EXHIBIT

A

Report of Examination

of

The Farmers Mutual Insurance Company of

Giles County, Tennessee

RECEIVED

JUN 02 2008

Dept. Of Commerce & Insurance
Company Examinations

Sandra G. Clark, Secretary

212 West Madison Street

P. O. Box 732

Pulaski, TN 38478

Examination made as of: December 31, 2006

Examiner in Charge: James T. Pearce, Examiner III

Examination commenced: May 6, 2007

Examination completed: May 16, 2008

Table of Contents

Date of Report: June 2, 2008

Examined as of: December 31, 2006

Last Examination as of: December 31, 2001

Honorable Leslie S. Newman
Commissioner of Commerce and Insurance
State of Tennessee
Nashville, Tennessee 37243

Commissioner,

Pursuant to your instructions, I have made an examination and submit the following report of the conditions and affairs of the

Farmers Mutual Insurance Company of Giles County, Tennessee

Pulaski, Tennessee

Officers

Title	**Name**	**Address**	**Term Expires**
President	R. E. Long	Pulaski, TN	March 2007
Vice President	Edward E. Rose	Pulaski, TN	March 2007
Secretary & Treasurer	Sandra Gail Clark	Pulaski, TN	March 2007
Company Manager	Ruby B. Petty	Pulaski, TN	March 2007

Directors:

Name	**Address**	**Term Expires**
R. E. Long, President	Pulaski, TN	March 2007
Edward E. Rose, Vice President	Pulaski, TN	March 2009
Sandra Gail Clark	Pulaski, TN	March 2008
Rassie Watts, Jr.	Pulaski, TN	March 2008
John R. Eubank	Pulaski, TN	March 2007
Harry Burns	Pulaski, TN	March 2008
Ruby B. Petty, Company Manager	Pulaski, TN	March 2008

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

Compensation of the Company's officers, directors and employees for the period of examination was reviewed and found to be in compliance with Tennessee statutes.

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

On September 8, 1997, the Company's Board of Directors approved an Amended and Restated Constitution and By-Laws. This Amended and Restated Constitution and By-Laws were approved by the Tennessee Department of Commerce and Insurance (Department) on August 8, 1998.

Copies of the Amended and Restated Constitution and By-Laws are included in the work papers of this examination report.

On November 10, 2006, the Company's Board of Directors approved an Amended and Restated By-Law for Article IX: Premium. Article IX: Premium was completely deleted and replaced with the following language:

PAYMENT OF: Section 1; All new premiums chargeable to members of this Company shall be due and payable on the effective date of the policy. NEGLECT OR FAILURE TO PAY: Section 2: Should any member neglect or refuse to pay his premium on the due date of his policy he will be given a 10 day notice in advance of cancellation or non-renewal. CANCELLATION AND NON-RENEWAL: We may cancel or not renew this policy by written notice to you at the address shown on the Declarations 30 days in advance of cancellation or non-renewal. Proof of mailing is sufficient proof of notice. NOTICE OF PREMIUM: Section 3: The mailing of a notice of premium directed to the last known address of the policy holder shall be a fulfillment of the duties of the Company in notifying a member, and subsequent notices to a member whose policy is suspended shall not waive the suspension thereon.

The amendment to the Bylaws shall be effective January 1, 2007.

Copies of the Company's Amended and Restated By-Laws, revised premium rates, new policy and application forms with an effective date of January 1, 2007 were filed and approval was granted on December 16, 2006 by the Property & Casualty Rating Section of the Department.

Copies of the By-Laws and policy forms have been filed with the Department of Commerce and Insurance, and they are filed with the work papers of this report.

The Amended and Restated Constitution and By-Laws were approved by the Department on August 8, 1998. Copies of the Amended and Restated Constitution and By-Laws are included in the work papers of this examination report.

The changes to the application, policy forms and rate schedule were filed with the Department in November 2006 and are included in the Company's application and policy forms effective January 1, 2007. Copies of the minutes to the Board of Directors November 10, 2006 meeting at which the application, policy forms and rate schedule changes were approved are included in the work papers of this examination report.

Report on reinsurance assumed and / or ceded.

