EXAMINATION REPORT
ON
FARMERS MUTUAL FIRE INSURANCE COMPANY
OF
SCOTT, LEE AND RUSSELL COUNTY, VIRGINIA
Nickelsville, Virginia
as of
December 31, 2013

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

JACQUELINE K. CUNNINGHAM
COMMISSIONER OF INSURANCE
ATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
http://www.scc.virginia.gov/division/boi

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Farmers Mutual Fire Insurance Company of Scott, Lee and Russell County, Virginia as of December 31, 2013, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed to the original the seal of the Bureau at the City of Richmond, Virginia this 15th day of May, 2015

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
July 2, 2014

Honorable Jacqueline K. Cunningham
Commissioner of Insurance
Commonwealth of Virginia
Richmond, Virginia

Dear Madam:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, a financial examination of the records and affairs of the

FARMERS MUTUAL FIRE INSURANCE COMPANY OF SCOTT, LEE AND RUSSELL COUNTY, VIRGINIA
Nickelsville, Virginia

hereinafter referred to as the Company, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Company is a mutual assessment fire insurance company licensed under and subject to Chapter 25 of Title 38.2 of the Code of Virginia. It was last examined by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2010. This examination covers the period from January 1, 2011 through December 31, 2013.

HISTORY

The Company was chartered by the State Corporation Commission on July 22, 1931, and has been in continuous operation since that time. According to the charter, the purpose for which the Company was formed is as follows:

> ...to insure its members against loss or damage to their property by fire, lightning or windstorm of any description, by assessment of its members in accordance with the statutes of the State of Virginia for such cases made and provided.

The policy form remains unchanged from the original. The bylaws were last amended in 2002 to reflect a salary increase of the Secretary-Treasurer.

MANAGEMENT AND CONTROL

The management of the Company is vested in a board of nine directors who must be members of the Company. Directors are elected for terms of one year by a majority of members present at the Company's annual meeting held the fourth Saturday in August. Directors are required by the bylaws to meet after the annual meeting of members and in March of each year, in addition to any special meetings.

The president, vice-president, and secretary-treasurer are elected annually by directors for terms of one year.

At December 31, 2013, directors and officers were as follows:

Directors	Principal Occupation
I. E. Horton	President of the Company/Farmer Blackwater, Virginia
Johnny Odle	Vice President of the Company/Agent Nickelsville, Virginia
Charles Saul, Jr.	Salesman Gate City, Virginia
Gail McConnell	Teacher Ft. Blackmore, Virginia
Teresa O. McMurray	Farmer Bristol, Virginia
Larry Horton	Farmer Blackwater, VA
Daris Hartsock	Retired Gate City, Virginia
Eric Ross	Farmer Dungannon, VA
Cathy Spivey	Retired Duffield, VA

Officers

I. E. Horton	President
Johnny Odle	Vice President
Velma Odle	Secretary-Treasurer

FIDELITY BOND

At December 31, 2013, the Company had a fidelity bond in force for $25,000 providing coverage against dishonest acts of the secretary-treasurer and the Company's agent.

TERRITORY AND PLAN OF OPERATION

The Company is licensed as a mutual assessment fire insurance company and operates as such in the counties of Scott, Lee and Russell in Virginia. The bylaws limit coverage to two-thirds of the actual cash value of the property not to exceed $20,000 per risk. There is a $300 deductible applied to each loss. Rates are $0.60 per $100 of coverage for new policies and $0.45 per $100 of coverage for renewals.

Business is solicited by agents elected by the members of the Company. Underwriting of risks is conducted by the agents, who are responsible for inspection and appraisal of the property, in conjunction with the approval of the director nearest the location of the property. In approving the application the director assumes responsibility for suitability of the risk and fairness of the value of the property.

Assessments are ordered by the president. The rate of assessment was last changed in 1989. The Company does not classify risks and has no reinsurance coverage. Claims are handled by the Company's agents, a nearby director and/or the secretary-treasurer, depending upon the extent of loss. All claim settlements are subject to approval of the president.

