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 to Forestry Mutual Insurance Company, as of December 31, 2019, 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 June 2021.

Mike Causey
Commissioner of Insurance

Ke Xu, CPA, CFE
Chief Financial Examiner
Financial Examination Division

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Forestry Mutual Insurance Company

Raleigh, North Carolina

Report on Examination

As of December 31, 2019

TABLE OF CONTENTS

May 13, 2021

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

Forestry Mutual Insurance Company

(hereinafter referred to as the "Company"), at its main administrative and statutory home office located at 801 Jones Franklin Road, Raleigh, 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, 2015 to December 31, 2019, 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, 2014.

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:

Investments
Surplus Management
Claims and Reserves
Premiums and Underwriting
Reinsurance Ceding
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). Koonce, Wooten, & Haywood, LLP of Raleigh, North Carolina, the designated independent public accountant of the Company, issued an unmodified opinion for the year 2019, a modified opinion was issued for years 2016 through 2018. The books and records of the Company were audited by independent certified public accountants Johnson Lambert LLC of Raleigh, North Carolina for the year ended December 31, 2015, and an unmodified opinion was issued.

Report Acronyms

Annual Statement	“AS”
Board of Directors	“Board”
Financial Condition Examiners Handbook	“Handbook”
FMIC Insurance Agency	“Agency”
Forestry Mutual Insurance Company	“Company”
General Statutes of North Carolina	“GS”
National Association of Insurance Commissioners	“NAIC”
National Council on Compensation Insurance, Inc.	“NCCI”
National Workers’ Compensation Reinsurance Pool	“Pool”
North Carolina Department of Insurance	“Department”
North Carolina Forestry Association Self Insurers Fund	“Fund”
Third-Party Administrator	“TPA”

Summary of Significant Findings

Comments, Recommendations and Directives

1. The Company was in violation of Article IV, Section 1 of its bylaws, which specify that the number of directors shall consist of fourteen individuals. The Board of Directors (“Board”) consisted of only 13 members in 2016 and 2019 and only 12 members in 2017. The Company is directed to comply with its bylaws.

ORGANIZATIONAL STRUCTURE

The Company is part of an insurance holding company system as defined in GS § 58-19. The Company has a wholly owned subsidiary, FMIC Insurance Agency, Inc. ("Agency"), which serves as the marketing agent for the Company.

COMPANY HISTORY

The Company, formerly known as North Carolina Forestry Association Mutual Insurance Company, was incorporated on July 15, 1998 and became licensed on October 1, 1998, under the laws of the State of North Carolina as a mutual insurance company. On August 20, 1998, the Company received $1,086,855 in securities from the North Carolina Forestry Association Self Insurers Fund ("Fund"), and the Company issued a surplus note to the Fund. Effective January 1, 1999, the Company merged with the Fund, and the surplus note was extinguished. The Company was established to meet the workers' compensation insurance needs of the North Carolina Forestry Association. In December 2000, the Company amended its articles of incorporation to change its name to Forestry Mutual Insurance Company.

On December 31, 2019, the Company reported $32,557,292 in unassigned funds.

DIVIDENDS TO POLICYHOLDERS

Dividends are paid as declared by the Board of the Company. Under the insurance regulations of North Carolina, the maximum number of 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. The Company paid no dividends during the years 2016 through 2019.

MANAGEMENT AND CONTROL

CORPORATE GOVERNANCE

Members

The bylaws of the Company provide that any person or entity that is a policyholder of the Company shall be a member of the Company and that an annual meeting of the members shall 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 Chairman whenever 10% or more of the members or any two directors of the Board request a special meeting in writing.

