

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

**REPORT OF EXAMINATION
OF
FLAXTON FARMERS MUTUAL FIRE
INSURANCE COMPANY
BOWBELLS, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2022**

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

Flaxton Farmers Mutual Fire Insurance Company

Bowbells, North Dakota


as of December 31, 2022, 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 12th day of

February, 2024.



Jon Godtread
Commissioner of Insurance



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January 12, 2024
Bowbells, North Dakota

Honorable Jon Godfred
Insurance Commissioner
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

Flaxton Farmers Mutual Fire Insurance Company

Bowbells, North Dakota

Flaxton Farmers Mutual Fire Insurance Company, hereinafter referred to as the ("Company"), was last examined as of December 31, 2017, 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 the 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, 2018, to December 31, 2022, 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 twelve exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2018 to December 31, 2022. We determined that the Company had satisfactorily addressed all of these items, except the following:

Recommendation

Response

It is recommended that the Company eliminate its exposure to bank failures by keeping deposits within FDIC coverage limits.

The Company did not comply. **It is again recommended that the Company eliminate its exposure to bank failures by keeping deposits within FDIC coverage limits.**

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

SUBSEQUENT EVENTS

No material subsequent events were noted through the date of this report.

HISTORY

The Company was incorporated on February 6, 1906, as "The Flaxton Farmers Mutual Fire Insurance Company of Ward County", and commenced business on June 10, 1906.

At the annual meeting of policyholders, held on July 19, 1975, the Articles of Incorporation were officially amended, changing the name of the Company to "Flaxton Farmers Mutual Fire Insurance Company".

The Company's term of existence is perpetual as provided by N.D.C.C. § 26.1-13-03.

The Company was organized for the specific purpose of mutually insuring the property of its members against any risk of hazard by fire and lightning. During 1963, the Company extended its coverage to include the perils of windstorm, hail, explosion, aircraft or vehicles, smoke, riot, theft of personal property, injury or death of livestock, overturn or collision of farm machinery, vandalism or malicious mischief and additional living expenses.

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 management of the Company's affairs, business and property is vested in the Board of Directors who are elected for staggered terms of three years by the membership at the annual meeting. 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, 2022, were as follows:

Director	Term Expires	Occupation
Nathan Jepsen Bowbells, ND	2026	CPA, Farmer
Dan Folske Bowbells, ND	2026	Rancher & Extension Agent
Douglas Winzenburg Bowbells, ND	2025	Farmer
Brooke Watterud Columbus, ND	2025	Office Manager
Jerol Staael Stanley, ND	2024	Retired Farmer
Tom Dhuyvetter Noonan, ND	2024	Farmer

Officers

Officers are elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting. Officers serving at December 31, 2022, were as follows:

<u>Name</u>	<u>Office</u>
Douglas Weinzenburg	President
Jerol Staael	Vice President
Courtney Seime	Secretary-Treasurer

Committees

The Board annually appoints three members to the Finance Committee to meet on an as-needed basis. The committee did not meet during the exam period. Membership at December 31, 2012 was:

Douglas Weinzenburg, President
Nate Jepsen, Director
Courtney Seime, Secretary-Treasurer

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

Articles of Incorporation

No articles amendments were noted during the examination period.

By-Laws

2019 – Removed language related to assessments as the Company became a member of the North Dakota Insurance Guarantee Association, effective August 1, 2019. Also removed language which effectively prohibited the Company from writing business within incorporated cities.

2020 – Changed the definition of a member to "a named insured, spouse, and adult eighteen years of age or older that resides in named insured's residence."

2021 – Changed language related to how votes are allocated. Instead of each member present, it is now each representative of a unique policy number present. Amendment also allows for absentee voting at discretion of the board.

Conflict of Interest

The Company's conflict of interest policy and annual conflict disclosures were reviewed for the period under examination. No material conflicts were noted.

Members

During the period under examination the annual meetings of the policyholders were held in accordance with the Company's Bylaws on the following dates: June 6, 2018; June 5, 2019; July 29, 2020; June 2, 2021; and June 1, 2022.

Directors

During the period under examination, the Board of Directors held the following number of meetings annually:

2018	2019	2020	2021	2022
6	5	5	5	5

FIDELITY BOND

The Company has a fidelity bond in force which provides \$75,000 coverage for losses associated with employee dishonesty. The coverage meets the minimum recommended amount of fidelity insurance suggested in the NAIC's *Financial Examiners Handbook*.

TERRITORY AND PLAN OF OPERATION

At December 31, 2022, the Company had 44 licensed agents, 10 appointed agencies and was authorized to transact business within the following counties:

Bottineau	Burke	Divide	McHenry	McKenzie
McLean	Mercer	Mountrail	Nelson	Renville
Sheridan	Ward	Williams		

There were no changes to the Company's authorized territory during the exam period.

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.

Advertising The Company's advertising consists primarily of newspaper, radio, and miscellaneous ads (i.e. county fair). The advertising material was reviewed and did not appear to be deceptive.

OPERATING AGREEMENTS

Investment Advisor Services

On May 11, 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.

Custodial Agreements

The Company executed an agreement with Fidelity Brokerage Services, LLC and National Financial Services, LLC (Fidelity) on April 19, 2017 to hold its securities. This agreement was reviewed and found to be in compliance with N.D. Admin. Code § 45-03-23-02.

Office Rental Agreement

The Company has an office lease agreement with Bowbells Development Corporation which began on July 1, 2003 and renews annually or until either party gives written notice of termination. At December 31, 2022, the Company's monthly rent was \$600.

Loss Adjusting/ Inspection Services

During the examination period, the Company contracted with Hartland Mutual Insurance Company (Hartland) to perform claims adjusting and inspection services. The Agreement sets the fees for inspection and/or adjustment at \$45 per hour, plus any direct fees incurred.

Agency Agreements

At December 31, 2022, the Company had written agency agreements with each of the agents that it paid commissions to during the year. The Agreement outlines the commission rates for new and renewal business, the Company's contingent bonus commission criteria, and the renewal ownership details.

REINSURANCE

The following is a summary of the Company's most significant reinsurance contracts in force at December 31, 2022:

Grinnell Mutual Reinsurance Company

Nonaffiliated Ceding Contract:

Type:	Excess of Loss
Reinsurer:	Grinnell Mutual Reinsurance Company
Scope:	All policy forms and endorsements issued by the Company
	(A) Property Per Risk Excess of Loss – 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 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 \$550,000 retention.
	(C) Property Aggregate Excess of Loss - Provides coverage for 100 percent of the Company's aggregate net losses in excess of a defined annual retention limit. The retention limit for 2022 was \$1,100,000.
Premium:	(A) Property Per Risk Excess of Loss - The 2022 annual premium was \$120,000.
	(B) Property Catastrophe Excess of Loss – The 2022 annual premium was \$92,004.

(C) Aggregate Excess - The 2022 annual premium was \$216,996.

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, 2022, was traced to the appropriate schedules of the Company's 2022 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

At December 31, 2022, the Company's balances at Dacotah Bank exceeded Federal Deposit Insurance Corporation (FDIC) coverage levels by \$182,884.20.

It is again recommended that the Company eliminate its exposure to bank failures by keeping deposits within FDIC coverage limits.

FINANCIAL STATEMENTS

The following pages present a Statement of Assets, Liabilities, and Surplus as of December 31, 2022, and an Statement of Income for 2022.

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, 2022. 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.

Flaxton Farmers Mutual Fire Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2022

ASSETS:

LEDGER ASSETS:

Bonds	\$ 2,246,586	
Stocks	600,132	
Cash on Hand and Checking Accounts	27,462	
Cash on Deposit (Banks and Savings & Loans)	<u>727,302</u>	
TOTAL LEDGER ASSETS		\$3,601,482

NONLEDGER ASSETS:

Interest Due and Accrued on Bonds	\$ 18,230	
Assessments or Premiums in Course of Collection	74,109	
Market Value of Stocks over Book Value	161,887	
2021 Aggregate Recoverable	26,000	
Allen IOL Recoverable	<u>176,500</u>	
TOTAL NONLEDGER ASSETS		456,726

DEDUCT: ASSETS NOT ADMITTED

	<u>\$ 0</u>	
TOTAL NONADMITTED ASSETS		<u>0</u>

TOTAL NET ASSETS ADMITTED \$4,058,208

LIABILITIES:

Unpaid Losses	\$ 399,515	
Incurred But Not Reported Claims	8,000	
Unpaid Loss Adjustment Expense	1,965	
Advanced Premiums	16,090	
Unearned Premium Reserve	853,290	
Commissions Due and Payable to Agents	44,757	
Unpaid Taxes	12,744	
Unpaid General Expenses	2,048	
Reinsurance Premiums Due and Payable	35,748	
Premiums Written for Others	13,463	
Amounts Withheld for Others	<u>1,726</u>	
TOTAL LIABILITIES		<u>\$ 1,389,344</u>

SURPLUS TO POLICYHOLDERS \$ 2,668,864

TOTAL LIABILITIES AND SURPLUS \$ 4,058,208

Flaxton Farmers Mutual Fire Insurance Company
Statement of Income
For the Year 2022

INCOME:

Gross Premium Income	\$1,961,221	
Less: Returned Premiums	36,816	
Premiums for Reinsurance Ceded	428,679	
NET PREMIUM INCOME		\$1,495,726
Interest on Bonds		\$ 47,538
Dividends on Stocks		23,639
Interest on Cash on Deposit		2,270
Profit on Sale or Maturity of Ledger Assets		5,803
Commissions and Service Fees Received		28,292
Federal Tax Refund		0
Miscellaneous Income		607
TOTAL INCOME RECEIPTS		<u>\$1,603,875</u>

DISBURSEMENTS:

Gross Losses Paid that Occurred During Current Year	\$ 799,529	
Gross Losses Paid Current Year but Occurred in Previous Years	134,282	
Deduct: Salvage	25,900	
Reinsurance Recovered	132,221	
NET LOSSES PAID		\$775,690
Claim Adjustment Expenses		24,732
Commissions Paid to Agents		304,331
Directors' Fees and Expenses		3,388
Salaries to Employees		121,196
Printing, Stationery, and Office Supplies		845
Rent and Rent Items Including Self Rent for Company's Occupancy		7,200
State and Local Insurance Taxes		33,368
Insurance Department Licenses and Fees		695
Payroll Taxes		8,431
Legal Fees and Auditing		2,763
Travel and Travel Items		1,571
Advertising		757
Dues and Donations		10,823
Insurance and Bonds		6,668
Postage, Telephone, Internet, and Bank Charges		7,450
Employee Relations and Welfare		9,222
Data Processing Expenses		25,023
Custodial and Investment Management Fees		18,422
Annual Meeting Expense		2,160
Change in Liabilities for Payroll Withholdings/Suspense Account		17
Miscellaneous Expenses		380
TOTAL FUNDS DISBURSED		<u>\$ 1,365,131</u>
NET GAIN (LOSS)		<u>\$238,744</u>

COMMENTS ON FINANCIAL STATEMENTS

Financial statement balances at December 31, 2022, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Assets

Reinsurance Recoverable on Unpaid Losses

At December 31, 2022, the Company did not report reinsurance recoverables on unpaid losses totaling \$202,500, split into separate lines as shown below:

<u>Description</u>	<u>Company</u>	<u>Examination</u>
2021 Aggregate Recoverable	\$ 0	\$ 26,000
Allen IOL Recoverable	0	176,500
Total	<u>\$ 0</u>	<u>\$ 202,500</u>

This entry is required as the Company had unpaid claims that were subject to recoveries from reinsurance. Rather than report the total ("gross") unpaid claim amount, the Company netted their unpaid claim balance against their future reinsurance recoverable amounts. Per Statement of Statutory Accounting Principles (SSAP) 62R – Property and Casualty Reinsurance, and SSAP 4 – Assets and Nonadmitted Assets, the Company should have reported these reinsurance assets to offset the underreported unpaid claim liability. There was no impact to surplus resulting from this reporting error.

Liabilities

At December 31, 2022, unpaid Losses as determined by this examination were \$202,500 higher than reported by the Company and consisted of the following items and amounts:

Unpaid Losses

<u>Description</u>	<u>Company</u>	<u>Examination</u>
Unpaid Losses	\$ 197,015	\$ 399,515
Total	<u>\$ 197,015</u>	<u>\$ 399,515</u>

This adjustment coincides with the adjustment to reinsurance recoverables on unpaid losses noted above. The Company reported its unpaid claims figure net of reinsurance recoverable amounts, which is not in compliance with Statement of Statutory Accounting Principles (SSAP) 55 – Unpaid Claims, Losses, and Loss Adjustment Expenses, and SSAP 5R – Liabilities, Contingencies and Impairment of Assets. To correct this error, the Examiners increased the unpaid claim liability by \$202,500 and entered the offsetting reinsurance recoverable entry noted above. There was no impact to surplus resulting from this reporting error.

It is recommended that the company report a liability for all open claims at year end and also report, if appropriate, an offsetting reinsurance recoverable asset.

CONCLUSION

The financial condition of Flaxton Farmers Mutual Fire Insurance Company, Bowbells, North Dakota, as determined by this examination is summarized as follows:

TOTAL ADMITTED ASSETS		<u>\$4,058,208</u>
Liabilities	\$ 1,389,344	
Surplus to Policyholders	<u>2,668,864</u>	
TOTAL LIABILITIES AND SURPLUS		<u>\$4,058,208</u>

Since the last examination conducted as of December 31, 2017, the Company's admitted assets have increased \$1,061,066, its total liabilities have increased \$338,728, and its surplus as regards policyholders has increased \$722,338.

In addition to the undersigned, North Dakota Insurance Department Supervising Examiner Colton Schulz, CFE, CISA, CRISC, CFE (Fraud), participated in this examination.

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

Respectfully submitted,



Cole Mork
Examiner-in-Charge
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the company report a liability for all open claims at year end and also report, if appropriate, an offsetting reinsurance recoverable asset.

It is again recommended that the Company eliminate its exposure to bank failures by keeping deposits within FDIC coverage limits.