

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

**REPORT OF EXAMINATION**

**OF**

**MCLEAN MCHENRY MUTUAL  
INSURANCE COMPANY**

**TURTLE LAKE, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 2023**

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

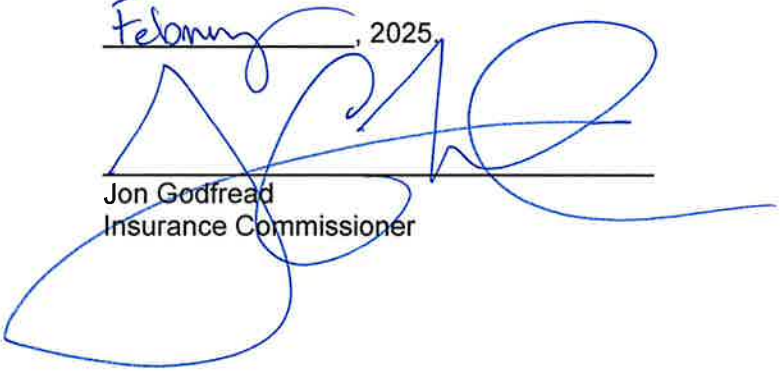
**McLean McHenry Mutual Insurance Company**

**Turtle Lake, North Dakota**

as of December 31, 2023, 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 13<sup>th</sup> day of

February, 2025.

  
\_\_\_\_\_  
Jon Godfread  
Insurance Commissioner



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Turtle Lake, North Dakota  
January 10, 2025

Honorable Jon Godfread  
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

**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, 2018, 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, 2019, to December 31, 2023, 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 comments and recommendations in our preceding Report of Examination which covered the period from January 1, 2019, to December 31, 2023. The Department determined that the Company had satisfactorily addressed eleven of these items, except the following:

### Recommendation

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.

### Response

The Company did not comply. No procedure was implemented to ensure the use of the APPS system generated report be used to determine the year-end assessments or premiums in course of collection. **It is again recommended that the Company use the APPS system generated receivable report for determining its year-end Assessments or Premiums in course of collection.**

## **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.

Directors duly elected and serving the Company at December 31, 2023, were as follows:

<b>Name and Residence</b>	<b>Term Expires</b>	<b>Occupation</b>
Nick Wagner Mercer, ND	2026	Sales
Keith Dibble Towner, ND	2027	Business Management
Clair Eslinger Coleharbor, ND	2026	Mechanic
Kathy Schon Mercer, ND	2026	Retired Teacher
Gene Schoenberg Benedict, ND	2027	Farmer
Bruce Klabunde Garrison, ND	2025	Farmer
Doris Wall Mercer, ND	2025	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, 2023, were as follows:

<b><u>Name</u></b>	<b><u>Office</u></b>
Nick Wagner	President
Clair Eslinger	Vice President
Linda Huelsman	Secretary-Treasurer

## **CORPORATE RECORDS**

### **Articles of Incorporation and Bylaws**

The Company amended its Bylaws during the exam period to allow for proxy voting during membership meetings.

### **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 provided Board meeting minutes evidencing quarterly investment transaction approval to meet the requirements of North Dakota Administrative Code ("N.D. Admin Code") Chapter 45-03-12-05(4a), but the minutes did not indicate any review or revision of the written investment plan, as required by N.D. Admin Code § 45-03-12-05(4)(b):

4. On no less than a quarterly basis, the board of directors or committee of the board of directors shall:

- a. Receive and review a summary report on the insurer's investment portfolio, its investment activities, and investment practices engaged in under delegated authority, in order to determine whether the investment activity of the insurer is consistent with its written plan; and
- b. Review and revise, as appropriate, the written plan.

**It is recommended that the Board review and revise, as appropriate, the investment plan quarterly to comply with the requirements of N.D. Admin Code § 45-03-12-05(4)(b).**

### **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 10, 2019; July 13, 2020; June 14, 2021; June 13, 2022; June 12, 2023.

### **Directors**

During the period under examination, the Board of Directors held nine meetings in 2019, seven meetings in 2020, ten meetings in 2021, nine meetings in 2022, and eight meetings in 2023.

## **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, 2023, the Company offered a three percent matching IRA contribution for the manager and the office secretary. Matching contributions paid by the Company in 2023 totaled \$3,179.32.

## **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2023, 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, 2023, 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, 2023, the Company 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 five-year period ending December 31, 2023. 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)
2019	2,692,891	817,614	1,875,277	855,595	982,689	91,901	(35,194)
2020	2,984,526	730,704	2,253,821	876,566	640,041	85,508	322,033
2021	3,083,497	660,728	2,422,769	842,011	833,978	117,536	125,568
2022	2,857,974	751,880	2,106,094	878,624	1,164,557	71,442	(214,490)
2023	3,184,935	836,326	2,348,609	987,485	779,628	70,688	278,545

### Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the five-year period ending December 31, 2023:

	2023	2022	2021	2020	2019
<b>Premiums</b>	100%	100%	100%	100%	100%
<b>Deductions:</b>					
Losses and Loss Adjustment	33.9	82.2	47.7	29.0	63.1
Underwriting Expenses	45.1	50.4	51.3	44.1	51.7
<b>Total Deductions</b>	79.0	132.6	99.0	73.1	114.8
<b>Net Underwriting Gain (Loss)</b>	21.0	(32.6)	1.0	26.9	(14.8)

## MARKET CONDUCT ACTIVITY

### Treatment of Policyholders

Claims Based on a 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 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.

### **True Claims Adjusting Service**

In 2022, the Company ended their contract with Grinnell Advisory Company, a subsidiary of Grinnell Mutual Reinsurance Company ("Grinnell") and entered into a contract with True Claims to perform claims adjusting and risk review services. True Claims charges the Company \$350 on a per claim basis plus applicable mileage. Claim adjustment expenses for 2023 totaled \$14,810.

### **Agency Agreements**

At December 31, 2023, the Company paid commissions to an agency that did not have an appointment with the Company as required by N.D.C.C. § 26.1-26-06:

An insurance producer who sells, solicits, or negotiates an application for insurance of any kind is, in any controversy between the insured or the insured's beneficiary and the insurer, regarded as representing the insurer and not the insured or the insured's beneficiary. An insurance producer may not act as an agent of an insurer unless the insurance producer becomes an appointed insurance producer of that insurer. This section does not affect the apparent authority of an agent.

**It is recommended that the Company appoint all contracted agents and agencies that are directly paid commissions to comply with the requirements of N.D.C.C. § 26.1-26-06.**

### **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**

Representatives of Grinnell performed an operations review of the Company in March 2024. The review was comprised of 19 claim files and their respective reserves. Grinnell noted the following two findings: 1) No discussion of how coverage applied to the loss within the claim files and 2) Not documenting reserving changes in the files.

The solvency concerns relating to these findings are reflected within recommendations issued in the Comments on the Financial Statements section of this report.

## REINSURANCE

The following is a summary of the Company's significant reinsurance contracts in force at December 31, 2023:

### 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"><li>(A) Individual Occurrence of Loss Excess – Covers up to \$15 million in losses from fire and windstorm risks written by the Company in excess of a \$150,000 retention.</li><li>(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 \$400,000 retention.</li><li>(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 2023 was \$750,000.</li></ul>
Premium:	<ul style="list-style-type: none"><li>(A) Property Per Risk Excess of Loss – The 2023 annual premium was \$131,352.</li><li>(B) Property Catastrophe Excess of Loss – The 2023 annual premium was \$46,248.</li><li>(C) Aggregate Excess - The 2023 annual premium was \$109,560.</li></ul>
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, 2023, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2023 Annual Statement. Revenues and expenses were tested to the extent deemed necessary.

The Company uses a company credit card for much of its day to day purchases. The Company provided the Department receipts matching transactions selected for testing but indicated that it

did not have documentation including descriptions of the nature or business need for the purchases.

**It is recommended that the Manager comply with IRS Publication 535 and Form 1120-PC at a minimum, regarding the standards for documentation and retention of receipts and descriptions of expenses.**

## **FINANCIAL STATEMENTS**

The following pages present a Statement of Assets, Liabilities, and Surplus as of December 31, 2023, and a Statement of Income for 2023.

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, 2023. 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, 2023**

**ASSETS**

LEDGER ASSETS:

Bonds	\$ 950,931
Stocks	146,921
Real Estate	48,571
Checking Accounts	203,947
Cash on Deposit	1,712,802
Premiums in Course of Collection	84,308
Furniture and Fixtures	<u>0</u>

TOTAL LEDGER ASSETS \$3,147,480

NONLEDGER ASSETS:

Interest Due and Accrued on bonds	\$ 20,392
Interest Due and Accrued on certificates of deposit and passbook savings	28,387
Market Value of Stocks over Book Value	24,917
Reinsurance Recoverable on Paid Losses	345
	<u>          </u>

TOTAL NONLEDGER ASSETS \$ 74,041

DEDUCT ASSETS NOT ADMITTED:

Furniture and Fixtures	<u>\$ 0</u>
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TOTAL NET ADMITTED ASSETS \$3,221,521

**LIABILITIES**

Unpaid Losses	\$ 10,908
Incurred but Not Reported Claims (IBNR)	5,000
Advance Premiums	17,043
Unearned Premium Reserve	694,890
Commission Due and Payable to Agents	59,742
Unpaid Taxes	9,261
Unpaid General Expenses	16,178
Reinsurance Premiums Due and Payable	23,930
Premiums Written for Others	7,531
Other Liabilities	<u>1,451</u>