Board of Directors

The business of the Company is conducted by its management team, and subject to review by the Board. The bylaws specify that the number of directors shall consist of fourteen individuals. One director is elected annually, and the remaining directors are elected to serve staggered three-year terms. All directors are elected by the membership. (Refer to Summary of Significant Findings) The following individuals served as directors as of December 31, 2019:

Name	Location	Principal Occupation
Michael Walters	Fairmont, NC	President/Owner, Claybourn Walters Logging Company and Board Chairman
Marshall Thompson	Lancaster, SC	East Region Manager, Resolute Forest Products, Inc.
Matthew Thuman	Wilmington, NC	Region Manager, Campbell Global, LLC
Thomas Barnes, Sr.	Edgemoor, SC	President/Logger, Ideal Logging, Inc.
Weldon Capps, Jr.	Macon, NC	President/Owner, Arcola Logging Company, Inc.
Joel Cathey	Keysville, VA	Forester, Ontario Hardwood Co., Inc.
Thomas Davis	Lattimore, NC	President /Forester, South Mountain Pulpwood Company
Randall Denman	Clyde, NC	Retired Forester
Candace Dinwiddie	Nashville, TN	Executive Director, Tennessee Forestry Association
Joey Ferguson	Georgetown, SC	Regional Manager/Forester, Resource Management Service, LLC
John Hatcher	Raleigh, NC	Executive Vice President, North Carolina Forestry Association
Michael Macedo	Georgetown, SC	Region Fiber Procurement Manager, International Paper Company
Bernard Rose	Roanoke Rapids, NC	Operation Manager of Fiber Supply, KapStone Kraft Paper Corporation

The Board has the authority to designate an Executive Committee and other committees to manage the business of the Company. The Board has established several committees including an Investment Committee, a Safety Committee, a Salary Committee, and an Executive/Audit Committee.

The following individuals served on committees as of December 31, 2019:

Investment Committee
Randall Denman, Chair
Thomas Barnes, Sr.
Weldon Capps, Jr.
Joel Cathey
Thomas Davis
Joey Ferguson
John Hatcher
Michael Macedo
Bernard Rose
Marshall Thompson
Matthew Thuman
Michael Walters

Safety Committee
Bernard Rose, Chair
Thomas Barnes, Sr.
Weldon Capps, Jr
Joel Cathey
Thomas Davis
Randall Denman
Candace Dinwiddie
Joey Ferguson
John Hatcher
Michael Macedo
Marshall Thompson
Matthew Thuman
Michael Walters

Salary Committee	Executive/Audit Committee
Marshall Thompson, Chair	Michael Walters, Chair
Joel Cathey	Marshall Thompson
Matthew Thurman	Matthew Thuman
Michael Walters	

Officers

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president and secretary. The Board may elect any other officers as deemed necessary. All officers shall hold office, subject to removal at any time by the Board, until their successors are elected and qualified. Any two offices may be held by the same person except for the offices of president and secretary.

The following individuals served as officers of the Company as of December 31, 2019:

Name	Title
Keith Biggs	President
Eugene Baker	Secretary/Treasurer
Amy Almond	Chief Financial Officer

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 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. The Company filed amended and restated bylaws with the Department on August 15, 2018 to change its registered address, change the place of meetings and to provide that the vote without a meeting shall be confirmed promptly in writing or by electronic submission. The Department approved the amended bylaws on August 27, 2018.

STATUTORY DEPOSITS

Statutory deposits are maintained as required by insurance regulatory agencies for doing business in such jurisdictions. The Company's 2019 Annual Statement Schedule E, Part 3 contains a complete description and listing of the Company's statutory deposits by state.

Fidelity Bonds and Other Insurance

The Company has fidelity bond coverage totaling $500,000 in aggregate, which exceeds the minimum amount of fidelity bond coverage recommended by the Handbook.

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

Employee Benefits and Pension Plans

The Company sponsors a qualified defined contribution plan for which employees may become eligible to participate after three full months of service. The Company makes matching contributions after twelve months of service up to 6% of an employee's eligible compensation. Contributions to the plan were $73,546 and $69,281 in 2019 and 2018, respectively.

The Company sponsors a non-qualified deferred compensation plan for executive employees. The Company contributes a discretionary percentage for each qualified employee. Contributions to the plan were $40,283 and $91,624 in 2019 and 2018, respectively.

