



I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused Davidson County Mutual Insurance Company, Inc. as of December 31, 2021 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 19th day of May, 2023.



Mike Causey
Commissioner of Insurance

Monique D. Smith, CPA, CFE
Deputy Commissioner
Financial Examination Division

Davidson County Mutual Insurance Company, Inc.

Lexington, NC

Report on Examination

As of December 31, 2021

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April 17, 2023

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

Davidson County Mutual Insurance Company, Inc.

(hereinafter referred to as the “Company”), acknowledging that its main administrative and statutory home office are located at 37 West 1st Avenue, Lexington, North Carolina 27292. The following report on examination is respectfully submitted.

SCOPE OF THE EXAMINATION

We performed a full-scope statutory examination of the Company. This examination covers the period from January 1, 2018, to December 31, 2021, 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, 2017.

The purpose of this examination is to assess the financial condition and controls of the Company and set forth findings of fact (together with citations of pertinent laws, regulations, and rules) with regard to any material adverse findings disclosed by the examination.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the 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 and the following key functional activities were identified:

Underwriting
Claims and Reserves
Investments
Reinsurance Ceding
Surplus Management
Related Parties

This may include 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 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 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). RH CPAs, PLLC of Lexington, North Carolina, the designated independent public accountant of the Company, issued an unmodified opinion for each year subsequent to the Department's prior examination through, and including, the year ended December 31, 2021.

SUMMARY OF SIGNIFICANT FINDINGS

COMMENTS, RECOMMENDATIONS, AND DIRECTIVES

- a. The Company did not maintain adequate fidelity bond coverage from January 1, 2018, through December 31, 2021. The NAIC's recommended minimum fidelity bond coverage is \$75,000 according to the exposure index limit of the Company. The Company is directed to maintain fidelity bond coverage for no less than the minimum recommended by the NAIC.
- b. The Company failed to provide in a complete and timely manner to the Department the Corporate Governance Annual Disclosure ("CGAD") in accordance with GS § 58-10-765 and § 58-10-775 for the years 2019, 2020 and 2021. The Company is directed to file its CGAD no later than June 1 of each calendar year and containing the information described in GS § 58-10-775.
- c. The Company did not maintain sufficient meeting minutes related to the Board's oversight of key corporate governance areas. We recommend that the Company maintain meeting minutes which include the following: 1) the Board's approval of the appointment of the CPA in accordance with GS § 58-10-245 and 2) the Board's review and approval of the investment transactions in accordance with GS § 58-7-168.
- d. The Company failed to provide timely information when requested by the Department in violation of GS § 58-2-131. The Company is directed to provide a complete response on or before the due date stipulated or request an extension before the due date if necessary.
- e. The Company did not comply with the terms of its management agreement with Davidson County Insurance Agency, Inc. ("Agency"), which requires the Agency to reimburse the Company for the services rendered at a rate equal to 65 percent of the amount of the commissions received by the Agency, to be payable on or before March 31, June 30, September 30, and December 31. The Company is directed to comply with the provisions of its executed management agreement.

COMPANY HISTORY

The Company is an assessable county farm mutual company incorporated in 1902. The Company was formed as a mutual insurance company under G.S. 58-7-75(5)(d) and is, therefore, owned by the policyholders. The Company has no shares authorized, issued or outstanding. The Company is considered a member of a holding company system due to its 100% ownership of Agency, which was formed on June 2, 2009.

DIVIDENDS TO POLICYHOLDERS

Dividends are paid as declared by the Board of Directors ("Board") of the Company. Under the insurance regulations of North Carolina, the maximum amount of ordinary dividends which the Company may pay to policyholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end. Any amounts in excess of this are considered extraordinary. The Company paid no dividends during the examination period, which includes 2018 through 2021.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Members

The bylaws of the Company provide that all persons holding policies in good standing with the Company shall be members of the Company. The bylaws of the Company provide that an annual meeting of the members be held at such time and place as the Board may appoint. Special meetings of the policyholders may be called at any time by the president.

Board of Directors

The management and affairs of the Company are vested in the Board consisting of seven members. Directors are elected annually at the annual meeting of the members. Each director is elected for a three-year term, which shall be staggered so that no more than three directors are up for election in any given year, unless there is an unexpired term to be filled.

