

EXHIBIT A



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

**REPORT ON EXAMINATION
OF THE
MONROE COUNTY MUTUAL FIRE INSURANCE COMPANY
MADISONVILLE, TENNESSEE**

**AS OF
DECEMBER 31, 2023**

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Madisonville, Tennessee
March 18, 2025

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, 2023, has been made of the condition and affairs of:

MONROE COUNTY MUTUAL FIRE INSURANCE COMPANY

NAIC # 15976
442 Main Street
Madisonville, Tennessee 37354

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. This examination was called through the National Association of Insurance Commissioners (NAIC) Financial Examination Electronic Tracking System (FEETS).

SCOPE OF EXAMINATION

The last examination of the Company was made as of December 31, 2018. This examination covers the period from January 1, 2019, through December 31, 2023, 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 NAIC in the *Financial Condition Examiners Handbook*

("Handbook"), as deemed appropriate. The examination sought to evaluate the overall financial statement presentation and compliance with statutory accounting principles and the *Annual Statement Instructions for Tennessee County Mutual Insurers* ("Instructions"). 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.

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 confirming 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 in the previous report of examination, as of December 31, 2018, which covered the period from January 1, 2014, through December 31, 2018. A summary of the Commissioner's directives and the corrective actions taken by the Company is discussed below:

Comments

1. It was noted the Company was operating under several verbal agreements with various third parties. As a good business practice, it was suggested that the Company formalize verbal agreements in writing and execute with all parties.

Corrective Action

The Company continues to operate under verbal agreements with various third parties. See the "Comments and Recommendations" section of this report.

2. It was noted that 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 complied with this comment. The Company created a conflict-of-interest disclosure form and requires the disclosure form to be completed by directors, officers, and employees annually.

3. It was noted the Company's fidelity bond is lower than the amount recommended by the NAIC for companies of similar size.

Corrective Action

The Company complied with this comment after the date of this examination. See the "Comments and Recommendations" section of this report.

4. It was noted the Company did not have any formal complaint procedures or a complaint log, as required in Tenn. Code Ann. § 56-8-104(11).

Corrective Action

During the examination, the Company documented its complaint procedures and created a complaint log that meets the requirements of Tenn. Code Ann. § 56-8-104(11).

Recommendations

1. It was recommended the Company comply with its Bylaws or amend its Bylaws to accurately reflect the number of directors serving on the Board of Directors ("Board"). The Bylaws required the Company to have eleven (11) directors. From 2016 through 2023, the Company's Board was comprised of only ten (10) directors.

Corrective Action

The Company became compliant in July 2022 by amending its Bylaws to require a number of directors that reflects the number actually serving on the Board.

2. It was recommended that the Company properly maintain its Bylaws, reflecting the original language before any changes, and create amendments which clearly show the changes and the effective date of these changes.

Corrective Action

The Company has corrected this issue. In 2022, the Company restored its Bylaws to the original language and amended its Bylaws showing the changes and the effective date of the changes.

3. It was recommended that the Company ensure all investment activities are reviewed and approved by the Board in accordance with Tenn. Code Ann. § 56-3-408(b)(1).

Corrective Action

The Company has corrected this issue. In July 2020, the Board created an Investment Committee and appointed the Officers to comprise the Investment Committee. The Investment Committee approves the Company's investment transactions pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

4. It was recommended that the Company account for and report the depreciated book value of its office building in accordance with Statements of Statutory Accounting Principles (SSAP) No. 40 (Real Estate Investments), to comply with the Instructions and Tenn. Code Ann. § 56-22-109(a)(4).

Corrective Action

The Company accounted for and reported the depreciated book value of its office building in accordance with SSAP No. 40, in compliance with the Instructions and Tenn. Code Ann. § 56-22-109(a)(4).

5. It was recommended that the Company segregate the value of its land and building for depreciation purposes in order to determine the adjusted carrying value for the building structure in accordance with SSAP No. 40, and to comply with the Instructions and Tenn. Code Ann. § 56-22-109(a)(4).

Corrective Action

The Company separately accounted for and reported the depreciated book value of its office building in accordance with SSAP No. 40, the Instructions, and Tenn. Code Ann. § 56-22-109(a)(4).

6. It is recommended that the Company account for and report the value of its bond investments using amortized cost in accordance with SSAP No. 26 (Bonds), Tenn. Code Ann. § 56-22-109(a)(4) and the Instructions.

