

**Examination Report**  
**on**  
**FARMERS MUTUAL FIRE INSURANCE COMPANY**  
**OF WASHINGTON COUNTY, VIRGINIA**  
**Abingdon, Virginia**  
**as of**  
**December 31, 2019**

# COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

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I, Scott A. White, 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 Washington County, Virginia as of December 31, 2019, 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 6<sup>th</sup> day of October 2020

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White  
Commissioner of Insurance



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Richmond, Virginia  
August 14, 2020

Honorable Scott A. White  
Commissioner of Insurance  
Commonwealth of Virginia  
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of § 38.2-1317 of the Code of Virginia, we have performed an examination of the financial condition, records and affairs of

**FARMERS MUTUAL FIRE INSURANCE COMPANY  
OF WASHINGTON COUNTY, VIRGINIA**  
Abingdon, Virginia

hereinafter referred to as the Company. The report thereon is submitted for your consideration.

**SCOPE OF THE EXAMINATION**

The last examination of the Company was made by representatives of the State Corporation Commission's Bureau of Insurance (Bureau) as of December 31, 2016. The current examination covers the three-year period from January 1, 2017 through December 31, 2019.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook* (Handbook). The Handbook requires that the Bureau plan and perform the examination to evaluate the Company's financial condition, assess corporate governance, identify current and prospective risks of the Company, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. The examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

### HISTORY

The Company was granted a charter on December 13, 1910, which has been amended several times. According to the charter, the purpose for which the Company was formed is as follows:

...to carry on a mutual assessment fire insurance company transacting mutual assessment fire insurance as defined by Section 38.1-659 of the Code of Virginia as amended from time to time.

The most recent amendment, which was made on September 8, 1981, restricted the Company's operations to the four adjacent counties of Russell, Scott, Smyth and Washington and the city of Bristol, Virginia.

### MANAGEMENT AND CONTROL

The management of the Company is vested in a board of directors consisting of nine members. As provided in the Company's bylaws, directors are elected by members at their annual meeting to serve for a period of three years. A majority of the directors constitutes a quorum for any meeting of the board. The board of directors elects the officers.

At December 31, 2019, the directors and officers of the Company were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
James C. Atwell	Farmer, Retired Abingdon, Virginia
John A. Atwell	Postal Worker Abingdon, Virginia
Robert C. Berry	Farmer Abingdon, Virginia

Michael W. Countiss	Farmer Abingdon, Virginia
David R. Fore	Retired Glade Spring, Virginia
Lawrence T. Lester	Farmer Meadowview, Virginia
W. Roy McNew	Farmer Abingdon, Virginia
Jeffrey L. Raines	Farmer Abingdon, Virginia
Billy J. Scyphers	Postal Worker Abingdon, Virginia

#### Officers

James C. Atwell	President
Lawrence T. Lester	Vice President
Mary Teaters	Secretary-Treasurer

### **TERRITORY AND PLAN OF OPERATION**

The Company is a mutual assessment property and casualty insurer licensed pursuant to Chapter 25 of Title 38.2 of the Code of Virginia. The Company limits its operations to the four counties of Russell, Scott, Smyth and Washington and the city of Bristol, Virginia. Business is produced through one licensed agent who is either an employee or commissioned agent.

The lines of business written include the following:

- Fire, lightning and windstorm on buildings, mobile homes, personal property, livestock and machinery.
- Extended coverage, plate glass, vandalism, malicious mischief and liability as supplements to the basic policy.
- Homeowners and mobile homeowners with a comprehensive personal liability endorsement or a farmer's comprehensive personal liability endorsement.
- Church package policy.

Property is classified primarily according to location, use, type of construction and availability of fire departments. The board of directors sets classifications and assessment rates. Assessments are levied annually during the month of original issue. The Company adjusts claims utilizing the services of independent claims adjusters.

It is the practice of the Company to retain \$30,000 on property insured, \$25,000 on bodily injury and property damage, and \$100,000 on liability coverage.

## REINSURANCE

The Company had the following reinsurance agreements in force at December 31, 2019:

<u>Type of Agreement</u>	<u>Lines Covered</u>	<u>Net Retention</u>	<u>Reinsurer's Limits</u>
Property and Casualty Excess of Loss	Fire, allied lines, and multiple property lines (to include the casualty business of these lines)	<u>Property</u> \$30,000 ultimate net loss, each and every risk, each and every loss	\$970,000 ultimate net loss, each and every risk, each and every loss, subject to an occurrence limitation of \$1,940,000
		<u>Casualty</u> \$30,000 ultimate net loss, each and every risk, each and every loss	\$970,000 ultimate net loss, each and every insured, each and every loss
		<u>Combination</u> \$30,000 each and every loss occurrence	\$30,000 each and every loss occurrence
Property and Casualty Aggregate Excess of Loss	Fire, allied lines and multiple property lines (to include the casualty business of these lines)		95% of the amount, if any, by which the Company's aggregate net losses exceed 100% of net earned premium income; not to exceed 95% of 150% of net earned premium income

All reinsurance is placed through Beach Re, Ltd., a reinsurance intermediary. All agreements contain an insolvency clause and a guarantee of the intermediary's credit.



### GROWTH OF THE COMPANY

The following data, obtained from the Company's annual statements and examination reports, indicates its growth during the ten-year period ending December 31, 2019:

<u>Year</u>	<u>Net Assessments Received</u>	<u>Investment Income</u>	<u>Net Losses Paid</u>	<u>Number of Policies</u>	<u>Amount of Insurance In Force</u>
2010	\$945,184	\$189,599	\$536,561	7,016	\$527,772,009
2011	867,231	155,570	2,335,204	6,569	487,958,595
2012	587,837	123,253	(892,844)	6,285	467,811,336
2013	556,420	127,868	249,558	6,185	474,310,161
2014	719,971	138,148	207,873	6,151	488,162,201
2015	673,911	133,650	317,050	6,018	479,329,826
2016	586,815	123,460	127,446	3,235	465,601,116
2017	623,383	114,800	173,726	3,063	509,234,516
2018	644,479	132,839	154,561	2,889	520,945,341
2019	588,925	159,948	340,614	2,707	462,851,041

<u>Year</u>	<u>Ledger Assets</u>	<u>Net Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
2010	\$5,892,109	\$5,948,485	\$651,726	\$5,296,759
2011	4,797,753	4,852,751	786,129	4,066,622
2012	5,408,792	5,465,585	530,579	4,935,006
2013	5,532,760	5,616,257	482,908	5,133,349
2014	5,733,050	5,848,671	489,392	5,359,279
2015	5,815,924	5,949,409	517,837	5,431,572
2016	5,966,018	6,109,878	544,271	5,565,607
2017	6,141,209	6,372,950	424,809	5,948,141
2018	6,390,657	6,640,094	399,189	6,240,905
2019	6,311,183	6,634,669	398,421	6,236,248

**FINANCIAL STATEMENTS**

There follows a statement of income and disbursements for the years 2017, 2018 and 2019, and a statement of financial condition at December 31, 2019. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2019.

**INCOME FOR THE PERIOD UNDER REVIEW**

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Net assessments received	\$623,383	\$644,479	\$588,925
Interest on bonds	8,678	7,943	3,880
Interest on cash deposits	69,337	82,806	108,949
Dividends on stocks	3,848	11,415	7,467
Real estate	34,340	26,453	36,576
Gain or (loss) on sale of investments	(1,403)	4,222	3,076
Other income	4,613	3,696	5,586
Total Income	\$742,796	\$781,014	\$754,459
Deduct total disbursements for the year	<u>567,605</u>	<u>531,566</u>	<u>833,933</u>
Net Income	\$175,191	\$249,448	(\$79,474)
Add Ledger Assets December 31, previous year	<u>5,966,018</u>	<u>6,141,209</u>	<u>6,390,657</u>
Ledger Assets December 31, current year	<u><u>\$6,141,209</u></u>	<u><u>\$6,390,657</u></u>	<u><u>\$6,311,183</u></u>