Third Party Administrator

The Company utilizes AEGIS Administrative Services, Inc., a Third-Party Administrator ("TPA"), to provide claims handing services. The TPA services and responsibilities include claims handling, reporting, claims fraud, reinsurance billings, and regulatory complaints and inquiries. The Company incurred service fees of $922,585 and $886,262 in 2019 and 2018, respectively.

Related Party Agreements

Management Agreement

The Company has a management agreement with its subsidiary, the Agency, effective January 31, 2007, whereby the Company provides administrative and accounting services to the Agency and the Agency serves as the marketing agent for the Company by placing workers' compensation and other insurance coverages with current and future policyholders of the Company. Under this agreement, the Company allocates a percentage of its finance staff's salaries to the Agency as a management fee and pays expenses on the Agency's behalf. The Company bills the Agency for these fees and expenses on a monthly basis. The Company charged the Agency management fees for the allocated salary expenses totaling $126,175 and $116,315 in 2019 and 2018, respectively, and the Agency reimbursed the Company $1,724,726 and $1,526,929 in 2019 and 2018, respectively, for expenses paid by the Company on its behalf. In addition, the Company pays the Agency a monthly commission based on a percentage of net premiums for the insurance coverage placed by the Agency. The Company incurred commission expenses totaling $1,104,230 and $1,111,552 in 2019 and 2018, respectively. All balances due are to be settled within thirty (30) days under this agreement.

Tax Allocation Agreement

The Company has a tax allocation agreement with its subsidiary, the Agency, effective November 11, 2013, whereby the Company files a consolidated income tax return and allocates the tax liability between the two entities. The provisions for federal income tax are computed as if the entities were filing separate income tax returns. The agreement was amended on May 13, 2016 to include an offset between tax payments and balances due between the Company and the Agency. Tax expenses are to be submitted within 90 days of filing the consolidated income tax returns.

TERRITORY AND PLAN OF OPERATION

The Company writes workers' compensation policies and provides loss control services to all policyholders in addition to state Forestry Associations. The Company utilizes its subsidiary, the Agency, for the distribution of its product and solicitation of business.

On December 31, 2019, the Company was licensed in Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, and Virginia; however, no business has been written in Florida.

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 December 31, 2019:

Year	Net Admitted Assets	Surplus	Gross Premiums Written	Net Earned Premiums	Net Income
2019	$69,752,530	$32,557,292	$25,608,722	$22,561,903	$2,450,121
2018	$63,868,583	$27,833,428	$26,559,146	$22,914,278	$3,736,271
2017	$60,984,992	$24,114,702	$26,228,335	$21,601,469	$664,842
2016	$56,339,870	$22,484,843	$26,188,033	$22,623,081	$1,336,931
2015	$54,658,545	$21,126,900	$24,320,887	$22,328,476	$3,853,168

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 statutory reserves and related items for 2019 were reviewed and certified by the Company's Appointed Actuary, Dana Joseph, FCAS, MAAA of Oliver Wyman Actuarial Consulting, Inc. Actuarial opinions regarding the Company's reserves for losses and loss adjustment expenses were issued by an appointed actuary for all years in the examination period. The appointed actuary evaluated the data provided by the Company for reasonableness and consistency of the losses and loss adjustment expense reserves. According to the actuarial opinions, the Company's reserve on the losses and loss adjustment expense met the requirements of the insurance laws of North Carolina; were consistent with reserves computed in accordance with accepted actuarial standards and principles; made a reasonable provision for all unpaid losses and loss expense obligations of the Company.

REINSURANCE PROGRAM OVERVIEW

REINSURANCE CEDED

First Workers Compensation - Excess of Loss
The Company has an excess of loss contract with multiple subscribing reinsurers, effective January 1, 2019, which provides coverage up to $500,000 of ultimate net loss per occurrence and in aggregate in excess of $500,000 retention on its workers' compensation and employers' liability insurance policies.

Second, Third, and Fourth Workers Compensation - Excess of Loss
The Company has a second excess of loss contract with multiple subscribing reinsurers, effective January 1, 2019, which provides coverage up to $1,000,000 of ultimate net loss per occurrence and in aggregate in excess of $1,000,000 on its workers' compensation and employers' liability insurance policies.

