



**NC DEPARTMENT**  
*of* **INSURANCE**  
**MIKE CAUSEY, COMMISSIONER**

**COMPANY SERVICES GROUP**  
**FINANCIAL EXAMINATION DIVISION**

Tel 919.807.6602 Fax 919.807.6635

I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused Farmers Mutual Fire Insurance Company of Cleveland County 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 1st day of May, 2023.



Mike Causey  
Commissioner of Insurance

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

**Farmers Mutual Fire Insurance Company of Cleveland County**

Shelby, North Carolina

**Report on Examination**

As of December 31, 2021

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April 5, 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

**Farmers Mutual Fire Insurance Company of Cleveland County**

(hereinafter referred to as the “Company”), at its main administrative and statutory home office located at 102 North Washington Street, Shelby, North Carolina. 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:

Claims Handling and Reserving  
Investments  
Premiums and Underwriting  
Reinsurance Ceding  
Surplus Management

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 Statement of 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 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). Cobb Ezekiel Loy & Company, P.A. of Graham, 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

1. Conflict of interest forms were not properly executed by all officers and directors for 2020 and for one director in 2019. The Company is directed to require all officers and directors to disclose any conflicts to the Board of Directors (“Board”) for a determination of its acceptability or the remedial disposition of the conflict in accordance with North Carolina Administrative Code 11 NCAC 11C .0117.
2. The Company’s 2020 investment transactions were not approved by its Board as required by GS § 58-7-168. The Company is directed to comply with GS § 58-7-168 regarding Board review and approval of its investment transactions and to maintain meeting minutes documenting the Board’s approval.

## COMPANY HISTORY

The Company commenced business in 1906 and was incorporated on January 1, 1994. The Company is an assessable mutual company owned by its policyholders.

## DIVIDENDS TO POLICYHOLDERS

Dividends are paid as declared by the 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 years under examination.

## MANAGEMENT AND CONTROL

### CORPORATE GOVERNANCE

#### Members

The bylaws of the Company provide that all persons, firms, associations, or corporations insured under any policy of insurance issued by the Company and in good standing shall be considered to be members of the corporation.

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 members may be called at any time by the president or directors.

## **Board of Directors**

The business of the Company is conducted by its employees and is subject to review by the Board. The bylaws specify that the number of directors shall be ten. Directors are elected annually, at the annual meeting of members, and each director elected shall hold office until a successor is elected and qualified.

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

<b>Name</b>	<b>Location</b>	<b>Principal Occupation</b>
Michael Spake	Shelby, North Carolina	Self Employed, Farmer and Landscaper
Max Hamrick	Shelby, North Carolina	President, Hamrick Brothers, Inc.
Ed Goforth	Kings Mountain, North Carolina	Owner, Goforth Mechanical Service, Inc.
Brent Elmore	Lawndale, North Carolina	Retired
Everett Bingham Jr.	Shelby, North Carolina	Retired
Edwin Harrill III	Shelby, North Carolina	Maintenance Supervisor, Efficient Services
Jeffrey Crotts	Lawndale, North Carolina	Owner, Knob Creek Orchards
Andrew White	Shelby, North Carolina	Farmer
Bobby Downs	Casar, North Carolina	Farmer
Randolph Biggers	Shelby, North Carolina	Retired

The Board has the authority to establish committees to manage the business of the Company and has established an Audit Committee and Personnel Committee.

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

### **Audit Committee**

Michael Spake, Chair  
Max Hamrick  
Brent Elmore  
Ed Goforth

### **Personnel Committee**

Michael Spake, Chair  
Ed Goforth

## **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 a treasurer. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified.

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

<b>Name</b>	<b>Title</b>
Michael Spake	President
Max Hamrick	Vice President
Jennifer Parker	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 did not act in accordance with its policies and procedures for disclosure of conflicts of interest. (See Summary of Significant Findings).

## **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, except for the 2020 investment transactions. (See Summary of Significant Findings).

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 the articles of incorporation or bylaws for the Company during the period under examination.

## **FIDELITY BONDS AND OTHER INSURANCE**

The Company has fidelity bond coverage totaling \$50,000 in aggregate, which meets the minimum amount of fidelity bond coverage recommended by the NAIC.

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 employees are covered under a defined contribution plan. The Company contributes 5% of each participant's compensation. Contributions to the plan totaled \$6,180 and \$5,050 in 2021 and 2020, respectively.

## **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: Cleveland, Rutherford, Lincoln, Gaston, Catawba, and Burke. The Company is not licensed to operate in other counties or states.