**DISBURSEMENTS FOR THE PERIOD UNDER REVIEW**

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Net losses paid	\$173,726	\$154,561	\$340,614
Loss adjustment expense	18,107	20,209	22,293
Commission and brokerage	69,912	59,332	65,161
Gross salaries	108,920	117,367	127,658
Directors' fees	27,075	31,175	30,325
Travel and travel items	337	421	528
Boards, bureaus and associations	1,500	1,500	1,790
Legal and auditing	42,647	27,583	31,074
Furniture, fixtures and equipment	2,506	4,795	
Rent, office and equipment maintenance	5,598	6,535	
Advertising	32	32	69
Printing and stationery	4,812	5,140	4,617
Postage, telephone and express	6,361	2,488	5,970
Insurance and fidelity bonds	28,284	24,614	24,864
Data processing		2,325	6,021
Charitable contributions	621	500	300
Utilities	8,391	9,268	7,852
Other general expenses	2,191	1,888	1,475
Taxes, licenses and fees	11,642	9,968	9,751
Payroll items	5,710	5,799	6,763
Federal corporate income tax	40,104		
Real estate	9,129	12,809	39,834
Decrease by adjustment in book value of ledger assets		<u>33,257</u>	<u>106,974</u>
Total disbursements	<u><u>\$567,605</u></u>	<u><u>\$531,566</u></u>	<u><u>\$833,933</u></u>

**ASSETS**

	Ledger Assets	Non- Ledger Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$58,700	\$12,664		\$71,364
Common stock	166,654	321,192		487,846
Cash in company's office	200			200
Cash on deposit	5,943,460			5,943,460
Real estate	34,018			34,018
Interest due and accrued				
On bonds		489		489
On cash deposits		16,240		16,240
Assessments due	6,052			6,052
Equipment, furniture, and supplies	27,099		27,099	
Federal income tax refund	75,000			75,000
Totals	<u>\$6,311,183</u>	<u>\$350,585</u>	<u>\$27,099</u>	<u>\$6,634,669</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Net unpaid losses	\$6,304
Loss adjustment expenses unpaid	786
Salaries due or accrued	2,067
Payroll items due or accrued	2,608
Other expenses due or accrued	7,872
Taxes, licenses and fees	9,660
Ceded reinsurance balances payable	28,696
Assessments unearned	270,318
Deferred income tax payable	<u>70,110</u>
Total liabilities	\$398,421
Excess of admitted assets over liabilities (surplus)	<u>6,236,248</u>
Totals	<u>\$6,634,669</u>

**RECOMMENDATION FOR CORRECTIVE ACTION****Accounts and Records**

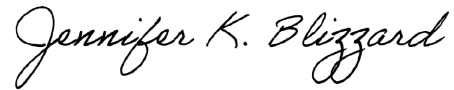
The Examiners noted that the Ledger Assets reported on the income page of the Company's 2018 and 2019 Annual Statements did not equal the Ledger Assets that were reported on the balance sheet. The Ledger Assets reported on the balance sheet were verified by the Examiners. The information in the records provided by the Company revealed inaccurate amounts reported in the income statement, including amounts not being reported, incorrect statement reporting, and the use of accrual accounting on a modified cash basis statement. The accumulated inaccuracies resulted in irreconcilable differences of \$33,257 and \$106,974 in 2018 and 2019, respectively. Net income was reduced by these amounts in the financial statements of this report in order to reconcile Ledger Assets. The Examiners recommend the Company ensures that amounts are accurately reported in future filings.

**ACKNOWLEDGEMENT**

The courteous cooperation extended by the officers and employees of the Company during the course of the examination was sincerely appreciated.

In addition to the undersigned, Mario A. Cuellar, CFE and T. Bradford Earley, CFE, CPCU, AIAF participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "Jennifer K. Blizzard".

Jennifer K. Blizzard, CFE, AIM, AIAF  
Insurance Principal Financial Analyst

**From:** [Mary](#)  
**To:** [David Smith](#); [Jennifer Blizzard](#)  
**Subject:** Response to December 31, 2019 Examination Report  
**Date:** Tuesday, September 22, 2020 3:30:42 PM

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Good Afternoon David,

In response to the December 31, 2019 Examination Report, Mr. Atwell asked for me to inform you he has reviewed the report and recommendation for corrective action of the accounts and records. We do not wish to request a hearing before the Commission. Mr. Atwell has spoken with the Accountant who is tasked with the filing of the Annual Statement and also the preparation of the monthly financial statements for the board. Our Accountant has stated that she will review the examiner's report and make the necessary adjustment to the Annual Statement. Our Account, along with Mr. Atwell, will ensure that the amounts are accurately reported on all future filings.

As for extra copies of the report, I can print a copy for each of the Board members from your email.

Should you have any questions, feel free to contact me.

Best regards,

Mary Teaters,  
Office Manager  
Secretary, Treasurer

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