

Report of Examination
of
White County Farmers Mutual Fire Insurance Company

RECEIVED

JUN 02 2008

Dept. Of Commerce & Insurance
Company Examinations

Donna W. Jones, Secretary
P.O. Box 358; 324 N Spring Street
Sparta, TN 38583

Examination made as of: December 31, 2006

Examiner: James T. Pearce

Examination commenced: July 25, 2007

Examination completed: May 15, 2008

Table of Contents

<u>Caption</u>	<u>Page</u>
Introduction	4
Officers	4
Directors	4
Compensation of officers, directors, appraisers, adjusters, et al	5
Report of changes in the Charter or By-Laws, policy forms, or other agreements during the period covered by this examination	5
If copies have not been filed with the Department of Commerce and Insurance, are they filed with the work papers of this report	5
Report on reinsurance assumed and / or ceded	5
Appraisal and classification of risks taken	6
Annual rate of assessment per \$1,000.00 for period covered	7
Rate of membership, policy and initial fees charged	7
Date of last assessment	7
Amount delinquent	7
Did that assessment provide for all losses, expenses and other liabilities, including borrowed money	8
Amount of money borrowed since date of last assessment	8
Exhibit of Risks	8
Financial Statement	9
Assets	10
Schedule and description of all other assets, including real estate, mortgage loans, bonds, etc., and interest or rents due or accrued thereon	10
Assets pledged or hypothecated	11
Comments on claims, borrowed money and other liabilities	11
Analysis of Changes in Financial Statement and Comments Resulting From Examination	11
Cash In Banks	11
Summary Schedule for "Analysis Of Changes In Financial Statement"	11
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	11
Liability Premium Collected on Behalf of Farmers Mutual of Tennessee	11
Information Systems	12
Independent CPA	12
Directors, Employees, Officers and Insurance Agent Insurance Coverage	12
SUBSEQUENT EVENTS	12
Policy Deductible Increase	12
New Legislation Requirements for County Mutual Insurance Companies	12
Revision of By-Laws	13
Revision of Policy Forms	13
Revision of Application Forms	13
Summary of Examiners' Recommendations	13
1. Liability Premium Collected on Behalf of Farmers Mutual of Tennessee	13
2. Calculation of Premium Taxes	13
SUBSEQUENT EVENTS	14
3. Revision of By-Laws	14
4. Revision of Policy Forms	14
5. Revision of Application Forms	14
Examination Affidavit	16

Date of Report: June 2, 2008

Examined as of: December 31, 2006

Last Examination as of: December 31, 2001

Commissioner Leslie A. Newman
Department 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

The White County Farmers Mutual Fire Insurance Company

Sparta, Tennessee

Officers

Title	Name	Address	Term Expires
President	George Lowery	Sparta, TN	03/2007
Vice President	Robert C. Wilson	Sparta, TN	03/2007
Secretary & Treasurer	Donna W. Jones	Doyle, TN	03/2007

Directors:

Name	Address	Term Expires
George Lowery	Sparta, TN	03/2009
Donna W. Jones	Doyle, TN	03/2008
Robert C. Wilson	Sparta, TN	03/2008
Floyd T. Mason	Quebeck, TN	03/2007
Dewey Heady	Sparta, TN	03/2007
David Hunter	Sparta, TN	03/2008
Herbert Jernigan	Sparta, TN	03/2008
W.C. Stone, Jr.	Sparta, TN	03/2009
Tommy Scott, Jr.	Sparta, TN	03/2007
Sam Langford, Jr.	Sparta, TN	03/2009

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

Compensation of the Company's officers, directors and employees was reviewed and found to be in compliance with Tennessee statutes. The Company retained an independent claims adjuster to settle its policyholders' claims.

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

2002 -Changed annual meeting site to 324 N. Spring Street, Sparta, TN 38583

If copies have not been filed with the Department of Commerce and Insurance, are they filed with the work papers of this report?

Yes.

Report on reinsurance assumed and / or ceded.

During the period of examination (2002 through 2006) the Company ceded reinsurance through a consortium of carriers including Arch Reinsurance Company, Aspen Insurance U.K. Limited, Employers Mutual Casualty Company, QBE Reinsurance Corp. and Farmers Mutual Hail Insurance Company of Iowa, Hartford Steam Boiler Inspection and Insurance Company and TOA Reinsurance Company of America. All of the reinsurance agreements are brokered through Guy Carpenter of Philadelphia, PA which is a division of Marsh McLennan.

