

**Central Farmers Mutual Insurance Company**

Robbins, North Carolina

**Report on Examination**

As of December 31, 2017

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January 9, 2019

Honorable Mike Causey  
Commissioner of Insurance  
State of North Carolina  
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section (“§”) 58-2-131 of the General Statutes of North Carolina (“GS”), the North Carolina Department of Insurance (“Department”) conducted an examination of the records, business affairs and financial condition of

**Central Farmers Mutual Insurance Company**

(hereinafter referred to as the “Company”), at its main administrative and statutory home office located at 181 East Elm Street, Robbins, North Carolina 27325. The following report on examination is respectfully submitted.

**SCOPE OF THE EXAMINATION**

This examination covers the period from January 1, 2013, to December 31, 2017, including any material transactions and events occurring subsequent to the examination date and noted during the course of this examination. The Department’s most recent prior examination of the Company was as of December 31, 2012.

This examination was performed using the Department’s modified risk-focused examination approach. The primary purpose of a modified risk-focused examination is to review and evaluate an insurer’s business processes to assist in assessing and monitoring its current financial condition and prospective solvency. As part of this process, the examination identifies and evaluates 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 modified risk-focused examination process. The key functional activities identified are Cash and Investments, Premiums and Underwriting, and Losses and Reserves. The examination process includes assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with GS Chapter 58 and evaluating management’s compliance with Statement of Statutory Accounting Principles (“SSAP”). This examination does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately from the Company’s financial statements.

This examination report includes significant findings of fact, and general information about the Company 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 are separately communicated to the Company.

The Company's Annual Statements, work papers, and the independent audit work papers were reviewed and relied upon whenever possible. A trial balance reconciliation of the Annual Statement was performed, as were a verification of ownership and valuation of assets, determination of liabilities and reserves, and an analysis and review of such accounts and records as deemed necessary by the examination team. A management representation letter attesting to the Company's ownership of assets, the nonexistence of unrecorded liabilities and contingent liabilities was received from Company management.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a). Rives & Associates, LLP of Lexington North Carolina, the designated independent public accountant of the Company, issued an unqualified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2017.

## SUMMARY OF SIGNIFICANT FINDINGS

### CURRENT EXAMINATION

- a. The Company incorrectly reported two money market mutual funds as cash. According to SSAP No. 2R, money market mutual funds shall be accounted for and reported as cash equivalents. The Company is directed to provide accurate financial reporting in future filings with the Department, in accordance with SSAP No. 2R and the National Association of Insurance Commissioners (“NAIC”) Annual Statement Instructions pursuant to GS §58-2-165(c).
- b. At December 31, 2017, the Company maintained fidelity bond coverage of \$25,000, which was less than the NAIC’s recommended minimum. We recommended that the Company maintain fidelity bond coverage of \$75,000 to \$100,000 as recommended by the NAIC. The Company subsequently increased its fidelity bond policy limit to \$100,000 with an endorsement effective December 12, 2018.

## COMPANY HISTORY

The Company was originally part of the Randolph County Branch of Farmers Mutual Fire Insurance Association of North Carolina (“Association”). On January 1, 1994, the Association was dissolved and the Randolph County Branch was incorporated as the Company.

## MANAGEMENT AND CONTROL

### CORPORATE GOVERNANCE

#### Board of Directors

The business of the Company is conducted by its management team, and subject to review by the board of the directors (“Board”). The bylaws specify that the number of directors shall be seven. Directors are elected annually, at the annual meeting of members or by the written consent of the members, and each director elected shall hold office until a successor is elected and qualified.

The following individuals served as directors as of December 31, 2017:

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
Thomas Hussey	Star, NC	President
Joe Vaughn	Carthage, NC	Vice President
Larry Blackburn	Troy, NC	Owner and Chief Executive Officer of 4B Farms Inc.
Vergil Shamberger	Robbins, NC	Teacher and coach at Moore County schools
Ronald Garner	Robbins, NC	Plant Manager of Mansion
Darrell Powers	High Falls, NC	Owner and operator of Powers Darrell DDS

On March 5, 2018, Art Meadows was elected to the Board to fill the vacancy from the retirement of a former member of the Board.