## 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:

<b>Year</b>	<b>Total Net Admitted Assets</b>	<b>Capital and Surplus</b>	<b>Gross Premiums Written</b>	<b>Net Earned Premiums</b>	<b>Net Income(Loss)</b>
2021	\$2,675,710	\$2,085,788	\$438,486	\$379,817	\$73,705
2020	\$2,572,730	\$1,967,564	\$453,983	\$405,187	\$10,266
2019	\$2,540,500	\$1,939,977	\$403,466	\$324,653	\$21,820
2018	\$2,254,017	\$1,728,731	\$385,369	\$347,118	(\$57,173)

## 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, 2021. 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 an aggregate excess of loss reinsurance contract, which is effective January 1, 2021, with various subscribing reinsurers ("Reinsurers"). Under this contract, the Company retains an aggregate ultimate net loss equal to 90% of gross net earned premium income for the business written. The Reinsurers are liable for 100% of ultimate net loss in excess of the Company's retention, subject to a limit of liability to the Reinsurers of 100% of 400% of gross earned premium income. The Company ceded premiums totaling \$62,171 and \$53,051 in 2021 and 2020, 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.

**Farmers Mutual Fire Insurance Company of Cleveland County**  
**Statutory Statement of Admitted Assets**  
**December 31,**

	<b>2021</b>	<b>2020</b> <i>(unexamined)</i>
Bonds	\$258,087	\$257,436
Common stocks	2,156,287	1,937,088
Real estate properties occupied by the Company	45,948	40,483
Cash and cash equivalents	215,129	337,243
<b>Total cash and invested assets</b>	<b>\$2,675,451</b>	<b>\$2,572,250</b>
Electronic data processing equipment and software	259	480
<b>Total admitted assets</b>	<b>\$2,675,710</b>	<b>\$2,572,730</b>

**Farmers Mutual Fire Insurance Company of Cleveland County**  
**Statutory Statement of Liabilities and Surplus**  
**December 31,**

	<b>2021</b>	<b>2020</b> <i>(unexamined)</i>
Losses	\$26,950	\$34,896
Loss adjustment expenses	2,038	1,756
Other expenses	9,794	1,438
Taxes, licenses, and fees	981	893
Unearned premiums	234,271	237,773
Advance premium	313,693	309,597
Ceded reinsurance premiums payable	-	13,000
Amount withheld or retained by Company for account of others	2,195	2,068
Other payables	-	3,745
<b>Total Liabilities</b>	<b>589,922</b>	<b>605,166</b>
Unassigned funds	2,085,788	1,967,564
<b>Total Surplus</b>	<b>2,085,788</b>	<b>1,967,564</b>
<b>Total Liabilities and Surplus</b>	<b>\$2,675,710</b>	<b>\$2,572,730</b>

**Farmers Mutual Fire Insurance Company of Cleveland County**  
**Statutory Statement of Operations**  
**December 31,**

	<b>2021</b>	<b>2020</b> <i>(unexamined)</i>
<b>Underwriting Income</b>		
Premiums earned	\$379,817	\$405,187
<b>Deductions</b>		
Losses incurred	197,430	219,681
Loss adjustment expenses incurred	30,401	40,295
Other underwriting expenses incurred	225,388	212,089
Total underwriting deductions	453,219	472,065
Net underwriting (loss)	(73,402)	(66,878)
<b>Investment Income</b>		
Net investment income earned	92,630	58,387
Net realized capital gains	54,477	18,754
Net investment gain	147,107	77,141
<b>Other Income</b>		
Miscellaneous	-	3
<b>Net Income</b>	<b>\$73,705</b>	<b>\$10,266</b>

**Farmers Mutual Fire Insurance Company of Cleveland County**  
**Statutory Statement of Surplus**  
**December 31,**

	<b>2021</b>	<b>2020</b> <i>(unexamined)</i>
Surplus as regards policyholders, beginning of year	\$1,967,564	\$1,939,977
Net income	73,705	10,266
Change in net unrealized capital gains	42,583	23,078
Change in non-admitted assets	1,936	(5,757)
Change in surplus as regards policyholders for the year	118,224	27,587
<b>Surplus as regards policyholders, end of year</b>	<b>\$2,085,788</b>	<b>\$1,967,564</b>

