

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**MCLEAN MCHENRY MUTUAL
INSURANCE COMPANY**

TURTLE LAKE, NORTH DAKOTA

**AS OF
DECEMBER 31, 2018**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

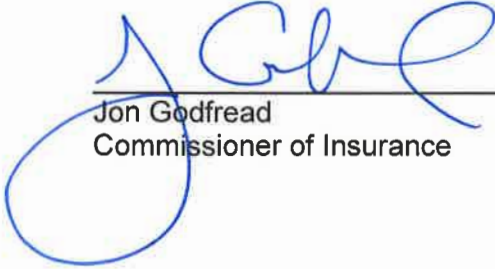
McLean McHenry Mutual Insurance Company

Turtle Lake, North Dakota

as of December 31, 2018, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official seal at my
office in the City of Bismarck, this 30 day of
October, 2019.





Jon Godfread
Commissioner of Insurance

TABLE OF CONTENTS

SCOPE OF STATUTORY EXAMINATION	1
STATUS OF PRIOR EXAM FINDINGS.....	1
SUBSEQUENT EVENTS.....	1
HISTORY.....	2
MANAGEMENT AND CONTROL	2
Membership.....	2
Directors.....	2
Officers.....	3
CORPORATE RECORDS	3
Articles of Incorporation and Bylaws	3
Board of Directors, Members and Committee Minutes.....	3
Members	4
Directors.....	4
CONFLICT OF INTEREST	4
EMPLOYEES WELFARE AND PENSION PLANS.....	4
FIDELITY BOND AND OTHER INSURANCE	4
TERRITORY AND PLAN OF OPERATION.....	5
SIGNIFICANT OPERATING RESULTS.....	5
Growth.....	5
Operating Ratios.....	5
MARKET CONDUCT ACTIVITY	6
Claims Review.....	6
Rates and Forms	6
Premium Refunds.....	7
OPERATING AGREEMENTS.....	7
Investment Advisor Services.....	7
Grinnell Adjusting Service.....	7
Custodial Agreements	7
OPERATIONS REVIEW	8
REINSURANCE.....	8
ACCOUNTS AND RECORDS	9
FINANCIAL STATEMENTS	9
COMMENTS ON THE FINANCIAL STATEMENTS	12
CONCLUSION.....	14
COMMENTS AND RECOMMENDATIONS.....	15

Turtle Lake, North Dakota
August 15, 2019

Honorable Jon Godfread
Commissioner of Insurance
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an examination was made of the books, records and financial condition of

McLean McHenry Mutual Insurance Company

Turtle Lake, North Dakota

McLean McHenry Mutual Insurance Company, hereinafter referred to as the "Company," was last examined as of December 31, 2014, by representatives of the State of North Dakota.

SCOPE OF STATUTORY EXAMINATION

This examination was a financial condition examination conducted in accordance with North Dakota Century Code (N.D.C.C.) § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2015, to December 31, 2018, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

STATUS OF PRIOR EXAM FINDINGS

Our examination included a review to determine the current status of the thirteen comments and recommendations in our preceding Report of Examination which covered the period from January 1, 2010, to December 31, 2014. We determined that the Company had satisfactorily addressed all of these items.

SUBSEQUENT EVENTS

There were no significant subsequent events noted through the date of this report.

HISTORY

The Company was incorporated under the laws of the State of North Dakota on December 17, 1904, and commenced business January 1, 1905, as the McLean County Farmers Mutual Fire, Lightning, and Cyclone Insurance Company, with its principal place of business at Washburn, North Dakota. During June 1910, its office was moved to Underwood, and in 1937 to Turtle Lake. During 1927, the Company's name was changed to McLean County Farmers Mutual Insurance Company, and the term of its existence was made perpetual.

In 1990, the Company merged with Viking Farmers Mutual Insurance Company, retaining the name McLean County Farmers Mutual Insurance Company.

Effective August 31, 1998, the Company and Farmers Mutual Insurance Company of McHenry County joined operations under an Articles of Consolidation to form a new company named McLean McHenry Mutual Insurance Company.

The Company was organized pursuant to the provisions of N.D.C.C. § 26.1-13 to insure against all of the risks and to possess all of the powers and to be subject to all of the liabilities and duties of a county mutual insurance company as now provided in N.D.C.C. § 26.1-13, as the same may be from time to time amended in the future.

MANAGEMENT AND CONTROL

Membership

The Company is controlled by its membership. Any person owning property within the limits of the territory within which the Company is authorized to transact business may become a member of the Company and be entitled to all the rights and privileges accorded each member. No person who does not reside within such territorial limits shall become a director of the Company.

Directors

The Articles of Incorporation provide that the corporate powers of the Company shall be vested in a Board of Directors composed of five to seven members elected by a majority vote at the annual meeting of the membership. Directors are elected for a term of three years or until their successors are elected and duly qualified. A majority of the entire Board of Directors constitutes a quorum for the transaction of business.

Examiner noted that the Company held a Board meeting on July 15, 2015 where only four of the Company's nine directors were in attendance.

It is recommended that the Board of Directors not conduct business in its meetings without a quorum present.

Directors duly elected and serving the Company at December 31, 2018, were as follows:

Name and Residence	Term Expires	Occupation
Richard Britton Turtle Lake, ND	2021	Farmer
Harry Bergstad Voltaire, ND	2021	Farmer
Clair Eslinger Coleharbor, ND	2020	Mechanic
Kathy Schon Mercer, ND	2020	Retired Teacher
Nick Wagner Mercer, ND	2020	Sales
Bruce Klabunde Garrison, ND	2019	Farmer
Doris Wall Mercer, ND	2019	Farmer

Officers

Officers are elected at the annual meeting of the Board of Directors by a majority vote for a period of one year. Officers serving at December 31, 2014, were as follows:

<u>Name</u>	<u>Office</u>
Richard Britton	President
Nick Wagner	Vice President
Linda Huelsman	Secretary-Treasurer

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company amended its Articles of Incorporation and Bylaws in 2018 to change its Board of Director composition from nine members to “five to seven members”.

Board of Directors, Members and Committee Minutes

The minutes of the meetings held by the membership and directors during the years under examination were reviewed for compliance with the Articles of Incorporation, Bylaws, and statutory requirements.

The Company reported that it had four standing committees in place during the exam period but kept no minutes or other records of any meetings held by these committees.

It is recommended that the Company keep minutes of all meetings and motions approved by any committee of the Board.

Members

The Bylaws provide that the annual meeting of the Company shall be held between March 1 and June 30 of each year. During the period under examination the annual meetings of the policyholders were held on the following dates: June 8, 2015; June 13, 2016; June 12, 2017; June 11, 2018.

Directors

During the period under examination, the Board of Directors held ten meetings in 2015, ten meetings in 2016, eleven meetings in 2017, and eleven meetings in 2018.

During the 2015 organizational meeting immediately following the annual meeting of the members, the Board of Directors appointed a President, Vice President, and a Manager. According to the Company's bylaws, the Board is required to appoint a President, Vice President, and a Secretary/Treasurer. The Manager position is not itself an officer position and is not defined within the Company's bylaws.

It is recommended that the Board appoint a Secretary/Treasurer during the Organizational meeting, in order to comply with the Company's bylaws.

CONFLICT OF INTEREST

The Company's conflict of interest policy and annual conflict disclosures were reviewed for the period under examination. Disclosures and mitigation plans appeared appropriate. No material undisclosed conflicts were identified during the examination.

EMPLOYEES WELFARE AND PENSION PLANS

At December 31, 2018, the Company offered a three percent matching IRA contribution for the manager and the office secretary. Matching contributions paid by the Company in 2018 totaled \$3,036.23.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2018, the Company was a named insured on a fidelity bond insuring against loss sustained by the Company as a result of dishonest or fraudulent acts committed by an employee. The bond provides for a \$75,000 single loss limit of liability for loss caused by each employee. The coverage meets the minimum amount of fidelity insurance recommended in the NAIC's *Financial Examiners Handbook*.

The Company is also covered by a directors and officers liability insurance policy providing a \$2,000,000 limit of liability each policy year. Each claim is subject to a \$10,000 deductible. The policy provides coverage for errors or omissions in the performance of professional services and

wrongful acts of a director or officer while acting solely in their individual or collective capacities as directors and officers.

At December 31, 2018, the Company also had a Business Owners policy which provided liability coverage of \$1,000,000 per occurrence and a \$2,000,000 aggregate limit. This policy also provided guest medical coverage up to \$5,000 and \$2,000,000 in products-completed coverage.

TERRITORY AND PLAN OF OPERATION

At December 31, 2018, the Company had 63 licensed agents and 15 agencies and was authorized to transact business in the following 28 counties:

Barnes	Benson	Bottineau	Burke
Burleigh	Cass	Eddy	Emmons
Grand Forks	Kidder	McHenry	McLean
Mercer	Morton	Mountrail	Oliver
Pierce	Ramsey	Richland	Rolette
Sheridan	Sioux	Stark	Stutsman
Towner	Ward	Wells	Williams

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over the 9-year period ending December 31, 2018. Data from 2010 through 2014 was compiled from the prior statutory examination. Data with respect to the years 2015 through 2017 is as compiled from home office copies of the filed Annual Statements. Data for 2018 reflects the exam adjustments as noted in the Comments on the Financial Statements section of this report. The operational results are presented on a modified cash basis.

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policyholders	Net Premiums Written	Underwriting Deductions	Investment And Other Income	Net Income (Loss)
2010	2,180,756	622,935	1,557,821	705,176	649,098	85,553	141,631
2011	1,988,611	580,876	1,407,736	754,311	843,997	76,843	(12,843)
2012	2,153,998	696,049	1,457,948	849,189	752,618	61,788	158,359
2013	2,517,678	708,270	1,809,408	866,602	592,389	65,473	339,686
2014	2,604,065	760,291	1,843,774	858,848	856,655	72,879	75,072
2015	2,667,132	676,494	1,990,637	882,168	875,376	83,523	90,315
2016	2,834,040	767,359	2,066,682	838,992	798,807	120,143	160,328
2017	2,786,396	685,510	2,100,886	849,623	956,852	43,885	(63,344)
2018	2,670,864	692,669	1,978,195	848,551	1,043,173	91,665	(102,957)

Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the five-year period ending December 31, 2018:

	2018	2017	2016	2015	2014
Premiums	100%	100%	100%	100%	100%
Deductions:					
Losses and Loss Adjustment	75.2	62.4	48.6	51.2	51.9
Underwriting Expenses	47.7	50.2	46.6	48.0	47.8
Total Deductions	122.9	112.6	95.2	99.2	99.7
Net Underwriting Gain (Loss)	(22.9)	(12.6)	4.8	0.8	0.3

MARKET CONDUCT ACTIVITY

Claims Review

Based on a limited review of claim files, the Company paid claims fairly within policy provisions upon receipt of satisfactory proof of loss or damage. One claim was identified where the Company required a policyholder to provide evidence of a covered loss beyond what is required in the policy language and did not perform any loss adjustment procedures itself. This resulted in the non-payment of a potentially valid claim.

It is recommended that the Company comply with all policy requirements and N.D.C.C. § 26.1-04-03(9) and properly settle all valid claims to which it is obligated.

Rates and Forms

During its November 2, 2016 meeting, the Board of Directors approved a fee charge-back to policyholders participating in a credit card and e-check payment option, in order to cover the associated processing fees. The Company did not file or receive approval from the North Dakota Insurance Department to charge this fee.

It is recommended that the Company file and obtain approval from the North Dakota Insurance Department prior to using any fee or charge that it bills to policyholders as required in N.D.C.C. § 26.1-25-04.

During its May 23, 2018 meeting, the Board also approved a three-month fully earned premium product for the coverage of leased equipment; however, the endorsement the Company was using for these risks did not include any language stating that the premium was "fully-earned." Also, this endorsement was not filed with the North Dakota Insurance Department.

It is recommended that the Company file and approve all rates and forms prior to use as required by N.D.C.C. § 26.1-30-19.

The Company provided a specimen policy to exhibit how it insures leased equipment. This specimen declaration sheet did not include the appropriate endorsement showing limited duration, fully earned premium, as the Company described.

It is recommended that the Company confirm all required endorsements are included with each policy.

Premium Refunds

The Company had a 21-month stale premium refund check outstanding at December 31, 2018. In March 2019, the Company credited the policyholder's account for the amount of the check instead of returning the premium via check. Per N.D.C.C. § 26.1-24 (03):

A person insured is entitled to a return of premium, including all policy fees in excess of two dollars, on any one policy, and all other sums of money paid in consideration of the insurance policy, as follows:

1. To the whole premium, fee, or other sums if no part of the insured's interest in the thing insured is exposed to any of the perils insured against.

The Company did not obtain consent from the policyholder before applying this credit, and without express consent from the policyholder, an account credit cannot be considered a return of premium.

It is recommended that the Company discontinue the practice of applying account credits for return premiums as these are not "returns of premium" under N.D.C.C. § 26.1-24 (03).

OPERATING AGREEMENTS

Investment Advisor Services

On November 6, 2015, the Company entered into an agreement with Stonebridge Capital Advisors, LLC (Stonebridge), a Registered Investment Advisor (RIA), to manage its invested assets. The agreement grants Stonebridge discretionary authority, subject to written investment objectives and restrictions that are approved by the Board of Directors. As compensation for these services, Stonebridge charges the Company an annual fee (billed quarterly) of 65 basis points or 0.65 percent of the market value of the Company's assets under its management.

Grinnell Adjusting Service

On April 23, 2010, the Company entered into a contract with Grinnell Advisory Company, a subsidiary of Grinnell Mutual Reinsurance Company ("Grinnell"), to perform claims adjusting and risk review services.

For services provided in 2018, Grinnell was paid \$28,120. The fee charged is a flat rate for up to 100 claims. Any additional claims would be billed at \$450 per claim. There was no fee for risk reviews delineated within the contract, but the Company allocated 10 percent of these fees to underwriting expenses for risk reviews performed in 2018.

Custodial Agreements

The Company executed an agreement with Fidelity Brokerage Services, LLC and National Financial Services, LLC (Fidelity) on March 20, 2017 to hold its securities. This agreement was reviewed and found to be in compliance with N.D. Admin Code § 45-03-23-02.

OPERATIONS REVIEW

No operations reviews were completed by Grinnell Mutual Reinsurance Company or any other outside entity during the examination period.

REINSURANCE

The following is a summary of the Company's most significant reinsurance contracts in force at December 31, 2018:

Nonaffiliated Ceding Contract:

Type:	Excess of Loss
Reinsurer:	Grinnell Mutual Reinsurance Company
Scope:	All policy forms and endorsements issued by the Company: (A) Individual Occurrence of Loss Excess – Covers up to \$20 million in losses from fire and windstorm risks written by the Company in excess of a \$125,000 retention. (B) Property Catastrophe Excess of Loss – Covers 100 percent of the Company's net losses incurred from windstorm, hail, or tornado loss occurrences within a period of 96 consecutive hours, in excess of a \$375,000 retention. (C) Aggregate Excess - provides coverage for 100 percent of the Company's aggregate net losses in excess of a defined retention limit. The retention limit for 2018 was \$700,000.
Premium:	(A) Property Per Risk Excess of Loss – The 2018 annual premium was \$86,340. (B) Property Catastrophe Excess of Loss – The 2018 annual premium was \$33,816. (C) Aggregate Excess - The 2018 annual premium was \$114,708.
Termination Date:	The agreement may be terminated by either party with a written 90 day notice.

The contract contained all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual*.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2018, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2018 Annual Statement. Revenues and expenses were tested to the extent deemed necessary.

The Manager is a licensed producer for the Company, for Grinnell Select Insurance Company and for Grinnell Mutual Reinsurance Company. During the examination period, the Manager charged agency expenses to the Company including an errors and omissions insurance policy, continuing education expenses, agency association membership dues, and other expenses typically associated with the operation of an insurance agency, while collecting the standard 14 percent commission.

It is recommended that the Manager segregate its agency books and records from the Company's books and records and that the Company discontinue paying for agency related expenses for the Manager.

The Manager periodically conducted agency or insurance producer related business as "McLean McHenry" or "McLean McHenry Insurance". N.D.C.C. § 26.1-26-09(1) states "[n]othing in this chapter may be construed to require an insurer to obtain an insurance producer license." As such, the Company does not fall under the definition of "insurance producer" at N.D.C.C. § 26.1-26-02(5) as the Company is not a person required to be licensed under chapter 26.1-26. Since the Company is not an insurance producer under the law, the Company's name cannot be used to conduct agency related business.

It is recommended that the Manager discontinue using the Company's name when conducting agency or insurance producer related business as the Company is not a licensed insurance producer.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, and Surplus as of December 31, 2018, and a Statement of Income for 2018.

These financial statements are based on the statutory financial statements filed by the Company with the North Dakota Insurance Department and present the financial condition of the Company for the period ending December 31, 2018. The accompanying comments on financial statements reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**McLean McHenry Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
as of December 31, 2018**

ASSETS

LEDGER ASSETS:

Stocks	\$ 393,940
Real Estate	37,984
Checking Accounts	53,937
Cash on Deposit	2,068,038
Premiums in Course of Collection	73,240
Furniture and Fixtures	<u>2,859</u>

TOTAL LEDGER ASSETS \$2,629,998

NONLEDGER ASSETS:

Interest Due and Accrued on certificates of deposit and passbook savings	\$ 14,056
Market Value of Stocks over Book Value	<u>29,669</u>

TOTAL NONLEDGER ASSETS \$ 43,725

DEDUCT ASSETS NOT ADMITTED:

Furniture and Fixtures \$ 2,859

TOTAL NET ADMITTED ASSETS \$2,670,864

LIABILITIES

Unpaid Losses	\$ 31,187
Incurred but Not Reported Claims (IBNR)	5,000
Unpaid Loss Adjustment Expense	2,343
Advance Premiums	19,495
Unearned Premium Reserve	566,955
Commission Due and Payable to Agents	16,530
Unpaid Taxes	7,778
Unpaid General Expenses	16,774
Reinsurance Premiums Due and Payable	20,507
Premiums Written for Others	<u>6,100</u>

TOTAL LIABILITIES \$ 692,669

SURPLUS TO POLICYHOLDERS \$1,978,195

TOTAL LIABILITIES AND SURPLUS \$2,670,864

McLean McHenry Mutual Insurance Company
Statement of Income
For the Year 2018

INCOME:

Gross Premium Income	\$1,115,260	
Less: Return Premiums	17,652	
Premiums for Reinsurance Ceded	249,057	
NET PREMIUM INCOME	\$848,551	
Dividends on Stocks	6,374	
Gross Rent from Company's Property	2,000	
Interest on Cash on Deposit	49,536	
Commissions and Service Fees Received	20,129	
Profit on Sale of Ledger Assets	(394)	
Grinnell Contingency Bonus	11,513	
Other Income	2,507	
TOTAL INCOME RECEIPTS	\$940,216	

DISBURSEMENTS:

Gross Losses Paid and Incurred in 2018	\$695,537	
Gross Losses Paid in 2018 but Incurred in Prior Years	22,389	
Deduct: Salvage	11,889	
Reinsurance Recovered	93,420	
NET LOSSES PAID	\$612,617	
Claim Adjustment Expenses	25,486	
Commissions Paid to Agents	154,435	
Directors Fees and Expenses	15,900	
Salaries to Employees	105,208	
Printing, Stationary, and Office Supplies	7,423	
Rent and Rent Items	2,000	
Real Estate Expenses	4,659	
Taxes on Real Estate	405	
State and Local Insurance Taxes	18,090	
Insurance Department Licenses and Fees	962	
Payroll Taxes	9,161	
Federal Income Taxes	5,113	
Legal Fees and Auditing	2,890	
Travel and Travel Items	10,029	
Advertising	8,829	
Dues and Donations	8,104	
Equipment Purchased	572	
Insurance and Bonds	12,482	
Postage, Telephone, and Bank Charges	6,515	
Employee Relations and Welfare	7,613	
Data Processing Expenses	11,225	
Risk Reviews and Other Underwriting Expenses	2,550	
Meeting and Convention Expenses	8,214	
Miscellaneous Expenses	2,691	
TOTAL FUNDS DISBURSED	1,043,173	
NET GAIN (LOSS)	(\$102,957)	

COMMENTS ON THE FINANCIAL STATEMENTS

Financial statement balances at December 21, 2018, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Assets

Premiums in Course of Collection

Premiums in course of collection as determined by this examination consisted of the following items and amounts:

<u>Description</u>	<u>Company</u>	<u>Examination</u>
Assessments or premiums in course of collection	\$ 77,673	\$ 73,240
Total	<u>\$ 77,673</u>	<u>\$ 73,240</u>

The Company booked an Assessments or Premiums in Course of Collection balance of \$77,672.80 but support was only noted for a balance of \$73,239.73.

It is recommended that the Company use the APPS system generated receivable report for determining its year-end Assessments or Premiums in Course of Collection figure.

Credit for Reinsurance

Reinsurance recoverable on paid losses as determined by this examination consisted of the following items and amounts:

<u>Description</u>	<u>Company</u>	<u>Examination</u>
Reinsurance recoverable on paid losses	\$ 15,785	\$ 0
Total	<u>\$15,785</u>	<u>\$ 0</u>

At December 31, 2018, the Company reported its full unpaid loss liability, including \$15,784.52 in fully recoverable catastrophic losses. The Company reported \$15,784.52 as Reinsurance recoverable on paid losses, which is incorrect as the Company had not paid these claims.

Proper accounting treatment for unpaid losses with expected reinsurance recoverables is to reduce the unpaid loss balance by the expected recoverable.

It is recommended that the Company reduce its unpaid loss liability by the expected amount of reinsurance recoverable.

Liabilities

Unpaid Losses

Unpaid Losses as determined by this examination consisted of the following items and amounts:

<u>Description</u>	<u>Company</u>	<u>Examination</u>
Case Reserves	\$ 46,971	\$ 31,186
Total	<u>\$ 46,971</u>	<u>\$ 31,186</u>

As discussed in the credit for reinsurance comment above, the Company overstated its unpaid losses by the amount of reinsurance recoverable on paid losses it expected to receive at December 31, 2018.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be \$1,978,195 or \$4,433 less than the amount reported by the Company in its 2018 Annual Statement. Adjustments to surplus are shown in the following schedule:

<u>Description</u>	<u>Company</u>	<u>Examination</u>	<u>Increase or (Decrease) to Surplus</u>
<u>Assets:</u>			
Assessments or premiums in course of collection	\$ 77,673	\$73,240	\$ (4,433)
Reinsurance Recoverable on Paid Losses	15,785	0	(15,785)
<u>Liabilities:</u>			
Unpaid Losses	<u>46,971</u>	<u>31,186</u>	<u>15,785</u>
Net Increase (decrease)			<u>\$ (4,433)</u>
Surplus to Policyholders as reported by Company	\$1,982,628		
Increase (Decrease) to Surplus from above	<u>(4,433)</u>		
Surplus to Policyholders per Examination	<u>\$1,978,195</u>		

CONCLUSION

The financial condition of McLean McHenry Mutual Insurance Company, Turtle Lake, North Dakota, as determined by this examination is summarized as follows:

TOTAL ADMITTED ASSETS		<u>\$2,670,864</u>
Liabilities	\$ 692,669	
Surplus to Policyholders	<u>1,978,195</u>	
 TOTAL LIABILITIES AND SURPLUS		 <u>\$2,570,864</u>

During the four-year period under examination, admitted assets increased by \$66,799, liabilities decreased by \$67,622, and surplus to policyholders increased by \$134,421.

The examiners express their appreciation for the courteous cooperation extended them during the course of this examination.

In addition to the undersigned, Chief Examiner Matt Fischer, CFE, participated in this exam.

Respectfully submitted,



Colton Schulz, CFE, CFE
Supervising Examiner
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Board of Directors not conduct business in its meetings without a quorum present.

It is recommended that the Company keep minutes of all meetings and motions approved by any committee of the Board.

It is recommended that the Board appoint a Secretary/Treasurer during the Organizational meeting, in order to comply with the Company's bylaws.

It is recommended that the Company comply with all policy requirements and N.D.C.C. § 26.1-04-03(9) and properly settle all valid claims to which it is obligated.

It is recommended that the Company file and obtain approval from the North Dakota Insurance Department prior to using any fee or charge that it bills to policyholders as required in N.D.C.C. § 26.1-25-04.

It is recommended that the Company file and approve all rates and forms prior to use as required by N.D.C.C. § 26.1-30-19.

It is recommended that the Company discontinue the practice of applying account credits for return premiums as these are not "returns of premium" under N.D.C.C. § 26.1-24-03.

It is recommended that the Company confirm all required endorsements are included with each policy.

It is recommended that the Manager segregate its agency books and records from the Company's books and records and that the Company discontinue paying for agency related expenses for the Manager.

It is recommended that the Manager discontinue using the Company's name when conducting agency or insurance producer related business as the Company is not a licensed insurance producer.

It is recommended that the Company use the APPS system generated receivable report for determining its year-end Assessments or Premiums in Course of Collection figure.

It is recommended that the Company reduce its unpaid loss liability by the expected amount of reinsurance recoverable.