The following individuals served as directors at December 31, 2021:

Name	Location	Principal Occupation
David Hedrick	Lexington, North Carolina	Retired Self-employed
Bruce Edwards Lothridge	Lexington, North Carolina	Surveyor
Efird Wilson	Lexington, North Carolina	Self-employed Contractor
Jimmy Shoaf Jr.	Lexington, North Carolina	Self-employed Contractor
Fred Mcculloch	Lexington, North Carolina	Self-employed
Joseph Bryant	Lexington, North Carolina	Farmer
Timothy Coltrane	Lexington, North Carolina	Real Estate Agent

The Board has established a Personnel Committee to act on behalf of the Company.

The following individuals served on the committee at December 31, 2021:

Personnel Committee

Timothy Coltrane
Bruce Edwards Lothridge
Efird Wilson

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a vice-president, a secretary and treasurer, and such other officers deemed necessary by the Board. All officers shall hold office for one year, or until their successors are elected and qualified. Any vacancy among the officers shall be filled by the Board.

The following individuals served as officers of the Company at December 31, 2021:

Name	Title
David Hedrick	President
Timothy Coltrane	Vice President
Drue Carrick	Secretary/Treasurer

CODE OF CONDUCT AND CONFLICT OF INTEREST

The Company has an established policy and procedure 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 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 committee for the period under examination. Based on our review, it appears that the minutes did not document all the Company's significant transactions and events, including the directors' approval of these transactions and events. (Refer to the Summary of Significant Findings)

The Company's articles of incorporation and bylaws were reviewed for any changes during the period under examination. There were no changes during the period of examination.

FIDELITY BONDS AND OTHER INSURANCE

The Company did not have fidelity bond coverage during the examination period which includes 2018 through 2021. The NAIC's recommended minimum fidelity bond coverage is \$75,000 according to the exposure index limit of the Company. (Refer to the Summary of Significant Findings)

In addition, the Company is a named insured on various corporate property and liability policies, which appeared to be adequate to cover risks in the normal course of business.

EMPLOYEE BENEFITS AND PENSION PLANS

The Company maintains both a profit-sharing plan and a defined contribution pension plan. The assets of the plans are invested in life insurance annuities and contracts.

Contributions to the profit-sharing plan are based on the Board's discretion with no contributions being made during the years ended December 31, 2021, and 2020.

Contributions to the defined contribution pension plan are made by the employees and the Company. The employees may contribute 2.5% of their compensation, while the Company contributes 5% of the participating employee's compensation. Contributions payable to the pension plan by the Company totaled \$10,540 and \$8,211 at December 31, 2021 and 2020, respectively.

RELATED PARTY AGREEMENTS

The Company has an Administrative and Management Services Agreement with the Agency, effective January 30, 2013, whereby the Company utilizes the Agency as its nonexclusive agent for insurance writings and the Agency utilizes the Company to manage certain administrative functions for it. The Agency shall reimburse the Company for the services rendered at a rate equal to 65 percent of the commissions received by the Agency payable by no later than the end of each calendar quarter. There was no management fee income received or accounts receivable from the Agency in 2021 and 2020. (Refer to Summary of Significant Findings)

TERRITORY AND PLAN OF OPERATION

The Company writes fire and allied lines of property insurance coverage, through a dual masthead policy in connection with Alamance Farmers' Mutual Insurance Company, its liability carrier. At December 31, 2021, the Company is authorized to write in the six-county area encompassing Davidson, Randolph, Montgomery, Stanley, Rowan, and Davie counties.

TRENDS OF THE COMPANY

The following data, obtained from annual statements filed with the Department, illustrates the trends of the Company for the four-year period ended 2021:

Year	Net Admitted Assets	Surplus	Gross Premiums Written	Net Earned Premiums	Net Income(Loss)
2021	\$3,244,423	\$2,437,087	\$1,534,039	\$1,217,407	\$164,470
2020	\$3,057,181	\$2,227,175	\$1,508,346	\$1,087,511	(\$31,645)
2019	\$2,961,526	\$2,206,645	\$1,467,097	\$1,084,744	\$439,444
2018	\$2,893,163	\$1,705,506	\$1,432,919	\$1,077,246	(\$382,470)

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. The Company was granted an exemption from filing a Statement of Actuarial Opinion for each of the years under examination.