**Farmers Mutual Fire Insurance Company of Cleveland County**  
**Statutory Statement of Cash Flow**  
**December 31,**

	<b>2021</b>	<b>2020</b> <i>(unexamined)</i>
<b>Cash From (Used By) Operations</b>		
Premiums collected net of reinsurance	\$367,411	\$403,738
Net investment income	93,065	58,247
Miscellaneous income	-	3
Total	460,476	461,988
Benefit and loss related payments	205,376	211,935
Commissions, expenses paid and aggregate write-ins	247,063	256,448
Total	452,439	468,383
<b>Net cash from (used by) operations</b>	<b>8,037</b>	<b>(6,395)</b>
<b>Cash From (Used By) Investments</b>		
Proceeds from investments sold, matured, or repaid	347,134	587,059
Cost of investments acquired	475,824	326,917
<b>Net cash from (used by) investments</b>	<b>(128,690)</b>	<b>260,142</b>
<b>Cash (Used By) Financing and Miscellaneous Sources</b>		
Other cash provided	(1,461)	(2,397)
<b>Net cash (used by) financing and miscellaneous sources</b>	<b>(1,461)</b>	<b>(2,397)</b>
<b>Reconciliation of Cash and Cash Equivalents</b>		
Net change in cash and cash equivalents	(122,114)	251,350
Cash and cash equivalents, beginning of year	337,243	85,893
Cash and cash equivalents, end of year	<b>\$215,129</b>	<b>\$337,243</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 straight-line method.

**Common stocks:** Carried at fair market value.

**Cash:** Carried at amortized cost.

**Premiums:** Earned over the terms of the related insurance policies and reinsurance contracts. Unearned premium reserves are established to cover the unexpired portion of premiums written. Such reserves are computed by pro rata method for direct business.

**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 electronic data processing equipment and furniture, 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 reinsurance recoverable are deducted from the reserve for losses and loss adjustment expenses.

**Real Estate Occupied by the Company:** Real estate investments are classified in the balance sheet as properties occupied by the Company. Properties occupied by the Company are carried at depreciated cost less encumbrances. Depreciation on real estate is computed by the straight-line method over thirty years.

### **Analysis of Assets:**

The Company reported electronic data processing equipment and software totaling \$13,198 and furniture and equipment totaling \$2,887 as non-admitted assets at December 31, 2021.

### **Reinsurance Activity:**

The Company has an aggregate excess of loss contract to minimize its exposure to losses. The reinsurance contract does 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 Guy Carpenter as a reinsurance intermediary to negotiate and obtain the reinsurance contract on its behalf for specifically identified risks. The Company does not assume reinsurance business.

Direct and ceded premiums written and earned are as follows:

	<b>2021</b>	<b>2020</b>
Direct written	\$438,486	\$453,983
Ceded written	62,171	53,051
<b>Net written</b>	<b>376,315</b>	<b>400,932</b>
Direct earned	441,988	458,238
Ceded earned	62,171	53,051
<b>Net earned</b>	<b>\$379,817</b>	<b>\$405,187</b>

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

	<b>2021</b>	<b>2020</b>
Reserve for losses and loss adjustment expenses, beginning of year	\$36,652	\$28,725
<b>Add:</b>		
Provision for losses and loss adjustment expenses, current year	237,000	272,000
Change in estimated losses and loss adjustment expenses, prior years	(9,169)	(12,024)
<b>Total incurred</b>	<b>227,831</b>	<b>259,976</b>
<b>Deduct:</b>		
Losses and loss adjustment expenses paid, current year	225,000	252,000
Losses and loss adjustment expenses paid, prior year	10,495	49
<b>Total paid</b>	<b>235,495</b>	<b>252,049</b>
Reserve for losses and loss adjustment expenses, end of year	28,988	36,652
(Decrease) increase in reserve for losses and loss adjustment expenses	(\$7,664)	\$7,927

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. There were no amounts recoverable for unpaid losses and loss adjustment expenses at December 31, 2021 or 2020.



### **Policyholders' 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:

	<b>2019</b>	<b>2018</b>
Surplus as regards policyholders, beginning of year	\$1,728,731	\$2,042,796
Net income (loss)	21,820	(57,173)
Change in net unrealized capital gain (loss)	184,738	(258,720)
Change in non-admitted assets	4,688	1,828
Change in surplus as regards policyholders for the year	211,246	(314,065)
<b>Surplus as regards policyholders, end of year</b>	<b>\$1,939,977</b>	<b>\$1,728,731</b>

### **SUBSEQUENT EVENTS**

On August 13, 2022, one of the Company's Board members, Bobby Downs, passed away and no replacement has been named.

**Farmers Mutual Fire Insurance Company of Cleveland County**  
**DISTRIBUTION OF REPORT ON EXAMINATION**  
**December 31, 2021**

Jennifer Parker, Secretary & Treasurer  
102 North Washington Street  
Shelby, North Carolina 28150

Michael Spake, President  
102 North Washington Street  
Shelby, North Carolina 28150

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

April 5, 2023

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Bill Keely, 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: Bill Keely Date: 4/5/23  
Bill Keely

Sworn and subscribed before me this 5 day of April, 2023.

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