Previously, the Company and Farmers Mutual of Tennessee (Reinsurer) signed a Combination Per Risk / Aggregate Excess of Loss Reinsurance Contract and a Second Aggregate Excess of Loss Contract. These contracts were in effect continuously from January 1, 1997 through January 1, 2004. These agreements called for the Reinsurer to accept that portion of the Company's gross liability on any single risk and all eligible risks in totality which exceeded its net retained liability. During that time frame such sessions were limited to (A) two (2) times the net liability of the Company subject to its maximum retention of $100,000 for any one (1) risk, (B) the ultimate net loss in the aggregate for each calendar year exceeds the greater of 80% of the Company's gross written premium or $115,000 and shall not exceed $332,500, being 95% of $350,000 and (C) the ultimate net loss in the aggregate for each calendar year that exceeds the greater of 80% of the Company's gross written premium plus $350,000 and then the Reinsurer shall liable for 100% of all losses in excess of that.

On September 24, 2005 and October 18, 2005 Farmers Mutual of Tennessee and the Company (respectively) signed an Excess of Loss Reinsurance Agreement with an effective date of January 1, 2005. The agreement calls for the Reinsurer to accept that portion of the Company's gross liability on any risk which exceeds its net retained liability on any one (1) specific risk and in the aggregate for all losses. The terms reflected a continuous contract until cancelled by either party with 60 days advance notice.

The Company had three (3) separate sections attached to their Excess of Loss Reinsurance Agreement with Farmers Mutual of Tennessee as of December 31, 2006. They are as follows: Exhibit A - Combination Per Risk / Aggregate Layer, Exhibit B - Second Aggregate Layer and Exhibit C - Third Aggregate Layer.

Type:	Exhibit A – Combination Per Risk and Aggregate Layer
Reinsurer:	Farmers Mutual Fire Insurance Company of Tennessee
Coverage:	Part 1 – Property Risk Excess of Loss: covers each loss in excess of the Company's $25,000 maximum retention up to the Reinsurers $75,000 maximum per risk, each loss occurrence.
	Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater or 80% of the Company's gross assessment and / or premium income or $102,400 and shall not exceed 100% of the lesser of 45% of the Company's gross assessment and / or premium income or $86,400.

An annual deposit premium of $30,000 shall be paid to the Reinsurer in two (2) equal installments of $15,000 each on January 1 and July 1.

Minimum annual premium: 5% of annual gross net assessment and / or premium income

Type: Exhibit B – Second Aggregate Layer

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 125% of the Company's gross assessment and / or premium income or $128,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 125% of the Company's gross assessment and / or premium income or $128,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 125% of the Company's gross net assessment and / or premium income or $240,000 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $4,800 shall be paid to the Reinsurer in two (2) equal installments of $2,400 each on January 1 and July 1.

Minimum annual premium: $4,800

Term: Continuous coverage, effective January 1, 2004.

Estimated Gross Net Assessment and / or premium income for 2004 - $160,000

Type: Exhibit C – Third Aggregate Layer

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 250% of the Company's gross assessment and / or premium income or $320,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 250% of the Company's gross assessment and / or premium income or $320,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 750% of the Company's gross net assessment and / or premium income or $1,440,000 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $4,000 shall be paid to the Reinsurer in two (2) equal installments of $2,000 each on January 1 and July 1.

Minimum annual premium: $4,000

On Aril 29, 2007 and May 5, 2007 Farmers Mutual of Tennessee (reinsurer) and the Company, respectively, signed Addendum Number 1 (with an effective date of January 1, 2005) as an attachment to the Company's Excess of Loss Reinsurance Agreement. This Addendum amended the aforementioned Excess of Loss Reinsurance Agreement effective January 1, 2004 as follows:

Coverage: Exhibit A – Combination Per Risk and Aggregate Layer-2005

Part 2 – Aggregate Excess of Loss covers the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater or 80% of the Company's gross assessment and / or premium income or $147,000 and shall not exceed 100% of the lesser of 45% of the Company's gross assessment and / or premium income or

$129,375 in the aggregate on an annual basis.

An annual deposit premium of $45,000 shall be paid to the Reinsurer in two (2) equal installments of $22,500 each on March 1 and September 1.

The Estimated Gross Assessment and / or Premium Income for 2005 was $230,000.

For purposes of calculating the rate for 2005 and future years, the following Gross Net Assessments and / or Premium Income and Losses Incurred shall be deemed for the years 2001 to 2004. Actual 2005 Gross Net Assessments and / or Premium Income and Losses Incurred shall be included in the 2005 rate calculation when finally determined:

Year	Gross Assessments
2001	$140,778
2002	$159,305
2003	$182,468
2004	$226,761

Type: Exhibit B – Second Aggregate Layer-2005

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 125% of the Company's gross assessment and / or premium income or $230,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 125% of the Company's gross assessment and / or premium income or $230,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 125% of the Company's gross net assessment and / or premium income or $359,375 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $6,900 shall be paid to the Reinsurer in two (2) equal installments of $3,450 each on March 1 and September 1.

