

Edgecombe Farmers Mutual Fire Insurance Company, Inc.

Tarboro, North Carolina

Report on Limited-Scope Examination

As of December 31, 2014

Edgecombe Farmers Mutual Fire Insurance Company, Inc.

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Edgecombe Farmers Mutual Fire Insurance Company, Inc.

Report on Limited-Scope Examination

Honorable Wayne Goodwin
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 a limited-scope examination of **Edgecombe Farmers Mutual Fire Insurance Company, Inc.** (“Company”) as of December 31, 2014. The Department’s last full-scope examination was as of December 31, 2009. This limited-scope examination was performed to address specific areas based on the Department’s review and analysis of the Company’s 2014 Annual Statement.

This examination was performed in accordance with auditing standards established by the Department. The purpose of this examination was to review specific aspects of the Company’s 2014 Annual Statement as specified in the Scope of the Examination on page 4. The scope of this examination was not comprehensive, but included a limited review of the Company’s practices and procedures, its corporate and accounting records, details of certain transactions, and an evaluation of certain assets and liabilities reported as of December 31, 2014. This report is not intended to communicate all matters of importance for an understanding of the Company’s financial condition as of December 31, 2014. Therefore, the findings and conclusions contained within this report are based solely on the work performed on the specific areas of concern and are provided in the Summary of Examination Objectives and Findings on page 5.

Respectfully submitted,



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

August 14, 2015

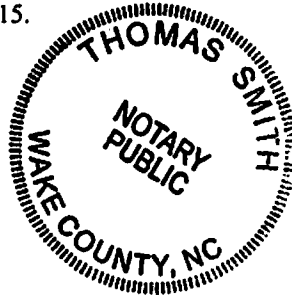
STATE OF NORTH CAROLINA
COUNTY OF WAKE

Eileen Culliney, 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: Eileen Culliney Date: 9/28/15
Eileen Culliney

Sworn and subscribed before me this 28 day of September, 2015.

Notary Public Signature: [Signature] Notary Public Seal:



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1. Company Background

In 1901, Farmers Mutual Fire Insurance Association of Edgecombe County was incorporated in the State of North Carolina ("State") as a county farm mutual authorized to write in six contiguous counties within North Carolina. In 1962, the Company adopted its current name through filing an Article of Amendment with the State.

The Company provides property coverage, within the six-county area including Edgecombe, Greene, Nash, Pitt, Wayne, and Wilson. The Company is authorized to write only fire and allied lines of coverage pursuant to GS §58-7-15 and GS §58-7-75. The Company also provides liability coverage to its policyholders through a producer agreement with Alamance Farmers' Mutual Insurance Company ("Alamance"), its liability carrier.

2. Scope of the Examination

The scope of this examination was limited to a review of the following areas relative to the 2014 Annual Statement:

- a) Investments
- b) Premiums and Underwriting
- c) Claims and Reserves
- d) Reinsurance
- e) Operations

3. Examination Procedures

The examination procedures performed during this examination included the following:

- 1) Review and verification of supporting documentation for reported balances;
- 2) Substantive testing of underlying data and transactions;
- 3) Analytical procedures and recalculation of account balances;
- 4) Review of the Company's underwriting practice and procedures;
- 5) Review of the Company's contracts and agreements;
- 6) Actuarial review of the Company's reserves by the Department's Actuarial Services Division;
- 7) Other examination procedures deemed necessary to meet the established objectives.

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4. Summary of Examination Objectives and Findings

a) Investments

- 1) Examination Objective: To verify that the Board of Directors (“Board”) reviewed investment transactions in accordance with GS §58-7-168.

Findings: No adverse findings were noted.

- 2) Examination Objective: To determine whether the Board properly approved the Company’s investment policy and to review the Company’s investment transactions for compliance with its investment policy.

Findings: The Company did not document the approval of its investment policies by its Board. The investments reported in the Company’s Annual Statement as of December 31, 2014, did not fully comply with the portfolio limitations stipulated in its investment policy. The Company is directed to document the Board’s approval of its investment policy in its Board minutes and to comply with its investment policy approved by the Board in accordance with GS §58-7-168.

- 3) Examination Objective: To verify the existence of the bonds totaling \$66,137 reported in the Company’s Annual Statement as of December 31, 2014.

Findings: No adverse findings were noted.

b) Premiums and Underwriting

- 1) Examination Objective: To verify that the premium transactions incurred for the year ended 2014 were accurately recorded in accordance with GS §58-2-165(c) and the Statement of Statutory Accounting Principles (“SSAP”).

Findings: The Company overstated written premium totaling \$14,683 for the year ended 2014. An examination adjustment was made to reduce the written premium. Refer to the Summary of Examination Adjustments Items a and b. The Company is directed to comply with GS §58-2-165(c) and SSAP No. 53 to ensure accurate financial reporting in all future filings with the Department.

- 2) Examination Objective: To verify the completeness of the direct written premium totaling \$1,850,933 reported in the Company’s Annual Statement as of December 31, 2014.

Findings: No adverse findings were noted.

- 3) Examination Objective: To verify the accuracy and collectability of the premium receivable totaling \$372,802 reported in the Company’s Annual Statement as of December 31, 2014.

Findings: The Company understated the non-admitted assets for uncollected premiums by \$10,561. An examination adjustment was made to increase the non-admitted assets. Refer to the Summary of Examination Adjustments Item c. The Company is directed to comply with GS §58-2-165(c) and SSAP No. 6 to ensure accurate financial reporting in all future filings with the Department.

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- 4) Examination Objective: To verify the accuracy of the advance premiums totaling \$33,658 reported in the Company's Annual Statement as of December 31, 2014.

Findings: No adverse findings were noted.

- 5) Examination Objective: To verify the accuracy of the unearned premiums totaling \$592,248 reported in the Company's Annual Statement as of December 31, 2014.

Findings: The Company understated unearned premiums by \$14,674 at December 31, 2014. An examination adjustment was made to increase the unearned premiums. Refer to the Summary of Examination Adjustments Item d. The Company is directed to comply with GS §58-2-165(c) and SSAP No. 53 to ensure accurate financial reporting in all future filings with the Department.

- 6) Examination Objective: To determine whether the Company is required to maintain a premium deficiency reserve.

Findings: It was determined that the Company was not required to maintain a premium deficiency reserve at December 31, 2014.

- 7) Examination Objective: To verify that the Underwriting Committee of the Board properly reviewed and approved the underwriting decisions made by the Company.

Findings: No adverse findings were noted.

- 8) Examination Objective: To verify that the Company complied with the Department's directive in the 2009 examination to remedy its violation of GS § 58-7-140.

Findings: An Underwriting Committee was created by the Board but consists of only one independent director instead of the required four independent directors. The Company continues to be in violation of GS § 58-7-140. The Company is directed to establish an Underwriting Committee that is comprised of four independent directors.

- 9) Examination objective: To verify that policies are being written in accordance with the Company's established underwriting guidelines.

Findings: No adverse findings were noted

c) Claims and Reserves

- 1) Examination Objective: To review the appropriateness of the reserving assumptions and methodologies utilized by the Company for losses and loss adjustment expenses.

Findings: No adverse findings were noted.

- 2) Examination Objective: To review the reasonableness and adequacy of the losses and loss adjustment expenses totaling \$23,414 and \$4,148, respectively, reported in the Company's Annual Statement as of December 31, 2014.

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Findings: No adverse findings were noted.

- 3) Examination Objective: To verify the accuracy and completeness of the paid losses totaling \$561,653 reported in the Company's Annual Statement for the year ended December 31, 2014.

Findings: No adverse findings were noted.

d) Reinsurance

- 1) Examination Objective: To verify that the Company maintained active reinsurance agreements in 2014 and had continuous reinsurance coverage throughout the year.

Findings: No adverse findings were noted.

- 2) Examination Objective: To verify that the Company's reinsurance agreements complied with the statutory accounting requirements and appropriately transferred risk.

Findings: No adverse findings were noted.

- 3) Examination Objective: To verify the accuracy of the ceded reinsurance premiums payable totaling \$70,990 reported in the Company's Annual Statement as of December 31, 2014.

Findings: No adverse findings were noted.

e) Operations

- 1) Examination Objective: To verify that the Company is in compliance with the Producer Agreement with Alamance, its liability policy carrier.

Findings: The Company did not settle the payment due to Alamance timely in accordance with its Producer Agreement. The Company is directed to comply with the settlement provisions in the agreement to ensure timely settlement.

- 2) Examination Objective: To verify that the Company's fidelity insurance coverage met the suggested minimum amount by the National Association of Insurance Commissioners ("NAIC") pursuant to GS § 58-2-165(c).

Findings: The Company's insurance coverage did not meet the NAIC's suggested minimum amount. The Company is directed to increase its fidelity insurance coverage to comply with GS § 58-2-165(c).

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Appendix A – Impact of Examination Adjustments

5. Summary of Examination Adjustments

<u>As originally reported to the Department</u>	\$ 1,626,592	842,349	784,243	94,572
a. Aggregate write-ins for examination adjustments	(14,683)		(14,683)	(14,683)
b. Unearned premiums		(6,069)	6,069	6,069
c. Uncollected premiums	(10,561)		(10,561)	
d. Unearned premiums		14,674	(14,674)	(14,674)
e. Current federal income taxes		(8,150)	(8,150)	(8,150)
Total	(25,244)	455	(41,999)	(31,438)
<u>As adjusted</u>	\$ 1,601,348	842,804	742,244	63,134

- a. To reduce written premiums. Refer to Finding 4.b)1) related to Premiums and Underwriting.
- b. To reduce unearned premiums related to adjustment a.
- c. To reduce uncollected premiums. Refer to Finding 4.b)3) related to Premiums and Underwriting.
- d. To increase unearned premiums. Refer to Finding 4.b)5) related Premiums and Underwriting.
- e. To record the tax effect of the above adjustments to the net income.

Edgecombe Farmers Mutual Fire Insurance Company, Inc.
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Appendix B – Report Distribution

Averette M. Lamm
President and Chairman of Board
409 W. Wilson Street
Tarboro, NC 27886