Report on Examination

of the

White County Farmers Mutual Fire Insurance Company

Sparta, TN

as of

December 31, 2009

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Company Examinations

Department of Commerce and Insurance

State of Tennessee

EXHIBIT
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STATE OF TENNESSEE
DEPARTMENT OF COMMERCE AND INSURANCE
INSURANCE DIVISION
500 JAMES ROBERTSON PARKWAY - 4TH FLOOR
NASHVILLE, TENNESSEE 37243-1135

October 27, 2010

The Honorable Leslie A. Newman
Commissioner
Tennessee Department of Commerce and Insurance
500 James Robertson Parkway, 5th Floor
Nashville, Tennessee 37243

Commissioner Newman:

Pursuant to your instructions and in accordance with Tennessee statutes and regulations, and resolutions adopted by the National Association of Insurance Commissioners ("NAIC"), a financial examination has been made of the condition and affairs of

White County Farmers Mutual Fire Insurance Company
324 North Spring Street
P. O. Box 358
Sparta, Tennessee 38583

("the Company") as of December 31, 2009, and the report thereon is hereby respectfully submitted.

SCOPE OF EXAMINATION

This examination commenced on March 15, 2010, and covers the period from December 31, 2006, the date of the last examination, through December 31, 2009, in accordance with statutes, rules and procedures of the State of Tennessee. The examination was conducted at the Company's office, located at 324 North Spring Street, Sparta, Tennessee 38583 and at the office of The Tennessee Department of Commerce and Insurance ("TDCI"). This examination was conducted by a duly authorized representative of the TDCI.

During the course of the examination, the assets of the Company were verified, and liabilities were determined or estimated as of December 31, 2009, in accordance with procedures as prescribed by Tenn. Code Ann. and Tenn. Comp. R. & Regs. of the State of Tennessee and the NAIC. The Company's financial solvency and degree thereof was thus established. Test checks covering selected periods were made of income and disbursement items, and a general review was made of the Company's operations, practices and compliance with Tenn. Code Ann. and Tenn. Comp. R. & Regs. to the extent hereinafter set forth.

Location of Books and Records:
The Company maintains its books and records at its rented office building which is located at 324 North Spring Street, Sparta, Tennessee 38583.

In addition, the following topics were reviewed:

Status of Prior Examination Findings
Company History
Charter and Bylaws
Management and Control
Pecuniary Interest - Tenn. Code Ann. § 56-3-103
Corporate Records
Fidelity Bonds and Other Insurance
Territory
Plan of Operation
Market Conduct Activities
Reinsurance
Loss Experience
Accounts and Records
Dividends
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Financial Statement

Status of Prior Examination Findings

The previous examination of the Company was made as of December 31, 2006 by a TDCI examiner. The Report of Examination was dated June 2, 2008, and covered the period from January 1, 2002 through December 31, 2006. There were two (2) recommendations made in the preceding Report on Examination pertaining to violations of the Tennessee Code by the Company as of December 31, 2006. A summary of each recommendation and the corrective actions taken by the Company are as follows:

Recommendation #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.

Corrective Action: As of December 31, 2009, the Company held no liability premium and correctly did not disclose an asset balance or an offsetting liability for premium held on behalf of Farmers Mutual of Tennessee. However, the Company's "Statement of Income & Policyholders' Surplus Account" in its 2009 Annual Statement only reflected an expense for liability premiums remitted (less the Company's commission) to Farmers Mutual of Tennessee. This caused the Company to overstate its total expenses on its 2009 "Statement of Income & Policyholders' Surplus Account" page.

The Company's 2009 "Statement of Income & Policyholders' Surplus Account" should have reflected income and a corresponding expense for premiums received and remitted (less the Company's commission) to Farmers Mutual of Tennessee in order to properly account for liability premiums.

<u>Recommendation # 2 Calculation of Premium Taxes During the Period of Examination:</u>

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 is reflected on their Annual Statements, pursuant to Tenn. Code Ann. § 56-22-114 and in accordance with 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.

<u>Corrective Action:</u> For the current period under review the Company <u>did not</u> use the amount of total gross premium written less the total of return assessments remitted to policyholders as shown on column 1 of the "Underwriting and Investment Exhibit – Part 2A, Net Premiums Earned" on its 2007 through 2009 Statement of Premiums and Fees for Taxation filed with the TDCI. However, documentation provided by the Premium Tax Section of the TDCI showed that the Company overpaid premium taxes for the 2007 through 2009 calendar years.

Therefore, 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 is reflected on the "Underwriting and Investment Exhibit – Part 2A, Net Premiums Earned" in their Annual Statements, pursuant to Tenn. Code Ann. § 56-22-114 and in accordance with the tax return's instructions.

The Company, subsequent to the date of the previous examination, was in violation of three (3) Tennessee statutes. A summary of each recommendation and the corrective actions taken by the Company are as follows:

<u>Recommendation # 3 Revision of By-Laws:</u>

It is recommended that the Company update its Bylaws 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).

<u>Corrective Action:</u> For the current period under review, the Company has adopted 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).

The Order Adopting Examination Report With Directives did not contain a Directive requiring the Company to update its Bylaws to include the non-renewal provisions contained in Tenn. Code Ann. § 56-7-1901 and Tenn. Code Ann. § 56-7-1902.

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

Corrective Action: For the current period under review, the Company has adopted 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).

The Order Adopting Examination Report With Directives did not contain a Directive requiring the Company to update its policy forms to reflect the cancellation and non-renewal provisions contained in Tenn. Code Ann. § 56-7-1901 and Tenn. Code Ann. § 56-7-1902.

Recommendation # 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.