Minimum annual premium: $6,500.

The Estimated Gross Assessment and / or Premium Income for 2005 is $230,000.

Type: Exhibit C – Third Aggregate Layer-2005

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 250% of the Company's gross assessment and / or premium income or $460,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 250% of the Company's gross assessment and / or premium income or $460,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 750% of the Company's gross net assessment and / or premium income or $2,156,250 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $5,700 shall be paid to the Reinsurer in two (2) equal installments of $2,850 each on March 1 and September 1.

This Agreement contained a "Pools, Associations, Syndicates Exclusion Clause", an "Insolvency Funds Exclusion Clause", a "Nuclear Incident Exclusion Clause-Physical Damage-Reinsurance-USA" and a "Terrorism Exclusion Clause" including a "TRIA" provision.

During the period of examination (Jan. 1, 2002 through Dec. 31, 2006) the Company had numerous claims that exceeded the $25,000 specific retention specified in the Company's Combination Per Risk / Aggregate Excess of Loss Reinsurance Contract originally effective from January 1, 1997 through December 31, 2003 and the Excess of Loss Reinsurance Agreement effective January 1, 2004 through December 31, 2006 and beyond. Furthermore, the Company in 2004 experienced claim losses in totality that exceeded the aggregate retention level disclosed in the Company's Excess of Loss Reinsurance Agreement as denoted in Exhibit A, Section 2, Part II effective January 1, 2004 through December 31, 2006.

Appraisal and classification of risks taken.

Policies are typically written for the full value of the property insured subject to policy limits of $25,000 per risk before reinsurance. The agent performs the appraisal on the property prior to the issuance of a policy during the application process. Property eligible to be insured includes dwellings, church buildings, barns, cribs, stables and smokehouses and the contents of each of the aforementioned structures.

The Company writes policies covering property located in Giles, Lincoln, Maury and Lawrence counties.

The Company as of year-end 2006 had one (1) agent, Wendell W. Wilburn that was issued an Insurance Producer License by the Department that was effective May 13, 2006 through May 12, 2007. Mr. Wilburn was the Company's agent throughout the period of examination (January 1, 2002 through December 31, 2006).

Annual rate of assessment per $1,000.00 for period covered:

The Company made changes to its rate schedule and placement guide, including new deductibles that were approved by the Company's Board of Directors on November 26, 2001 and implemented effective January 1, 2002. The Company changed policy rates of existing policies on the renewal date. The last policies to be revised had a June 2003 renewal date.

The Company's rate schedule and placement guide implemented effective January 1, 2002 for all new or renewal policies written are included in the work papers of this examination report. Copies of the minutes to the Board of Directors meeting at which the rate schedule and placement guide were changed are included in the work papers of this examination report.

Additionally, the Company made changes to its rate schedule, including new deductibles that were approved by the Company's Board of Directors on March 1, 2004 and implemented effective April 1, 2004.

The Company's rate schedule and placement guide implemented effective April 1, 2004 for all new or renewal policies written are included in the work papers of this examination report. Copies of the minutes to the Board of Directors meeting at which the rate schedule and placement guide were changed are included in the work papers of this examination report.

The Company's Board of Directors approved the current rate schedule and placement guide on March 6, 2006 and the effective date of this most recently approved rate schedule and placement guide for all renewal policies began on April 1, 2006. (See below)

Owner Occupied

	Standard	Preferred	Extra Preferred
$0.00 thru $49,000	$9.00 per $1,000	$7.00 per $1,000	$5.00 per $1,000
$50,000 thru $100,000	$8.00 per $1,000	$6.00 per $1,000	$4.00 per $1,000

Personal property will be $4.00 per $1,000 on Standard and Preferred. Extra Preferred will be $3.00 per $1,000. Owner Occupied rates include a $500 deductible. $1,000 deductible on Owner Occupied dwelling & contents will lower per $1,000 by $1.00.

Tenant Dwellings and Unoccupied Dwellings

	Standard	Preferred
$0.00 thru $49,000	$12.00 per $1,000	$10.00 per $1,000
$50,000 thru $100,000	$10.00 per $1,000	$8.00 per $1,000

For multi-listed property (5 pieces or more of rental property the owner receives a $2.00 per thousand discount on houses). A $500 deductible applies to all Tenant Dwellings and Content rates. $1,000 deductible on all Tenant Dwellings will lower per $1,000 by $1.00.

