STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

STEELE TRAILL COUNTY MUTUAL INSURANCE COMPANY

FINLEY, NORTH DAKOTA

AS OF DECEMBER 31, 2018

STATE OF NORTH DAKOTA

INSURANCE DEPARTMENT

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

Steele Traill County Mutual Insurance Company

Finley, 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 3rd day of April, 2020.

COMMISSIONER OF INSURANCE
SEAL
STATE OF
NORTH DAKOTA

Jon Godfread
Commissioner of Insurance

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Finley, North Dakota
January 24, 2020

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

Steele Traill County Mutual Insurance Company

Finley, North Dakota

Steele Traill County Mutual Insurance Company, hereinafter referred to as the ("Company"), was last examined as of December 31, 2014, by representatives of the North Dakota Insurance Department, hereinafter referred to as the ("Department").

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

This examination included a review to determine the current status of the seventeen comments and recommendations in the preceding Report of Examination which covered the period from January 1, 2010, to December 31, 2014. The Department determined that the Company had satisfactorily addressed all of these items, except the following:

Recommendation	Response
It is recommended that the Company's Board of Directors complete and annually review the conflict of interest statements and all disclosures. If conflicts are identified, it is recommended that the Company's Board of	The Company partially complied. The Company began signing conflict of interest disclosures annually, but several undisclosed and unmitigated conflicts were noted during the examination. **It is again recommended**

Directors develop a process to address and mitigate any noted conflicts.	**that the Manager and the Board of Directors accurately and completely disclose any known, potential, or perceived conflict of interest which may prevent them from independently serving the policyholders of the Company. Disclosed conflicts must include an effective mitigation strategy and Board approval.**
It is recommended that the Company only produce business through appointed agents and agencies per N.D.C.C. § 26.1-26-06.	The Company did not comply. The Company's most productive agency had an agent that produced business for over a year without an appointment. **It is again recommended that the Manager monitor the Company's agent and agency appointments to ensure business is only produced through appointed agents and agencies.**
It is recommended that the Company report Net Deferred Premiums as an asset in accordance with the County Mutual Annual Statement Instructions.	The Company did not comply. The Company excluded $65,641 in deferred premiums receivables from its balance sheet. **It is again recommended that the Manager include Net Deferred Premiums in the premiums receivables balance in accordance with the County Mutual Annual Statement Instructions.**
It is again recommended that the Company report the correct balance for its unpaid loss reserve on the Annual Statement.	The Company did not comply. The Company under-reported its unpaid claim reserve estimate by $10,127. **It is again recommended that the Company report the correct balance for its unpaid loss reserve on the Annual Statement.**
It is recommended that the Company not insure property outside of its authorized territory, per N.D.C.C. § 26.1-13-15(1).	The Company did not comply. In 2019, the Company insured a policy in Pembina County which was not within the Company's authorized territory. **It is again recommended that the Company not insure property outside of its authorized territory.**

Findings and recommendations related to the above areas are addressed under various captions below for the current period under examination.

SUBSEQUENT EVENTS

During its March 2019 annual meeting, the members added and elected a sixth Director, Lynn Carlson, to the Board.

Subsequent to the completion of the examination fieldwork, the manager resigned. At the time of the completion of this report, a replacement had not yet been selected by the Board of Directors.

HISTORY

Effective January 1, 2006, Steele County Farmers Mutual Insurance Company (Steele County), established June 10, 1893, and Farmers Mutual Insurance Company of Traill County (Traill County), established June 22, 1885, merged to form Steele Traill County Mutual Insurance Company. After the merger, the Company's home office was located in Finley, North Dakota, with a satellite office in Portland, North Dakota. The Portland satellite office was closed in 2007, leaving only the Finley office. Amy (Johnson) Goughnour, who was the manager of Steele County prior to the merger, stayed on as manager of the merged Company. Prior to the merger, Steele County had three Board members and Traill County had four Board members. Since the merger, the Board has had five Directors.

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. The Company's term of existence is on a perpetual basis in accordance with N.D.C.C. § 26.1-13-03.

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.

Board of Directors

The Articles of Incorporation provide that the corporate powers of the Company shall be vested in a Board of Directors composed of at least 5 directors and not more than 15 directors, each of whom shall be elected by a majority vote at the annual meeting of the membership for terms of three years. A majority of the entire Board of Directors constitutes a quorum for the transaction of business.

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

Name and Residence	Term Expires	Occupation
David Mehus Hope, ND	2020	Farmer
Mark Kloster Mayville, ND	2021	Farmer/ IT Development
Brent Gullicks Finley, ND	2022	Bank President
Barb Huus Hatton, ND	2020	Bank President
Eric Gunderson Buxton, ND	2022	Insurance Agent

Officers

Officers are elected at the organizational meeting of the Board of Directors by a majority vote for a period of one year. Officers serving at December 31, 2018, were as follows:

Officer	Title
David Mehus	President
Mark Kloster	Vice President
Amy Goughnour	Secretary and Treasurer

Committees

At December 31, 2018, the Board of Directors had three standing committees to assist the directors in various aspects of Company operations:

Executive Committee
Audit Committee
Investment Committee

Executive Committee

The duties and membership of the Executive Committee are specified within the Company's Bylaws. Membership includes the President, Vice President, and Secretary-Treasurer. At December 31, 2018, Executive Committee membership was:

Name	Title
David Mehus	President
Mark Kloster	Vice President
Amy Goughnour	Secretary and Treasurer

Audit Committee

The duties of the Audit Committee are specified within the Audit Committee Charter. Membership is specified as "comprising two or more directors as determined by the Board." During the examination Audit Committee appointments only occurred as Directors termed off or retired from the Board. The Committee met twice in 2015, three times in 2016, and four times in 2017 and 2018. At December 31, 2018, Audit Committee membership was:

Name	Title
David Mehus	President
Mark Kloster	Vice President

Investment Committee

The duties of the Investment Committee are specified within the Investment Policy Statement (IPS). Committee members met regularly each quarter during the period under review. Membership composition is not described within the IPS. At December 31, 2018, Investment Committee membership was:

Name	Title
Brent Gullicks	Director
Barb Huus	Director

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company amended its Articles of Incorporation on April 16, 2018 to expand its authorized territory into seven additional counties. This amendment was filed with the Secretary of State, but was not filed with the Department as required by N.D.C.C. § 26.1-13-02:

> The territory of operation is subject to the review and approval of the commissioner. An existing county mutual insurance company that desires to expand its territory of operation shall submit a description of the current territory of operation and proposed territory of operation to the commissioner for review and approval.
>
> If the articles are found to comply with this chapter, the commissioner shall approve the articles and the articles must be filed in the office of the secretary of state and a certified copy must be filed with the commissioner.

It is recommended that the Manager file and obtain approval of all territory expansions as required in N.D.C.C. § 26.1-13-02.

Also during 2018, the Manager filed a change of Registered Agent form with the Secretary of state. As the Registered Agent is listed within the Articles of Incorporation, an amendment to the

Articles of Incorporation is necessary to update the Registered Agent. This amendment was not approved at an annual meeting or a special of the Company. Per N.D.C.C. § 26.1-13-06:

> The articles of incorporation of a county mutual insurance company may be amended, and its bylaws adopted, amended, or repealed, at any annual meeting of the company, or at any special meeting called for that purpose, by the affirmative vote of two-thirds of the members voting on the proposition.

It is recommended that the Manager obtain approval of its Articles of Incorporation change updating the Registered Agent from at least two thirds of the voting membership. It is also recommended that the Manager file this Articles amendment with the North Dakota Insurance Department, then the Secretary of State.

No amendments were made to the Bylaws during the period under examination.

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.

Members

The Bylaws provide that the annual meeting of the Company shall be held at a time and place determined by the Board of Directors within the last ten days of March. During the period under examination, the annual meetings of the policyholders were held on the following dates: March 26, 2015; March 31, 2016; March 23, 2017; March 29, 2018.

Directors

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

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 initially appeared appropriate. However, after further review, it was found that the Manager had undisclosed conflicts which included Board of Director seats for two outside companies: The National Association of Mutual Insurance Companies (NAMIC) and Grinnell Mutual Reinsurance Company (GMRC).

The Manager disclosed her NAMIC involvement to the Department during the 2014 examination review of travel related expenses. The Manager stated the terms of her NAMIC seats would expire in two to three years, so travel and travel related expenses would decrease going forward. Since the 2014 examination, the Manager took a new Board seat with NAMIC and travel related expenses increased. The time the Manager spent away from the Company fulfilling her NAMIC Director duties, and the funds used for travel to NAMIC events caused both operational and financial strain on the Company.

The Manager's term as a GMRC Director began on January 1, 2019. The Manager informed the Company's Board of Directors of her GMRC Director campaign during the March 2018 quarterly Board meeting. No additional disclosures or mitigations regarding this conflict were noted in the Company's Board minutes. The Examination found that the Manager received a monthly salary of $2,675 plus $1,000 per meeting. This compensation was not disclosed to the Steele Traill Board of Directors or to the Department.

It was noted that GMRC is the parent company of Grinnell Advisory Company, the Company's contracted claims adjuster during the examination period and Grinnell Select Insurance Company, which is a direct competitor to each of the Company's insurance products.

The examination also found that during the examination period GMRC provided Property Per Risk, Catastrophic, and Aggregate Stop Loss reinsurance for the Company's property risks. The Company also collected and remitted liability premiums on GMRC's behalf for a commission based on the volume of business generated. Without these arrangements, the Company could not operate in its current form. No mitigation strategy was noted for these conflicts.

During a meeting with the Department, the Board of Directors disclosed that the Assistant Manager and the Manager are Sisters-in-Law. Although the Board of Directors was aware of the conflict, both employees completed annual conflict of interest disclosures and neither disclosed this relationship or mitigation strategies for the conflict.

It is again recommended that the Manager and the Board of Directors accurately and completely disclose any known, potential, or perceived conflict of interest which may prevent them from independently serving the policyholders of the Company. Disclosed conflicts must include an effective mitigation strategy and Board approval.

EMPLOYEES WELFARE AND PENSION PLANS

At December 31, 2018, the Company offered group life, accidental death & dismemberment, term life, long term disability, short term disability, dental, group accident and group critical illness coverage. The Company provided a fully paid family medical policy for the Manager and a single member policy for the Assistant Manager. Both employees were offered unlimited vacation, but Manager's leave exceeding five consecutive days required approval from the Board of Directors.

During the exam period, the Company paid a three percent IRA contribution to the Assistant Manager and the Manager. Company paid IRA contributions in 2018 totaled $2,926.

Cumulatively, Employee Relations and Welfare expenses in 2018 totaled $30,193, an increase of $23,511 from the 2015 figure, as reported in the Company's Annual Statement.

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 President of the Board and the Assistant Manager were not listed as named insureds, however. 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.*

It is recommended that the Company bond all appropriate individuals and accurately report covered individuals on Page 8 of the Annual Statement.

The Company also had in force 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.

A commercial lines policy was also in force that provides property coverage of $10,000 on the Company's home office in Finley. The policy also provides general liability coverage of $1,000,000 per occurrence and in aggregate.

TERRITORY AND PLAN OF OPERATION

At December 31, 2018, the Company had 66 appointed agents at 15 agencies and was authorized to transact business in the following 20 counties:

Steele	Traill	Griggs	Nelson
Cass	Richland	Sargent	Barnes
Ransom	Grand Forks	Foster	Walsh
Eddy	Ramsey	Stutsman	LaMoure
Dickey	Benson	Kidder	Wells

On April 16, 2015, the Department retrospectively approved the Company's 2014 territory expansion to Benson, Kidder, and Wells counties and its 2013 expansion to LaMoure and Dickey counties. It was noted that the Manager did not request approval from the Department for either of these territory expansions as required by N.D.C.C. § 26.1-13-02:

> An existing county mutual insurance company that desires to expand its territory of operation shall submit a description of the current territory of operation and proposed territory of operation to the commissioner for review and approval.

The examination also found that on April 16, 2018, the Company submitted to the Secretary of State a seven-territory expansion Amendment to its Articles of Incorporation. The Manager submitted a request for approval of this expansion to the Department on October 30, 2019 only after examination procedures found the request for approval was never submitted to the Department.

It is recommended that the Manager file and obtain approval of all territory expansions as required by N.D.C.C. § 26.1-13-02.

Examination testing found that one policy was written in Pembina county which, at December 31, 2018 was outside of the Company's authorized territory.

It is again recommended that the Company not insure property outside of its authorized territory.

During the examination, the Company provided documentation showing that between November 14, 2018 and November 27, 2019, the Company had an agent producing business without an appointment. Per N.D.C.C. § 26.1-26-06:

> An insurance producer may not act as an agent of an insurer unless the insurance producer becomes an appointed insurance producer of that insurer.

It is again recommended that the Manager monitor the Company's agent and agency appointments to ensure business is only produced through appointed agents and agencies per N.D.C.C. § 26.1-26-06.

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	2,435,349	505,521	1,929,828	742,180	619,696	96,777	219,262
2011	2,717,239	588,087	2,129,152	823,108	640,069	117,578	300,616
2012	3,137,120	576,266	2,560,853	982,305	723,107	124,381	383,579
2013	3,272,386	908,399	2,363,987	1,147,643	1,069,287	33,496	111,852
2014	3,641,284	1,054,184	2,587,100	1,262,870	1,025,829	79,313	316,355
2015	3,783,622	1,295,239	2,488,383	1,275,419	1,232,553	102,710	145,576
2016	3,353,724	900,958	2,452,766	1,267,230	1,896,697	54,961	(574,505)
2017	3,605,859	1,019,647	2,586,212	1,179,146	890,590	98,541	387,097
2018	3,891,569	935,860	2,955,709	1,265,967	1,141,746	87,772	211,993

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	39.4	33.7	111.2	36.2	40.1
Underwriting Expenses	50.8	41.8	38.5	60.4	40.2
Total Deductions	90.2	75.5	149.7	96.6	80.3
Net Underwriting Gain (Loss)	9.8	24.5	(49.7)	3.4	19.7

MARKET CONDUCT ACTIVITY

Premium Refunds

The Company had a 22-month stale premium refund check outstanding at December 31, 2018. In February 2019, the Manager 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(1):

> 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 Manager did not obtain prior consent from the policyholder before applying this credit. Without prior express written consent from the policyholder, an account credit cannot be considered a return of premium.

It is recommended that the Manager discontinue the practice of applying account credits for return premiums and/or claim disbursements as these are not "returns of premium" in accordance with N.D.C.C. § 26.1-24-03(1).

Claim Complaints

Based on a limited review of claim files, the Company appeared to pay claims fairly within policy provisions. N.D.C.C. § 26.1-04-03(10) requires that the Company adopt and implement reasonable standards for the prompt handling of written communications, primarily expressing grievances received by the Company from insureds or claimants. A comment was issued to the Company in the prior examination for not having adequate reporting and monitoring standards for written grievances.

During the examination period, the Company implemented a complaint log, but it did not disclose any complaints. One written grievance dated November 19, 2016 was identified during the examination.

It is recommended that the Manager log all grievances made to the Company within its Complaints Log.

OPERATING AGREEMENTS

Universal Insurance Services, Inc.

In March 2004, the Company along with four other North Dakota domestic county mutual insurance companies entered into a contract with Universal Insurance Services, Inc. ("Universal") to obtain claims adjusting and risk review services on an extended basis. In January 2009, the contract was amended to reflect Universal's services would be shared by the Company and Griggs Nelson Mutual Insurance Company.

For services provided in 2018, Universal was paid $45,033.96 for adjusting services and $7,716.00 for risk review and underwriting services for a total of $52,749.96.

This agreement was terminated December 31, 2018.

Grinnell Adjusting Service

On August 1, 2014, 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 $4,717.20. The fee charged is a flat rate for up to 25 claims. Any additional claims would be billed at $450 per claim.

Office Rental Agreement

On July 6, 2004, the Company entered into a lease agreement with Citizens State Bank of Finley, North Dakota for rent of office space in the Citizens State Bank Professional Center in Finley, North Dakota.

The term of the lease was for one year, but it automatically renewed each year as long as rent remained current, the office passed inspection, and a 30-day notice had not been given by either party. The agreement provided for monthly lease payments of $250 payable on the first of the month.

Effective January 1, 2018, the Company's monthly office lease increased to $400.

Custodial Agreements

The Company's securities are held under an agreement executed with Fidelity Brokerage Services, LLC and National Financial Services, LLC (Fidelity). This agreement was reviewed and found to be in compliance with N.D. Admin Code § 45-03-23-02.

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 $200,000 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 $450,000 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 $1,000,000.
Premium:	(A) Property Per Risk Excess of Loss – The 2018 annual premium was $64,368. (B) Property Catastrophe Excess of Loss – The 2018 annual premium was $102,288. (C) Aggregate Excess - The 2018 annual premium was $70,800.
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 obtained and traced to the appropriate schedules of the Company's 2018 Annual Statement. Revenues and expenses were tested to the extent deemed necessary.

In the prior examination, the Department issued a Management Letter comment to the Board of Directors for not having effective policies in place to control expenses. The comment recommended that the Company implement formal expense reimbursement policies and procedures including the codification of documentation standards, specifically relating to travel expenses.

During the examination period, all convention registration fees, airfare, hotel accommodations, meals and other associated travel expenses relating to the Manager's NAMIC Board position continued to be paid by the Company without appropriate Board oversight. The Company's travel expenses in 2018 exceeded the 2015 expenses when this recommendation was issued. No direct policyholder benefit was documented to justify these elevated costs. As of the date of this report, the Company still did not have formal policies in place relating to the approval or documentation of travel expenses.

It is again recommended that the Board draft and approve policies for expense management to improve oversight and safeguards over the policyholders' surplus.

It is again recommended that the Manager comply with documentation standards delineated within IRS Publication 535 and Form 1120-PC at a minimum, in order to sufficiently document and retain receipts and descriptions of expenses and meetings.

A sample of 60 payments, 6 percent of all 2018 disbursements, was selected from the Company's bank statements and tested for accuracy, cutoff, and appropriateness. The Manager provided adequate documentation based on IRS guidelines for 12 of the 60 payments or 20 percent of the sample. No receipts or invoices were available for 2 payments and for the remaining 46 items, the Manager only provided receipts. No memos, explanations, descriptions, or justifications were documented for these disbursements which included the following:

1. First class airfare and seat upgrade fees
2. Airline change fees for the Manager and her spouse
3. Airport lounge access fees
4. Extravagant meal and resort expenses
5. Meals for non-employees
6. Over 1,500 personal use miles on a rental car
7. Reimbursements made directly to the Manager without Board approval
8. Movie rental and gift-shop charges
9. Spa Package
10. Political Action Committee (PAC) donation reimbursement

It is recommended that the Manager protect policyholder surplus by limiting purchases to documented business necessities.

Federal Election Commission law prohibits corporations from making direct contributions to political action committees and from reimbursing individuals who make contributions to political action committees. The Manager made a $1,000 PAC donation to the NAMIC Political Action Committee during a March 2018 Convention. The Company later reimbursed the Manager for this donation.

It is recommended that the Company discontinue the practice of reimbursing the Manager's personal NAMIC PAC donations.

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 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.

Steele Traill County Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
as of December 31, 2018

ASSETS

LEDGER ASSETS:			
Bonds	$ 2,432,945		
Stocks	312,723		
Cash on Hand and Checking Accounts	168,664		
Cash on Deposit	800,000		
TOTAL LEDGER ASSETS		$3,714,332	
NONLEDGER ASSETS:			
Premiums in Course of Collection	$ 114,427		
Interest Due and Accrued on Bonds	22,682		
Interest Due and Accrued on Certificates of Deposit and Passbook Savings	7,584		
Market Value of Stocks over Book Value	27,858		
Reinsurance Recoverable on Paid Losses	2,311		
Commissions Receivable	2,375		
TOTAL NONLEDGER ASSETS		$ 177,237	
TOTAL NET ADMITTED ASSETS			$3,891,569

LIABILITIES

Unpaid Losses	$ 55,928		
Incurred But Not Reported	9,400		
Unpaid Loss Adjustment Expense	395		
Advance Premiums	5,966		
Unearned Premium Reserve	779,819		
Commission Due and Payable to Agents	45,982		
Unpaid Taxes	7,905		
Unpaid General Expenses	2,424		
Reinsurance Premiums Due and Payable	19,788		
Premiums Written for Others	7,843		
Agent Commissions Suspense Account	410		
TOTAL LIABILITIES		$935,860	
SURPLUS TO POLICYHOLDERS		$2,955,709	
TOTAL LIABILITIES AND SURPLUS			$3,891,569

Steele Traill County Mutual Insurance Company
Statement of Income
For the Year 2018

INCOME:			
Gross Premium Income	$1,564,153		
Less: Return Premiums	37,041		
Premiums for Reinsurance Ceded	261,145		
NET PREMIUM INCOME		1,265,967	
Interest on Bonds		40,498	
Dividends on Stocks		9,172	
Interest on Cash on Deposit		5,799	
Commissions and Fees Received		22,489	
Profit on Sale of Ledger Assets		4,195	
Miscellaneous Income		$ 5,618	
TOTAL INCOME RECEIPTS			$1,353,738
DISBURSEMENTS:			
Gross Losses Paid and Incurred in 2018	$288,043		
Gross Losses Paid in 2018 But Incurred in Prior Years	166,902		
Deduct: Salvage & Subrogation	1,500		
Reinsurance Recovered	4,911		
NET LOSSES PAID		$448,534	
Claim Adjustment Expenses		49,751	
Commissions Paid to Agents		302,533	
Directors Fees and Expenses		8,492	
Salaries to Employees		97,658	
Printing, Stationary, and Office Supplies		2,209	
Rent and Rent Items		4,800	
State and Local Insurance Taxes		24,082	
Insurance Department Licenses and Fees		1,192	
Payroll Taxes		7,651	
Federal Income Taxes (Refund)		(2,960)	
Legal Fees and Auditing		3,156	
Travel and Travel Items		18,245	
Advertising		8,777	
Dues and Donations		14,196	
Equipment Purchased		7,430	
Insurance and Bonds		13,762	
Postage, Telephone, and Bank Charges		11,873	
Employee Relations and Welfare		30,193	
Data Processing Expenses		25,786	
Risk Reviews and Other Underwriting		20,892	
Annual Meeting and Other Meetings		4,569	
Investment Expenses		16,622	
Miscellaneous Unidentified Expenses		19,654	
Miscellaneous Expenses		2,647	
TOTAL FUNDS DISBURSED			$1,141,744
Net Gain			$211,994

COMMENTS ON THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 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:

Description	Company	Examination
Assessments or premiums in course of collection	$ 48,786	$ 114,427
Total	$ 48,786	$ 114,427

The Company did not report its net deferred premiums correctly at December 31, 2018, per the Accounts Receivable Report, as required by the County Mutual Annual Statement Instructions.

It is again recommended that the Manager include Net Deferred Premiums in the premiums receivables balance in accordance with the County Mutual Annual Statement Instructions.

Other Non-Ledger Assets

The Company's reinsurance recoverable on paid loss balance and Grinnell commissions receivable balance as determined by this examination consisted of the following items and amounts:

Description	Company	Examination
Grinnell 2018 Commission Receivable	$ (2,375)	$ 2,375
Reinsurance Recoverable on Paid Losses	0	2,311
Total	$ (2,375)	$ 4,686

The Manager reported a non-admitted asset of $2,374.56 that was due and payable from Grinnell for the 2018 contingency bonus at 12/31/2018. This receivable meets the definition of an asset per SSAP 4 and should have been reported as a non-ledger asset in accordance with the County Mutual Annual Statement Instructions. Entering this receivable as non-admitted actually decreased surplus by $2,374.56 so to correct the error, an increase to surplus in the amount of $4,749.12 was required.

The Manager reported no reinsurance recoverables as of 12/31/2018. The Company paid an equipment breakdown claim in the amount of $2,310.83 with a loss date of November 2018 in December 2018. The Company was reimbursed by Hartford Steam Boiler for the full amount of this claim in January 2019. This receivable also meets the definition of an asset per SSAP 4 and should have been reported as a reinsurance receivable at 12/31/2018.

It is recommended that the Manager report assets, as defined within SSAP 4, in the proper section of the Annual Statement, per the County Mutual Annual Statement Instructions.

Liabilities

Unpaid Losses

The Company's liability for unpaid losses at year end was determined by this examination to be $55,928 or $10,127 more than reported by the Company.

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

Description	Company	Examination
Unpaid Losses (case reserves)	$ 45,800	$ 55,928
Total	$ 45,800	$ 55,928

It is again recommended that the Company report the correct balance for its unpaid loss reserve on the Annual Statement.

Agent Commissions Payable

Agent Commissions Payable as determined by this examination consisted of the following items and amounts:

Description	Company	Examination
Agent Commissions Payable	$ 1,939	$ 45,982
Total	$ 1,939	$ 45,982

The Manager used the Agents Commissions Payable account balance to report its December 31, 2018 Annual Statement figure. The Manager was aware that the IMT APPS accounting system does not track cash-basis commissions balances correctly. The Company compensated for this issue by tracking commissions payments and payable balances outside of the accounting system.

At December 31, 2018, the IMT APPS accounting system balance for Agents Commissions Payable was $1,938.77 higher than the actual cash-basis balance as tracked by the Company's records outside of the accounting system

It is recommended that the Manager report its Agent Commissions Payable balances per its spreadsheet maintained outside of the IMT APPS accounting system.

Although the Manager entered these commissions payments into the accounting system as of December 31, 2018, she did not constructively disburse payments until 2019. For three physical checks totaling $930.72, the checks were not printed until January 3, 2019. These checks cannot be considered "outstanding" at year-end because they were not printed until 2019. Similarly, December 2018 commissions totaling $14,432.59 were paid via electronic funds transfer (EFT), effective January 4, 2019. The 2018 contingency commissions payments totaling $30,618.75 were also paid via EFT, effective January 10, 2019. These two EFT transactions also cannot be considered "outstanding" at year-end as they were both scheduled to clear in 2019.

It is recommended that the Manager properly report its income statement items on the cash basis of accounting.

Unearned Premium Reserve

The Company's Unearned Premium Reserve ("UPR") was determined to be $51,016 lower than the amount reported by the Company. The Company did not exclude from its calculations the liability premiums that are directly written by GMRC.

Unearned Premiums as determined by this examination consisted of the following items:

Description	Company	Examination
Unearned Premium Reserve	$830,835	$ 779,819
Total	$ 830,835	$ 779,819

It is recommended that the Manager exclude liability premiums from its unearned premium reserves.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be $2,955,709 or $69,548 more than the amount reported by the Company in its 2018 Annual Statement. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase or (Decrease) to Surplus
Assets:			
Assessments or premiums in course of collection	$ 48,786	$114,427	$ 65,641
Non-Ledger Assets	(2,375)	4,686	7,061
Liabilities:			
Unpaid Losses	48,800	55,928	(10,128)
Unearned Premium Reserve	830,835	779,819	51,016
Agent Commissions Payable	1,939	45,982	(44,043)
Net Increase			$ 69,548

Surplus to Policyholders as reported by Company	$2,886,161
Increase (Decrease) to Surplus from above	69,548
Surplus to Policyholders per Examination	$2,955,709

Income Statement

Agent Commissions – "Accrual to Cash Adjustment"

Commissions paid in 2018 included the following items and amounts:

Description	Company	Examination
Commissions Paid to Agents	$ 322,187	$ 302,533
Miscellaneous Unidentified Expenses	0	19,654
Total	$322,187	$ 322,187

At December 31, 2018, the Manager detailed $302,553.40 in commissions paid to its 15 appointed agencies in 2018. The Manager added a $19,653.52 non-cash adjustment to commissions paid that was not supported by actual cash commissions paid in order to balance the income statement to the balance sheet. The Department conducted an in-depth review of the Company's financials and supporting documents and could not identify the true disposition of the $19,654 expense.

It is recommended that the Manager accurately account for its expenses and not use plug figures to balance its financial statements.

Misclassified Advertising Expenses

Advertising expenses paid in 2018 included the following items and amounts:

Description	Company	Examination
Advertising	$ 7,476	$ 8,777
Miscellaneous: Gift Baskets/Agent Contest	1,301	0
Total	$8,777	$ 8,777

At December 31, 2018, the Manager misclassified gifts and prizes paid to agents and agencies as miscellaneous expenses, rather than advertising expenses.

CONCLUSION

The financial condition of Steele Traill County Mutual Insurance Company, Finley, North Dakota, as determined by this examination is summarized as follows:

TOTAL ADMITTED ASSETS		$3,891,569
Liabilities	$ 935,860	
Surplus to Policyholders	2,955,709	
TOTAL LIABILITIES AND SURPLUS		$3,891,569

During the four-year period under examination, admitted assets increased by $250,285, liabilities decreased by $118,324, and surplus to policyholders increased by $368,609.

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

Respectfully submitted,

Colton Schulz, CFE, CFE

Colton Schulz, CFE, CFE
Supervising Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Manager file and obtain approval of all territory expansions as required in N.D.C.C. § 26.1-13-02.

It is recommended that the Manager obtain approval of its Articles of Incorporation change updating the Registered Agent from at least two thirds of the voting membership. It is also recommended that the Manager file this Articles amendment with the North Dakota Insurance Department, then the Secretary of State.

It is again recommended that the Manager and the Board of Directors accurately and completely disclose any known, potential, or perceived conflict of interest which may prevent them from independently serving the policyholders of the Company. Disclosed conflicts must include an effective mitigation strategy and Board approval.

It is recommended that the Company bond all appropriate individuals and accurately report covered individuals on Page 8 of the Annual Statement.

It is again recommended that the Company not insure property outside of its authorized territory.

It is again recommended that the Manager monitor the Company's agent and agency appointments to ensure business is only produced through appointed agents and agencies per N.D.C.C. § 26.1-26-06.

It is recommended that the Manager discontinue the practice of applying account credits for return premiums and/or claim disbursements as these are not "returns of premium" in accordance with NDCC § 26.1-24-03(1).

It is recommended that the Manager log all grievances made to the Company within its Complaints Log.

It is again recommended that the Board draft and approve policies for expense management to improve oversight and safeguards over the policyholders' surplus.

It is again recommended that the Manager comply with documentation standards delineated within IRS Publication 535 and Form 1120-PC at a minimum, in order to sufficiently document and retain receipts and descriptions of expenses and meetings.

It is recommended that the Manager protect policyholder surplus by limiting purchases to documented business necessities.

It is recommended that the Company discontinue the practice of reimbursing the Manager's personal NAMIC PAC donations.

It is again recommended that the Manager include Net Deferred Premiums in the premiums receivables balance in accordance with the County Mutual Annual Statement Instructions.

It is recommended that the Manager report assets, as defined within SSAP 4, in the proper section of the Annual Statement, per the County Mutual Annual Statement Instructions.

It is again recommended that the Company report the correct balance for its unpaid loss reserve on the Annual Statement.

It is recommended that the Manager report its Agent Commissions Payable balances per its spreadsheet maintained outside of the IMT APPS accounting system.

It is recommended that the Manager properly report its income statement items on the cash basis of accounting.

It is recommended that the Manager exclude liability premiums from its unearned premium reserves.

It is recommended that the Manager accurately account for its expenses and not use plug figures to balance its financial statements.