TOTAL LIABILITIES \$ 845,934

SURPLUS TO POLICYHOLDERS \$2,375,587

TOTAL LIABILITIES AND SURPLUS \$3,221,521

**McLean McHenry Mutual Insurance Company**  
**Statement of Income**  
**For the Year 2023**

**INCOME:**

Gross Premium Income	\$1,313,224	
Less: Return Premiums	24,258	
Premiums for Reinsurance Ceded	301,481	
<b>NET PREMIUM INCOME</b>		<b>\$987,485</b>
Interest on Bonds		12,862
Dividends on Stocks		7,513
Gross Rent from Company's Property		2,000
Interest on Cash on Deposit		28,093
Commissions and Service Fees Received		18,092
Profit (loss) on Sale of Ledger Assets		(3,910)
Other Income		6,039
<b>TOTAL INCOME RECEIPTS</b>		<b>\$1,058,174</b>

**DISBURSEMENTS:**

Gross Losses Paid and Incurred in 2018	\$330,263	
Gross Losses Paid in 2018 but Incurred in Prior Years	89,480	
Deduct: Salvage	25,010	
Reinsurance Recovered	75,012	
<b>NET LOSSES PAID</b>		<b>\$319,721</b>
Claim Adjustment Expenses		14,810
Commissions Paid to Agents		177,069
Directors Fees and Expenses		12,000
Salaries to Employees		110,941
Printing, Stationary, and Office Supplies		5,560
Rent and Rent Items		2,000
Real Estate Expenses		6,344
Taxes on Real Estate		503
State and Local Insurance Taxes		22,075
Insurance Department Licenses and Fees		987
Payroll Taxes		8,499
Federal Income Taxes		8,639
Legal Fees and Auditing		2,500
Travel and Travel Items		5,427
Advertising		11,967
Dues and Donations		9,606
Equipment Purchased		572
Insurance and Bonds		16,706
Postage, Telephone, and Bank Charges		7,317
Employee Relations and Welfare		6,924
Data Processing Expenses		11,384
Meeting and Convention Expenses		5,952
Miscellaneous Expenses		12,124
<b>TOTAL FUNDS DISBURSED</b>		<b>779,627</b>
<b>NET GAIN (LOSS)</b>		<b>\$278,547</b>

## COMMENTS ON THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2023, 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	\$ 47,722	\$ 84,308
Total	<u>\$ 47,722</u>	<u>\$ 84,308</u>

The Company reported an Assessments or Premiums in Course of Collection balance of \$47,722.31 but support was noted for a balance of \$88,052.16.

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

### 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	\$ 1,300	\$ 10,908
Total	<u>\$ 1,300</u>	<u>\$ 10,908</u>

The Company had one closed claim which required a subsequent, supplemental payment that materially exceeded its case reserve liability.

**It is recommended that the Company improve its reserving practices to ensure adequate case reserves are held open until repairs are completed.**

**Surplus to Policyholders**

Surplus to policyholders was determined by this examination to be \$2,375,587 or \$26,978 more than the amount reported by the Company in its 2023 Annual Statement. Adjustments to surplus are shown in the following schedule:

<b>Description</b>	<b>Company</b>	<b>Examination</b>	<b>Increase or (Decrease) to Surplus</b>
<b><u>Assets:</u></b>			
Premiums in course of collection	\$ 47,722	\$ 84,308	\$ 36,586
<b><u>Liabilities:</u></b>			
Unpaid Losses	1,300	10,908	(9,608)
Net Increase (decrease)			<u>\$ 26,978</u>
Surplus to Policyholders as reported by Company	\$2,348,609		
Increase (Decrease) to Surplus from above	<u>26,978</u>		
Surplus to Policyholders per Examination	\$2,375,587		



## 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>\$3,221,521</u>
Liabilities	\$ 845,934	
Surplus to Policyholders	<u>2,375,587</u>	
 TOTAL LIABILITIES AND SURPLUS		<u>\$3,221,521</u>

Since the last examination conducted as of December 31, 2018, the Company's admitted assets have increased by \$554,401, its liabilities have increased by \$153,265, and its surplus as regards policyholders has increased \$401,136.

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

In addition to the undersigned, Supervising Examiner Colton Schulz, CFE, CISA, CRISC, CFE (Fraud) participated in this exam.

Respectfully submitted,



\_\_\_\_\_  
Colton Mork  
Examiner  
North Dakota Insurance Department

## **COMMENTS AND RECOMMENDATIONS**

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

It is recommended that the Board review and revise, as appropriate, the investment plan quarterly to comply with the requirements of N.D. Admin Code § 45-03-12-05(4)(b).

It is recommended that the Company appoint all contracted agents and agencies that are directly paid commissions to comply with the requirements of N.D.C.C. § 26.1-26-06.

It is recommended that the Manager comply with IRS Publication 535 and Form 1120-PC at a minimum, regarding the standards for documentation and retention of receipts and descriptions of expenses.

It is recommended that the Company improve its reserving practices to ensure adequate case reserves are held open until repairs are completed.