Corrective Action: For the current period under review, the Company had not added the required fraud warnings to its application and claim forms pursuant to Tenn. Code Ann. § 56-53-111(b)(1)(A).

Therefore, 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.

History

The Company commenced business in March 5, 1923, pursuant to the statutes of Tennessee, as White County Farmers Mutual Fire Insurance Company. The Company's Charter and first Bylaws were adopted in 1923. Also, the Company's first Board of Directors was elected and the Company's officers were appointed by the Board of Directors in 1923.

Charter and Bylaws

There were no changes to the Company's Charter or Bylaws during the period of examination. The Company's current Charter was amended and restated and adopted by the Members and the Board of Directors on August 19, 1997.

Management and Control

Management:

The Company's Charter and Bylaws require that the business and affairs of the Company shall be directed by a Board of Directors. As of December 31, 2009, the Board was composed of the following:

NAME	TITLE	OCCUPATION	RESIDENCE
Mr. Dewey Heady		Farmer	Sparta, TN
Mr. David Hunter		Farmer	Sparta, TN
Mr. Herbert Jernigan		Farmer	Sparta, TN
Mrs. Donna W. Jones	Secretary & Treasurer	Insurance	Doyle, TN
Mr. Sam Lankford, Jr.		Farmer	Sparta, TN
Mr. George Lowery	President	Farmer	Sparta, TN
Mr. Tom Scott		Farmer	Sparta, TN
Mr. Walter C. Stone		Retired	Sparta, TN
Mr. Robert C. Wilson	Vice President	Farmer	Sparta, TN

Control:

Control of a county mutual insurance company rests directly with its Board of Directors. However, the Company's members (policyholders) pursuant to Tenn. Code Ann. § 56-22-107(a) are responsible for the election of the Board of Directors and decisions on issues brought before them by the Board of Directors.

The Company's Annual Meeting on the first Monday in March is the venue for members (policyholders) voting on the composition of the Board of Directors and any issues set before them by the Directors. The Company's Bylaws allow for special meetings of the members (policyholders) as well as special meetings of the Board of Directors.

The Company's Bylaws state "The Board of Directors may elect an Executive Committee…." However, the Examiner was not provided with any written evidence that an Executive Committee was elected or met during the period of examination.

PECUNIARY INTEREST - TENN. CODE ANN. § 56-3-103

The Company, as of December 31, 2009, did not have a conflict of interest policy for its directors and officers. However, the Examiner found no instance of any officer or director having a pecuniary interest in the investment or disposition of Company funds in violation of Tenn. Code Ann. § 56-3-103.

CORPORATE RECORDS

Minutes of meetings of the Members and the Board of Directors of the Company were reviewed for the period under examination. In general, such minutes appear to be in proper order and accurately report the proceedings of each respective meeting.

FIDELITY BOND AND OTHER INSURANCE

In accordance with Article 8, Section 9 of the Bylaws, the Company maintains fidelity coverage with NAMIC Insurance Company, Inc., in the form of an "Insurance Company Combined Professional Liability and Directors & Officers Liability Insurance" policy with a maximum per claim coverage and a maximum aggregate coverage in the amount of $1,000,000 with a deductible of $5,000 for each claim. This policy was effective from April 2, 2009, and was effective until April 2, 2010. NAMIC Insurance Company, Inc. is an authorized foreign surplus lines insurance company in the State of Tennesseee.

The Company maintained an "Insurance Agents and Brokers Liability Insurance" policy with NAMIC Insurance Company, Inc. with a maximum per claim coverage and a maximum aggregate in the amount of $500,000 with a deductible of $1,500 for each claim. This policy was effective from May 1, 2009, and was effective until May 1, 2010.

Minimum fidelity bond coverage of $15,000 to $25,000 is suggested by guidelines published in the NAIC Financial Condition Examiners Handbook. The Company as of the December 31, 2009, date of examination, had a $10,000 "Employee Dishonesty – Commercial Crime" insurance policy in effect covering the Company's Secretary / Treasurer. Auto Owners Mutual Insurance Company issued this policy and is a licensed property and casualty insurance company in the State of Tennesseee.

Also, as of the December 31, 2009, date of examination, the Company had a $10,000 "Surety Bond" in effect covering the Company's Agent. Western Surety Company issued this Surety Bond and is a licensed property and casualty insurance company in the State of Tennessee. See the "Comments" section of this report for further discussion of fidelity bond coverage.

TERRITORY

As of December 31, 2009, and as of the date of this examination report, the Company was licensed to transact business in the State of Tennessee. The Company's most recent Certificate of Authority was issued effective on July 1, 1986, by the TDCI. However, the Certificate of Authority which was issued effective on July 1, 1986 was amended by the TDCI on February 28, 1989, to reflect the Company's lawful authorization to write business in counties contiguous to White County.

As of December 31, 2009, the Company wrote gross total direct premium of $277,655.00 in Cumberland, DeKalb, Putnam, Van Buren, Warren and White Counties in Tennessee. Tenn. Code Ann. § 56-22-106(f)(1) allows the Company to "issue policies of insurance on property located in the county in which its principal place of business is located and in all those counties contiguous to the county in which its principal place of business is located".

PLAN OF OPERATION

The Company provides insurance against loss by fire, hail, lightning, wind, theft and vandalism.

Policies are typically written for two-thirds of the value of the property insured, subject to policy limits of $20,000.00 per loss. The policy period for each policy was one (1) year. Policyholders have the option of paying premium annually, semi-annually, quarterly or monthly and premiums are first due beginning on the policy anniversary date. There was a $250.00 deductible for all losses.

Property eligible to be insured includes rental and owner occupied residential dwellings (including mobile homes) and contents, barns, livestock, farm equipment, tools, feed community centers and church buildings.