The third layer excess of loss contract with multiple subscribing reinsurers, effective January 1, 2019, provides coverage up to $3,000,000 of ultimate net loss per occurrence and in aggregate in excess of $2,000,000 on its workers' compensation and employers' liability insurance policies.

The fourth layer excess of loss contract with multiple subscribing reinsurers, effective January 1, 2019, provides coverage up to $5,000,000 of ultimate net loss per occurrence and in aggregate in excess of $5,000,000 on its workers' compensation and employers' liability insurance policies.

Fifth and Sixth Workers Compensation - Excess of Loss
The Company has a fifth excess of loss contract with multiple subscribing reinsurers, effective January 1, 2019, which provides coverage up to $10,000,000 of ultimate net loss per occurrence and in aggregate in excess of $10,000,000 on its workers' compensation and employers' liability insurance policies.

The sixth layer excess of loss contract with multiple subscribing reinsurers, effective January 1, 2019, provides coverage up to $10,000,000 of ultimate net loss per occurrence and in aggregate in excess of $20,000,000 on its workers' compensation and employers' liability insurance policies.

Per Person Workers Compensation - Excess of Loss
The Company has a per person excess of loss contract with multiple subscribing reinsurers, effective January 1, 2019, which provides coverage up to $10,000,000 of ultimate net loss per occurrence and in aggregate in excess of $10,000,000 on its fifth layer workers' compensation and employers' liability insurance policies.

The Company ceded premiums totaling approximately $3.4 million and $3.3 million in 2019 and 2018, respectively, externally under its Excess of Loss contracts.

REINSURANCE ASSUMED

Workers' Compensation Pools
The Company participates in the National Workers' Compensation Reinsurance Pool ("Pool"), a residual market reinsurance mechanism for servicing carriers of worker's compensation assigned risk plans administered by the National Council on Compensation Insurance, Inc. ("NCCI"). As a participant, the

Company assumes premiums, losses, costs, and other expenses arising from coverage provided under authorized insurance plans written through a servicing carrier. The business assumed from the Pool is the Company's proportionate share of the total voluntary market for workers' compensation in the States where the Company writes business. The Company assumed premiums totaling approximately $1.4 million and $1.6 million in 2019 and 2018, respectively, from the Pool.

The Company participates in the Mississippi Workers' Compensation Assigned Risk Pool, a residual market reinsurance mechanism for servicing carriers of worker's compensation assigned risk plans administered by the Mississippi Compensation Commission. As a participant, the Company assumes premiums, losses, costs, and other expenses arising from coverage provided under authorized insurance plans written through a servicing carrier. The business assumed from the Assigned Risk Pool is the Company's proportionate share of the total voluntary market for workers' compensation in Mississippi. The Company assumed premiums totaling approximately $13,000 in 2019 from the Pool, which was the Company's first year participating in the pool.

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, 2019. 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, 2018, are unexamined and are presented for comparative purposes only.

Forestry Mutual Insurance Company
Statutory Statement of Admitted Assets
December 31,

	2019	**2018** *(unexamined)*
Bonds	$38,898,762	$37,872,767
Preferred stocks	144,329	25,790
Common stocks	14,773,870	10,991,733
Cash, cash equivalents, and short-term investments	1,886,107	1,614,946
Receivable for securities	949,705	-
Total cash and invested assets	**56,652,773**	**50,505,236**
Investment income due and accrued	284,993	341,449
Uncollected premiums and agents' balances in course of collection	1,684,135	1,726,509
Deferred premiums and agents' balances booked but deferred and not yet due	9,207,725	9,553,618
Reinsurance recoverable	540,333	463,941
Other amounts receivable under reinsurance contracts	6,568	104,169
Federal income tax recoverable	522,122	153,124
Net deferred tax asset	571,122	850,030
Guaranty funds receivable or on deposit	36,904	84,165
Electronic data processing equipment and software	54,133	182
Corporate owned life insurance asset	145,023	86,160
State taxes receivable	46,699	-
Total admitted assets	**$69,752,530**	**$63,868,583**