GROWTH OF THE COMPANY

The following data, obtained from annual statements filed with the Bureau and from examination reports, indicates the growth of the Company for the ten-year period ending December 31, 2010:

Year	Admitted Assets	Liabilities	Unassigned Surplus
2004	$415,939	$15,777	$400,162
2005	412,360	16,730	395,630
2006	434,434	14,423	420,011
2007	458,391	14,644	443,747
2008	477,040	12,822	464,218
2009	485,865	12,139	473,726
2010	505,822	11,298	494,524
2011	524,027	12,001	512,026
2012	501,978	10,155	491,823
2013	540,835	10,694	530,141

Year	Assessments	Income	Paid	Policies	In force
2004	$32,268	$8,749	$12,900	505	$7,154,610
2005	31,414	11,722	31,713	479	6,520,650
2006	29,595	14,554	4,848	451	6,300,556
2007	29,990	18,010	9,700	436	5,518,250
2008	27,293	16,907	9,700	422	5,177,750
2009	25,207	14,048	14,400	415	5,100,050
2010	24,498	11,096		368	5,351,450
2011	24,612	9,900		401	4,889,050
2012	20,750	4,381		373	4,648,200
2013	20,720	3,276		351	4,327,700

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2011 through December 31, 2013. Assets were verified and liabilities were established at December 31, 2013. A review of income and disbursements for the period was made to the extent deemed necessary.

This examination was conducted in accordance with the NAIC Financial Condition *Examiners' Handbook* (Handbook). The Handbook allows flexibility in the conduct of the examination based upon the nature and size of the entity being examined. This flexibility allows the examiners the ability to structure the examination in the manner best suited for each entity.

For this examination, all accounts and activities of the Company were considered in accordance with the risk-focused examination process.

FINANCIAL STATEMENTS

There follows a statement of income and disbursements for the period under review and a statement of financial condition as of December 31, 2013.

INCOME FOR THE PERIOD UNDER REVIEW

	2011	2012	2013
Net assessments received	$24,612	$20,750	$20,720
Interest on cash deposits	9,900	4,381	3,276
Total Income	$34,512	$25,131	$23,996
Deduct total disbursements for the year	16,207	17,121	15,298
Net Income	$18,305	$8,010	$8,698
Add Ledger Assets December 31, previous year	505,822	$524,127	532,137
Ledger Assets December 31, current year	$524,127	$532,137	$540,835

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

	2011	2012	2013
Commission and brokerage	$468	$370	$372
Gross salaries	8,700	8,700	8,900
Directors' fees	1,300	1,700	1,600
Boards, bureaus and associations		52	
Legal and auditing		1,500	
Rent, office and equipment maintenance	1,802	100	237
Advertising	233	368	582
Postage, telephone and express	2,094	2,282	2,172
Data processing		66	79
Miscellaneous	671	529	252
Taxes, licenses and fees	914	905	827
Payroll items	0	549	277
Real Estate	25		
Total disbursements	$16,207	$17,121	$15,298

ASSETS

	Ledger Assets	Non-Ledger Assets	Assets Not Admitted	Net Admitted Assets
Cash on deposit	$540,835			$540,835
Total	$540,835	$0	$0	$540,835

LIABILITIES, SURPLUS AND OTHER FUNDS

Taxes, licenses and fees	$827
Assessments unearned	9,867
Total liabilities	$10,694
Excess of admitted assets over liabilities (surplus)	530,141
Total	$540,835

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. During the review of the Company's financial records the examiners noted that for each year under review the Company paid a higher salary to its Secretary-Treasurer than stated in its bylaws. The salary was approved by the Board however the bylaws were never changed to reflect the increase. The Examiners recommend that the Company promptly make changes so that it is in compliance with its bylaws.

Accounts and Records

2. During a review of the Company's financial records, the Examiners noted that the financial statements filed with the Bureau did not reconcile for each year under review. The information in the ledgers provided by the Company also revealed inaccuracies that did not properly support the amounts reported. The Examiners therefore spent an inordinate amount of time in verifying the transactions during the period of the examination. The financial statements produced by the Examiners are reflected within the examination report. The Examiners recommend that the Company ensure that accounting records support future filings with the Bureau.

CONCLUSION

The courteous cooperation extended by the secretary-treasurer during the examination is gratefully acknowledged.

In addition to the undersigned, Allison L. Bohrer, of the Bureau participated in the work of the examination.

Respectfully submitted,

Mario A. Cuellar, CFE
Senior Insurance Examiner

RESPONSES

The Company's responses to the Examiner's recommendations in the December 31, 2013 Examination Report were never received despite numerous attempts requesting that the Company file such responses. Therefore, the Examination Report is being issued without a Company response.