The Company's Agent performs a visual inspection of the property and photographs the property prior to the issuance of a policy. The Company's Agent and Secretary / Treasurer determine the value of the property. Upon the signing of the completed application and collection of the initial billed premium, the policy is bound. The Company's Secretary / Treasurer had the authority to make the final approval for the binding of coverage.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Company as of December 31, 2009, in conjunction with this examination. The following items were addressed:

Policy Forms and Underwriting Practices

The Rating Section of the TDCI received a copy of The Company's application, policy form and premium rates. This documentation was stamped "approved" on March 9, 2007 pursuant to Tenn. Code Ann. § 56-22-109(b)(1) and Tenn. Code Ann. § 56-5-303, 304 and 305.

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.

The Company's premium rates currently in effect as of December 31, 2009, are as follows:

Frame house – Structures covered up to $50,000.00, the rate is $8.00 per thousand.* Structures covered over $50,000.00, the rate is $6.00 per thousand.
Older frame house – Structures covered up to $40,000.00, the rate is $8.00 per thousand. Structures covered over $40,000.00, the rate is $5.00 per thousand.
Rented frame house - $12.00 per thousand
Brick house – Structures covered up to $50,000.00, the rate is $7.00 per thousand. Structures covered over $50,000.00, the rate is $6.00 per thousand.
Rented brick house - $10.00 per thousand
Mobile homes:

- New – 3 years - $14.00 per thousand
- 4 – 6 years - $15.00 per thousand
- 7 – 10 years - $16.00 per thousand
- Over 10 years old – good condition - $17.00 per thousand
- Over 10 years old – average condition - $18.00 per thousand

Barns, outbuildings, farm equipment, etc. - $10.00 per thousand
Contents only:
  Apartments - $10.00 per thousand
  All other structures – Rates same as type of structure
Theft - $10.00 per thousand for first $5,000.00 of coverage.
  All coverage over $5,000.00, is rated at $7.50 per thousand.
Vandalism - $1.00 per thousand

*"Per thousand" means cost of insurance per $1,000.00 of coverage for the insured property.

There have been no changes to the Company's premium rates or deductible since March 5, 2007.

Advertising

The Company's advertising during the period of examination consisted of newspaper ads placed in the Sparta Expositor.

Cancellation Policy

Although the Company has adopted 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) that relate to the notice of intention to non-renew and the reason for non-renewal the Company's Directors have not implemented a formal cancellation policy. See the Comments Section of this examination report for further discussion of this issue.

Privacy of Non-Public Personal Information

The Company's policy for the disclosure of privacy of non-public personal information was reviewed. The examiners noted no instances of non-compliance with Tenn. Comp. R. & Regs. 0780-1-72, "Privacy of Consumer Information Regulations."

REINSURANCE

Tenn. Code Ann. § 56-22-106(d) (effective January 1, 2007) states "A county mutual insurance company may secure reinsurance pursuant to Tenn. Code Ann. § 56-2-208(1)."

During the period of examination, the Company ceded reinsurance through a consortium of carriers including Arch Reinsurance Company, Employers Mutual Casualty Company, QBE Reinsurance Corp., Farmers Mutual Hail Insurance Company of Iowa, SCOR Reinsurance Company, TOA Reinsurance Company of America, The Hartford Steam Boiler Inspection and Insurance Company and Lloyd's Syndicate Number 1221 & 2987. All of the reinsurance agreements were brokered through Guy Carpenter of Philadelphia, PA which is a division of Marsh McLennan. The aforementioned reinsurers were either a licensed carrier, an approved surplus lines company or a non-licensed accredited reinsurer qualified to transact business in the State of Tennesseee.

The Company had three (3) separate reinsurance agreements as of December 31, 2009. They are as follows: (1) Property Facultative Pro Rata Reinsurance Agreement (2) Aggregate Excess of Loss Reinsurance Agreement and (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 - $150,000 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 15.0% ceding commission on all premiums ceded to the reinsurers.

Retention and Limit: The agreement states that, "Submissions hereunder shall be limited to five (5) times the net retained liability of the Ceding Company, as defined herein, and shall be subject to a maximum cession of $150,000 and a minimum retention of $20,000 as respects any one (1) risk, covering business classified Fire and Allied Lines." The agreement stated that the Company may request reinsurance for limits greater than those set above.

Cessions covering perils other than fire, whenever the Company carries fire liability upon the same risk, shall be ceded at least in an equal proportion of such fire liability to this contract.

The reinsurer shall pay to the Company the reinsurer's proportional share of loss and extra contractual obligations, the sum of which shall be limited to eight (8) times the net retained liability of the ceding company. In addition, the reinsurer shall pay to the Company the reinsurer's proportional share of loss adjustment expense.

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 $109,500 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 $559,300 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:	$19,100, payable in the amount of $4,775 quarterly;
Premium:	The Company shall pay $1.115 per $1,000 multiplied by the Company's Average Net Fire Insurance In Force.
Minimum Premium:	$15,300
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 $1,352,100 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:	$3,800, payable in the amount of $950.00, quarterly;
Premium:	The Company shall pay $0.22 per $1,000 multiplied by the Company's Average Net Fire Insurance In Force.
Minimum Premium:	$3,000
Term:	Effective at 12:01 AM Standard Time, January 1, 2009 until 12:01 AM Standard Time, January 1, 2010

LOSS EXPERIENCE

As developed from applicable amounts included in the Company's annual statements filed with the TDCI, the ratios of net losses incurred to net premiums earned for the period subject to this examination were as follows:

Year	Net Losses Incurred	Net Premiums Earned	Loss Ratio
2007	$97,714	$362,955	26.9%
2008	133,993	216,631	61.3%
2009	136,194	182,528	74.6%
TOTALS	$367,841	$764,114	48.1%

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered to be necessary, including substantial verification of postings, extensions and footings and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with a copy of the 2009 Annual Statement.