Mobile Homes

$20.00 per $1,000 (over 10 years old & single wide)
$15.00 per $1,000 (under 10 years old & single wide)

If mobile homes are affixed to property and underpinned Standard and Preferred Tenant Dwellings and Unoccupied Dwellings rates apply.

Double Wide Homes and Modular Homes are rated at $10.00 per $1,000. If double wide and modular homes are affixed to property and underpinned Standard Preferred and Extra Preferred Owner Occupied rates apply. Mobile home contents: Owner occupied: $5.00 per $1,000. Mobile home contents only: $20.00 per $1,000. $500 deductible applies to all mobile homes and mobile home contents.

NOTE: ALL DWELLING RATES INCREASE BY $2.00 PER $1,000 FOR WOOD BURNING HEAT

Insured With Owner Occupied Dwellings Insured With This Company

Tenant dwellings, un-occupied dwellings and contents will be $10.00 per $1,000. Barns and other outbuildings will be $10.00 per $1,000. Contents of barns and outbuildings, machinery, livestock and etc. will be $10.00 per $1,000.

Insured With Tenant Un-Occupied Dwellings or Barns Only

Barns and other outbuilding protection will be $15.00 per $1,000. Contents of barns and other outbuildings, machinery, livestock and etc. will be $15.00 per $1,000.

Insured With Barns Only

The minimum rate on barns will be $75.00 per barn. The minimum rate on barn contents will be $75.00. A $500 deductible applies to Insured With Owner Occupied Dwellings Insured With This Company, Insured With Tenant Un-Occupied Dwellings or Barns Only and Insured With Barns Only classifications.

Contents Coverage in Tenant or Un-Occupied Dwelling

Contents Coverage in Tenant or Un-Occupied Dwelling will be $15.00 per $1,000. Contents only coverage will be $20.00 per thousand. A $500 deductible applies to these rates.

Church Building and Contents

Church Building and Contents rate is set at $10.00 per $1,000. A $500 deductible applies to this rate.

Recreational Buildings and Structures and Contents

Recreational Buildings and Contents rate is set at $15.00 per $1,000. A $500 deductible applies to this rate.

Exam procedures included verification that all rates and underwriting guidelines used by the Company were filed with and approved by the Department.

Rate of membership, policy and initial fees charged.

As of December 31, 2006, the Company had $18,813,430 of total insurance in force. There was an initial fee or policy charge of $5.00 premium per $1,000 of coverage until September, 1998. After September, 1998, no membership fees were charged to policyholders. Policyholders were charged a $3.00 fee each time premiums were paid semi-annually or quarterly. No service charges were levied if premiums were paid annually. The Company charged policyholders a $7.00 late fee for premium payments paid five (5) days after the premium due date.

Date of last assessment.

The Company makes advance assessments of its members on the policy renewal date. The last assessment made was in January 2006 for the policy period January 1, 2006 - June 30, 2006.

Amount delinquent.

There have never been any delinquencies. The Company cancels policies if assessments are not paid within forty five (45) days after the end of the policy period.

Assessment provided for all losses, expenses and other liabilities, including borrowed money.

The Company's profitability during the period of examination is reflected in the following table:

	2002	2003	2004	2005	2006*
Gross Assessments	$160,282.86	$184,375.38	$228,492.20	$287,377.84	$316,139.99
Less: Losses & Expenses	(222,479.85)	(313,796.17)	(475,077.29)	(261,950.81)	(334,300.00)
Underwriting Gain/(Loss)	(62,196.99)	(129,420.79)	(246,585.09)	25,427.03	(18,160.01)
Investment & Other Income	63,476.09	64,666.29	94,698.35	96,550.93	60,645.90
Net Income / (Loss)	$1,279.10	($64,754.50)	($151,886.74)	$121,977.96	$42,485.89

* These income, expense, profit and loss totals were determined as a result of this examination.

Amount of money borrowed since date of last assessment.

The Company did not borrow any money during the period of examination (2002 through 2006).

Exhibit of Risks

		Number	Amount
1.	In force, December 31, 2005	796	$40,422,690
2.	New business written in 2006	118	6,651,000
3.	Total		47,073,690
4.	Deduct those expired and marked off as terminated	(128)	(4,874,640)
5.	In force, December 31, 2006	786	42,199,050
6.	Amount re-insured		24,552,350
7.	Net amount in force		$17,646,700

Claims Paid in 2006

Fire Losses Paid	$73,029.77
Tornado or Wind Losses Paid	22,190.00
Lightning Losses Paid	3,578.66
Extended Coverage	4,029.57
Gross Amount Paid Policyholders for Losses	$102,828.00

Financial Statement as Determined by this Examination

Income

Ledger Assets per Company, December 31, 2005		$1,172,624.61
Gross Assessments	$316,137.99	
Deduct : Reinsurance	(72,686.00)	
Deduct : Return Assessments	(5,974.29)	
Net Assessments	237,477.70	
Interest Income	41,912.91	
Commission Income (from reinsurer)	1,967.75	
Service Charges	2,415.00	
Late Fee Income	740.00	
Total Income		284,513.36
Total Income and Balance		1,457,137.97

Disbursements

Gross amount paid policyholders for losses	$102,828.00	
Deduct : Reinsurance	(13,610.24)	
Net amount paid policyholders for losses	$89,217.76	
Expenses of adjustment and settlement of losses	0.00	
Commission or brokerage	0.00	
Salaries and compensation of officers, directors, & employees	103,546.22	
Advertising, Printing and Stationery	6,043.82	
Postage, telegrams, telephones and express	2,573.69	
Legal Expenses	197.92	
Utilities	2,608.58	
Insurance department licenses and fees	7,983.16	
All other licenses, fees and taxes	8,219.53	
Building & Equipment Depreciation	3,385.32	
Agent & Employee Travel Reimbursement	6,539.81	
Insurance on Building and Employees	6,792.88	
Building Repairs	136.04	
Janitorial	750.00	
Miscellaneous Expenses	4,035.42	
Total disbursements		242,029.47
Ledger Assets before Adjustments		1,215,108.50
Examination Adjustment to Assets and Surplus		(484,037.60)
Admitted Ledger Assets per Exam after Adjustment		$731,070.90

Assets per Examination

Book Value of Real Estate (Which Included Book Value of Computer Equipment and Furniture	$19,261.50
Book Value of Bonds (Investments Held Through Edward Jones)	480,108.54
Cash in Company's Office (Cashier's Check Citizens Bank of Pulaski, TN)	100,113.32
Cash in Banks (Checking, Money Market & Certificates of Deposit)	618,660.66
Total Assets per Examination	1,218,144.02

Assets Not Admitted

Book Value of Real Estate (Computer Equipment and Furniture)	(6,964.58)
Investments Held Through Edward Jones	(480,108.54)
Total Not-Admitted Assets per Examination	(487,073.12)

Admitted Assets per Exam

Total Admitted Assets per Examination	$731,070.90

Liabilities

Total Liabilities	-0-
Surplus over all liabilities per examination	$731,070.90
Total per examination	$731,070.90

Assets

Schedule of Bank Deposits:

Name of Bank	Amount on Bank Statement	Amount of O/S Checks	Adj. Items	Balance
Suntrust, Pulaski, TN, MMIA Commercial	$53,741.88	$-0-		$53,741.88
Suntrust, Pulaski, TN, Small Business Checking	95,845.76	(3,154.68)		92,691.08
	$149,587.64	($3,154.68)		$146,432.96

Cash in Company's Office (Cashier's Check):

Cashier's Check in Company's possession issued by Citizens Bank of Pulaski $100,113.32

Cash in Banks (Certificates of Deposit):

Bank of Frankewing, TN	$30,000.00
Bank of Frankewing, TN	40,000.00
Citizens Bank of Cornersville, TN	50,000.00
First National Bank of Pulaski, TN	30,000.00
First National Bank of Pulaski, TN	70,000.00
Suntrust Bank of Pulaski, TN	50,000.00
Suntrust Bank of Pulaski, TN	50,000.00
Suntrust Bank of Pulaski, TN	52,227.70
Suntrust Bank of Pulaski, TN	100,000.00
Total Exam Value of Certificates of Deposit	$472,227.70

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

Book Value of Bonds (Exam Value of Investments Held Through Edward Jones):

Community West Bank (C.D.)	$50,000.00
Countrywide Bank (C.D.)	30,000.00
Countrywide Bank (C.D.)	50,000.00
Morton Community Bank (C.D.)	50,000.00
Nara Bank NA (C.D.)	5,000.00
Profinium Financial (C.D.)	95,000.00
Federal Home Loan Mortgage Corp. (Bond)	25,000.00
John Hancock Life Ins. Co. (Note)	25,000.00
UIT Van Kampen #112-M (Unit Trust)	99,600.00
UIT Van Kampen #114-M (Unit Trust)	49,703.50
MFIS – Money Market Fund	805.04
Total Exam Value (Cost) of Investments Held Through Edward Jones	$480,108.54

Real Estate:

Land (at original cost Jan. 14, 1986)	$5,000.00
Building (at original cost Jan. 14, 1986)	35,000.00
Roof (at original cost Aug. 1, 1986)	6,588.00
Door (at original cost Oct. 1, 1987)	673.18
New Heating and Cooling Unit (at original cost Nov. 1, 2001)	5,754.00
Total Real Estate (before depreciation)	53,015.18
Less Accumulated Depreciation	(40,718.26)
Total Real Estate	$12,296.92

Assets pledged or hypothecated:

NONE

Comments on claims, borrowed money and other liabilities:

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

No money was borrowed by the Company during the period of examination (2002 through 2006).

Analysis of Changes in Financial Statement and Comments Resulting From Examination

Book Value of Real Estate **$12,296.92**

The above amount is $6,964.58 less than the $19,261.51 amount reported by the Company on line 42 in its 2006 Annual Statement. This total was composed of the depreciated cost of three (3) computers and furniture in addition to the depreciated book value of its home office land and building. Tenn. Code Ann. § 56-1-405 and NAIC Statement of Statutory Accounting Principals SSAP # 19 prohibits these assets of the Company from being shown as admitted on the Annual Statement form. Therefore, the full $6,964.58 total amount of the depreciated cost of the Company's three (3) computers and furniture is non-admitted for purposes of this examination. The $12,296.92 depreciated value of the Company's home office land and building is accepted as admitted pursuant to Tenn. Code Ann. § 56-3-405 and NAIC Statements of Statutory Accounting Principals SSAP # 19 and SSAP # 40.

Book Value of Bonds **$-0.00-**

The above amount is $0.00 or the same as the amount reported by the Company in its 2006 Annual Statement. For purposes of this examination the $480,108.54 examination total of the Company's investments held through broker / dealer, Edward Jones, have been re-classified to Book Value of Bonds from Other Assets, Viz: Certificates of Deposit & Savings in order to properly classify these investments in accordance with N.A.I.C. accounting practices and procedures. However, the Company's investments are being non-admitted because the securities were being held through broker / dealer, Edward Jones which isn't a permissible method for holding securities per Tenn. Code Ann. § 56-3-112 and Tenn. Code Ann. § 47-8-102. Furthermore, these securities were being held without a proper custodial / safekeeping agreement as required by Tenn. Code Ann. § 56-3-112 and Regulation 0780-1-46. Therefore, $480,108.54 is non-admitted for purposes of this examination.

Cash in Company's Office (Cashier's Check) **$100,113.32**

The above amount is $100,113.32 or $100,113.32 more than the amount reported by the Company in its 2006 Annual Statement. For purposes of this examination the $100,113.32 examination total of the Company's cashier's check previously held at the Company's office at year-end 2006 has been classified as Cash in Company's Office in order to properly classify these investments in accordance with N.A.I.C. accounting practices and procedures. The Company did not report this specific asset on its 2006 Annual Statement.

Cash in Banks **$618,660.66**

The above amount is $525,969.58 more than the $92,691.08 amount reported by the Company in its 2006 Annual Statement. For purposes of this examination the $472,227.70 examination total of the Company's certificates of deposit with local banks and the $53,741.88 examination total of the Company's money market account with Suntrust Bank have been re-classified to Cash in Company's Office from Other Assets, Viz: Certificates of Deposit & Savings in order to properly classify these investments in accordance with N.A.I.C. accounting practices and procedures.

Other Assets, Viz: Certificates of Deposit & Savings **$0.00**

The above amount is $1,103,155.91 less than the $1,103,155.91 amount reported by the Company in its 2006 Annual Statement and $1,106,191.45 less than $1,106,191.45 total per examination. For purposes of this examination and in accordance with N.A.I.C. accounting practices and procedures the $480,108.54 examination total of the Company's investments held through broker / dealer, Edward Jones, have been re-classified to Book Value of Bonds. Also, the $472,227.70 examination total of the Company's certificates of deposit with local banks and the $53,741.88 examination total of the Company's money market account with Suntrust Bank have been re-classified to Cash in Banks

The $3,035.53 difference between the $1,103,155.91 total per Company and the $1,106,191.44 total per examination is due to three (3) errors. The Company overstated the total book value (cost) of its nine (9) certificates of deposit held by local banks by $77,885.62. The Company overstated the total book value (cost) of its investments held through broker / dealer, Edward Jones, by $19,192.17 and understated the total book value (cost) of a cashier's check held at year-end 2006 by $100,113.32.

Summary Schedule for "Analysis Of Changes In Financial Statement"

The following depicts the change in surplus as outlined in the previous section of this report:

Item	Surplus Increase	Surplus Decrease
Book Value of Real Estate		$6,964.58
Book Value of Bonds		0.00
Cash in Company's Office	$100,113.32	
Cash in Banks	525,969.58	
Other Assets, Viz: Certificates of Deposit & Savings	3,035.53	1,106,191.45
Totals	$629,118.43	$1,113,156.03
Net Change In Surplus		$484,037.60

Comments on acts of officers and directors; any apparent violations of the Association's By-Laws, or of the laws of the State of Tennessee; general comments regarding the conduct of business:

Reconciliation of Certificates of Deposit

During the course of the examination the Examiner confirmed all of the assets held by the Company and attempted to reconcile the Examiner's findings to the Company's records. On September 6, 2007 the Examiner discovered a discrepancy of approximately $100,100 between the total amount of certificates of deposit confirmed and the Company's records. The Company's Secretary / Treasurer informed the Examiner that the Company on January 11, 2006 requested during an on site visit to the Pulaski, TN branch of Citizens Bank the renewal of their certificate of deposit (c.d.) issued by Citizens Bank. Due to the volume of business and the amount of waiting time involved, Citizens Bank suggested that the Company's representative return at a later time and pick up the new c.d. After physically receiving an envelope from Citizens Bank that was supposed to contain a newly issued c.d., the Company placed the envelope with its other certificates of deposit in a locked fire proof filing cabinet without checking the contents of the envelope. On May 18, 2007 the Company discovered that the envelope contained a cashier's check issued by Citizens Bank for $100,113.22 instead of a c.d. The Company should develop internal control procedures in order to make sure that the assets of the Company are closely monitored and are accounted for properly.

Refunds Due on Premium Taxes

A review of the Company's calendar year 2002 through 2006 Statement of Premiums and Fees For Taxation revealed that the Company was due a premium tax refund of $1,820.57 for the 2003 tax year, $2,302.08 for the 2004 tax year, $3,189.01 for the 2005 tax year and $3,606.00 for the 2006 tax year.

Policy Limits, Reinsurance and Retention Limits

Based on the Company's amount of total insurance in force, T.C.A. §56-22-106 sets the maximum amount of coverage the Company is permitted to write on any one risk or hazard subject to one fire or loss at a maximum amount of $25,000.

Subsequent Events:

New Legislation Requirements for County Mutual Insurance Companies

"The Tennessee County Mutual Insurance Company Act of 2006" required approval by the Department of the Company's premium rates and underwriting guidelines. Another important change involved the submission of future annual statements in accordance with NAIC Annual Statement Instructions and the NAIC Accounting Practices and Procedures Manual.

Revision of By-Laws:

The Company's By-Laws did not include the non-renewal provisions denoted in Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007). Tenn. Code Ann. § 56-7-1902(a) states "(a) Unless the non-renewal notice contains a reason for such non-renewal action, such notice shall advise the insured that upon written request of the named insured, mailed or delivered to the insurer not later than fifteen (15) days after the effective date of the non-renewal, the insurer will within twenty (20) days mail to the named insured a written statement specifying a reason for such non-renewal action." Tenn. Code Ann. § 56-7-1902(b) states "(b) There shall be no liability on the part of, and no cause of action of any nature shall arise against, any insurer, its authorized representative, its agents, its employees, or against any firm, person or corporation furnishing information to the insurer, as to the reason for non-renewal".

Revision of Policy Forms:

The Company's policy forms did not reflect the cancellation and non-renewal provisions disclosed in Tenn. Code Ann. § 56-7-1901 and 1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007). Tenn. Code Ann. § 56-7-1901 states "Except as provided in § 56-7-1304, if an insurance company does not intend to renew a contract of any kind of personal risk insurance identified in § 56-5-302(5), the company shall mail or deliver to the named insured, at the address shown in the policy, notice of its intention not to renew at least thirty (30) days prior to the expiration of the policy". See the "Revision of By-Laws" comment above for the non-renewal provisions disclosed in Tenn. Code Ann. § 56-7-1902.

Compensation Expense Ratio:

The Department issued and approved new rules governing Tennessee "county mutual" insurance companies that became effective January 2, 2008.

Tenn. Comp. R. & Regs., 0780-1-78-.03(1) states "No county mutual insurance company's compensation expense ratio (total compensation to gross premium) may exceed thirty percent (30%) for any given year".

Based upon the 2006 information provided to the Examiner by the Company, the Company's "compensation expense ratio" was thirty three percent (33%) of "gross premium" as defined by the rule. If this rule would have been in effect in 2006, the Company would have been in violation of Tenn. Comp. R. & Regs., 0780-1-78-.03(1) and would be "operating in a hazardous financial condition" as defined by Tenn. Comp. R. & Regs., 0780-1-78-.03(2).

The Company should take the necessary steps in order to make sure that it is in compliance with said rule.

Consultant

The Company's Directors approved hiring York, Dillingham to assist the Company in meeting the new NAIC accounting and annual statement requirements set forth by "The Tennessee County Mutual Insurance Company Act of 2006".

Recommendations:

It is recommended that the Company implement the following measures of corrective action for purposes of complying with statutory requirements and accepted NAIC insurance accounting procedures:

1.) Investments Held Through a Broker / Dealer without a Proper Custodial Agreement

It is recommended that the Company become compliant with Tenn. Code Ann. § 56-3-112 and Regulation 0780-1-46 (revised effective July 12, 2005) by either moving its investments out of its Edward Jones account and investing directly with banks in accounts that are insured up to $100,000 by the Federal

Deposit Insurance Corp. or establish a proper custodial relationship with a bank that is a member of the federal reserve system and transferring these investments that are currently held by investment brokers into a custodial account that meets the requirements of Tenn. Code Ann. § 56-3-112 and Regulation 0780-1-46. Furthermore, any investments held through Edward Jones are to be reported as non-admitted assets on future annual statement filings per Tennessee Regulation 0780-1-46-.03(4).

2.) Office Furniture and Equipment

It is recommended that the Company cease from including the depreciated value of its computer equipment and furniture in future annual statements as admitted assets. Tenn. Code Ann. § 56-1-405 and NAIC Statement of Statutory Accounting Principals SSAP # 19 prohibits these assets of the Company from being shown as admitted on the Annual Statement form.

Subsequent Events:

New Legislation Requirements for County Mutual Insurance Companies

3.) Revision of By-Laws:

It is recommended that the Company update its By-Laws to include the non-renewal provisions contained in Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007).

4.) Revision of Policy Forms:

It is recommended that the Company update its policy forms to reflect the cancellation and non-renewal provisions of Tenn. Code Ann. § 56-7-1901 and 1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007)

There were no other apparent violations of the Company's By-Laws, Tennessee Insurance Code or NAIC Accounting Practices and Procedures during the period under examination.

The complete and courteous cooperation of Mrs. Sandra G. Clark, Secretary/Treasurer, Mr. Wendell W. Wilburn, Agent and Mrs. Ruby B. Petty, Office Manager extended during the course of the examination is hereby acknowledged.

Respectfully submitted,

James T. Pearce, Jr.

James T. Pearce, Jr.
Insurance Examiner in Charge

Examination Affidavit:

The undersigned deposes and says that he has duly executed the attached examination report of The Farmers Mutual Insurance Company of Giles County, Tennessee dated June 2, 2008 and made as of December 31, 2006, on behalf of the Tennessee Department of Commerce and Insurance. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

James T. Pearce, Jr.

James T. Pearce, Jr.
Insurance Examiner III
State of Tennessee

County Davidson
State Tennessee

Subscribed and sworn to before me
this 2nd day of
June, 2008.

Helen W. Dorsey
(Notary)

HELEN W. DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY, TENN.

My Commission Expires MAY 22, 2010

EXHIBIT

B

FARMERS MUTUAL INSURANCE COMPANY
OF GILES COUNTY
"A COUNTY MUTUAL INSURANCE COMPANY"
P.O. BOX 732
PULASKI, TENNESSEE 38478
(931) 363-1322
FAX: (931) 363-1332
e-mail:farmersmutu35957@bellsouth.net

June 6, 2008

RECEIVED
JUN 1 8 2008
Dept. Of Commerce & Insurance
Company Examinations

State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, Tennessee 37243

Re: Financial Condition Examination of
Farmers Mutual Insurance Company of Giles County
Made as of December 31, 2006

Dear Sir:

We are in agreement with this report and wish to waive our right to a rebutal.

Sincerely,

Farmers Mutual Insurance Company
Of Giles County

Sandra D. Clark

Sandra G. Clark, Secretary-Treasurer