

**EXAMINATION REPORT
ON
FARMERS MUTUAL FIRE INSURANCE COMPANY
OF
SCOTT, LEE AND RUSSELL COUNTY, VIRGINIA
Nickelsville, Virginia
as of
December 31, 2016**

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE**

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 Scott, Lee and Russell County, Virginia as of December 31, 2016, 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 16th day of April 2018

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

Scott A. White
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
June 23, 2017

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.

SCOPE

The last examination of the Company was made by representatives of the State Corporation Commission's Bureau of Insurance as of December 31, 2013. The examination covers the period from January 1, 2014 through December 31, 2016. Assets were verified and liabilities were established at December 31, 2016.

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.

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 is a mutual assessment property and casualty insurer. 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 2015 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, 2016, directors and officers were as follows:

<u>Directors</u>	<u>Principal Occupation</u>
I. E. Horton	President of the Company/Farmer Blackwater, Virginia
Johnny Odle	Vice President of the Company/Agent Nickelsville, Virginia
Gail McConnell	Teacher Ft. Blackmore, Virginia

Teresa O. McMurray	Farmer Bristol, Virginia
Larry Horton	Farmer Blackwater, Virginia
Daris Hartsock	Retired Gate City, Virginia
Eric Ross	Farmer Dungannon, Virginia
Dwain Reed	Retired Gate City, Virginia

Officers

I. E. Horton	President
Johnny Odle	Vice President
Lola Dean	Secretary-Treasurer

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, 2016:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Unassigned Surplus</u>		
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		
2014	524,616	10,047	514,569		
2015	526,218	9,205	517,013		
2016	513,827	8,924	504,903		

<u>Year</u>	<u>Net Assessments</u>	<u>Investment Income</u>	<u>Net Losses Paid</u>	<u>Number of Policies</u>	<u>Insurance In force</u>
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
2014	20,881	3,068	22,700	355	4,371,350
2015	18,064	3,367	2,000	335	4,165,350
2016	18,019	3,541	19,700	334	4,158,350

FINANCIAL STATEMENTS

The following financial statements present the financial condition of the company for the period ending December 31, 2016. No examination adjustments were made to the statutory financial statements filed by the Company with the Bureau for the period ending December 31, 2016.

INCOME FOR THE PERIOD UNDER REVIEW

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net assessments received	\$20,881	\$18,064	\$18,019
Interest on cash deposits	<u>3,068</u>	<u>3,367</u>	<u>3,541</u>
Total Income	\$23,949	\$21,431	\$21,560
Deduct total disbursements for the year	<u>40,175</u>	<u>19,829</u>	<u>33,951</u>
Net Income	(\$16,226)	\$1,602	(\$12,391)
Add Ledger Assets December 31, previous year	<u>540,842</u>	<u>524,616</u>	<u>526,218</u>
Ledger Assets December 31, current year	<u><u>\$524,616</u></u>	<u><u>\$526,218</u></u>	<u><u>\$513,827</u></u>

DISBURSEMENTS FOR THE PERIOD UNDER REVIEW

	<u>2014</u>	<u>2015</u>	<u>2016</u>
Net losses paid	\$22,700	\$2,000	\$19,700
Commission and brokerage	808	908	805
Gross salaries	7,300	4,100	4,100
Directors' fees	1,300	1,200	1,300
Travel and travel items	313	22	28
Boards, bureaus and associations			
Legal and auditing	1,600	625	
Furniture, fixtures, and equipment		74	
Rent, office and equipment maintenance	301	97	276
Advertising	288	349	267
Postage, telephone and express	1,768	1,605	1,043
Insurance and fidelity bonds	485	209	
Data processing	60	330	68
Charitable contributions	200	50	
Miscellaneous expenses	1,660	6,583	177
Taxes, licenses and fees	822	828	587
Payroll items	570		4,800
Premium Refund		89	
Agent Renewal Penalty		760	
Other : Agent Renewal Fee			800
Total disbursements	<u>\$40,175</u>	<u>\$19,829</u>	<u>\$33,951</u>

ASSETS

	<u>Ledger Assets</u>	<u>Non- Ledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Cash on deposit	\$513,688			\$513,688
Other invested assets	139			139
Total	<u>\$513,827</u>	<u>\$0</u>	<u>\$0</u>	<u>\$513,827</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Taxes, licenses and fees	\$180
Assessment for Maintenance of Bureau of Insurance	589
Assessments unearned	<u>8,155</u>
Total liabilities	\$8,924
Excess of admitted assets over liabilities (surplus)	<u>504,903</u>
Total	<u>\$513,827</u>

RECOMMENDATION FOR CORRECTIVE ACTION**Accounts and Records**

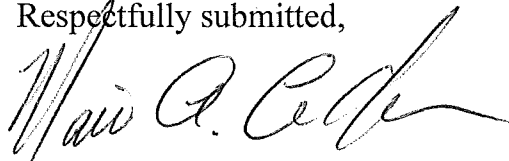
1. During a review of the Company's financial records, the Examiners noted that the Company's ledgers did not properly support the amounts reported. The information in the ledgers provided by the Company revealed inaccuracies. The Examiners recommend that the Company ensure that accounting records support future filings with the Bureau.

ACKNOWLEDGEMENT

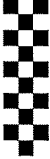
The courteous cooperation extended by the secretary-treasurer during the examination is gratefully acknowledged.

In addition to the undersigned, Gerald R. Hicks, of the Bureau participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mario A. Cuellar". The signature is fluid and cursive, with a prominent initial "M" and a long, sweeping tail.

Mario A. Cuellar, CFE
Senior Insurance Examiner



I.E. HORTON
President
276-940-2463

JOHNNY ODLE
Vice President
276-467-1396

Farmers Mutual Fire Insurance Company, Inc. Of Scott, Lee and Russell County, VA

LOLA DEAN
Secretary-Treasurer
P.O. Box 294
Gate City, VA 24251
276-690-2517

April 11, 2018

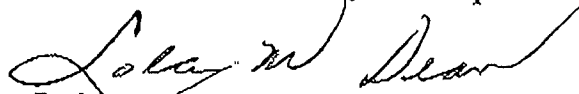
Mr. Mario A. Cuellar, CFE
Senior Insurance Examiner
Commonwealth of Virginia
State Corporation Commission
Bureau of Insurance

Re: Letter of recommendation for corrective action

I am responding to your recommendation after the audit was
Completed for the year of December 31, 2016

I will correct all necessary bookkeeping and computer records
to correct any inaccuracies that were found during the audit
of the Farmers Mutual Fire Insurance Company of Scott, Lee
and Russell County.

Thank you for all of your help.



Lola M. Dean, Sec. & Treas.