As of December 31, 2017, directors served on committees established by the Board as follows:

**Audit Committee**

Thomas Hussey  
Joe Vaughn  
Ronald Garner

**Investment Committee**

Thomas Hussey  
Darrell Powers  
Vergil Shamberger  
Larry Blackburn

**Officers**

The Board, at its annual meeting, elects four officers: a President, a Vice President, a Secretary and a Treasurer. Officers are elected for a one-year term. The following individuals served as officers of the Company as of December 31, 2017:

<b>Name</b>	<b>Title</b>
Thomas Hussey	President
Joe Vaughn	Vice President
Jon Dresbach	Secretary and Treasurer

**CODE OF CONDUCT AND CONFLICT OF INTEREST**

The Company has established policies and procedures to identify existing or potential conflicts of interest and to report the same to the Board. Annually, the Company requires a signed statement from each director and officer disclosing any conflict of interest. A review of the signed conflict of interest statements for the examination period revealed that the Company acted in accordance with its policy and procedures for disclosure of conflicts of interest.

**CORPORATE RECORDS**

We reviewed the minutes of the meetings of the Board and its committees for the period under examination. Based on our review, it appears that the minutes documented the Company's significant transactions and events, and that the directors approved these transactions and events.

The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. Based on our review, it appears there have been no changes to any of the articles of incorporation or bylaws for the Company during the period under examination.

**FIDELITY BONDS AND OTHER INSURANCE**

The Company is the named insured under a business owners policy issued by Hartford Underwriters Insurance Company. This policy provides employee dishonesty coverage up to a limit of \$25,000. The coverage is less than the minimum amount of fidelity bond coverage recommended by the NAIC for the

Company. (Refer to the Summary Significant Findings)

## TERRITORY AND PLAN OF OPERATION

The Company operates as a county farm mutual and is authorized to write fire and allied lines coverages within the following North Carolina counties: Moore, Montgomery, Chatham, Hoke, Lee, and Richmond. The Company offers liability coverage under the Company's dual masthead policies with Alamance Farmers' Mutual Insurance Company.

## TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the five-year period ended 2017:

Year	Net Admitted Assets	Capital and Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(loss)
2017	\$4,810,489	\$3,968,138	\$628,103	\$431,121	\$93,841
2016	\$4,735,832	\$3,338,291	\$611,964	\$162,377	\$215,782
2015	\$3,829,913	\$3,215,619	\$603,928	\$167,105	\$(98,744)
2013	\$3,974,939	\$3,123,349	\$592,739	\$172,846	\$(17,011)
2012	\$3,602,319	\$2,993,693	\$584,651	\$117,415	\$91,156

## ACTUARIAL OPINION

Every property and casualty insurance company doing business in this State, unless otherwise exempted by the Commissioner, shall annually submit the opinion of an appointed actuary and an actuarial opinion summary in accordance with GS § 58-10-150 and GS § 58-10-155.

In accordance with the NAIC Annual Statement Instructions, the Company applied for and was granted an automatic exemption from the annual requirement to obtain a Statement of Actuarial Opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2017. The exemption is automatically granted if "an insurer has less than \$1,000,000 total direct plus assumed written premiums during a calendar year, and less than \$1,000,000 total direct plus assumed loss and loss adjustment expense reserves at year-end."

## REINSURANCE PROGRAM OVERVIEW

### REINSURANCE CEDED

The Company has a property per risk excess of loss reinsurance contract, a property catastrophe excess of loss reinsurance contract and a property aggregate excess of loss reinsurance contract (collectively referred to as "Reinsurance Contracts"), all of which are effective January 1, 2017. The Reinsurance Contracts have

one subscribing reinsurer, Renaissance Reinsurance U.S. Inc. (“Reinsurer”). A summary of the coverage provided under the contracts is as follows:

**Property Per Risk Excess of Loss Reinsurance**

The Company retains \$25,000 of each loss, each and every risk for property business written. The Reinsurer is liable for the losses in excess of the Company’s retention up to \$975,000 for each loss, each and every risk, subject to an occurrence limitation of \$1,950,000.

**Property Catastrophe Excess of Loss Reinsurance**

The Company retains an ultimate net loss of \$150,000 of any one loss occurrence for property business written. The Reinsurer is liable for an ultimate net loss in excess of the Company’s retention up to \$850,000 with respect to any one loss occurrence.