Accounting records were maintained on a cash basis. The 2007 and 2008 Annual Statements originally submitted to the TDCI were each amended and resubmitted once due to errors and omissions.

The Company's cash receipts and disbursements were recorded manually using written check registers and accounting ledger paper. Policy files were maintained in paper form and electronically. Policy information, premium billing and receipts for each policy were recorded electronically using a software package developed and maintained by Automated Insurance Management Systems of Richmond, VA (AIMS).

DIVIDENDS OR DISTRBUTIONS

No dividends or distributions have been declared or paid to the policyholders during the period of examination.

LITIGATION, CONTINGENT LIABILITIES AND REGULATORY ACTION

As of December 31, 2009, the Company had no pending litigation or contingent liabilities which could have a material financial effect. Also, as of December 31, 2009, there was no federal or state regulatory action taken against the Company.

SUBSEQUENT EVENTS

1.) On March 16, 2010, and March 17, 2010, Farmers Mutual of Tennessee and the Company (respectively) signed an "Excess of Loss Reinsurance Agreement" with an effective date of January 1, 2010. 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.

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

The Company had three (3) separate sections attached to their Excess of Loss Reinsurance Agreement with Farmers Mutual of Tennessee effective as of January 1, 2010. 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 of 70% of the Company's gross assessment and / or premium income or $165,000 and shall not exceed 100% of the lesser of 50% of the Company's gross assessment and / or premium income or $145,000.

Actual premium, for each contract period shall be calculated in accordance with the following formula:

1. Losses incurred by the Reinsurer, paid and outstanding during the rating period multiplied by the factor 125%, divided by

2. Gross net earned premium income of the Company during the rating period; equals

3. Annual reinsurance rate subject to:

Minimum annual premium: 5% of Annual Gross Net Earned Premium Income

Maximum annual premium: 15% of Annual Gross Net Earned Premium Income

* If no losses are incurred or paid by the Reinsurer during the contract period the Reinsurer will allow the Company a "No Loss Bonus" which is calculated according to the following schedule:

1. No losses in the current contract period (2010): 3% of the final reinsurance premium for Exhibit A – Combination Per Risk and Aggregate Layer.

2. No losses in the current contract period and immediate prior contract period: 6% of the final reinsurance premium for Exhibit A – Combination Per Risk and Aggregate Layer.

3. No losses in the current contract period and two immediate prior contract periods: 9% of the final reinsurance premium for Exhibit A – Combination Per Risk and Aggregate Layer.

4. No losses in the current contract period and three immediate prior contract periods: 12% of the final reinsurance premium for Exhibit A – Combination Per Risk and Aggregate Layer.

5. No losses in the current contract period and four immediate prior contract periods: 15% of the final reinsurance premium for Exhibit A – Combination Per Risk and Aggregate Layer.

If a loss(es) should arise or be reported following the calculation and payment of a "No Loss Bonus," it is agreed the bonus amount paid will be adjusted and deducted from the loss payment as if the loss has been reported during the year in which it arose.

The "No Loss Bonus,", if any, shall be calculated and paid within 30 days of the calculation of the final reinsurance premium for the contract period.

Type: Exhibit B – Second Aggregate Layer - 2010

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 70% of the Company's Gross Net Earned Premium Income or $145,000 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 70% of the Company's Gross Net Earned Premium Income or $165,000 plus the lesser of 50% Gross Net Earned Premium Income or $145,000 but the Reinsurer's liability shall not exceed 100% of the lesser of 120% of the Company's Gross Net Earned Premium Income or $397,500 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $7,950 shall be paid to the Reinsurer in two (2) equal installments of $3,975 each on March 1 and September 1.

Actual premium for Exhibit B – Second Aggregate Layer – 2010 shall be calculated at a rate of 3.00% of the Gross Net Earned Premium Income.

Minimum annual premium: $6,625

Term: Continuous coverage, effective January 1, 2010.

Estimated Gross Net Assessment and / or premium income for 2010 - $265,000

Type: Exhibit C – Third Aggregate Layer - 2010

Coverage: Covers 100% of the Company's ultimate net losses in the aggregate for each calendar year in excess of the greater of 245% of the Company's Gross Net Earned Premium Income or $519,400 and the Reinsurer shall be liable for 100% of the Company's ultimate net loss in excess of the greater of 245% of the Company's Gross Net Earned Premium Income or $519,400 but the Reinsurer's liability shall not exceed 100% of the lesser of 750% of the Company's Gross Net Earned Premium Income or $2,385,000 in the aggregate, during each annual period this agreement is in effect.

An annual deposit premium of $6,625 shall be paid to the Reinsurer in two (2) equal installments of $3,312.50 each on March 1 and September 1.

Actual premium for Exhibit B – Second Aggregate Layer – 2010 shall be calculated at a rate of 2.50% of the Gross Net Earned Premium Income.