Forestry Mutual Insurance Company
Statutory Statement of Liabilities and Surplus
December 31,

	2019	**2018** *(unexamined)*
Losses	$20,496,946	$19,532,289
Loss adjustment expenses	1,510,361	1,234,158
Commissions payable, contingent commissions and other similar charges	290,486	317,924
Other expenses	284,960	213,060
Taxes, licenses, and fees	387,460	424,529
Unearned premiums	8,284,228	8,629,983
Advance premium	64,042	74,239
Ceded reinsurance premiums payable	2,707,755	3,262,667
Amounts withheld or retained by Company for account of others	1,023	3,062
Provision for reinsurance	21,000	156,000
Payable to parent, subsidiaries, and affiliates	176,114	227,954
Payable for securities	1,147,832	-
Member deposits	1,684,189	1,869,588
Escheat liability	3,533	2,470
Suspense	-	2,857
Deferred compensation	135,308	84,375
Total Liabilities	**37,195,237**	**36,035,155**
Unassigned funds	32,557,293	27,833,428
Total Surplus	32,557,293	27,833,428
Total Liabilities and Surplus	**$69,752,530**	**$63,868,583**

Forestry Mutual Insurance Company
Statutory Statement of Operations
December 31,

	2019	2018 *(unexamined)*
Underwriting Income		
Premiums Earned	$22,561,903	$22,914,278
Deductions		
Losses incurred	11,282,082	9,911,512
Loss adjustment expenses incurred	2,078,429	1,745,804
Other underwriting expenses incurred	7,887,105	8,036,782
Total underwriting deductions	21,247,616	19,694,098
Net underwriting gain	1,314,287	3,220,180
Investment Income		
Net investment income earned	1,161,820	1,095,934
Net realized capital gains	508,461	344,039
Net investment gain(loss)	1,670,281	1,439,973
Other Income		
Net loss from agents' or premium balances charged off	(68,029)	(19,780)
Safety equipment sales net	6,964	11,872
Late fees	46,575	38,960
Miscellaneous	19,929	37,596
Gain on sale of equipment	2,428	-
Total other income	7,867	68,648
Net income before federal income taxes	2,992,435	4,728,801
Federal income taxes incurred	542,314	992,531
Net Income	**$2,450,121**	**$3,736,270**

Forestry Mutual Insurance Company
Statutory Statement of Surplus
December 31,

	2019	**2018** *(unexamined)*
Surplus, beginning of year	$27,833,428	$24,114,702
Surplus increases(decreases):		
Net Income	2,450,121	3,736,270
Change in net unrealized capital gains or (losses)	2,059,786	(499,339)
Change in net deferred income tax	60,041	96,685
Change in non-admitted assets	18,917	66,110
Change in provision for reinsurance	135,000	319,000
Change in surplus as regards policyholders for the year	4,723,865	3,718,726
Surplus, end of year	**$32,557,293**	**$27,833,428**

Forestry Mutual Insurance Company
Statutory Statement of Cash Flow
December 31,

	2019	2018 *(unexamined)*
Cash From (Used By) Operations		
Premiums collected net of reinsurance	$22,095,743	$22,246,707
Net investment income	1,444,405	1,487,572
Miscellaneous income	7,867	68,648
Total	23,548,015	23,802,927
Benefit and loss related payments	10,393,817	10,370,668
Commissions, expenses paid and aggregate write-ins	9,636,696	9,653,649
Federal income taxes paid	1,046,473	419,947
Total	21,076,986	20,444,264
Net cash from operations	**2,471,029**	**3,358,663**
Cash From (Used By) Investments		
Proceeds from investments sold, matured, or repaid	32,182,357	10,711,330
Cost of investments acquired	34,092,653	15,335,152
Net cash (used by) investments	**(1,910,297)**	**(4,623,822)**
Cash From (Used By) Financing and Miscellaneous Sources		
Other cash applied	(289,571)	(126,912)
Net cash (used by) financing and miscellaneous sources	**(289,571)**	**(126,912)**
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	271,161	(1,392,071)
Cash and short-term investments, beginning of year	1,614,946	3,007,017
Cash and short-term investments, end of year	**$1,886,107**	**$1,614,946**

COMMENTS ON FINANCIAL STATEMENTS

There were no proposed adjustments to the Company's financial statements filed with the Department 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 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.