Corrective Action

The Company has not complied with this recommendation. As noted in the “Accounts and Records” and “Comments and Recommendations” sections of this report, the Company did not account for and report the value of its bond investments using amortized cost in accordance with SSAP No. 26, Tenn. Code Ann. § 56-22-109(a)(4), and the Instructions.

7. It was recommended the Company correctly account for its “Furniture, equipment and supplies” pursuant to the Instructions, prescribed by the Commissioner in accordance with Tenn. Code Ann. § 56-22-109 and SSAP No. 19.

Corrective Action

The Company correctly accounted for “Furniture, equipment and supplies” pursuant to the Instructions, prescribed by the Commissioner in accordance with Tenn. Code Ann. § 56-22-109 and SSAP No. 19.

8. It was recommended the Company should comply with the Instructions and properly report items affecting policyholders’ surplus.

Corrective Action

The Company correctly accounted for policyholders’ surplus pursuant to the Instructions, prescribed by the Commissioner in accordance with Tenn. Code Ann. § 56-22-109.

9. It was recommended the Company account for and report loss adjustment expenses (LAE) in accordance with the Instructions.

Corrective Action

The Company has not complied with this recommendation. As noted in the “Accounts and Records” and “Comments and Recommendations” sections of this report, the Company did not properly account for LAE. The Company combined LAE and claims expenses in its annual statement.

10. It was recommended the Company correctly report its “Policyholders’ surplus, December 31, previous year” in its annual statements.

Corrective Action

The Company complied with this recommendation and correctly reported its “Policyholders’ surplus, December 31, previous year” in its annual statements.

11. It was recommended the Company correctly answer questions one (1) and two (2) of the General Interrogatories in its annual statements.

Corrective Action

The Company complied with this recommendation and correctly answered questions one (1) and two (2) of the General Interrogatories in its annual statements.

12. It was recommended the Company report long-term certificates of deposit and bonds purchased in its annual statements on Schedule D – Part 3 Bonds and Stocks Acquired.

Corrective Action

The Company complied with this recommendation and reported long-term certificates of deposit and bonds purchased in its annual statements on Schedule D – Part 3 Bonds and Stocks Acquired.

13. It was recommended the Company report long-term certificates of deposit and bonds that matured or were redeemed on Schedule D – Part 4 Bonds and Stocks Sold During the Year.

Corrective Action

The Company complied with this recommendation and reported long-term certificates of deposit and bonds that matured or were redeemed on Schedule D – Part 4 Bonds and Stocks Sold During the Year.

14. It was recommended the Company list all Bonds owned on Schedule D – Part 1.

Corrective Action

The Company complied with this recommendation and reported all Bonds owned on Schedule D – Part 1 during the period of examination.

15. It was recommended the Company properly appoint its agents, as required by Tenn. Code Ann. § 56-6-115.

Corrective Action

The Company complied with this recommendation and properly appointed its agents, as required by Tenn. Code Ann. § 56-6-115.

COMPANY HISTORY

The Company was incorporated on November 8, 1912, under the Tennessee Business Corporation Act as a non-profit mutual benefit corporation. The Company commenced business on August 9, 1913. On January 20, 2009, the Company was issued its most recent Certificate of Authority to transact the business of insurance pursuant to Tenn. Code Ann. §§ 56-22-101, *et seq.* The Certificate of Authority is valid until suspended or revoked and allows the Company to transact business operations in all counties contiguous to Monroe County to the third degree in the State of Tennessee, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company's purpose is to insure its policyholders (members) against loss or damage to property due to fire, lightning, hail, extended coverage, and tornado in Monroe County and counties contiguous to Monroe County to the third degree. The Company is authorized to write policies in Anderson, Blount, Bradley, Cocke, Cumberland, Grainger, Hamilton, Jefferson, Knox, Loudon, McMinn, Meigs, Monroe, Morgan, Polk, Rhea, Roane, Sevier, and Union counties in Tennessee.

MANAGEMENT AND CONTROL

MANAGEMENT

Directors

Management of the Company is vested in the Board. Directors are elected for a term of three (3) years.