Minimum annual premium: $5,300

FINANCIAL STATEMENT

There follows a statement of assets, liabilities, surplus and statement of income at December 31, 2009, as established by this examination:

ASSETS

	Current Year
Common Stock (Schedule D)	$5,632.50
Cash and Cash Equivalents (Schedule E)	194,359.00
Premium Receivables and Agents Balances	25,541.69
Reinsurance Recoverable on Paid Losses and Loss Adjustment Expenses	0.00
Interest, Dividends and Real Estate Income Due and Accrued	1,356.00
Electronic Data Processing Equipment and Software	866.67
Aggregate Write-Ins For Other Than Invested Assets	46,965.95
Gross Assets	274,721.81
Total Assets Non-Admitted	0.00
Total Admitted Assets	$274,721.81

LIABILITIES, SURPLUS, AND OTHER FUNDS

	Current Year
Gross Losses and Claims Reported, Unpaid	$3,500.00
Reinsurance Recoverable on Unpaid Losses and Claims	(1,076.37)
Total Unpaid Claims and Losses Net of Reinsurance	$2,423.63
Unearned Premiums	139,850.00
Advance Premiums	4,682.00
Ceded Reinsurance Premiums Payable	0.00
Accounts Payable and Accrued Expenses Payable	10,493.00
Taxes, Licenses & Fees (Excluding Federal Income Taxes)	0.00
Amounts Withheld or Retained by Company for Account of Others	824.85
Total Liabilities	158,273.48

Policyholders' Surplus	116,448.33
Total Liabilities and Policyholders' Surplus	$274,721.81

STATEMENT OF INCOME & POLICYHOLDERS' SURPLUS ACCOUNT

UNDERWRITING INCOME	
Net Premiums and Assessments Earned	$137,662.51
DEDUCTIONS:	
Net Losses Incurred	$134,915.24
Loss Expenses Incurred Including Claims Adjustment Expenses	$13,012.44
Other Underwriting Expenses Incurred:	
Commissions and Brokerage:	
Directors and Officers Compensation and Allowances	$0.00
Agents Compensation and Allowances	$4,015.40
Commissions Received on Reinsurance Ceded	$0.00
Net Commissions and Brokerage	$4,015.40
Salaries and Related Items:	
Employees' Salaries	$35,192.11
Directors & Officers Salaries	$0.00
Payroll Taxes	$2,967.27
Total Salaries and Related Items	$38,159.38
Directors' Fees	$725.00
Advertising and Subscriptions	$6,076.29
Boards, Bureaus and Association Dues	$2,795.36
Insurance and Fidelity Bonds	$5,437.06
Travel and Travel Items	$1,216.64
Rent and Rent Items	$5,200.00
Cost or Depreciation of EDP Equipment of Software	$433.33
Printing and Stationery	$9,958.78
Postage, Telephone and Telegraph	$10,209.05
Legal and Auditing Fees	$865.00
Taxes, Licenses and Fees:	
State and Local Insurance Taxes	$6,049.15
Insurance Department Licenses and Fees	$515.00
All Other (Excluding Federal Income Tax and Real Estate)	$40.00
Total Taxes, Licenses and Fees	$6,564.15
Aggregate Write-Ins For Underwriting Expenses	$2,702.70
Total Underwriting Expenses Incurred	$94,358.14
Total Underwriting Deductions	$242,285.82
Net Underwriting Gain or (Loss)	($104,623.31)
INVESTMENT INCOME	
Net Investment Income Earned	$6,485.09

Net Realized Capital Gains or (Losses) From Sale or Maturity of Assets	$0.00
Net Investment Gain or (Loss)	$6,485.09
OTHER INCOME	
Finance & Service Charges Not Included In Premium (Policy Fees)	$0.00
Aggregate Write-Ins For Miscellaneous Income (Miscellaneous Income)	$21.50
Aggregate Write-Ins For Miscellaneous Income (Liability Premium)	$2,702.70
Aggregate Write-Ins For Miscellaneous Income (Premium Tax Refund)	$4,251.10
Total Other Income	$6,975.30
Dividends To Policyholders	$0.00
Net Income After Dividends To Policyholders and Before Federal Income Taxes	($91,162.92)
Federal Income Taxes Incurred	$0.00
Net Income	($91,162.92)
POLICYHOLDERS' SURPLUS ACCOUNT	
Policyholders' Surplus, December 31 of Previous Year (per Company)	$164,366.00
GAINS AND (LOSSES) IN SURPLUS	
Net Income (From Line 16)	($91,162.92)
Cumulative Effect of Changes in Accounting Principles per Examination	$4,132.50
Aggregate Write-Ins for Gains and Losses In Surplus (Examination Adjustment)	$39,112.75
Policyholders' Surplus as of December 31, 2009 (per Examination)	$116,448.33

Analysis of Changes in Financial Statement and Comments Resulting From Examination

Assets

Common Stocks **$5,632.50**

The above balance is $50,692.50 less than the $56,325.00 amount reflected by the Company on line 2.2 of the Assets Page in its 2009 Annual Statement. The Examiner determined that the that the Company owned 30 shares of NAMICO Insurance Company Inc., class B, common stock with a market value of $187.75 per share as valued by the NAIC Securities Valuation Office. Therefore, the market value of the Company's common stock holdings as of December 31, 2009, is considered to be $5,632.50 for purposes of this examination.

Premium Receivables and Agents' Balances **$25,541.69**

The above amount is $12,280.31 less than the $37,822 amount reported by the Company on line 8 of the Assets Page in its 2009 Annual Statement. The $37,822 total amount for this asset item was composed of two (2) parts: premium receivables after the due date and premiums billed but not yet due.

Using the data provided by the Company, the Examiner tested all policies that exhibited premium receivables after the due date at year-end 2009. The Examiner determined the aggregate amount of admitted premium receivables after the due date as of December 31, 2009 that was less than 90 days past due was $11,062.15 in accordance with NAIC Accounting Practices and Procedures - SSAP # 6.

Using Company provided data, the Examiner tested all policies that exhibited premiums billed but not yet due for policies in effect as of year-end 2009. The Examiner determined the aggregate amount of admitted premiums billed but not yet due as of December 31, 2009, was $14,479.54, in accordance with NAIC Accounting Practices and Procedures - SSAP # 6.