The Company had three (3) separate reinsurance agreements with Guy Carpenter (insurance broker) as of December 31, 2006. They are as follows: (1) Property Facultative Pro Rata Reinsurance Agreement (2) Aggregate Excess of Loss Reinsurance Agreement. (3) Second Aggregate Excess of Loss Reinsurance Agreement.

Type: Property Facultative Pro Rata Reinsurance
Reinsurance Broker: Guy Carpenter & Company, Inc. of Pennsylvania

Coverage: Pro-Rata Share – Property Business
Maximum Cession - \$100,000 on any one risk
However, if the cession is greater than \$250,000, the maximum cession as respects any one animal shall not exceed \$250,000.
Minimum Net Retention - \$20,000
Special Acceptance Clause

Deposit Premium: The Company receives a 12.5% ceding commission on all premiums ceded to the reinsurers.

Type: Aggregate Excess of Loss Reinsurance
Reinsurance Broker: Guy Carpenter & Company, Inc. of Pennsylvania

Coverage: 90% of the Ultimate Net Loss over and above an initial Ultimate Net Loss equal to the greater of \$135,200 or \$8.00 per \$1,000 of average net fire insurance in force, subject to a limit of liability to the reinsurer of 90% of the

lesser of \$690,100 or \$27.25 per \$1,000 of Average Net Fire Insurance in Force.

If the Company's Ultimate Net Loss on losses exceed an amount equal to \$8.00 per \$1,000 of average net fire insurance in force at the option of the Company, 90% of such excess and 90% of all additional Ultimate Net Loss on losses occurring thereafter shall be paid by the Reinsurer, subject to the limits of liability as defined above. Any such payment shall be subject to adjustment after the Reinsurer's ultimate liability hereunder has been determined.

Deposit Premium: \$23,500, payable \$5,875 quarterly;
Premium: The Company shall pay \$1.115 per \$1,000 multiplied by the Company's Average Net Fire Insurance In Force.
Minimum Premium: \$18,800

Type: Supplemental Aggregate Excess of Loss Reinsurance

Reinsurance Broker: Guy Carpenter & Company, Inc. of Pennsylvania

Coverage: 100% of the Ultimate Net Loss over and above an initial Ultimate Net Loss equal to the sum of its retention under its Aggregate Excess of Loss Reinsurance contract plus the reinsurers' limit of liability thereunder, subject to a limit of liability to the reinsurer of the lesser of \$1,669,371 or \$79.05 per \$1,000 of Average Net Fire Insurance in Force.

If the Company's Ultimate Net Loss on losses exceed the Company's retention and limit under its Aggregate, at the option of the Company, 100% of such excess and 100% of all additional Ultimate Net Loss on losses occurring thereafter shall be paid by the Reinsurer, subject to the limits of liability as defined above. Any such payment shall be subject to adjustment after the Reinsurer's ultimate liability hereunder has been determined.

Deposit Premium: \$4,650, payable \$1,162.50 quarterly;
Premium: The Company shall pay \$0.22 per \$1,000 multiplied by the Company's Average Net Fire Insurance In Force.

Minimum Premium: \$3,720

Appraisal and classification of risks taken.

The Company insures dwellings (including mobile homes) and its contents, farm buildings, farm equipment, livestock, feed, schools, tools, churches and parsonages. All risks are approved prior to issue of policy. The Company's policies are all effective for a full 12 months.

The Company writes business in Cumberland, Putnam, Dekalb, Van Buren, Warren and White counties.

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

2001 - 2006

New frame house – (up to \$40,000) \$7.00 (over \$40,000.00) - \$5.00

Older frame house - \$8.00 (over \$40,000.00 - \$5.00)

Rented frame house - \$12.00

New brick house - \$6.00 (over \$40,000.00 - \$5.00)

Older brick house - \$7.00 (over \$40,000.00 - \$5.00)

Rented brick house - \$10.00

Mobile homes

New – 3 years - \$14.00

4 – 6 years - \$15.00

7 – 10 years - \$16.00

Over 10 years old – good condition - \$17.00

Over 10 years old – average condition - \$18.00

Barns, outbuildings, farm equipment, etc - \$10.00

Contents only

Apartments - \$10.00

All other structures – Rates same as type of structure

Theft - \$10.00 per thousand for first \$5,000.00

(All over \$5,000.00 - \$7.50 per thousand)

Vandalism - \$1.00 per thousand

During the period of examination (2002 – 2006) each policy had a \$50.00 deductible.