Director

Bruce W. Thomas
Jerry L. Lay
Edwin D. Summitt
Keisha D. Mims
Bill J. Shadden
Jerry L. Miller
Paul D. Mason
Brandon S. Hawkins
Roy J. Thompson
Goldie M. Brown
Michael W. Gray

Address

Madisonville, Tennessee
Madisonville, Tennessee
Philadelphia, Tennessee
Philadelphia, Tennessee
Tellico Plains, Tennessee
Madisonville, Tennessee
Madisonville, Tennessee
Athens, Tennessee
Philadelphia, Tennessee
Sweetwater, Tennessee
Tellico Plains, Tennessee

During the examination period the Board held ten (10) meetings.

Officers

The Bylaws provide that the officers of the Company shall consist of a President, Vice-President, Secretary and Treasurer, and other officers as the Board may determine. The Board appoints officers after the annual meeting of the members and each officer serves for a term of one (1) year.

The following individuals were duly elected by the Board and were serving as officers of the Company as of December 31, 2023:

<u>Name</u>	<u>Title</u>
Michael W. Gray	President
Goldie M. Brown	Vice President
Brandon S. Hawkins	Secretary/Treasurer

Executive Committee

The Bylaws provide for an Executive Committee consisting of the President, Vice-President, Secretary, and Treasurer. The Executive Committee provides oversight for the affairs of the Company. The following individuals were serving on the Executive Committee as of December 31, 2023:

<u>Name</u>	<u>Title</u>
Michael W. Gray	President
Goldie M. Brown	Vice President
Brandon S. Hawkins	Secretary/Treasurer

Investment Committee

The Board appointed an Investment Committee to review and approve the Company's investment transactions pursuant to Tenn. Code Ann. § 56-3-408(b)(1). The Investment Committee has overall responsibility for the operation and administration of the Company's investment portfolio.

The following individuals were serving on the Investment Committee as of December 31, 2023:

<u>Name</u>	<u>Title</u>
Michael W. Gray	President
Goldie M. Brown	Vice President
Brandon S. Hawkins	Secretary/Treasurer

On August 28, 2023, the Company entered into an investment custody agreement with Banklwa. However, no formal approval was evident in the Board or committee meeting

minutes provided to the Examiners. See the “Comments and Recommendations” section of this report for further details.

Corporate Governance Committee

On July 19, 2019, the Board appointed a Corporate Governance Committee (CGC), which met for the first time on October 14, 2019. Pursuant to the CGC Committee’s Charter, the committee’s mission is to: (1) select Board nominees; (2) provide guidance on the oversight of the Board, corporate guidelines, and issues; and (3) oversee the evaluation of the Board and management. The following individuals were serving on the CGC Committee as of December 31, 2023:

<u>Name</u>	<u>Title</u>
Michael W. Gray	President
Roy J. Thompson	Board Member
Bill J. Shadden	Board Member
Paul D. Mason	Board Member
Jerry L. Lay	Board Member

Audit Committee

The Board appointed an Audit Committee to oversee all material aspects of the Company’s financial reporting, audit functions, and related internal controls. The following individuals were serving on the Audit Committee as of December 31, 2023:

<u>Name</u>	<u>Title</u>
Michael W. Gray	President
Jerry L. Miller	Board Member
Jerry L. Lay	Board Member

CONTROL

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

The annual meeting of the members shall be held each year on the last Saturday in February at the home office or at such a place or date as may be designated by the management and of which the membership shall be informed by written or printed notice.

Special meetings of the members shall be held at the call of the Board at any time and shall be called upon petition of one-fourth (1/4) of the members. 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 in person. No member shall vote by proxy. A quorum for any membership meeting shall consist of ten percent (10%) of the membership or eleven (11) members, whichever is less.

During the examination period, five (5) annual meetings of the members were held. No special meetings were held.

CORPORATE RECORDS

The minutes of the meetings of the Company's members, Board, and committees were reviewed and appear to properly reflect the acts of the respective bodies. It was noted the Company's investments were approved pursuant to Tenn. Code Ann. § 56-3-408(b)(1).

Charter

The Charter recites the 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 may be amended or repealed, or new Bylaws may be drafted and adopted, by the majority vote of the members present at any regular or special meetings of the members. The Company amended its Bylaws in 2022, requiring no less than six (6) directors and no more than eleven (11) directors to serve on the Board.

SERVICE AGREEMENTS

The Company had several written agreements in place for services during the period under examination, some of which are verbal agreements with various third parties.