Therefore, the sum of the two (2) components, premium receivable after the due date and premium billed but not yet due that form the asset total for "Premium Receivables and Agents' Balances" on line 8 of the Assets page as determined by the Examiner as of December 31, 2009, was $25,541.69.

Reinsurance Recoverable On Paid Losses & L.A.E. $0.00

The above amount is $45,242 less than the $45,242 amount reported by the Company on line 9 of the "Assets" page in its 2009 Annual Statement.

The $45,242 "Reinsurance Recoverable on Paid Losses & Loss Adjustment Expenses" asset line item reported by the Company was composed of the following two (2) different receivables:

1) The Company effective, January 1, 2010, switched reinsurers from a consortium of reinsurers brokered through Guy Carpenter to Farmers Mutual of Tennessee. As a result of this change in reinsurers, the Company was due a $44,165.94 net refund in reinsurance premium ceded. This $44,165.94 net refund of 2009 reinsurance premium was mainly composed of unearned premium and should have been classified as an "Aggregate Write-Ins for Other Than Invested Assets" on the "Assets" page on line 16, accompanied by a written description on line 1601 on the "Assets" page.

Therefore, for purposes of this examination, the Examiner has reclassified and established this $44,165.94 net refund of 2009 reinsurance premium ceded as an "Aggregate Write-Ins for Other Than Invested Assets" on the "Assets" page on line 16.

2) The Company, as of Dec. 31, 2009, had incurred a claim on Dec. 24, 2009, that qualified for a reinsurance recovery in accordance with the terms of its 2009 "Property Facultative Pro Rata Reinsurance Contract." The Company filed a "Facultative Loss Bordereau" with Guy Carpenter for a claim on Policy # 11144 in the amount of $1,076.37 on January 19, 2010. The Company received from Guy Carpenter a reinsurance recovery in the amount of $1,076.37 via a check that was dated February 16, 2010.

The Company mistakenly disclosed the aforementioned $1,076.37 "Reinsurance Recoverable on Un-Paid Losses & Loss Adjustment Expenses" on the "Assets" page on line 9 as a "Reinsurance Recoverable on Paid Losses & Loss Adjustment Expenses." The gross claim for Policy # 11144 in the amount of $1.354.76 was not paid until January 14, 2010 by the Company. Therefore, as of the December 31, 2009, date of the Company's

Annual Statement and this Examination, the $1,076.37 "Reinsurance Recoverable" will be re-classified as a "Reinsurance Recoverable on Un-Paid Losses & Loss Adjustment Expenses" and is considered to be an offset to "Gross Losses and Claims Reported, Unpaid" which is found on the "Liabilities & Policyholder's Surplus Page" (page 3, line 1.1).

Electronic Data Processing Equipment & Software **$866.67**

The above balance is $866.67 more than the $0.00 amount reflected by the Company on line 13 of the "Assets" page in its 2009 Annual Statement. The Examiner confirmed the Company had purchased electronic data processing equipment and operating system software on January 6, 2009 in the pre-tax amount of $1,300.00. In accordance with NAIC Accounting Practices and Procedures - SSAP # 16 the Examiner calculated the depreciated amount of the Company's computer equipment and software as of December 31, 2009 using a three (3) year depreciation schedule. Therefore, the total asset value of electronic data processing equipment and operating system software for purposes of this examination is $866.67.

Aggregate Write-Ins for Other Than Invested Assets **$46,965.95**

The above total amount is $46,965.95 more than the $0.00 amount reflected by the Company on line 16 of the "Assets" page in its 2009 Annual Statement.

The $46,965.95 "Aggregate Write-Ins for Other Than Invested Assets" amount established by the Examiner for disclosure purposes within this Examination Report was composed of the following two (2) different receivables:

1) As stated above under the caption "**Reinsurance Recoverable On Paid Losses & L.A.E.,**" the Examiner, for purposes of this examination, has reclassified and established this $44,165.94 net refund of 2009 reinsurance premium ceded as an "Aggregate Write-Ins for Other Than Invested Assets" on the "Assets" page on line 16.

2) The Company overpaid its 2009 premium tax to the Tennessee Department of Commerce and Insurance (TDCI) but did not establish a receivable asset for the refundable amount. On July 22, 2010, a TDCI Tax Analyst provided documentation to the Examiner that showed the Company was due a $2,800.01 premium tax refund for calendar year 2009.

Liabilities

Gross Losses and Claims Reported, Unpaid **$3,500.00**

The above amount is $1,278.00 less than the $4,778.00 amount reported by the Company on line 1.1 of the "Liabilities & Policyholders' Surplus Page" in its 2009 Annual Statement. The Company's $4,778.00 total amount of unpaid claims was composed of four (4) claims. However, the Examiner determined that one (1) unpaid claim was actually incurred in January 2010. Therefore, the Company overstated its gross unpaid losses as of December 31, 2009, by $1,278.00

Reinsurance Recoverable On Un-Paid Losses & Claims **$1,076.37**

The above total amount is $1,076.37 more than the $0.00 amount disclosed by the Company on line 1.3 of the "Liabilities & Policyholders' Surplus Page" in its 2009 Annual Statement.

As stated above under the caption "**Reinsurance Recoverable On Paid Losses & L.A.E.,**" for purposes of this examination, the Examiner has reclassified this amount from the "Assets" page on line 9 as a "Reinsurance Recoverable on Paid Losses & Loss Adjustment Expenses" to a "Reinsurance Recoverable on Un-Paid Losses & Loss Adjustment Expenses." Furthermore, this reinsurance recoverable is considered to be an offset to "Gross Losses and Claims Reported, Unpaid" which is found on the "Liabilities & Policyholder's Surplus Page" (page 3, line 1.1).