REINSURANCE PROGRAM OVERVIEW

REINSURANCE CEDED

The Company has a Property Per Risk and Aggregate Excess of Loss reinsurance contract with various reinsurers effective January 1, 2021, which provides coverage on all lines of business that the Company writes as follows:

Per Risk Excess of Loss	Covers 100% of the insured risk in excess of \$75,000, up to a loss per risk limit of \$925,000 and a loss occurrence limit of \$1,850,000.
Aggregate Excess of Loss-First Layer	Covers 95% of losses in excess of 100% of the aggregate excess gross net written premium income or \$1,302,900, subject to a limit of liability of 55% of the aggregate excess gross net written premium income or \$716,595.
Aggregate Excess of Loss-Second Layer	Covers 95% of losses in excess of 155% of the aggregate excess gross net written premium income or \$2,019,495, subject to a limit of liability of 165% of the aggregate excess gross net written premium income or \$2,149,785.

In 2021 and 2020, the Company ceded premiums totaling \$326,474 and \$397,383, respectively, under this contract.

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, 2021. 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, 2020, are unexamined and are presented for comparative purposes only.

Davidson County Mutual Insurance Company, Inc.
Statutory Statement of Admitted Assets
December 31, 2021

	2021	2020 <i>(unexamined)</i>
Bonds	\$2,127,932	\$1,873,721
Common stocks	637,184	592,506
Real estate	129,068	114,942
Cash and short-term investments	178,819	342,306
Total cash and invested assets	3,073,003	2,923,475
Investment income due and accrued	11,086	11,467
Premiums and agents' balances in course of collection	40,604	55,150
Net deferred tax asset	28,669	28,781
Reinsurance recoverable	64,735	410
Electronic data processing equipment and software	2,981	3,585
Section II sharing bonus receivable	23,345	34,313
Total Admitted Assets	\$3,244,423	\$3,057,181

Davidson County Mutual Insurance Company, Inc.
Statutory Statement of Liabilities and Surplus
December 31, 2021

	2021	2020 <i>(unexamined)</i>
Losses	\$ 32,258	\$75,921
Loss adjustment expenses	7,452	18,453
Commissions payable, contingent commissions and other similar charges	8,825	7,515
Other expenses	1,262	1,624
Unearned premiums	622,319	632,161
Advance premium	60,289	53,109
Ceded reinsurance premiums payable	(4,372)	(8,288)
Amounts withheld or retained by Company for account of others	23,105	21,290
Derivatives	42,465	15,674
Premiums payable	13,733	12,547
Total liabilities	807,336	830,006
Unassigned funds	2,437,087	2,227,175
Total surplus	2,437,087	2,227,175
Total Liabilities and Surplus	\$3,244,423	\$3,057,181

Davidson County Mutual Insurance Company, Inc.
Statutory Statement of Operations
December 31, 2021

	2021	2020 <i>(unexamined)</i>
Underwriting Income		
Premiums earned	\$1,217,407	\$1,087,511
Deductions		
Losses incurred	597,276	636,955
Loss adjustment expenses incurred	170,941	191,663
Other underwriting expenses incurred	341,810	328,420
Total underwriting deductions	1,110,021	1,157,038
Net underwriting gain(loss)	107,380	(69,527)
Investment Income		
Net investment income earned	(14,533)	(9,851)
Net realized capital gains(losses)	7,613	(26,075)
Net investment(loss)	(6,920)	(35,926)
Other Income		
Finance and service charges not included in premiums	5,985	7,245
Commissions earned on Section II premiums	57,962	66,435
Other income	63	128
Total other income	64,010	73,808
Net Income(Loss)	\$164,470	(\$31,645)

Davidson County Mutual Insurance Company, Inc.
Statutory Statement of Surplus
December 31, 2021

	2021	2020 <i>(unexamined)</i>
Surplus, beginning of year	\$2,227,175	\$2,206,645
Surplus increases(decreases):		
Net income(loss)	164,470	(31,645)
Change in net unrealized capital gains or (losses)	34,448	(67,123)
Change in net deferred income tax	(38,027)	9,085
Change in non-admitted assets	49,021	110,213
Change in surplus as regards policyholders for the year	209,912	20,530
Surplus, end of year	\$2,437,087	\$2,227,175

Davidson County Mutual Insurance Company, Inc.
Statutory Statement of Cash Flow
December 31, 2021

