shown below:

Summary Schedule for "Analysis of Changes in Financial Statement" and Comments resulting from examination as they affect Surplus

<u>Item</u>	<u>Policyholders' Surplus</u>	
	<u>Increase</u>	<u>Decrease</u>
Bonds		\$13,480
Cash and Cash Equivalents		101,882
Reinsurance Recoverable on Paid Losses and LAE.		48,731
Gross Losses and Claims Reported, Unpaid		<u>112,341</u>
Subtotal		276,434
Policyholders' Surplus (error correction)	<u> </u>	<u>49,989</u>
Totals	<u><u> \$0</u></u>	<u><u>\$326,423</u></u>

Assets

Bonds

The amount reported by the Company on line 1 of the Assets Page in its 2021 Annual Statement was less than the amount confirmed by the bank for the Company's long-term certificates of deposit.

Amount per Company	\$795,090
Amount per Examination	<u>781,610</u>
Difference	<u><u>\$13,480</u></u>

Cash and Cash Equivalents

The amount established by this examination is \$1,257,362, or \$101,882 less than the amount reported by the Company on line 5 of the Assets Page in its 2021 Annual Statement. The amount confirmed by the bank for the Company's short-term certificates of deposit was \$99,922 less than the amount reported on Schedule E. In addition, during the period of examination, the Company did not prepare bank reconciliations and thereby

did not consider outstanding checks, in the amount of \$1,960, when determining the book balance reported. These differences resulted in an overstatement of cash and cash equivalents.

Amount per Company	\$1,359,244
Amount per Examination	<u>1,257,362</u>
Difference	<u>\$101,882</u>

Reinsurance Recoverable on Paid Losses and LAE

In 2021, the Company experienced losses in excess of its specific and aggregate retentions pursuant to the terms of its reinsurance agreement. However, the Company did not report these losses or receive a reinsurance recovery from its reinsurer until more than ninety (90) days after year-end 2021. Due to the aging of these recoveries, the \$48,731 amount reported by the Company on line 9 of the Assets Page in its 2021 Annual Statement is non-admitted pursuant to the Instructions and Tenn. Code Ann. § 56-22-109.

Amount per Company	\$48,731
Amount per Examination	<u>0</u>
Difference	<u>\$48,731</u>

Liabilities

Gross Losses and Claims Reported, Unpaid

The Company had ten (10) open claims as of December 31, 2021, that were incurred in 2021, reported in 2021 and settled in 2022. Therefore, the amount of this liability is more than the zero (\$0) amount reported by the Company on line 1.1 of the Liabilities and Policyholders' Surplus Page in its 2021 Annual Statement.

Amount per Company	\$0
Amount per Examination	<u>112,341</u>
Difference	<u>\$112,341</u>

Policyholders' Surplus

The Company erroneously reported the year-end 2020 surplus total as \$2,587,577 on page 4.1, line 17, column 1 in its 2021 Annual Statement. The actual year-end 2020 surplus total was \$2,537,888, as reported on page 4.1, line 17, column 2 in its 2021 Annual Statement. This caused the Company's surplus for 2021 to be overstated by \$49,989.

Amount per Company	\$2,587,577
Amount per Examination	<u>2,537,888</u>
Difference	<u>\$49,989</u>

COMMENTS AND RECOMMENDATIONS

Comments

1. As noted in the “Management and Control” section of this report, the Company was not in compliance with its Bylaws regarding the election of directors and officers, and the holding of annual and Board meetings.

It is suggested that the Company comply with its Bylaws.

2. As noted in the “Compliance with Previous Examination Findings” and “Management and Control” sections of this report, the Company does not have a written conflict of interest policy, nor does the Company require disclosures of conflict of interest or potential conflicts of interest by directors, officers, or employees.

As a good business practice and to evidence compliance with Tenn. Code Ann. § 56-3-103, it is suggested that the Company create a conflict of interest policy and require annual disclosures of conflicts or potential conflicts of interest.

3. As noted in the “Market Conduct” section of this report, the Company did not correctly appoint its agent in accordance with Tenn. Code Ann. § 56-6-115.

It is noted that the Company properly appointed its agent on March 26, 2020.

Recommendations

1. As noted in the “Compliance with Previous Examination Findings” and “Management and Control” sections of this report, the Company could not provide all of its Board meeting minutes or its annual member meeting minutes for 2019. This is not in compliance with Tenn. Code Ann. § 48-66-101(a).

It is recommended that the Company comply with Tenn. Code Ann. § 48-66-101(a).

2. As noted in the “Management and Control” section of this report, no documentation of the Board’s approval of the Company’s investments or investment transactions was provided for 2018 through 2021. This is not in compliance with Tenn. Code Ann. § 56-3-408(b)(1).

It is recommended that the Company comply with Tenn. Code Ann. § 56-3-408(b)(1).

3. As noted in the “Accounts and Records” section of this report, the Company did not have written procedures for tracking and reporting unclaimed property to the Unclaimed Property Division of the State of Tennessee - Treasury Department in order to ensure compliance with Tenn. Comp. R. & Regs. 1700-02-01 (Unclaimed Property Act) and Tenn. Code Ann. § 66-29, *et al.*

It is recommended that the Company ensure compliance with Tenn. Comp. R. & Regs. 1700-02-01 (Unclaimed Property Act) and Tenn. Code Ann. § 66-29, *et al.*

4. As noted in the “Accounts and Records” section of this report, there were numerous issues of non-compliance with the Instructions, and Tenn. Code Ann. § 56-22-109 identified in the Company’s 2021 Annual Statement.