Investment Custodian Services

Banklowa provides the Company with investment custodian services.

Financial and Tax Preparation Services

Local certified public accounting (CPA) firms, in Madisonville and Cleveland, Tennessee, provided limited accounting services related to regulatory filings, including preparation of

statutory annual statements and federal income tax filings. These were verbal agreements during the exam period.

Claims Adjustment Services

N & C Claims Service, Inc. (N & C) provides property inspection for the Company on new and renewal business. Also, N & C provides claims adjustment services for the Company on an as-needed basis. This was a verbal agreement during the exam period.

Insurance Management Systems

Prior to January 1, 2023, Automated Insurance Management Systems (AIMS) provided policy management and premium accounting software and support services to the Company. Currently, BriteCore provides policy management and premium accounting software and support services to the Company.

Legal Services

On August 28, 2023, the Company engaged Schulman, LeRoy, and Bennett, P.C. to provide legal counsel concerning the establishment of an insurance agency.

FIDELITY BONDS

During the examination, the Company's fidelity bond was reviewed and found to be lower than the amount recommended by the NAIC for companies of similar size. For additional details, see the "Comments and Recommendations" section later in this report.

TERRITORY AND PLAN OF OPERATION

Territory

The Company's current Certificate of Authority was issued by the TDCI on January 20, 2009, and authorized the Company to transact the business of insurance in the State of Tennessee including providing coverage for fire, lightning, hail, extended coverage, and tornados. The Certificate of Authority is valid until suspended or revoked and allows the Company to transact business operations in all counties contiguous to Monroe County to the third degree, pursuant to Tenn. Code Ann. § 56-22-106(f)(1). The Company currently writes policies in Blount, Bradley, Hamilton, Knox, Loudon, McMinn, Meigs, Monroe, Polk, Rhea, and Roane counties in Tennessee.

Plan of Operation

The Company provides its members with coverage on dwellings, rental homes, cabins, modular homes, mobile homes, farm buildings, apartment rentals, livestock, out buildings,

other structures, personal property, farm equipment, machinery and tools, hay, and churches in case of loss due to fire, lightning, hail, extended coverage, and tornado.

The Company's policies are typically written for the amount between fifty percent (50%) to eighty percent (80%) of the fair value of the property insured, subject to policy limits of \$150,000 per specific loss. Each policy is issued for one (1) year, and policyholders' premiums are due annually on the policy anniversary date. The standard deductible is \$250 and is applied separately to each specific item listed on the policy. The aggregate amount deducted from loss for any one (1) occurrence shall not exceed \$500.

Liability coverage, provided through an agreement with Farmers Mutual of Tennessee ("Farmers"), a Tennessee property and casualty insurer, is also available to the members of the Company if they wish to purchase this additional protection. The four (4) types of liability coverage offered include: (1) Personal Liability; (2) Commercial Liability; (3) Farm Personal Liability; and (4) Farm Employee Liability.

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 financial statements filed with the TDCI:

<u>Year</u>	<u>Gross Premiums Written</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders' Surplus</u>	<u>Net Income</u>
2023	\$466,155	\$7,467,847	\$262,914	\$7,204,933	\$133,879
2022	\$489,785	\$7,153,426	\$279,151	\$6,874,278	\$284,216
2021	\$497,098	\$6,848,060	\$258,001	\$6,590,059	\$149,998
2020	\$526,702	\$6,707,820	\$267,759	\$6,440,061	\$1,007
2019	\$545,568	\$6,703,148	\$264,064	\$6,439,054	\$325,570

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 financial statements filed with the TDCI:

<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>
2023	\$428,713	\$205,440	47.92%	\$269,165	65.04%	112.96%
2022	\$539,537	\$98,122	18.19%	\$291,932	54.11%	72.29%
2021	\$508,514	\$123,797	24.68%	\$327,890	64.48%	89.16%
2020	\$537,345	\$308,338	57.83%	\$364,806	67.89%	125.72%
2019	\$560,356	\$82,640	14.75%	\$297,699	53.13%	67.87%

REINSURANCE

Specific and Aggregate Excess of Loss Reinsurance

Effective January 1, 2023, the Company entered into a Per Risk and Aggregate Excess of Loss Reinsurance Agreement with Farmers that remained in force until December 31, 2023. The agreement covered all business classified by the Company as property.