Total Unpaid Claims and Losses Net of Reinsurance **$2,423.63**

The above amount is $2,354.37 less than the $4,778.00 amount reported by the Company on line 1.4 of the "Liabilities & Policyholders' Surplus Page" in its 2009 Annual Statement.

As stated above under the captions "**Gross Losses and Claims Reported, Unpaid**" and "**Reinsurance Recoverable On Un-Paid Losses & Claims,**" the Examiner, for purposes of this examination, has established an examination total for "Gross Losses and Claims Reported, Unpaid" and reclassified the $1,067.37 total to "Reinsurance Recoverable On Un-Paid Losses & Claims." Since the $1,067.37 total for "Reinsurance Recoverable On Un-Paid Losses & Claims" is an offset to the $3,500.00 examination total for "Gross Losses and Claims Reported, Unpaid" in accordance with the Annual Statement instructions, the net "Total Unpaid Claims and Losses Net of Reinsurance" for examination purposes is $2,423.63.

Unearned Premiums **$139,850.00**

The above amount is $5,807.00 less than the $145,657.00 amount reported by the Company on line 3 of the "Liabilities & Policyholders' Surplus Page" in its 2009 Annual Statement.

Using data provided by the Company, the Examiner determined that thirty-seven (37) out of the forty (40) cancelled policies that were shown on the Company's detail listing of written premium had an amount for "Unearned Premium" as of year-end 2009. The amount of "Unearned Premium" as of December 31, 2009, shown for these cancelled policies was $5,807.00. Once a policy is cancelled the amount of "Unearned Premium" should be reduced to zero ($0.00). Therefore, the Company overstated "Unearned Premium" as of December 31, 2009, by $5,807.00.

Advance Premiums **$4,682.00**

The above amount is $235.00 less than the $4,917.00 amount reported by the Company on line 4 of the "Liabilities & Policyholders' Surplus Page" in its 2009 Annual Statement.

Using data provided by the Company, the Examiner tested all policies that exhibited advance premiums at year-end 2009. Three (3) policies with an aggregate total of $235.00 were determined not to have a liability for premium received in advance.

Therefore, the Company overstated its advance premiums liability as of December 31, 2009, by $235.00, and the balance per examination for this liability line item was determined to be $4,682.00.

Federal Income Taxes Payable and Interest Thereon **$0.00**

The amount stated above is $825.00 less than $825.00 amount reported by the Company on line 9 of the "Liabilities & Policyholders' Surplus Page" in its 2009 Annual Statement.

The Company mistakenly disclosed this liability as "Federal Income Taxes Payable and Interest Thereon" on line 9 of the "Liabilities & Policyholders' Surplus Page" in its 2009 Annual Statement. The Annual Statement instructions require payroll taxes to be disclosed on line 10 of the "Liabilities & Policyholders' Surplus Page" and classified as "Amounts Withheld or Retained by the Company for Account of Others." Therefore, the Examiner has re-classified this liability from "Federal Income Taxes Payable and Interest Thereon" to "Amounts Withheld or Retained by the Company for Account of Others."

Amounts Withheld or Retained by Company for Account of Others **$824.85**

The amount stated above is $824.85 more than the $0.00 amount reported by the Company on line 10 of the "Liabilities & Policyholders' Surplus Page" in its 2009 Annual Statement.

The Company mistakenly disclosed this liability as "Federal Income Taxes Payable and Interest Thereon" on line 9 of the "Liabilities & Policyholders' Surplus Page" in its 2009 Annual Statement. The Annual Statement instructions require payroll taxes to be disclosed on line 10 of the "Liabilities & Policyholders' Surplus Page" and classified as "Amounts Withheld or Retained by the Company for Account of Others." Therefore, the Examiner has re-classified this liability from "Federal Income Taxes Payable and Interest Thereon" to "Amounts Withheld or Retained by the Company for Account of Others."

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
Common Stock		$50,692.50
Premium Receivable and Agents' Balances		12,280.31
Reinsurance Recoverable on Paid Losses & L.A.E.		45,242.00
Electronic Data Processing Equipment & Software	$866.67	
Aggregate Write-Ins For Other Than Invested Assets	46,965.95	
Gross Losses and Claims Reported, Unpaid	1,278.00	
Reinsurance Recoverable on Un-Paid Losses & L.A.E.	1,076.37	
Unearned Premium	5,807.00	
Advance Premiums	235.00	
Federal Income Taxes Payable and Interest Thereon	825.00	
Amounts Withheld or Retained by Company for Account of Others		824.85
	---------------	---------------
Totals	$57,053.99	$109,039.66
Net change in surplus		$51,985.67

COMMENTS AND RECOMMENDATIONS

Comments:

- The Company's Directors as of the December 31, 2009 date of examination had not approved a formal cancellation policy. However, the Company had adopted 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) that relate to the notice of intention to non-renew and the reason for non-renewal of an in-force policy.

- The Company, as of the December 31, 2009, date of examination had a $10,000 "Surety Bond" in effect covering the Company's Secretary / Treasurer. Minimum fidelity bond coverage of $15,000 to $25,000 is suggested per the guidelines published in the NAIC Financial Condition Examiners Handbook.

- The Company relies on an AIMS software package to quantify and track premiums written, billed and received on an individual policy basis. Also, AIMS quantifies and calculates premiums receivable, unearned premiums, premiums billed but not yet due and premiums received in advance of their due date. In the process of verifying premium related 2009 Annual Statement balance sheet and income statement items by using AIMS prepared Excel spreadsheets that showed specific types of individual policy data, I noticed the following data accuracy or integrity problems.