It is recommended that the Company comply with the Instructions and Tenn. Code Ann. § 56-22-109.

5. As noted in the “Accounts and Records” section of this report, the Company did not maintain premium accounting records in accordance with SSAP No. 6, 53, and 65, as they relate to written premium, earned premium, unearned premium, premiums receivable and advance premium.

It is recommended that the Company comply with SSAP No. 6, 53, and 65.

6. As noted in the “Accounts and Records” section of this report, the Company was including loss adjustment expenses in claims expenses, which is not in compliance with SSAP No. 55 paragraph 6(c), the Instructions, and Tenn. Code Ann. § 56-22-109.

It is recommended that the Company comply with SSAP No. 55 paragraph 6(c), the Instructions, and Tenn. Code Ann. § 56-22-109.

7. As noted in the “Market Conduct” section of this report, the Company was not maintaining its books, records, documents, and other business records in accordance with Tenn. Code Ann. § 56-8-104(10).

It is recommended that the Company comply with Tenn. Code Ann. § 56-8-104(10).

8. As noted in the “Market Conduct” section of this report, the Company does not have written procedures or policies, so it is not possible to review them for compliance with Tenn. Code Ann. § 56-8-104(7), and Tenn. Comp. R. & Regs. 0780-01-34.

It is recommended that the Company create and implement underwriting procedures and policies that are in accordance with Tenn. Code Ann. § 56-8-104(7) and Tenn. Comp. R. & Regs. 0780-01-34.

9. As noted in the “Compliance with Previous Examination” and “Market Conduct” sections of this report, the Company could not provide any documentation for canceled or non-renewed policies. This is not in compliance with Tenn. Code Ann. § 56-8-104(7) and Tenn. Comp. R. & Regs. 0780-01-34.

It is recommended that the Company comply with Tenn. Code Ann. § 56-8-104(7) and Tenn. Comp. R. & Regs. 0780-01-34.

10. As noted in the “Market Conduct” section of this report, due to the state of the Company’s records, it was not possible to test for compliance with Tenn. Code Ann. § 56-8-104(10).

It is recommended that the Company comply with Tenn. Code Ann. § 56-8-104(10).

11. As noted in the “Market Conduct” section of this report, due to a lack of claims documentation, it was not possible to test for compliance with Tenn. Code Ann. §§ 56-8-104(10) and 56-8-105(2), (3), and (4).

It is recommended that the Company comply with Tenn. Code Ann. §§ 56-8-104(10) and 56-8-105(2), (3), and (4).

12. As noted in the “Market Conduct” section of this report, the Company is not maintaining records of denied claims, which is not in compliance with Tenn. Code Ann. § 56-8-104(10).

It is recommended that the Company comply with Tenn. Code Ann. § 56-8-104(10).

13. As noted in the “Compliance with Previous Examination Findings” and “Market Conduct” sections of this report, the Company’s complaint records do not meet the requirements of Tenn. Code Ann. § 56-8-104(11).

It is recommended that the Company comply with Tenn. Code Ann. § 56-8-104(11).

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 Farmers Mutual Fire Insurance Company of Washington County.

As of December 31, 2021, the Company reported admitted assets of \$2,038,972. In addition to the liabilities of \$113,460 reported by the Company, additional liabilities in the amount of \$112,341, were confirmed by this examination. Due to the limitations noted in the "Scope of Examination" section of the report, this examination was unable to render a conclusion regarding the total amount of the Company's surplus. 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, 2021, the Company maintained assets in excess of verified and unverified liabilities to provide surplus sufficient to satisfy that requirement.

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

In addition to the undersigned, Nneka LaBon, Examiner, Dustin Rice, Examiner, and Jay Uselton, CFE, Supervising Examiner, from the State of Tennessee, participated in the work of this examination.

Respectfully submitted,



James Pearce
Examiner-in-Charge
Tennessee Department of Commerce and Insurance

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Farmers Mutual Fire Insurance Company of Washington County, located in Jonesborough, Tennessee, dated May 19, 2023, and made as of December 31, 2021, 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.

James T. Pearce, Jr.

James Pearce
Examiner-in-Charge
State of Tennessee

State of Tennessee

County of Davidson

Subscribed to and sworn before me

this 28th day of June, 2023

Mandy Johnson

(NOTARY)



My Commission Expires: 7/7/2025

EXHIBIT B

SINCE



1898

**FARMERS MUTUAL
INSURANCE COMPANY**

A COUNTY MUTUAL INSURANCE COMPANY

125 EAST JACKSON BLVD SUITE 4 - PO BOX 436 - JONESBOROUGH, TN 37659
TELEPHONE (423) 753-2891 - FAX (423) 788-6891

June 29, 2023

E. Joy Little
Director of Financial Examinations/Chief Examiner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243-1135

RE: Report of Examination – Farmers Mutual Fire Insurance Company of
Washington County

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Farmers
Mutual Fire Insurance Company of Washington County, made as of December
31, 2021.

By signing below, we indicate acceptance of the report, as transmitted, and without
rebuttal.

Sincerely,

Jeffrey G. Snyder
Secretary/Treasurer