Pursuant to Tenn. Code Ann. § 56-22-106(d), the Company had the required specific excess of loss coverage through Farmers. Under the terms of the per risk section of the agreement, the Company retained the first \$75,000 of each risk, per occurrence, and Farmers insured 100 percent (100%) of the next \$75,000.

Pursuant to Tenn. Code Ann. § 56-22-110, the Company had the required aggregate excess of loss coverage. The Company reinsured its losses through a series of three (3) layers of aggregate coverage. The coverage for each layer is 100 percent (100%). The attachment point for the first layer was the aggregate ultimate net loss of 75 percent (75%) of the Company's aggregate net written premium up to 125 percent (125%) of the Company's aggregate gross net written premium. The attachment point for the second layer was the aggregate ultimate net loss from 125 percent (125%) of the Company's aggregate gross net written premium up to 250 percent (250%) of the Company's aggregate gross net written premium. The attachment point for the third layer is the aggregate net loss equal to 250 percent (250%) of the Company's aggregate gross net written premium up to the lesser of 500 percent (500%) of aggregate gross net written premium or \$3,100,000.

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 appeared 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. § 56-22-106(d) and 56-22-110.

Subsequent to the examination date, the Company entered into Per Risk and Aggregate Excess of Loss Reinsurance Agreements with Farmers that were in force from January 1, 2024, through December 31, 2024, and from January 1, 2025, through December 31, 2025.

ACCOUNTS AND RECORDS

During the examination, accounts were verified by various tests and procedures deemed necessary to confirm values for assets and liabilities appearing in the Company's financial statements. General ledger balances were reconciled with the financial statements and were reviewed for completeness of disclosure and conformity to NAIC Accounting Practices and Procedures, as required by Tennessee Compilation of Rules and Regulations ("Tenn. Comp. R. & Regs.") 0780-01-78-.04(1).

During the review of the Company's 2023 annual statement, numerous issues of non-compliance with Tennessee Code Annotated, NAIC Accounting Practices and Procedures, and the Instructions were identified. See the "Comments and Recommendations" section in this report for further details.

Pursuant to Tenn. Comp. R. & Regs. 0780-1-78.04(3), the Company was exempt from filing financial reports audited by a certified public accountant.

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

Pursuant to Tenn. Comp. R. & Regs. 0780-1-78.04(4), the Company was exempt from filing an actuarial opinion with the Commissioner.

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

MARKET CONDUCT ACTIVITIES

In conjunction with this examination, a limited market conduct review was made of the Company, as of December 31, 2023. The following items were addressed:

Operations and Management Standards

Company antifraud initiatives and policies related to the protection of personal information were examined and found to comply with Tenn. Code Ann. §§ 56-53-111 and 56-8-104(19), respectively.

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. No issues were noted.

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. No issues were noted.

The policy forms that were used by the Company during the period of examination were reviewed. All forms and rates were noted as having been filed with the Department prior to use, pursuant to Tenn. Code Ann. §§ 56-5-103, 56-5-104, 56-5-105, and 56-22-109(b)(1).

The Company's premium rates in effect during the period of examination were approved by the TDCI on November 2, 2012. No rate changes were made during the examination period.

Subsequent to the date of examination, the Company implemented new rates and deductibles that became effective January 1, 2024. These new rates and deductibles were approved by the TDCI on September 28, 2023.

Producer Licensing Standards

Tenn. Code Ann. §§ 56-6-103 and 56-6-115 require the Company to sell its products and services through producers who are properly licensed and appointed by the Company. The Company's producer's state-issued license and appointment information was reviewed, and no issues were noted.

Marketing and Sales Standards

The Company's advertising during the period of examination consisted of pens, calendars, and newspaper ads. The Company's reputation and products are also communicated to potential members by the Board and the Company's agents 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 were examined. The company was found to be in compliance with the relevant market conduct standards.

Claims Handling Standards

A sample of claims was reviewed for unfair claims practices as defined by Tenn. Code Ann. § 56-8-105. Testing included timeliness of contact and resolution, adequacy of claims documentation, claims handling procedures, and reasonableness of denials. No issues were noted during the claims review.

Complaint Handling Standards

The Company's complaint handling practices were reviewed for compliance with Tenn. Code Ann. § 56-8-104(11), which requires the Company to maintain a complete record of all the complaints it receives. It was noted that during the examination period, the Company did not maintain a complaint log that met the requirements of the statute. See the "Comments and Recommendations" section in this report.