SUBSEQUENT EVENT:

The Company's Board of Directors on March 5, 2007 approved an increase in premium rates for certain types of policies and an increase in each policy's deductible from \$50.00 to \$250.00. All of the Company's premium rates were approved by the Property & Casualty Rating Section of the Tennessee Department of Commerce and Insurance on March 9, 2007.

Rate of membership, policy and initial fees charged.

Policyholders were charged a \$2.00 fee per policy per year on the anniversary date. Policyholders were charged a \$2.00 fee each time premiums were paid semi-annually or quarterly.

Date of last assessment.

Policyholder premium payments first become due at various times during the year corresponding with the anniversary date of the policy. The Company during the period of examination did not assess its policyholders for any additional premium above the standard amount billed for that specific type of risk based upon their rate schedule.

Amount delinquent.

None

Did that assessment provide 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:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006*</u>
Gross Assessments	\$316,840.81	\$325,599.80	\$316,281.53	\$295,666.72	\$293,497.15
Less: Losses & Expenses	<u>(386,393.72)</u>	<u>(464,920.42)</u>	<u>(399,991.10)</u>	<u>(508,430.66)</u>	<u>(332,318.39)</u>
Underwriting Gain/(Loss)	(69,552.91)	(139,320.62)	(83,709.57)	(212,763.94)	(38,821.24)
Investment & Other					
Income	<u>69,722.01</u>	<u>128,398.10</u>	<u>119,592.24</u>	<u>173,953.74</u>	<u>14,077.78</u>
Net Income / (Loss)	<u>\$169.10</u>	<u>\$(10,922.52)</u>	<u>\$35,882.67</u>	<u>\$(38,810.20)</u>	<u>\$(24,743.46)</u>

* 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

	<u>Amount</u>
1. In force, December 31, 2005	\$35,566,500
2. Written	<u>3,215,528</u>
3. Total	38,782,028
4. Deduct those expired and marked off as terminated	<u>4,249,103</u>
5. In force, December 31, 2006	34,532,925
6. Amount re-insured	<u>15,212,868</u>
7. Net amount in force, December 31, 2006	<u>\$19,350,057</u>

Financial Statement As Determined By This Examination

Income

Ledger Assets per Company, December 31, 2005		<u>\$296,018.68</u>
Gross Assessments	\$293,497.15	
Deduct: Reinsurance	(40,189.00)	
Deduct: Return Assessments	<u>(1,398.50)</u>	
Net Assessments	151,909.65	
Interest Income	\$10,966.78	
Liability Income (Farmers Mutual)	2,884.00	
Miscellaneous Income	<u>\$227.00</u>	
Total Income		<u>165,987.43</u>
Total Income and Balance		<u>\$462,006.11</u>

Disbursements

Gross amount paid policyholders for losses	\$85,999.42	
Less: Reinsurance recoveries	<u>(66,999.98)</u>	
Net amount paid policyholder for losses	18,999.44	
Expenses of adjustment and settlement of losses	14,625.00	
Agent's Commission	4,043.26	
Employee Wages	33,187.34	
Directors Fees	725.00	
Advertising	5,421.03	
Printing and stationery	9,358.59	
Postage	2,213.18	
Utilities (Telephones, Water, Gas and Electric)	5,297.73	
Legal & Audit Expenses	450.00	
Rent	4,800.00	
Payroll Taxes	2,610.36	
Liability insurance premium payments	3,384.65	
All other licenses, fees and taxes	12,291.28	
Other disbursements (Dues)	2,780.00	
Miscellaneous expense	<u>3,544.05</u>	
Total disbursements		<u>123,730.91</u>
Balance Per Exam before Adjustment		<u>338,275.20</u>
Examination Adjustment to Assets and Surplus		<u>(4,742.19)</u>
Balance Per Exam after Adjustment		<u>\$333,533.01</u>

Assets

Cash in Company's office	\$100.00
Cash in Company's Checking Account	53,605.02
Cash in Company's Money Market Accounts	27,562.52
Cash in Banks – Certificates of Deposit	250,765.47
NAMIC stock	<u>1,500.00</u>
Total Admitted Assets per Exam	<u>*\$333,533.01</u>

* See the Analysis of Changes in Financial Statement Section of this Exam Report

Liabilities

Total Liabilities	-0-
Total Surplus per Exam	<u>\$333,533.01</u>

Assets

Schedule of Bank Deposits:

<u>Name of Bank</u>	<u>Amount on Bank Statement</u>	<u>Amount of O/S Checks</u>	<u>Adjustment Items</u>	<u>Balance</u>
USBank, Checking Account	\$54,050.30	(\$445.28)	-0-	\$53,605.02
USBank, Money Market Acct.	21,610.10	-0-	-0-	21,610.10
Bank of America, Money Market Acct.	<u>5,952.42</u>	<u>-0-</u>	<u>-0-</u>	<u>5,952.42</u>
	<u>\$81,612.82</u>	<u>(\$445.28)</u>	<u>-0-</u>	<u>\$81,167.54</u>

Certificates of Deposit:

Bank of White County	\$108,890.62
Citizens Bank of Sparta, TN	42,329.50
Citizens Bank of Sparta, TN	89,087.77
USBank	<u>10,457.58</u>
Total Certificates of Deposit per Exam	<u>\$250,765.47</u>

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

NAMIC Insurance Company, Inc. stock (300 Common Shares) - \$1,500

Cash in Company's office - \$100

Assets pledged or hypothecated:

None.

Comments on claims, borrowed money and other liabilities:

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

The Company borrowed no money during the period of examination (2002 through 2006).

Analysis of Changes in Financial Statement and Comments Resulting From Examination

Cash in Banks

\$331,933.01

The above amount is \$4,742.19 less than the \$336,675.20 amount reported by the Company in its 2006 Annual Statement. The Examiner using bank confirmations determined that the principal balance on a cash basis of its four (4) certificates of deposit was over overstated.

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:

<u>Item</u>	<u>Surplus</u>	
	<u>Increase</u>	<u>Decrease</u>
Cash in Banks		\$4,742.19
	-----	-----
Totals	<u>\$0</u>	<u>\$4,742.19</u>

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:

Liability Premium Collected on Behalf of Farmers Mutual of Tennessee

The Company's 2006 Annual Statement reflected the collection and transfer of liability premiums collected from the Company's policyholders on behalf of Farmers Mutual of Tennessee. These premiums as shown on the Income and Disbursements Sections of the 2006 Annual Statement are not the Company's premiums. Therefore, these premiums collected on behalf of Farmers Mutual of Tennessee should not be shown on the Company's Annual Statements. The Company should only show commissions received from Farmers Mutual of Tennessee on the Income Section of its Annual Statement as compensation for writing these liability policies for Farmers Mutual of Tennessee.

Information Systems

The Company as of year-end 2006 using a general ledger account system manually accounted for all income and disbursements. The Company as of year-end 2006 utilized the AIMSpc Policy Management System to track policyholder membership and provide certain premium accounting functions. The Company used AIMSpc to record each policyholder's name, policy number, billing address, specific policy information for each risk insured, total amount of insurance in-force by policy, mortgage clause information and transfer forms. Also, the Company used AIMSpc to issue premium bills and record premium receipts on an individual policy basis.

Independent CPA

The Company employs an independent CPA to assist in preparation of its financial statements and tax returns.

Directors, Employees, Officers and Insurance Agent Insurance Coverage

The Company was the named insured of an Insurance Company Combined Professional Liability and Directors and Officers Liability Insurance policy as of year-end 2006. This policy was issued by the Scottsdale Insurance Company which is an approved surplus lines carrier in the State of Tennessee. The policy specified a \$5,000 deductible for each claim and the limits of liability were \$1,000,000 for each claim and \$1,000,000 in the aggregate for all claims for the Insurance Company Professional Liability and the Directors and Officers Liability coverage provided.

Also, the Company was the named insured of an Insurance Agents and Omissions Liability Insurance policy as of year-end 2006. This policy was issued by the Scottsdale Insurance Company which is an approved surplus lines carrier in Tennessee. The policy specified a \$5,000 deductible for each claim and the limits of liability were \$500,000 for each claim and \$500,000 in the aggregate for all claims for the Insurance Agents and Omissions Liability Insurance coverage provided.

Subsequent Events:

Policy Deductible Increase:

The Company's Board of Directors on March 5, 2007 approved an increase in each policy's deductible from \$50.00 to \$250.00. However, the Examiner on October 30, 2007 reviewed the Company's By-Laws currently in effect. Article XIII - Insurance, Section 1: Purpose and Contents of Insuring Agreement within the Company's By-Laws still referenced "a \$50.00 deductible on all losses". Therefore, it appears that the Company's By-Laws have not been amended to reflect the \$250 policy deductible amount approved by the Company's Board of Directors on March 5, 2007.