  (A) As of year-end 2009, the Company had four (4) policies (Policy # 8880, 9170, 9532 & 10108) that had written premium, unearned premium and admitted premium receivable in 2009 that was over 90 days past due. None of these policies were listed on the Company's year-end 2009 in-force listing of policies and none of these policies were on the Company's "cancelled" spreadsheet. However, all four (4) of these policies were cancelled prior to June 1, 2009, and should have been listed on the Company's "cancelled" spreadsheet as of Dec. 31, 2009. Therefore, the AIMS prepared spreadsheets provided to the Company overstated written premium, unearned premium and admitted premium receivable for these four (4) policies.

  (B) Two (2) policies (Policy # 8276 & 9150) shown as having admitted premium receivable as of Dec. 31, 2009 had premium receivable over 334 days (11 months) past due as of year-end 2009. However, the full amount of 2009 annual premium was paid in-full by each policyholder in December 2008. Therefore, the Company provided AIMS prepared list that showed a total amount of premium receivable as of Dec. 31, 2009, was incorrect in that it overstated the total amount of premium receivable as of Dec. 31, 2009, for these two (2) policies.

  (C) Using AIMS prepared data provided by the Company, the Examiner determined that thirty-seven (37) out of the forty (40) cancelled policies that were shown on the Company's detail listing of written premium had an amount for "Unearned Premium" as of year-end 2009. The amount of "Unearned Premium" as of December 31, 2009 shown for these cancelled policies was $5,807.00. Once a policy is cancelled the amount of "Unearned Premium" should be reduced to zero ($0.00). Therefore, the Company overstated "Unearned Premium" on its 2009 Annual Statement by $5,807.00.

(D) Using AIMS prepared data provided to me by the Company, the Examiner determined that forty (40) cancelled policies that were shown on the Company's detail listing of "Written Premium" showed the full amount of annual "Written Premium" as of year-end 2009. Once a policy is cancelled the amount of "Written Premium" for each policy should be reduced to the amount of "Earned Premium" as of year-end 2009. Therefore, the AIMS prepared detailed spreadsheet overstated "Written Premium" by $11,471.90 for these forty (40) cancelled policies as of December 31, 2009.

(E) The Examiner, using AIMS prepared data provided to me by the Company, determined that forty (40) cancelled policies that were shown on the Company's detail listing of "Earned Premium" showed the full amount of "Earned Premium" through year-end 2009. Once a policy is cancelled, the amount of "Earned Premium" for each policy should be recalculated and reduced to reflect the amount of time the policy was in-force. Therefore, the AIMS prepared detailed spreadsheet overstated "Earned Premium" by $5,664.90 for these forty (40) cancelled policies as of December 31, 2009.

Recommendations:

- Based on the examination procedures performed, the Company, as of the December 31, 2009, date of examination had policyholder's surplus in the amount of $116,448. Therefore, the Company was operating in violation of Tenn. Code Ann. § 56-22-105(c) which requires the Company's "surplus over all liabilities" to meet or exceeded $200,000. It is recommended that the Company take the necessary steps to become compliant with Tenn. Code Ann. § 56-22-105(c).

Subsequent Event Recommendation:

- Tenn. Code Ann. § 56-22-106(c)(1) restricts the Company from issuing "a policy of insurance covering those risks found in subsection (a) where the retained amount of risk by the county mutual insurance company on any single risk exceeds the lesser of: (A) twenty thousand dollars ($20,000), plus three percent (3%) of the county mutual insurance company's surplus; or (B) one hundred thousand dollars ($100,000)." The Company's surplus as determined by this examination as of December 31, 2009, was $116,448. Three percent (3%) of $116,448 equates to $3,493. Therefore, the Company, as of January 1, 2010, should not have exposure to any single risk above $23,493.

  As previously stated in the "Subsequent Events" section of this report, the Company and Farmers Mutual of Tennessee entered into an "Excess of Loss Reinsurance Agreement" with an effective date of January 1, 2010. This new reinsurance agreement increased the Company's net retention on any single risk up to $25,000 from $20,000 under the old reinsurance contract brokered through Guy Carpenter. Furthermore, the implementation of the new reinsurance agreement decreased the total policy, single risk, maximum amount of coverage that can be written by the Company. Currently, under the terms of the new reinsurance agreement, the maximum amount of total, single risk, coverage is limited to $100,000 (the Company's $25,000 retention plus a $75,000 maximum cession limit). Under the old reinsurance contract brokered through Guy Carpenter effective through December 31, 2009, the Company could issue a policy covering a single risk up to $170,000 (the Company's $20,000 retention plus a $150,000 maximum cession limit).

The Company's Secretary / Treasurer confirmed that the Company had thirty (30) policies in force in 2010 that provided coverage for single risks above $100,000.

It is recommended that the Company properly reinsure all specific risks above twenty thousand dollars ($20,000), plus three percent (3%) of the Company's surplus and up to the total policy, single risk, maximum amount of coverage in force, in order become compliant with Tenn. Code Ann. § 56-22-106(c)(1).

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of White County Farmers Mutual Fire Insurance Company of Sparta, Tennessee.

In such manner, it was determined that, as of December 31, 2009, the Company had admitted assets of $274,722 and liabilities, exclusive of a statutory contingency reserve and unassigned funds, of $158,274. Thus, there existed for the additional protection of the policyholders unassigned funds (surplus) of $116,448.

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

Respectfully submitted,

James T. Pearce, Jr.

James T. Pearce, Jr.
Insurance Examiner III
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of White County Farmers Mutual Fire Insurance Company dated October 27, 2010, and made as of December 31, 2009, on behalf of the Department of Commerce and Insurance, State of Tennessee. 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
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 27th day of

October, 2010

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014

HELEN W DORSEY
STATE
OF
TENNESSEE
NOTARY
PUBLIC
DAVIDSON COUNTY