SUBSEQUENT EVENTS

On July 29, 2023, the Board approved the creation of Monroe County Insurance Agency, LLC ("Agency"). On December 20, 2023, the Agency was established when the Agency's Articles of Incorporation were filed with the Tennessee Secretary of State. The Agency's Articles of Incorporation specified a delayed effective date of January 1, 2024.

Therefore, as of January 1, 2024, Monroe County Mutual Fire Insurance Company became part of a holding company system and was subject to the Insurance Holding Company System Act, Tenn. Code Ann. §§ 56-11-101 *et seq.*

A Form D and an Operating Agreement were submitted to the TDCI on January 25, 2024. An amended Form D dated July 9, 2024, and a Shared Services Agreement were submitted to the TDCI. On August 28, 2024, the Operating Agreement and Shared Services Agreement were non-disapproved by the TDCI with a retroactive effective date of January 1, 2024, and March 1, 2024, respectively.

FINANCIAL STATEMENTS

There follows a statement of assets, liabilities, and a statement of income, as of December 31, 2023, together with a reconciliation of policyholders' surplus for the period under review, as reported by the Company in its 2023 annual statement:

<u>ASSETS</u>			
	<u>Assets</u>	<u>Non-Admitted Assets</u>	<u>Net Admitted Assets</u>
Bonds and long-term certificates of deposit	\$6,766,907		\$6,766,907
Properties occupied by the company	182,634		182,634
Cash and cash equivalents	467,813		467,813
Premium receivables and agents' balances	29,443		29,443
Prepaid expenses	<u>21,050</u>	<u>0</u>	<u>21,050</u>
Total Admitted Assets	<u>\$7,467,847</u>	<u>\$0</u>	<u>\$7,467,847</u>

LIABILITIES AND POLICYHOLDERS' SURPLUS

Unearned premiums	\$199,920
Advance premiums	59,457
Accounts payable and accrued expenses payable	598
Taxes, licenses and fees (excluding federal income taxes)	<u>2,939</u>
 Total liabilities	 262,914
Policyholders' surplus	<u>7,204,933</u>
Total Liabilities and Policyholders' Surplus	<u>\$7,467,847</u>

STATEMENT OF INCOME

UNDERWRITING INCOME

Net premiums and assessments earned	<u>\$428,713</u>
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DEDUCTIONS

Net losses incurred	205,440
Salaries and related items	138,676
Director fees	6,000
Advertising and subscriptions	1,221
Board, bureaus and association dues	4,335
Surveys and underwriting reports	5,860
Insurance and fidelity bonds	10,837
Travel and travel items	366
Cost or depreciation of EDP equipment and software	4,567
Printing and stationery	1,983
Postage, telephone and telegraph	3,217
Legal and auditing fees	2,385
Taxes, licenses and fees	4,714
Real estate expenses and repairs	2,018
Real estate taxes	2,524
Aggregate write-ins for underwriting expenses	80,462
Total underwriting expenses incurred	<u>269,165</u>
Total underwriting deductions	<u>474,605</u>
Net underwriting gain (loss)	(45,892)

INVESTMENT INCOME

Net investment income earned	<u>198,782</u>
Net investment gain (loss)	198,782

OTHER INCOME

Aggregate write-ins for miscellaneous income	<u>250</u>
Total other income	<u>250</u>
Net income after dividends to policyholders and before federal income taxes	<u>153,140</u>
Federal income taxes incurred	<u>19,261</u>
Net Income	<u>\$133,879</u>

POLICYHOLDERS' SURPLUS ACCOUNT

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Policyholders' Surplus					
December 31, previous year*	<u>\$6,874,275</u>	<u>\$6,590,059</u>	<u>\$6,440,061</u>	<u>\$6,439,054</u>	<u>\$6,246,484</u>
Net income or (loss)	133,879	284,216	149,998	1,007	325,570
Change in non-admitted assets from prior year	196,779	0	0	0	(150,000)
Cumulative effect of changes in accounting principles*	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7,000</u>
Net change in capital and surplus for the year	<u>330,658</u>	<u>284,216</u>	<u>149,998</u>	<u>1,007</u>	<u>192,570</u>
Policyholders' Surplus					
December 31, current year	<u>\$7,204,933</u>	<u>\$6,874,275</u>	<u>\$6,590,059</u>	<u>\$6,440,061</u>	<u>\$6,439,054</u>

* See "Comments and Recommendations" section (Recommendation 1)

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Policyholders' Surplus

\$7,204,933

Total policyholders' surplus, as established by this examination, is the same as what was reported by the Company in its 2023 annual statement. Minor differences were found with various balance sheet and income statement items. None were considered to produce a material effect on surplus, individually or in the aggregate. Therefore, no changes were made to any balance sheet or income statement items as a result of our examination performed as of December 31, 2023.