New Legislation Requirements for County Mutual Insurance Companies:

"The Tennessee County Mutual Insurance Company Act of 2006" required the Company to make certain changes to their Charter, By-Laws, Application Forms, Declaration Page, Policy Forms, Claim Forms, Stationary, etc. with the approval of the Tennessee Department of Commerce and Insurance (TDCI) prior to the January 1, 2007 effective date. Another important change involves 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. § 56-7-1901 and Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007). Tenn. Code Ann. § 56-7-1901 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". 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 form provided to the Examiner did not reflect the cancellation and non-renewal provisions disclosed in Tenn. Code Ann. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007). See the "Revision of Charter and By-Laws" comment above for the non-renewal provisions disclosed in Tenn. Code Ann. § 56-7-1902.

Revision of Application Forms:

The Company's application and claim forms did not contain the fraud warnings required by Tenn. Code Ann. § 56-53-111(b), which states: "It is a crime to knowingly provide false, incomplete or misleading information to an insurance company for the purpose of defrauding the company. Penalties include imprisonment, fines and denial of insurance benefits" on the Company's applications and claim forms."

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 pursuant to Tenn. Code Ann. § 56-22-109(a)(4):

1. Liability Premium Collected on Behalf of Farmers Mutual of Tennessee:

It is recommended that the Company only show commissions received from Farmers Mutual of Tennessee on the Income Section of its Annual Statement as compensation for writing these liability policies for Farmers Mutual of Tennessee.

2. Calculation of Premium Taxes During the Period of Examination:

It is recommended that the Company properly disclose the gross premiums subject to taxation on their calendar year-end Statement of Premiums and Fees for Taxation as reflected on their Annual Statements, pursuant to Tenn. Code Ann. § 56-22-114 and according to the tax return's instructions. The Company should calculate this amount by adding the total for Gross (Premium) Assessments and subtracting the total of Return Assessments remitted to policyholders as shown on the Income Section of its Annual Statement submitted to the Department according to the tax return's instructions.

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. § 56-7-1901 and 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. § 56-7-1902 in accordance with Tenn. Code Ann. § 56-22-109(b)(2) (effective January 1, 2007).

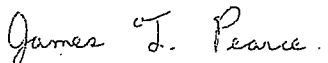
5. Revision of Application and Claim Forms:

It is recommended that the Company revise its application and claim forms by adding the fraud warnings required by Tenn. Code Ann. § 56-53-111.

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

The complete and courteous cooperation of Mrs. Donna W. Jones, Secretary / Treasurer, extended during the course of the examination is hereby acknowledged.

Respectfully submitted,



James T. Pearce
Insurance Examiner In-Charge
State of Tennessee

Examination Affidavit:

The undersigned deposes and says that he has duly executed the attached examination report of White County Farmers Mutual Fire Insurance Company 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

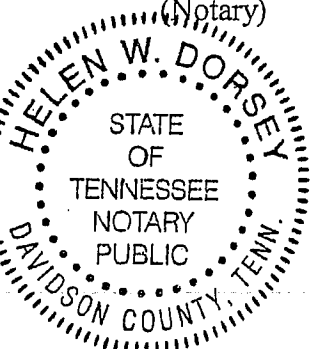
James T. Pearce
Insurance Examiner III
State of Tennessee

County Davidson
State Tennessee

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

Helen W. Dorsey

(Notary)



Commission Expires MAY 22, 2010

White County Farmers Mutual
Fire Insurance Company
P.O. Box 358
324 North Spring Street
Phone: (931) 836-2712
Fax: (931) 836-6472
Sparta, TN 38583
Donna W. Jones, Sec.-Treas.

June 13, 2008

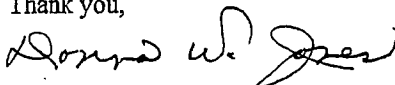
State of Tennessee
Department of Commerce and Insurance
500 James Robertson Parkway
Nashville, TN 37243

RE: Financial Condition Examination of
White County Farmers Mutual Fire Insurance Company
Made as of December 31, 2006

Dear Mr. Blustein:

The company wishes to waive the right to rebuttal to the financial examination of 2006.

Thank you,


Donna W. Jones
Sec.-Treas.

RECEIVED

JUN 19 2008

Dept. Of Commerce & Insurance
Company Examinations