**Aggregate Excess of Loss Reinsurance**

The Company retains an aggregate ultimate net loss of 80% of net earned premiums for property business written. The Reinsurer is liable for aggregate ultimate net loss in excess of the Company’s retention up to \$1,000,000. As of December 31, 2017, 80% of the net earned premiums was \$344,897.

The Company ceded premiums totaling \$(43,633) in 2017 under the Reinsurance Contracts due to a return of ceded unearned premiums totaling \$217,042. In 2016, the Company ceded premiums totaling \$451,791.

**FINANCIAL STATEMENTS**

The following financial statements are based on the statutory financial statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2017. The supporting exhibits present the information required to be included, in conformity with reporting practices prescribed by the Department. The financial statements and supporting schedules as of December 31, 2016, are unexamined and are presented for comparative purposes only.



**Central Farmers Mutual Insurance Company**  
**Statutory Statement of Admitted Assets**  
**December 31, 2017**

	2017	2016 <i>(unexamined)</i>
Bonds	\$305,792	\$306,925
Preferred stocks	27,340	35,435
Common stocks	3,876,334	3,421,477
Real estate properties occupied by the Company	33,117	35,764
Cash and cash equivalents	496,569	314,444
Receivables for securities	-	587,617
<b>Total cash and invested assets</b>	<b>4,739,152</b>	<b>4,701,662</b>
Investment income due and accrued	4,490	2,389
Uncollected premiums and agents' balances in course of collection	8,269	26,730
Deferred premiums and agents' balances booked but deferred and not yet due	41,510	-
Amounts recoverable from reinsurers	5,687	5,051
Section II profit sharing	11,381	-
<b>Total admitted assets</b>	<b>\$4,810,489</b>	<b>\$4,735,832</b>

**Central Farmers Mutual Insurance Company**  
**Statutory Statement of Liabilities, Policyholders' Surplus**  
**December 31, 2017**

	2017	2016 <i>(unexamined)</i>
Losses	\$39,826	\$15,191
Loss adjustment expenses	30,607	33,275
Commissions payable, contingent commissions and other similar charges	17,632	(20,992)
Other expenses	3,427	4,103
Current federal and foreign income tax	9,640	-
Net deferred tax liability	360,621	436,298
Unearned premiums	345,566	104,951
Advance premium	23,867	16,231
Ceded reinsurance premiums payable	4,126	20,172
Amounts withheld or retained by Company for account of others	3,068	5,171
Payable for securities	-	778,693
Premiums payable	3,971	4,448
<b>Total Liabilities</b>	<b>842,351</b>	<b>1,397,541</b>
Unassigned funds	3,968,138	3,338,291
<b>Total Surplus</b>	<b>3,968,138</b>	<b>3,338,291</b>
<b>Total Liabilities and Surplus</b>	<b>\$4,810,489</b>	<b>\$4,735,832</b>

**Central Farmers Mutual Insurance Company**  
**Statutory Statement of Operations**  
**December 31, 2017**

	2017	2016 <i>(unexamined)</i>
<b>Underwriting Income</b>		
Premiums earned	\$431,121	\$162,377
<b>Deductions</b>		
Losses incurred	101,273	47,535
Loss adjustment expenses incurred	65,424	87,384
Other underwriting expenses incurred	307,090	84,829
Total underwriting deductions	473,787	219,748
Net underwriting (loss)	(42,666)	(57,371)
<b>Investment Income</b>		
Net investment income earned	19,734	(25,369)
Net realized capital gains	85,030	286,990
Net investment gain	104,764	261,621
<b>Other Income</b>		
Finance and service charges not included in premiums	1,797	-
Commissions on section II liability premiums	26,137	12,355
Other income	(2,220)	(823)
Loss on disposal of fixed asset	(343)	-
Total other income	25,371	11,532
Federal income taxes incurred	(6,372)	-
<b>Net Income</b>	<b>\$93,841</b>	<b>\$215,782</b>

**Central Farmers Mutual Insurance Company**  
**Statutory Statement of Policyholders' Surplus**  
**December 31, 2017**

	<b>2017</b>	<b>2016</b> <i>(unexamined)</i>
Surplus, beginning of year	\$3,338,291	\$3,215,619
Surplus increases (decreases):		
Net income	93,841	215,782
Change in net unrealized capital gains(losses)	535,064	(62,951)
Change in net deferred income tax	953	(38,520)
Change in non-admitted assets	(11)	8,361
Change in surplus as regards policyholders for the year	629,847	122,672
<b>Surplus, end of year</b>	<b>\$3,968,138</b>	<b>\$3,338,291</b>

**Central Farmers Mutual Insurance Company**  
**Statutory Statement of Cash Flow**  
**December 31, 2017**

	2017	2016 <i>(unexamined)</i>
<b>Cash From (Used By) Operations</b>		
Premiums collected net of reinsurance	\$657,909	\$159,959
Net investment income	26,403	(9,735)
Miscellaneous income	25,371	11,530
Total	709,683	161,754
Benefit and loss related payments	77,274	57,236
Commissions, expenses paid and aggregate write-ins	354,866	159,331
Total	432,140	216,567
<b>Net cash from (used by) operations</b>	<b>277,543</b>	<b>(54,813)</b>
<b>Cash From (Used By) Investments</b>		
Proceeds from investments sold, matured, or repaid	3,221,003	3,590,587
Cost of investments acquired	3,302,449	3,489,903
<b>Net cash from (used by) investments</b>	<b>(81,446)</b>	<b>100,684</b>
<b>Cash From (Used By) Financing and Miscellaneous Sources</b>		
Other cash (applied) provided	(13,972)	13,211
<b>Net cash from (used by) financing and miscellaneous sources</b>	<b>(13,972)</b>	<b>13,211</b>
<b>Reconciliation of Cash and Cash Equivalents</b>		
Net change in cash and cash equivalents	182,125	59,082
Cash and cash equivalents, beginning of year	314,444	255,362
Cash and cash equivalents, end of year	<b>\$496,569</b>	<b>\$314,444</b>

## COMMENTS ON FINANCIAL STATEMENTS

### **Basis of Presentation and Summary of Significant Accounting Policies:**

The accompanying financial statements have been prepared on the basis of the accounting practices prescribed or permitted by the Department.

The more significant accounting policies followed by the Company are as follows:

**Bonds:** Carried at amortized cost using the scientific method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value. Bonds not backed by other loans are stated at amortized cost using the scientific method.

**Common stocks:** Carried at fair value except investments in stock of subsidiaries, which are carried at a value determined under equity method.

**Cash and short-term investments:** Carried at amortized cost (which approximates fair value) and includes money market instruments and debt securities with maturities of less than one year.

**Premiums:** Insurance premiums, net of premiums ceded to reinsurers, are earned over the terms of the policies. The portion of direct premiums written applicable to the unexpired terms of the policies is recorded as unearned premium. Premiums are earned on a pro rata basis.

**Unpaid loss & loss adjustment expense:** Includes amounts determined from individual case estimates and loss reports and amounts, based on experience, for losses incurred but not reported. Estimated amounts of salvage and subrogation and reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

**Analysis of Assets:**

The following represents an analysis of the Company's net admitted assets at December 31, 2017:

	<b>Assets</b>	<b>Assets not Admitted</b>	<b>Net Admitted Assets</b>
Bonds	\$305,792		\$305,792
Preferred stocks	27,340		27,340
Common stocks	3,876,334		3,876,334
Real estate properties occupied by the company	33,117		33,117
Cash and cash equivalents	496,569		496,569
Other invested assets	250	250	-
<b>Total cash and invested assets</b>	<b>4,739,402</b>	<b>250</b>	<b>4,739,402</b>
Investment income due and accrued	4,490		4,490
Uncollected premiums and agents' balances in course of collection	8,269		8,269
Deferred premiums and agents' balances booked but not yet due	41,510		41,510
Amounts recoverable from reinsurers	5,687		5,687
Electronic data processing equipment and software	2,195	2,195	-
Section II profit sharing	11,381		11,381
<b>Total admitted assets</b>	<b>\$4,812,934</b>	<b>\$2,445</b>	<b>\$4,810,489</b>

**Reinsurance Activity:**

The Company has excess of loss contracts to minimize its exposure to losses. Reinsurance contracts do not relieve the Company of its primary obligation to policyholders. Failure of the reinsurers to discharge their obligations could result in losses to the Company. The Company utilizes Beach Re Ltd. as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks. The Company does not assume reinsurance business.

