

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

**REPORT OF EXAMINATION
OF**

**WEST MCLEAN COUNTY FARMERS
MUTUAL INSURANCE COMPANY,**

MINOT, NORTH DAKOTA

**AS OF
DECEMBER 31, 2020**



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

West Mclean County Farmers Mutual Insurance Company

Minot, North Dakota

as of December 31, 2020, 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 30th day of
June 2022.





Jon Godfread
Insurance Commissioner

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Minot, North Dakota
May 17, 2022

Honorable Jon Godfread
Insurance Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505-0320

Dear Commissioner:

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

**West Mclean County Farmers Mutual Insurance Company
Minot, North Dakota**

West Mclean County Farmers Mutual Insurance Company hereinafter referred to as the ("Company"), was last examined as of December 31, 2015, 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 the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2016, to December 31, 2020, 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 4 exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2011, to December 31, 2015. The Department determined that the Company had satisfactorily addressed all of these items.

SUBSEQUENT EVENTS

Subsequent to the examination, the Department approved Amendments to the Company's Articles of Incorporation in March 2022. The amendments added Eddy County, Foster County, and Stutsman County to the Company's authorized territory.

HISTORY

The Company was incorporated on February 19, 1907, under the then existing laws of the State of North Dakota as the "West McLean County Farmers Mutual Lightning and Fire Insurance Company," with its home office and principal place of business at Garrison, North Dakota. Business commenced in April 1907.

The Company was organized for the specific purpose of mutually insuring the property of its members against any and all risks of hazard permitted by law, with all of the rights and privileges granted or permitted by law. The Company's term of existence is on a perpetual basis in accordance with N.D.C.C. § 26.1-13-03.

In 1956, the name of the Company was changed to "The West McLean County Farmers Mutual Insurance Company."

In 2010, during the regularly scheduled five-year examination of the Company, the North Dakota Insurance Department discovered that the General Manager, Alan Henning, had misappropriated Company funds. On November 3, 2010, Mr. Henning was terminated for embezzlement of Company funds. Federal court proceedings ordered Mr. Henning to make \$1,175,713.60 in restitution. As of the examination date, the Company has received \$468,635.32 of that amount.

MANAGEMENT AND CONTROL

Membership

The Company is controlled by its membership. Any person owning property within the Company's authorized territorial limits 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.

The date and place of the annual meeting of the members is set by the Board of Directors. The annual meeting is followed with a reorganizational meeting to address the appointment of Directors. Notice of the annual meeting is mailed to all policyholders 10 days in advance of the meeting and is also included in the spring edition of the Company newsletter in May.

Directors

The Bylaws provide that the management of the Company's affairs, business, and property is vested in a Board of Directors composed of five to seven members elected for staggered terms of three years each at the annual meeting of the membership. 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, 2020, were as follows:

Name and Residence	Term Expires	Occupation
Kenneth Sayler Garrison, ND	2023	Owner – Ken's Auto Body Shop
Steven Bigelow Makoti, ND	2023	Farmer
Jamie Williams Minot, ND	2022	Office Assistant – West McLean County Farmers Mutual Ins. Company
Blake Amon Minot, ND	2022	Customer Service Representative – Amon Ins. Agency
Steven Irey Minot, ND	2022	Machinist – Central Machine
John Hansen Ryder, ND	2023	Farmer

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, 2020, were as follows:

<u>Name</u>	<u>Office</u>
Kenneth Sayler	President
Steven Bigelow	Vice President
Debra Keller	Secretary-Treasurer

Committees

During each of the years under review, the Board of Directors appointed a Standing Committee to examine the Company's books and determine if an independent audit is necessary. This committee meets concurrently with the full Board. The Standing Committee was initially established to audit the Company's books or choose a third party to do so and report findings to the full Board. All audits during the exam period were conducted by Dave Weiss.

The Board also periodically designates directors to sit on the Investment Committee. This committee met once, apart from the full Board, during the exam period. It was determined by the Board that because full Board meetings occurred monthly and membership was limited by the amount and availability of directors, matters pertaining to investments or audits would be discussed and voted upon during the monthly Board meetings. The committees' members were as follows:

Standing Committee

Steve Bigelow
Steve Irey
Blake Amon

Investment Committee

Blake Amon
Deb Keller
Steve Bigelow

CORPORATE RECORDS

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.

Articles of Incorporation and Bylaws

On June 2016, the company's members approved an amendment to the Article of Incorporation adding eight counties – Adams, Billings, Bowman, Dunn, Golden Valley, Hettinger, Slope, and Stark – to its authorized territory. The Company is now authorized to operate in 30 counties.

The members approved an amendment to its Bylaws in June 2016 and again in August 2020. The June 2016 amendments related to the allowing blanket policies to be written per underwriting guidelines and Board approval. The August 2020 amendment added proxy voting language, age limit for director, and added additional procedure for Blanket policies. Also, the August 2020 bylaws amendments removed assessment language to conform with legislative changes.

Board of Director, Policyholder, 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

During the period under examination the annual meetings of the policyholders were held on the following dates: June 16, 2016; June 15, 2017; June 13, 2018; June 11, 2019; September 10, 2020.

Directors

During the period under examination, the Board of Directors held eight meetings in 2016 and 2017, ten in 2018, eleven in 2019, and ten meeting in 2020.

Conflict of Interest

The Company has a conflict-of-interest policy for directors, officers, and key employees and conflict of interest disclosure statements are completed annually. The conflict of interest statements for the years under examination were reviewed and all conflicts were noted and accepted.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2020, the Company had a \$100,000 fidelity bond in force, insuring against loss sustained by the Company as a result of dishonest or fraudulent acts committed by an employee. The coverage meets the minimum amount of fidelity insurance recommended in the NAIC's *Financial Examiners Handbook*.

The Company also had in force a combined professional liability and a directors and officers liability insurance policy providing a limit of liability of \$1,000,000 per claim, per 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.

TERRITORY AND PLAN OF OPERATION

At December 31, 2019, the Company had 51 appointed agents and 9 agencies and was authorized to transact business within the following counties:

Adams	Billings	Bottineau	Bowman
Burke	Burleigh	Divide	Dunn
Golden Valley	Hettinger	Kidder	McHenry
McKenzie	McLean	Mercer	Morton
Mountrail	Oliver	Pierce	Renville
Rolette	Sheridan	Slope	Stark
Ward	Wells	Williams	

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

Claims

Based on a limited review of claim files, the Company pays claims fairly within policy provisions upon receipt of satisfactory proof of loss or damage. It was noted during the examination that the Company's surcharging process counted claims that are closed without payment which does not comply with N.D.C.C. §26.1-25.2-03:

An insurer may not consider the following events for purposes of surcharging, declining, nonrenewing, or canceling either personal insurance coverage or a binder for personal insurance coverage. The events include:

4. A claim if the insurer makes no payment to or on behalf of the insured and the claim does not involve deceptive practices on the part of the insured.

It is recommended that the Company file a clarifying note that claims specified under N.D.C.C. § 26.1-25.2-03 are excluded for the purposes of determining surcharges.

Advertising

The Company's advertising consists primarily of newspaper, directory advertising, and miscellaneous ads (i.e., county fair). The advertising material was reviewed and no violations of N.D.C.C. § 26.1-04-03(2) were noted.

OPERATING AGREEMENTS

Grinnell Adjusting Service

On November 5, 2012, the Company entered into a contract with Grinnell Advisory Company, a subsidiary of Grinnell Mutual Reinsurance Company, to perform claims adjusting and risk review services.

For services provided in 2020, Grinnell Advisory Company was paid \$13,750. The fee charged is a flat rate for up to 50 claims. Any additional claims would be billed at \$450 per claim.

REINSURANCE

The following is a summary of the Company's significant reinsurance contracts in force at December 31, 2020:

Nonaffiliated Ceding Contract:

Type:	Excess of Loss
Reinsurer:	Grinnell Mutual Reinsurance Company
Scope:	All policy forms and endorsements issued by the Company: <ul style="list-style-type: none">(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 \$175,000 retention.(B) Property Catastrophe Excess of Loss – Covers 100 percentage of the Company's net losses incurred from windstorm, hail, tornado, hurricane, cyclone including ensuing collapse and water damage within a period of 96 consecutive hours, in excess of \$350,000.(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 2020 was \$675,000.
Premium:	<ul style="list-style-type: none">(A) Property Per Risk Excess of Loss - The 2020 annual premium was \$69,876.(B) Property Catastrophe Excess of Loss – The 2020 annual premium was \$70,512.(C) Aggregate Excess – The 2020 annual premium was \$28,140.
Termination Date:	The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days' notice in writing.

The contract contained the insolvency clause required by N.D.C.C. § 26.1-02-21 and 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, 2020, was obtained

and traced to the appropriate schedules of the Company's 2020 Annual Statement. Revenues and expenses were tested to the extent deemed necessary.

Custodial Agreements

The Company's securities are held under an agreement executed with Fidelity Investments. This agreement was reviewed and found to be in compliance with N.D. Admin Code § 45-03-23-02.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, and Surplus as of December 31, 2020, and a Statement of Income for 2020.

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, 2020. 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.

West Mclean County Farmers Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
as of December 31, 2020

ASSETS

LEDGER ASSETS:

Bonds	\$1,318,028
Stocks	340,772
Checking Account	641,263
Cash on Deposit	796,803
Furniture and Fixtures	2,493

TOTAL LEDGER ASSETS \$3,099,359

NON-LEDGER ASSETS:

Interest Due and Accrued on Bonds	\$9,436
Assessments or premiums in course of collection	69,072
Market Value of Stocks over Book Value	119,909
Misc. non-ledger assets:	6,089

TOTAL NON-LEDGER ASSETS \$204,506

DEDUCT: ASSETS NOT ADMITTED

Furniture and Fixtures	\$2,493
Assessments or premiums over 90 days due	2,822

TOTAL NON-ADMITTED ASSETS \$5,315

TOTAL NET ADMITTED ASSETS \$3,298,550

LIABILITIES

Unpaid Losses	\$ 20,590
Incurred But Not Reported Claims (IBNR) Estimate	1,959
Unpaid Loss Adjustment Expense	1,146
Advance Premiums	14,518
Unearned Premium Reserve	574,323
Commissions Due and Payable	4217
Unpaid Taxes	7,736
Unpaid Salary	14,223
Unpaid General Expenses	1,696
Reinsurance Premiums Due and Payable	15,173
Premiums Written for Others	3,739
Miscellaneous Liabilities	4,459

TOTAL LIABILITIES \$663,779

SURPLUS TO POLICYHOLDERS \$2,634,771

TOTAL LIABILITIES AND SURPLUS \$3,298,550

West Mclean County Farmers Mutual Insurance Company
Statement of Income and Disbursements
as of December 31, 2020

INCOME:

Gross Premium Income	\$1,109,613	
Less: Return Premiums	44,663	
Premiums for Reinsurance Ceded	189,968	
NET PREMIUM INCOME		\$874,982
Interest on Bonds	35,883	
Dividends on Stocks	12,223	
Interest on Cash on Deposit	4,080	
Profit on Sales or Maturity of Ledger Assets	487	
Commissions and service fees received	11,088	
Missing funds recovered	17,637	
Miscellaneous Income	3,419	
TOTAL INCOME RECEIPTS		\$959,799

DISBURSEMENTS:

Gross Losses Paid, Occurring During 2019	\$ 122,954	
Gross Losses Paid in 2019, Occurring in Prior Years	71,363	
Deduct: Subrogation	9,164	
Deduct: Reinsurance Recovered	5,600	
NET LOSSES PAID		\$179,553
Claim Adjustment Expenses	13,738	
Commissions Paid to Agents	135,147	
Directors' Fees and Expenses	10,050	
Salaries to Employees	144,276	
Printing, Stationery, and Office Supplies	6,230	
Rent and Rent Items	7,840	
State and Local Insurance Taxes	17,476	
Insurance Department Licenses and Fees	827	
Payroll Taxes	11,085	
Federal income taxes	14,200	
Legal Fees and Auditing	9,230	
Travel and Travel Items	1,273	
Advertising	3,000	
Dues and Donations	6,708	
Equipment	575	
Insurance and Bonds	9,233	
Postage, Telephone and Bank Charges	7,147	
Data Processing Expenses	16,763	
Risk Reviews and Other Underwriting Expenses	6,350	
Investment Management Fees	7,566	
Meeting Expenses	4,034	
Miscellaneous Expenses	3,193	
TOTAL FUNDS DISBURSED		615,944
NET INCOME		\$ 343,855

COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances on December 31, 2020, 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	\$ 74,598	\$ 69,072
Total	<u>\$ 74,598</u>	<u>\$ 69,072</u>

At December 31, 2020, the Company reported \$74,597.66 in Premiums in Course of Collection. This amount included Grinnell Mutual Reinsurance Company's liability premiums, which do not meet the definition of an asset for the Company under SSAP 4. Per the Company's accounting system, premiums in course of collection should have been \$69,071.68 or \$5,525.98 less than what was reported.

It is recommended that the Company exclude premiums written and collected for other companies from the Premiums in Course of Collection figure.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be \$2,632,259 or \$8,038 less than the amount reported by the Company in its 2020 Annual Statement. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase or (Decrease) to Surplus
Assets			
Premiums in Course of Collection	\$74,598	\$69,072	(\$5,526)
Net Increase			<u>(\$5,526)</u>
Surplus to Policyholders as reported by Company	\$2,640,298		
Increase (Decrease) to Surplus from above			<u>(\$5,526)</u>
Surplus to Policyholders per Examination	<u>\$2,634,772</u>		

CONCLUSION

The financial condition of West Mclean County Farmers Mutual Insurance Company, Minot, North Dakota, as of December 31, 2020, as determined by this examination is summarized as follows:

TOTAL ADMITTED ASSETS		<u>\$3,298,550</u>
Liabilities	\$ 663,779	
Surplus to Policyholders	<u>2,634,771</u>	
TOTAL LIABILITIES AND SURPLUS		<u>\$3,298,550</u>

Since the last examination conducted as of December 31, 2015, the Company's admitted assets have increased by \$1,335,619 its total liabilities have decreased by \$13,251 and its surplus as regards to policyholders has increased by \$1,348,870.

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, and Supervising Examiner Colton Schulz, CFE, CFE (Fraud) participated in this exam.

Respectfully submitted,



Shrijana Chapagain
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company file a clarifying note that claims specified under N.D.C.C. §26.1-25.2-03 are excluded for the purposes of determining surcharges.

It is recommended that the Company exclude premiums written and collected for other companies from the Premiums in Course of Collection figure.