COMMENTS AND RECOMMENDATIONS

Comments

1. As noted in the "Management and Control" section of this report, the Company on August 28, 2023, entered into an investment custody agreement with Banklowa. However, neither the Board nor committee meeting minutes provided to the examiners evidenced formal approval, as required by Tenn. Comp. R. & Regs. 0780-01-46-.02(2).

During the examination on July 31, 2024, the Investment Committee formally approved the Company's custody agreement with Banklowa.

2. As noted in the "Compliance with Previous Examination Findings" and "Management and Control" sections of this report, the Company's fidelity bond was lower than the amount recommended by the NAIC for companies of similar size.

During the examination, the Company increased its fidelity coverage protection to an amount recommended by the NAIC.

3. As noted in the "Market Conduct Activities" section of this report, during the period of examination, the Company's complaint log did not meet the requirements of Tenn. Code Ann. § 56-8-104(11). During the examination, the Company implemented a complaint log compliant with Tenn. Code Ann. § 56-8-104(11).
4. As noted in the "Compliance with Previous Examination Findings" section of this report, the Company was operating under several verbal agreements with various third parties. As a good business practice, it is suggested that the Company formalize verbal agreements in writing and execute with all parties.

Recommendations

1. During the review of the Company's 2023 annual statement, numerous issues of non-compliance with applicable provisions of Title 56 of the Tennessee Code Annotated, NAIC Accounting Practices and Procedures, and the Instructions were identified. None of these issues were considered to produce a material effect on surplus, individually or in the aggregate.

It is recommended the Company comply with applicable provisions of Title 56 of the Tennessee Code Annotated, NAIC Accounting Practices and Procedures, and the Instructions prescribed by the Commissioner pursuant to Tenn. Code Ann. § 56-22-109 when preparing and reporting statutory financial statements submitted to the TDCI.

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 Monroe County Mutual Fire Insurance Company.

In such manner, it was found that as of December 31, 2023, the Company had admitted assets of \$7,467,847 and liabilities, exclusive of policyholders' surplus, of \$262,914. Thus, there existed for the additional protection of the policyholders, the amount of \$7,204,933 in the form of policyholders' surplus. Tenn. Code Ann. § 56-22-106(f)(1) and (2) requires an insurer of this Company's type to maintain a minimum surplus of \$3,000,000. For this examination, as of December 31, 2023, the Company maintains surplus sufficient to satisfy those requirements.

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, Changyoon Baek, Insurance Examiner, and Donald Karnes, CFE, Supervising Examiner, from the State of Tennessee, participated in the work of this examination.

Respectfully submitted,

James T. Pearce, Jr.

James T. Pearce, Jr, APIR, MCM
Examiner-in-Charge
State of Tennessee

06/03/2025

Date

CERTIFICATION

The undersigned certifies and says that he has duly executed the attached examination report of Monroe County Mutual Fire Insurance Company located in Madisonville, Tennessee, dated March 18, 2025, and made as of December 31, 2023, on behalf of the Tennessee Department of Commerce and Insurance. The undersigned 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 T. Pearce, Jr.
Examiner-in-Charge
State of Tennessee

06/03/2025

Date

EXHIBIT B



Monroe County Mutual Fire Insurance Co.
"A County Mutual Insurance Company"

442 Main Street
MADISONVILLE, TENNESSEE 37354

PHONE (423) 442-2915
FAX (423) 442-9611

OFFICE HOURS
8:30 - 4:00 Mon. - Fri.

Closed Saturday

June 4, 2025

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 – Monroe County Mutual Fire Insurance Company

Dear Ms. Little:

We hereby acknowledge receipt of the final Report of Examination for Monroe County Mutual Fire Insurance Company, made as of December 31, 2023.

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

Sincerely,

Michael Gray, President