	2021	2020 <i>(unexamined)</i>
Cash From (Used By) Operations		
Premiums collected net of reinsurance	\$1,231,859	\$1,121,510
Net investment (loss)	(8,562)	(4,509)
Miscellaneous income	64,010	73,808
Total	1,287,307	1,190,809
Benefit and loss related payments	718,997	597,498
Commissions, expenses paid and aggregate write-ins	523,547	520,794
Federal income taxes paid	(5)	-
Total	1,242,539	1,118,292
Net cash from operations	44,768	72,517
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	1,053,623	1,107,083
Cost of investments acquired	1,288,622	1,172,975
Net cash (used by) investments	(234,999)	(65,892)
Cash From (Used by) Financing and Miscellaneous Sources		
Other cash provided	26,744	3,830
Net cash from financing and miscellaneous sources	26,744	3,830
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	(163,487)	10,455
Cash and short-term investments, beginning of year	342,306	331,851
Cash and short-term investments, end of year	\$178,819	\$342,306

COMMENTS ON FINANCIAL STATEMENTS

There were no changes to the Company's financial statements and there were no proposed adjustments to surplus as a result of this examination.

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 interest method. Bonds with lower credit ratings are carried at the lower of amortized cost or NAIC market value.

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

Reinsurance: Premiums, commissions, expense reimbursements, and reserves are reported for on a basis consistent with the original policies issued and the terms of the reinsurance agreements. Premiums ceded are reported as a reduction of premium income. Losses and loss adjustment expenses are reported as reductions of those items.

Business acquisition costs: Charged to income as incurred.

Nonadmitted assets: Certain assets, such as premiums over 90 days past due, excess of book value over market value for securities, and prepaid expenses, are "nonadmitted" and are charges against surplus.

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 Company reported the following as nonadmitted assets at December 31, 2021: uncollected premiums totaling \$6,067, net deferred tax assets totaling \$156,382, and furniture and equipment totaling \$894.

Reinsurance Activity:

The Company has an excess of loss reinsurance contract 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 Trean Reinsurance Services, LLC as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct and ceded premiums written and earned are as follows:

	2021	2020
Direct written	\$1,534,039	\$1,508,346
Ceded written	(326,474)	(397,383)
Net written	\$1,207,565	\$1,110,963
Direct earned	1,593,803	1,481,284
Ceded earned	(322,396)	(393,773)
Net earned	\$1,271,407	\$1,087,511

The reinsurers share in the risks at different levels as specified in the reinsurance contract. The type of contract 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:

	2021	2020
Reserve for losses and loss adjustment expenses, beginning of year	\$94,374	\$54,706
Add:		
Provision for losses and loss adjustment expenses, current year	733,476	708,962
Change in estimated losses and loss adjustment expenses, prior years	(34,741)	(119,656)
Total incurred	768,217	828,618
Deduct:		
Losses and loss adjustment expenses paid, current year	(792,880)	(642,463)
Losses and loss adjustment expenses paid, prior year	(30,001)	(146,487)
Total paid	822,881	788,950
Reserve for losses and loss adjustment expenses, end of year	39,710	94,374
Increase (decrease) in reserve for losses and loss adjustment expenses	\$54,664	(\$39,668)

The Company does not expect any salvage or subrogation to offset the loss and loss adjustment expense liabilities.

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, 2021 and 2020, the liability for losses and loss adjustment expenses was reduced by \$7,625 and \$60,789, respectively, for amounts to be recovered from reinsurers.

Surplus:

The following, in conjunction with the Statutory Statement of Surplus, represents the changes in the Company's surplus since the Department's last examination as of December 31, 2017:

	2019	2018
Surplus, beginning of year	\$1,705,506	\$2,153,008
Surplus increases (decreases):		
Net income (loss)	439,444	(382,470)
Change in net unrealized capital gain (loss)	48,043	(49,693)
Change in net deferred income tax	(92,613)	82,129
Change in nonadmitted assets	106,265	(97,470)
Rounding from deferred income taxes	-	2
Change in surplus as regards policyholders for the year	556,752	447,502
Surplus, end of year	\$2,206,645	\$1,705,506

Davidson County Mutual Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2021

Drue Carrick, Secretary & Treasurer
37 West 1st Avenue
Lexington, North Carolina 27292

David Hedrick, President
37 West 1st Avenue
Lexington, North Carolina 27292

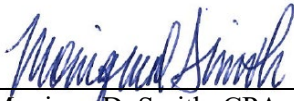
CONCLUSION

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

We conclude that the Company complies with the minimum 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,



Monique D. Smith, CPA, CFE
Deputy Commissioner
North Carolina Department of Insurance

April 17, 2023

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Dianaliz Toledo, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature: Dianaliz Toledo Date: April 17, 2023

Sworn and subscribed before me this 17 day of April, 2023.

Notary Public Signature: Christine M. Williams Notary Public Seal:

