

FINANCIAL EVALUATION

I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused to Davidson County Mutual Insurance Company, Inc., as of December 31, 2017 with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 6th day September, 2018.

Mike Causey
Commissioner of Insurance



Ke Xu, CPA, CFE
Chief Financial Examiner
Examination Section



Davidson County Mutual Insurance Company, Inc.

Lexington, North Carolina

Report on Examination

As of December 31, 2017

Davidson County Mutual Insurance Company, Inc.

Table of Contents

SCOPE OF THE EXAMINATION.....2

SUMMARY OF EXAMINATION FINDINGS.....2

 COMMENTS, RECOMMENDATIONS AND DIRECTIVE.....2

COMPANY HISTORY3

MANAGEMENT AND CONTROL.....3

 BOARD OF DIRECTORS3

 COMMITTEES3

 ACCOUNTS AND RECORDS4

 INDEPENDENT AUDITOR.....4

REINSURANCE4

 REINSURANCE CEDED.....4

FINANCIAL STATEMENTS.....5

NOTES TO THE FINANCIAL STATEMENTS 10

APPENDIX A – REPORT DISTRIBUTION 12

CONCLUSION..... 13

STATE OF NORTH CAROLINA..... 14

Davidson County Mutual Insurance Company, Inc.

Report on Examination

December 31, 2017

July 10, 2018

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 ("G.S."), the North Carolina Department of Insurance ("Department") conducted an examination of the records, business affairs and financial condition of

Davidson County Mutual Insurance Company, Inc.

(Hereinafter referred to as the "Company" or "DCM"), at its main administrative and statutory home office located at 37 West First Avenue, Lexington, NC, 27292. 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 most recent prior examination of the Company was as of December 31, 2012, conducted by the State of North Carolina.

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, Losses and Reserves, and Operations. 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 Statutory Accounting Principles. 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.

SUMMARY OF EXAMINATION FINDINGS

Comments, Recommendations and Directives

- a. The Company did not have conflict of interest statements signed annually by officers, directors and administrative personnel for all periods under examination as required by Title 11 of the North Carolina Administrative Code, Chapter 11C Section .0117. The Company is directed to require all officers, directors

Davidson County Mutual Insurance Company, Inc.

Report on Examination

December 31, 2017

and administrative personnel to sign such a statement annually, and to disclose any conflicts to the Board of Directors for a determination of its acceptability or the remedial disposition of the conflict.

- b. The Company's Board of Directors did not approve the investments of the Company for the period under examination as required by G.S. 58-7-168 which states, "An insurer shall not make any investment or loan, other than a policy loan or annuity contract loan of a life insurer, unless the investment or loan is authorized or approved by the insurer's board of directors or by a committee authorized by the board and charged with the supervision or making of the investment or loan. The minutes of any such committee shall be recorded and regular reports of the committee shall be submitted to the board of directors." The Company is directed to comply with G.S. 58-7-168.
- c. The Company incorrectly reported an agreement with DWS Scudder Investments for Interrogatory 28.02 of the Annual Statement's General Interrogatories, Part 1 – Common Interrogatories. There was no agreement between the Company and DWS Scudder Investments. The Company is directed to provide accurate financial reporting in future filings with the Department, pursuant to the NAIC Annual Statement Instructions and G.S. 58-2-16(c).

COMPANY HISTORY

The Company is a county farm mutual insurer that writes fire and allied lines insurance policies for the residents of Davidson, Randolph, Montgomery, Stanley, Rowan, and Davie counties. The Company was formed under G.S. 58-7-75(5)(d) and is therefore owned by the policyholders. The Company has a 100% ownership interest in the Davidson County Insurance Agency, Inc., which was formed on June 2, 2009.

MANAGEMENT AND CONTROL

Board of Directors

The business, property, and affairs of the Company are under the control of the Board of Directors ("Board") consisting of seven individuals.

The following individuals were serving as directors at December 31, 2017:

<u>Name</u>	<u>Address</u>	<u>Principal Business Affiliation</u>
Efird Wilson	Lexington, NC	President of DCM
David Hedrick	Lexington, NC	Vice-President of DCM
Jimmy Shoaf	Lexington, NC	Owner of Shoaf Precast, Inc.
Tim Coltrane	Lexington, NC	Owner of Coltrane Investments
Eddie Lothridge	Lexington, NC	Owner of Lothridge Plumbing
Joe Bryant	Lexington, NC	Owner of Friendship Farms

On December 31, 2017, the Company had six directors due to the passing one director, David Garner, on September 26, 2017. During the Board's meeting on April 3, 2018, Webb McCulloch was elected to assume the vacancy.

Committees

As of December 31, 2017, the Company's Board had not established any committees. In 2018, the Board established an Audit Committee that is comprised of three Board members, according to the designation letter filed with the Department, dated March 22, 2018,

Davidson County Mutual Insurance Company, Inc.

Report on Examination

December 31, 2017

Officers

The Board, at its annual meeting, elects three officers; a President, a Vice President and a Secretary and Treasurer. Directors cannot cast ballots for a position for which they are in contention.

The following individuals were serving as officers at December 31, 2017:

<u>Name</u>	<u>Address</u>	<u>Principal Business Affiliation</u>
Efird Wilson	Lexington, NC	President of DCM
Drue Carrick	Lexington, NC	Secretary and Treasurer of DCM
David Hedrick	Lexington, NC	Vice-President of DCM

Accounts and Records

The Company's books and records are maintained at 37 West First Avenue, Lexington, NC, 27292.

Independent Auditor

The books and records of the Company are audited annually by independent certified public accountants in accordance with G.S. 58-10-185(a). Rives & Associates, LLP, 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.

REINSURANCE

Reinsurance Ceded

The Company has a per risk and aggregate excess of loss reinsurance agreement ("Agreement") with two subscribing reinsurers ("SRS"), Farmers Mutual Hail Insurance Company of Iowa and Arch Reinsurance Company, effective January 1, 2017. JLT Re (North America) Inc., the Company's intermediary, negotiated the Agreement with the SRS who each assumed 50% of any loss or losses which may occur under any policies in force covering business classified by the Company as Property. The coverage provided by the Agreement is summarized as follows:

Under the per risk excess reinsurance section, the SRS is liable in respect of any one risk, any one loss occurrence for the ultimate net loss over and above the initial ultimate net loss retention of \$75,000 for the loss, subject to a limit of liability up to \$925,000 to the SRS for each such loss, and subject further to a limit of liability up to \$1,850,000 for all loss occurrences.

Under the aggregate first excess reinsurance section, the Company's retention is the greater of 100% of the aggregate excess gross net written premium income or \$1,330,292. The SRS' limit of liability is the lesser of 55% of the aggregate excess gross net written premium income or \$731,661.

Under the aggregate second excess reinsurance section, the Company's retention is the greater of 155% of the aggregate excess gross net written premium income or \$2,061,953. The SRS's limit of liability is the lesser of 165% of the aggregate excess gross net written premium income or \$2,194,982.

The Company ceded premiums totaling \$324,188 and \$412,493 in 2017 and 2016, respectively, to SRS under this contract.

Davidson County Mutual Insurance Company, Inc.

Report on Examination

December 31, 2017

FINANCIAL STATEMENTS

The following financial statements are based on the annual statements filed by the Company with the Department and present the financial condition of the Company for the period ending December 31, 2017. No adjustments were made to surplus as a result of this examination. The financial statements as of December 31, 2016, are unexamined and are presented for comparative purposes only.

Davidson County Mutual Insurance Company, Inc.
Statutory Statement of Admitted Assets

	December 31,	
	2017	2016
	(unexamined)	
<u>Admitted Assets</u>		
Bonds	\$ 2,080,601	\$ 1,731,872
Common stocks	346,314	370,954
Real estate properties occupied by the Company	118,671	120,215
Cash and short-term investments	288,622	258,977
Total cash and invested assets	2,834,208	2,482,018
Investment income due and accrued	12,768	12,152
Premiums and agents' balances in the course of collection	66,690	64,588
Net deferred tax asset	27,178	29,413
Sec II profit sharing bonus receivable	24,520	5,128
Miscellaneous receivable - reinsurance overpayment	-	33,719
Total admitted assets	\$ 2,965,364	\$ 2,627,018

See accompanying notes to the financial statements.

Davidson County Mutual Insurance Company, Inc.
Statutory Statement of Liabilities, Capital and Surplus

	December 31,	
	2017	2016
	(unexamined)	
<u>Liabilities</u>		
Losses	\$ 108,640	\$ 64,660
Loss adjustment expenses	30,058	38,799
Commissions payable, contingent commissions and other similar charges	8,156	8,857
Other expenses	2,987	2,750
Unearned premiums	589,402	590,617
Advance premium	48,547	65,099
Ceded reinsurance premiums payable	(9,446)	(1,306)
Amounts withheld or retained by Company for account of others	17,172	24,662
Derivatives	3,259	2,607
Premiums payable	13,581	14,679
Total liabilities	812,356	811,424
<u>Capital and Surplus</u>		
Unassigned funds	2,153,008	1,815,594
Total capital and surplus	2,153,008	1,815,594
Total liabilities, capital and surplus	\$ 2,965,364	\$ 2,627,018

See accompanying notes to the financial statements.

Davidson County Mutual Insurance Company, Inc.
Statutory Statement of Operations

	Year Ended December 31,	
	2017	2016
	(unexamined)	
<u>Underwriting Income</u>		
Premiums earned	\$ 1,136,028	\$ 1,016,564
Losses incurred	434,363	620,969
Loss adjustment expenses incurred	151,186	178,505
Other underwriting expenses incurred	304,042	333,246
Total underwriting deductions	889,591	1,132,720
Net underwriting gain (loss)	246,437	(116,156)
<u>Investment Income</u>		
Net investment income earned	(11,272)	(12,212)
Net realized capital gains (losses)	27,305	(899)
Net investment gain (loss)	16,033	(13,111)
<u>Other Income</u>		
Finance and service charges not included in premiums	8,498	8,588
Commissions earned on Section II premiums	59,338	40,421
Miscellaneous income	190	(503)
Total other income (loss)	68,026	48,506
Net income	\$ 330,496	\$ (80,761)

See accompanying notes to the financial statements.

Davidson County Mutual Insurance Company, Inc.
Statutory Statement of Capital and Surplus

	December 31,	
	2017	2016
	<i>(unexamined)</i>	
Capital and surplus, beginning of year	\$ 1,815,594	\$ 1,859,324
Capital and surplus increases (decreases):		
Net income	330,496	(80,761)
Change in net unrealized capital gains or (losses)	101,491	38,206
Change in net deferred income tax	(79,925)	17,348
Change in non-admitted assets	(14,648)	(18,523)
Change in surplus as regards policyholders for the year	337,414	(43,730)
Capital and surplus, end of year	\$ 2,153,008	\$ 1,815,594

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies

The accompanying financial statements have been prepared in conformity with the accounting practices prescribed by the G.S. The more significant accounting policies followed by the Company are as follows:

Bonds: Carried at amortized cost in accordance with the valuation standards of the NAIC unless they are required to be reported at market value by the NAIC.

Common stocks: Carried at fair value provided by the SVO of the NAIC except investments in subsidiaries which are carried at a value determined under equity method provided by the SVO of the NAIC.

Real estate occupied by the Company: Carried at depreciated cost less encumbrances.

Cash and short-term investments: Carried at amortized cost (which approximates fair value) and includes marketable securities with maturities greater than three months but less than one year at the time of purchase.

Premiums: Premiums written are earned over the period of coverage on a pro rata basis. Premiums billed to policyholders are recorded as uncollected premiums when the coverage period begins. Payments received in advance of coverage are recorded as premiums received in advance until earned. Delinquent uncollected premiums are charged directly to reserves and unassigned funds once delinquent for 30 days.

2. Analysis of Assets

The following represents an analysis of the Company's net admitted assets:

	December 31, 2017		
	Assets	Assets not Admitted	Net Admitted Assets
Bonds	\$ 2,080,601	\$ -	\$ 2,080,601
Common stocks	346,314	-	346,314
Properties occupied by the company	118,671	-	118,671
Cash and short-term investments	288,622	-	288,622
Total cash and invested assets	2,834,208	-	2,834,208
Investment income due and accrued	12,768	-	12,768
Premiums and agents' balances in course of collection	73,579	6,889	66,690
Net deferred tax assets	347,354	320,176	27,178
Electronic data processing equipment and software	1,435	1,435	-
Furniture and equipment	2,872	2,872	-
Sec II profit sharing bonus receivable	24,520	-	24,520
Total admitted assets	\$ 3,296,736	\$ 331,372	\$ 2,965,364

3. Reserves

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

	December 31,	
	2017	2016
		<i>(unexamined)</i>
Reserve for losses and loss adjustment expenses, beginning of year	<u>\$ 103,459</u>	<u>\$ 79,654</u>
Add:		
Provision for losses and loss adjustment expenses, current year	599,000	818,000
Change in estimated losses and loss adjustment expenses, prior years	<u>(13,451)</u>	<u>(18,526)</u>
Total incurred	<u>585,549</u>	<u>799,474</u>
Deduct:		
Losses and loss adjustment expenses paid, current year	464,000	731,000
Losses and loss adjustment expenses paid, prior year	<u>86,310</u>	<u>44,669</u>
Total paid	<u>550,310</u>	<u>775,669</u>
Reserve for losses and loss adjustment expenses, end of year	<u>138,698</u>	<u>103,459</u>
Increase in reserve for losses and loss adjustment expenses	<u>\$ 35,239</u>	<u>\$ 23,805</u>

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 approximately \$6,000 and \$56,000, respectively, for amounts to be recovered from reinsurers.

4. Capital and Surplus

The following, in conjunction with the Statutory Statement of Surplus, see page 9, represents the changes in the Company's capital and surplus since the Company's last examination.

	December 31,		
	2015	2014	2013
	<i>(unexamined)</i>	<i>(unexamined)</i>	<i>(unexamined)</i>
Capital and surplus, beginning of year	\$ 1,427,013	\$ 1,397,255	\$ 1,438,824
Capital and surplus increases (decreases):			
Net income	(210,466)	11,524	(32,528)
Change in net unrealized capital gain (loss)	(19,408)	8,760	(16,461)
Change in net deferred income tax	(59,495)	2,502	15,728
Change in nonadmitted assets	721,680	6,972	(9,708)
Change in provision for reinsurance			1,400
Change in surplus as regards policyholders for the year	432,311	29,758	(41,569)
Capital and surplus, end of year	\$ 1,859,324	\$ 1,427,013	\$ 1,397,255

Davidson County Mutual Insurance Company, Inc.
Appendix A – Report Distribution
December 31, 2017

Efird E. Wilson, President
37 West 1st Avenue
Lexington, NC 27292

Drue W. Carrick, Secretary/Treasurer
37 West 1st Avenue
Lexington, NC 27292

David Hedrick, Vice President
37 West 1st Avenue
Lexington, NC 27292

CONCLUSION

We conclude that the Company complies with the minimum capital and surplus requirements of G.S. 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,




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

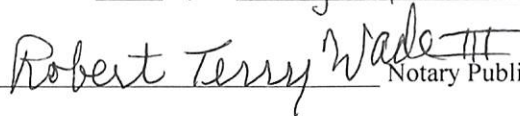
July 10, 2018

STATE OF NORTH CAROLINA
COUNTY OF WAKE

Rob Armbruster, Supervising Examiner, 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: 8-9-18
Rob Armbruster

Sworn and subscribed before me this 9th day of August, 2018

Notary Public Signature:  Notary Public Seal



My Commission Expires 11-24-2019,