Preferred stocks: Investment grade perpetual preferred stocks are stated at fair value. Investment grade redeemable preferred stocks are stated at amortized value. Preferred stock at non-investment grade is stated at the lower of amortized value or fair value.

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. Non-investment grade short-term investments are stated at the lower of amortized value or fair value.

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 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. Uncollateralized amounts from unauthorized reinsurers are deducted directly from capital and surplus through a provision for unauthorized reinsurance. Changes to the provision are credited or charged directly to surplus.

Member Deposits: A refundable deposit made by workers' compensation policyholders in an amount equal to one month of estimated annual premiums. The deposits are carried forward from year to year and adjusted for changes in premiums.

Non-admitted assets: Certain assets, such as premiums over 90 days past due and prepaid expenses, are "non-admitted" and are charges against surplus.

Loan-backed securities: Stated at amortized cost using the interest method. The retrospective adjustment method is used to value all securities.

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.

Analysis of Assets:

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

	Assets	Assets not Admitted	Net Admitted Assets
Bonds	$38,898,762		$38,898,762
Preferred stocks	144,329		144,329
Common stocks	14,773,870		14,773,870
Cash and short-term investments	1,886,107		1,886,107
Receivables for securities	949,705		949,705
Total cash and invested assets	**56,652,773**		**56,652,773**
Investment income due and accrued	284,993		284,993
Uncollected premiums and agents' balances in course of collection	1,785,188	$101,053	1,684,135
Deferred premiums and agents' balances booked but not yet due	9,207,725		9,207,725
Reinsurance recoverable	540,333		540,333
Other amounts receivable from reinsurers	6,568		6,568
Federal income tax recoverable	522,122		522,122
Net deferred tax assets	571,122		571,122
Guaranty funds receivable or on deposit	36,904		36,904
Electronic data processing equipment and software	54,133		54,133
Furniture and equipment	5,108	5,108	-
Prepaid expenses	146,392	146,392	-
Safety equipment inventory	39,846	39,846	-
Safety equipment receivable	4,242	4,242	-
Employee travel advances	4,200	4,200	-
NCCI advance	24,798	24,798	-
Receivable – Aegis	2,400	2,400	-
Miscellaneous receivable	615	615	-
Security deposit	11,343	11,343	-
Corporate owned life insurance	145,023		145,023
State taxes receivable	46,699		46,699
Total admitted assets	**$70,092,527**	**$339,997**	**$69,752,530**

Reinsurance Activity:

The Company has excess of loss reinsurance 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 Aon Benfield, Inc. as a reinsurance intermediary to negotiate and obtain reinsurance contracts on its behalf for specifically identified risks.

Direct, assumed, and ceded premiums written and earned are as follows:

	2019	2018
Direct and assumed written	$25,608,722	$ 26,559,146
Ceded written	3,392,574	3,281,283
Net written	**22,216,148**	**23,277,863**
Direct and assumed earned	25,975,688	26,100,841
Ceded earned	3,413,785	3,186,563
Net earned	**$22,561,903**	**$22,914,278**

The reinsurers share 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:

	Current Year	Prior Year
Reserve for losses and loss adjustment expenses, beginning of year	$ 20,766,447	$21,061,936
Add:		
Provision for losses and loss adjustment expenses, current year	14,102,021	13,436,722
Change in estimated losses and loss adjustment expenses, prior years	(741,510)	(1,779,406)
Total incurred	13,360,511	11,657,316
Deduct:		
Losses and loss adjustment expenses paid, current year	3,175,827	3,722,720
Losses and loss adjustment expenses paid, prior year	8,943,824	8,230,085
Total paid	12,119,651	11,952,805
Reserve for losses and loss adjustment expenses, end of year	22,007,307	20,766,447
Increase in reserve for losses and loss adjustment expenses	$1,240,860	$295,489

Reserves for losses and loss adjustment expenses are reported net of the amounts that are recoverable under the Company's reinsurance contracts. On December 31, 2019 and 2018, the liability for losses and loss adjustment expenses was reduced by $10,348,810 and $12,000,542, respectively, for amounts to be recovered from reinsurers.

The Company does not consider anticipated subrogation recoveries in its reserves.

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:

	2017	2016	2015
Surplus, beginning of year	$22,484,843	$21,126,900	$17,207,517
Surplus increases (decreases):			
Net income	664,842	1,336,931	3,853,168
Change in net unrealized capital gain (loss)	1,589,040	743,231	(333,318)
Change in net deferred income tax	(445,872)	77,795	268,400
Change in non-admitted assets	231,849	(16,982)	(222,489)
Change in provision for reinsurance	(410,000)	(5,000)	518,948
Conversion to clearwater	-	3,459	-
Prior year adjustment	-	(781,491)	(165,326)
Change in surplus as regards policyholders for the year	1,629,859	1,357,943	3,919,383
Surplus, end of year	$24,114,702	$22,484,843	$21,126,900

Commitments

The Company has various non-cancelable operating leases for office space, automobiles, software, and equipment, which expire over the next twenty-one years. The Company incurred rental expenses totaling $248,118 and $217,764 for years ended December 31, 2019 and 2018, respectively. The minimum annual lease payments under the noncancelable operating leases subsequent to December 31, 2019 are as follows:

Year	Amount
2020	$285,597
2021	$194,479
2022	$157,905
2023	$150,276
2024	$154,025
Thereafter	$215,927
	$1,158,209

The Company has an Information Technology Services Agreement effective April 1, 2019, whereby the Company is provided IT security, training, and data storage services for a monthly service fee. The Company incurred expenses totaling $76,695 and $84,452 for years ended December 31, 2019 and 2018, respectively. The minimum annual service fee under this agreement subsequent to December 31, 2019 are as follows:

Year	Amount
2020	$56,652
2021	$56,652
2022	$14,163
	$127,467

Contingencies

The Company is involved in routine legal and administrative proceedings incidental to the conduct of its business. While the outcome of these matters cannot be estimated with certainty, it is the opinion of management that the resolution of these matters will not have a material effect on the financial position of the Company.

SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic. During the fieldwork stage of this examination, we inquired of the Company as to the estimated impact the COVID-19 pandemic would have on the Company's operations and financial results. Further, we obtained and reviewed the Company's response to the NAIC template COVID-19 Questionnaire and identified specific inherent risks in order to understand and determine the impact of the COVID-19 pandemic on the Company's business. Specifically, senior management updated its business continuity plan pertaining to essential tasks to address the United States Government's Center for Disease Control ("CDC") COVID-19 best practices. Management is also monitoring proposed legislation impacting how COVID-19 may impact workers' compensation laws. The Department will continue to monitor how the pandemic might impact the Company.

In April 2020, the Company obtained a Paycheck Protection Program loan under Section 1102 of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") totaling $553,600. Pursuant to Section 1106 of the CARES Act, the loan can be forgiven up to the full principal amount of the loan and any accrued interest if the Company maintains employment and compensation levels and restricts the use of the loan proceeds for eligible purposes, including payroll, rent and utilities. In December 2020, the loan and the accrued interest were fully forgiven.

On November 1, 2020, James Ratcliff, Jr. was elected to the Board.

Forestry Mutual Insurance Company
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2019

Keith Biggs, President
801 Jones Franklin Road, Suite 100
Raleigh, North Carolina 27606

Amy Almond, Chief Financial Officer
801 Jones Franklin Road, Suite 100
Raleigh, North Carolina 27606

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 $1,000,000.

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

May 13, 2021

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Bill Keely, Examination Supervisor, 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: 5/13/21

Bill Keely

Sworn and subscribed before me this 13th day of May, Year.

Notary Public Signature: Grant James Myers Notary Public Seal: GRANT JAMES MYERS NOTARY PUBLIC WAKE COUNTY, NC My Commission Expires August 18, 2024