Direct and ceded premiums written and earned are as follows:

	2017	2016
Direct written	\$628,103	\$611,964
Ceded written	43,633	(451,791)
<b>Net written</b>	<b>671,736</b>	<b>160,173</b>
Direct earned	604,530	609,264
Ceded earned	(173,409)	(446,887)
<b>Net earned</b>	<b>\$431,121</b>	<b>\$162,377</b>

Effective January 1, 2017, the Company changed from facultative and treaty reinsurance contracts to excess of loss reinsurance contracts. Due to the change in reinsurance contracts, the Company received a return of ceded unearned premiums of \$217,042 in 2017. This amount was netted in the ceded premiums disclosed in the table above.

The Reinsurer shares in the risks at different levels as specified in the reinsurance contracts. The types of contracts and retention limits are described under the Reinsurance Program Overview.



### Summary of Reserves:

The following provides a reconciliation of the Company's reserves for losses and loss adjustment expenses:

	2017	2016
Reserve for losses and loss adjustment expenses, beginning of year	\$48,466	\$49,326
<b>Add:</b>		
Provision for losses and loss adjustment expenses, current year	156,488	139,875
Change in estimated losses and loss adjustment expenses, prior years	10,209	(4,956)
<b>Total incurred</b>	166,697	134,919
<b>Deduct:</b>		
Losses and loss adjustment expenses paid, current year	107,263	91,907
Losses and loss adjustment expenses paid, prior year	37,466	43,872
<b>Total paid</b>	144,729	135,779
Reserve for losses and loss adjustment expenses, end of year	70,434	48,466
Increase in reserve for losses and loss adjustment expenses	\$21,968	\$(860)

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. At December 31, 2017, and 2016, the liability for losses and loss adjustment expenses was reduced by \$117,125 and \$93,437, respectively, for amounts to be recovered from reinsurers.

**Policyholders' Surplus:**

The following, in conjunction with the Statutory Statement of Policyholders' Surplus (see page 10), represents the changes in the Company's surplus since the Department's last examination as of December 31, 2012:

	2015	2014	2013
Surplus, beginning of year	\$3,123,349	\$2,993,693	\$2,759,190
Surplus increases (decreases):			
Net income (loss)	(98,744)	(17,011)	91,156
Change in net unrealized capital gain (loss)	(60,931)	156,623	145,288
Change in net deferred income tax	49,013	(10,484)	(2,469)
Change in non-admitted assets	202,932	528	528
Change in surplus as regards policyholders for the year	92,270	129,656	234,503
Surplus, end of year	\$3,215,619	\$3,123,349	\$2,993,693

**Contingencies and Commitments:**

The Company does not have any pending legal proceedings arising from litigation, income taxes or other matters that could have a material effect on the financial position of the Company.

**Central Farmers Mutual Insurance Company**  
**DISTRIBUTION OF REPORT ON EXAMINATION**  
**December 31, 2017**

Jon Dresbach, Secretary/Treasurer  
181 E. Elm Street  
Robbins, North Carolina 27325

Thomas Hussey, President  
181 E. Elm Street  
Robbins, North Carolina 27325

Joe Vaughn, Vice President  
181 E. Elm Street  
Robbins, North Carolina 27325

## CONCLUSION

The examination procedures, described herein, revealed no material adverse findings or adjustments to surplus.

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-7-75 for the kinds of insurance that the Company has been authorized to write, which is \$120,000.

The courteous cooperation and assistance extended by the officers and employees of the Company during the examination is hereby acknowledged.

Respectfully submitted,



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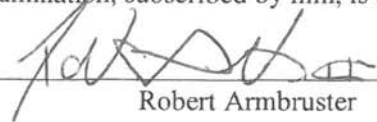
Ke Xu, CPA, CFE  
Chief Financial Examiner  
North Carolina Department of Insurance

January 9, 2019

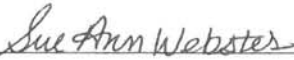
STATE OF NORTH CAROLINA

COUNTY OF WAKE

Robert Armbruster, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by him, is true and correct to the best of his knowledge and belief.

Signature:  Date: 1-9-19  
Robert Armbruster

Sworn and subscribed before me this 9<sup>th</sup> day of January, 2019.

Notary Public Signature:  Notary Public Seal: