

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

REPORT OF EXAMINATION

OF

**CASS COUNTY MUTUAL
INSURANCE COMPANY
CASSELTON, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2014**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

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

Cass County Mutual Insurance Company

Casselton, North Dakota

as of December 31, 2014, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

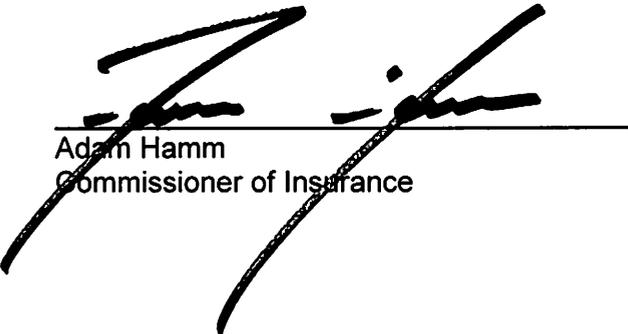


IN WITNESS WHEREOF, I have hereunto

set my hand and affixed my official seal at my

office in the City of Bismarck, this 30th day of

March, 2016.



Adam Hamm
Commissioner of Insurance

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Casselton, North Dakota
February 10, 2016

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

Dear Commissioner:

Pursuant to your instructions and in accordance with the North Dakota Century Code, an examination was made of the condition and affairs of the

Cass County Mutual Insurance Company

Casselton, North Dakota

as of December 31, 2014.

Cass County Mutual Insurance Company, Casselton, North Dakota, hereinafter referred to as the "Company", was last examined as of December 31, 2009, by representatives of the State of North Dakota.

SCOPE OF EXAMINATION

This examination was a financial condition examination conducted in accordance with 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, 2010, to December 31, 2014, 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 15 exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2005, to December 31, 2009. We determined that the Company had satisfactorily addressed all of these items, except the following:

Recommendation

Response

It is recommended that the Company review the job functions of the General Manager and Secretary/Treasurer in order to develop procedures to reduce the fraud risk associated with having the same person performing both functions.

The Company elected an Audit Committee that completes an annual retrospective review of the accuracy of transactions within the Company's accounting software against the corresponding bank statements. While this process does add oversight to the General Manager's activities, more effective controls to reduce fraud include prohibiting the Manager from borrowing funds or using the Company's assets as collateral, updating bank authorizations to require that two parties sign to make withdrawals, and separating the cash handling and bank reconciliation functions. **It is again recommended that the Company review the job functions of the General Manager and Secretary/Treasurer in order to develop procedures to reduce the fraud risk associated with having the same person performing both functions.**

It is recommended that the Company develop a Conflict of Interest Policy and have its directors, officers, and key employees complete a conflict of interest statement each year.

The Company did not comply. Conflict of interest forms were signed in 2011 only. The form that the Company used in 2011 did not require the individual to disclose any conflicts that existed. There also was no evidence of a review of disclosed conflicts completed by the Board of Directors. **It is again recommended that the Company develop a Conflict of Interest Policy and have its directors, officers, and key employees complete conflict of interest disclosures each year. The Board should note the review and disposition of any conflicts noted in the Board minutes.**

It is recommended that the Company accrue for all due but unpaid rents at each year end.

The Company complied, but since the tenant rent was due in January 2014 and the Company had not received payment at December 31, 2014, the receivable should have been non-admitted as it was more than 90 days past due. This adjustment has been made to the financial statements in this report.

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

SUBSEQUENT EVENTS

Subsequent to the examination period, the Company entered into a new reinsurance contract with Grinnell Mutual Reinsurance Company. This contract, effective January 1, 2016, increases the individual per risk limit for the Company to \$20 million without the need for facultative reinsurance.

HISTORY

The Company was incorporated and commenced business on March 10, 1888, with its home office and principal place of business at Casselton, North Dakota.

The Company is organized pursuant to the provisions of N.D.C.C. ch. 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. ch. 26.1-13 and 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.

At the annual meeting of the membership held on June 3, 1996, the policyholders amended the Articles of Incorporation restating the Articles and changing the Company's name from Farmers County Mutual Fire & Lightning Insurance Company to Cass County Mutual Insurance Company.

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 of membership. 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 a Board of Directors composed of seven members elected for staggered terms of three years each at the annual meeting of the business at any 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, 2014, were as follows:

Director	Term Expires	Occupation
David Piper Durbin, ND	2017	Farmer and CPA
Michael Nelson Casselton, ND	2016	Farmer
Don Gibson Leonard, ND	2017	Farmer
Harold Lemar Casselton, ND	2017	Self-Employed Painter
John Pueppke Amenia, ND	2015	Farmer
Eileen Schultz Wheatland, ND	2015	Farmer
Linda Sell Amenia, ND	2016	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 or until their successors are elected and qualified. Officers serving at December 31, 2014, were as follows:

<u>Name</u>	<u>Office</u>
David Piper	President
Michael Nelson	Vice President
Tracey Sherman	Secretary/Treasurer

The Company's General Manager, Tracey Sherman, oversees the day-to-day operations of the Company. She also serves on the Board of Directors as the Secretary/Treasurer. These two positions are inherently conflicting in nature as the Secretary/Treasurer oversees the work of the General Manager. The Company has elected an Audit Committee of the Board to provide additional oversight over the Manager, but the oversight this committee provides is retrospective and ineffective in preventing fraud. If fraud were to take place, the Audit Committee may not discover it for up to one year.

It is recommended that the Company review the job functions of the General Manager and Secretary/Treasurer in order to develop procedures to reduce the fraud risk associated with having the same person performing both functions.

Investment Committee

As appointed by the Board of Directors, the following individuals served on the Investment Committee at December 31, 2014:

<u>Name</u>	<u>Title</u>
David Piper	President
Michael Nelson	Vice President
Tracey Sherman	Secretary/Treasurer

During the examination period the Company's Investment Committee and full Board of Directors occasionally reviewed the Company's investment activity at its meetings; however, this review did not occur consistently on a quarterly basis as required by N.D. Admin. Code § 45-03-12-05(4). Neither the Board nor the committee minutes show that investments are consistently reviewed on a quarterly basis to determine whether the investment activity aligns with the Company's written investment plan.

It is recommended that the Company's Board of Directors or its Investment Committee review and approve the Company's investment activities and investment practices to determine whether the investment activity is consistent with its written plan at least quarterly per N.D. Admin. Code § 45-03-12-05(4).

Executive Committee

As appointed by the Board of Directors, the following individuals served on the Executive Committee at December 31, 2014:

<u>Name</u>	<u>Title</u>
David Piper	President
Michael Nelson	Vice President
Linda Sell	Director

Audit Committee

As appointed by the Board of Directors, the following individuals served on the Audit Committee at December 31, 2014:

<u>Name</u>	<u>Title</u>
Harold Lemar	Director
Eileen Schultz	Director

The Company's Audit Committee met annually throughout the examination period. The manager noted that there is no chairperson for the committee, and no minutes are taken during meetings. The findings and results of the committee's testing are not reported to the full Board for review and approval.

It is recommended that the Company's Audit Committee record minutes of any meetings held. It is also recommended that the Company's Audit Committee report the results of testing performed to the Board of Directors annually.

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

The Company made no amendments to its Articles of Incorporation or Bylaws during the period under examination.

Members

During the period under examination, the annual meetings of the membership were held on the following dates: May 26, 2010; June 1, 2011; May 30, 2012; May 29, 2013; and May 29, 2014.

Directors

During the period under examination, the Board of Directors held five meetings in years 2010, 2011, and 2013, four meetings in 2012, and six meetings in 2014.

CONFLICT OF INTEREST

The Company was unable to provide signed conflict of interest statements for any year under examination except 2011. The disclosure forms the Company provided to its Directors and key employees to complete did not present the signor with an area to list conflicts. No conflicts were disclosed in 2011 despite the Manager's, Assistant Manager's, and a Director's conflicts as independent agents. The Company did not sufficiently disclose conflicts of interest as recommended in the prior examination.

It is again recommended that the Company develop a Conflict of Interest Policy and have its directors, officers, and key employees complete conflict of interest disclosures each year. The Board should note the review and disposition of any conflicts noted in the Board minutes.

SUBSIDIARIES AND AFFILIATES

The Company incorporated Knecht Insurance Agency, Inc. (KIA) and on November 19, 2009, made an initial capital contribution of \$15,000 into KIA for working capital. On January 1, 2010, the Company purchased the agency assets of Bob Knecht for \$155,000.

On March 25, 2011, the Company made a \$25,000 capital contribution to the agency so that it could purchase the building it was renting. In 2012, the Company made a series of capital contributions totaling \$95,000 to pay for remodeling expenses to the building that the agency purchased in 2011. The total investment in KIA exceeded the 10 percent of insurer asset limitation under N.D.C.C. § 26.1-10-05(2)(a). The Company is required to seek the Commissioner's approval of any investments in KIA that would exceed that limit per N.D.C.C. § 26.1-10-05(2)(c). The Company did not notify the Department of these capital contributions. As a result, the Company is in violation of N.D.C.C. § 26.1-10-05(2)(c). In addition, none of the seven capital contributions were formally approved by the Company's Board of Directors.

It is recommended that the Company obtain the Commissioner's approval for any capital contributions made to the Company's subsidiaries that exceed the limitations of N.D.C.C. § 26.1-10-05(2)(a). It is also recommended that the Company's Board of Directors approve all capital contributions made to the Company's subsidiaries.

At December 31, 2014, the market value of the Company's investment in KIA exceeded the 10 percent single issuer limit per the requirements of N.D.C.C. § 26.1-10-02(2)(a). However, the excess is within the seven percent limit allowed by N.D.C.C. § 26.1-05-19(33)—known as the basket clause.

It is recommended that the Company periodically review its holdings for compliance with N.D.C.C. §§ 26.1-10-02(2)(a) and 26.1-05-19(33). Amounts over the statutory maximum should be non-admitted.

KIA reports its financials on a cash basis and does not depreciate the value of its real estate. According to Statement of Statutory Accounting Principles (SSAP) 97(8)(b)(iii), investments in subsidiary, controlled, and affiliated entities shall be recorded based on the audited U.S. Generally Accepted Accounting Principles (GAAP) equity of the investee.

It is recommended that the Company prepare the Knecht Insurance Agency financials in accordance with GAAP and that an adjustment should be made to record depreciation of the agency's real estate investment.

EMPLOYEES WELFARE AND PENSION PLANS

The Company does not offer health insurance to its employees. It does, however, pay each employee \$300 per month to defray the cost of obtaining health insurance through other channels. The \$300 is included in the employees' salaries payments and the proper withholding taxes are deducted.

In 1999, the Company established a SIMPLE IRA retirement plan for its employees with the Company offering to match up to three percent of employee contributions.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2014, a fidelity bond was in force that insured the Company against loss of money or other property the Company might sustain through any fraudulent or dishonest act or acts committed by the Secretary/Treasurer of the Company. The bond provides for a \$100,000

limit of liability for loss. The coverage meets the minimum amount of fidelity insurance suggested in the NAIC's formula; however, the Secretary/Treasurer is the only named insured on this policy.

It is recommended that the Company add any employee or officer who has access to its cash and investment accounts to its Fidelity Bond.

The Company also had in force a combined professional liability and a directors and officers liability insurance policy providing a limit of liability of \$2,000,000 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.

A business owners policy provides property coverage of \$172,605 on an actual cash value for the office building in Casselton and business personal property coverage of \$30,000. The policy also provides general business liability coverage of \$500,000 per occurrence and a \$1,000,000 aggregate limit.

TERRITORY AND PLAN OF OPERATION

The Company's operating territory is made up of the following counties:

Barnes	Burleigh	Cass	Dickey	Emmons
Foster	Grand Forks	Griggs	Kidder	LaMoure
Logan	McIntosh	Ransom	Richland	Sargent
Steele	Stutsman	Traill	Wells	

The Company added Emmons and McIntosh Counties to its authorized territory during the examination period. As the Company's authorized territory is not listed within its Articles of Incorporation or its Bylaws, no revisions were needed to reflect this change.

At December 31, 2014, the Company had 63 appointed agents and 16 agencies. The Company's Manager and Assistant Manager produced business for the Company during 2014 but were not appointed as insurance producers for the Company. The Company also contracted with and paid commissions to 13 different insurance agencies that were not appointed as insurance producers for the Company.

It is recommended that the Company only accept business from an insurance producer who is an appointed insurance producer of the Company per the requirements of N.D.C.C. § 26.1-26-06. It is also recommended that the Company appoint all contracted agencies and agencies that are directly paid commissions to comply with the requirements of N.D.C.C. § 26.1-26-06.

During the exam period, the Company wrote three nonresidential properties that were within the platted limits of an incorporated city. In accordance with N.D.C.C. § 26.1-13-15(3), nonresidential risks can only be written on properties located outside the platted limits of an incorporated city.

It is recommended that the Company nonrenew the policies written on the nonresidential risks inside the platted limits of an incorporated city at the end of each policy's current

term and that the Company no longer write nonresidential risks inside the platted limits of an incorporated city in accordance with N.D.C.C. § 26.1-13-15(3).

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over a 10-year period. Data with respect to the years 2005-2008 and 2010-2013 was taken from Annual Statements prepared by the Company. Data for the years 2009 and 2014 reflects the results of examination:

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policy-holders	Net Premiums Written	Under-writing Deductions	Investment and Other Income	Net Income (Loss)
2005	1,065,791	382,075	683,716	466,129	384,947	60,870	142,052
2006	1,271,413	337,249	934,164	478,129	373,425	82,499	187,203
2007	1,154,716	340,606	814,111	431,025	600,425	78,776	(90,624)
2008	1,262,831	267,621	995,210	407,088	311,067	77,956	173,977
2009	1,498,251	251,565	1,246,686	386,128	294,830	55,632	146,929
2010	1,456,390	233,393	1,222,997	364,659	474,812	91,651	(18,501)
2011	1,478,179	262,831	1,215,348	395,726	488,818	116,965	23,873
2012	1,538,888	364,604	1,174,284	457,851	458,866	93,253	92,238
2013	1,803,483	396,269	1,407,213	568,278	473,567	102,103	196,815
2014	1,912,650	526,475	1,386,175	606,925	634,354	47,742	20,313

Operating Ratios

The underwriting ratios presented below encompass the five-year period ending December 31, 2014:

	2014	2013	2012	2011	2010
Premiums	100.0%	100.0%	100.0%	100.0%	100.0%
Deductions:					
Losses and Loss Adjustment	46.0%	31.4%	49.6%	60.2%	55.0%
Underwriting Expenses	58.5%	51.9%	50.6%	63.3%	75.2%
Total Deductions	104.5%	83.3%	100.2%	123.5%	130.2%
Net Underwriting Gain (Loss)	(4.5%)	16.7%	(0.2%)	(23.5%)	(30.2%)

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

- Claims** Based on a limited view 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, sports booklets and give-away items. The advertising material was reviewed and no violations of N.D.C.C. § 26.1-04-03(2) were noted.

OPERATING AGREEMENTS

Grinnell Advisory Company

On October 31, 2013, 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 2014, Grinnell Advisory Company was paid \$14,000. The fee charged is a flat rate for up to 60 claims. Any additional claims would be billed at \$400 per claim.

OPERATIONS REVIEW

In July 2012, representatives of Grinnell Mutual Reinsurance Company (Grinnell) performed an operations review of the Company, covering the following areas:

- General Operations
- Underwriting and Loss Control
- Claims

This review performed by Grinnell contained 13 suggestions, none of which were considered significant for this examination.

REINSURANCE

The Company's reinsurance treaty in force at the time of the examination is summarized below. The contract contained the insolvency clause required by N.D.C.C. § 26.1-02-21.

Nonaffiliated Ceding Contract:

- Type: Excess
- Reinsurer: Grinnell Mutual Reinsurance Company
- Scope: Fire, Lightning, Windstorm, Hail, and Extended Coverages:

- Coverage: (A) Individual Occurrence of Loss Excess - Covers all risks written by the Company in excess of \$150,000 retention subject to the following limits:
- | | |
|--------------------------------------|-------------|
| Dwellings | \$1,000,000 |
| Farm Outbuildings | \$1,000,000 |
| Livestock/Poultry/Horse Operations | \$1,000,000 |
| Commercial and Public Property | \$1,000,000 |
| Farm Machinery and Equipment Storage | \$2,000,000 |
- (B) 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 2014 was \$413,158.
- Premium: (A) Individual Occurrence of Loss Excess – The 2014 monthly premium rate per \$1,000 of adjusted gross fire risks in force was \$.0129.
- (B) Aggregate Excess – The 2014 monthly premium rate per \$1,000 of adjusted gross fire risks in force was \$.0428.
- 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.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transactions cycles were reviewed during the course of the examination and a trial balance as of December 31, 2014, was obtained and traced to the appropriate schedules of the Company's 2014 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

Custodial Agreements

During the exam period, the Company entered into a custodial agreement with broker-dealer Wells Fargo Advisors, LLC (Wells Fargo), under which Wells Fargo provides safekeeping of the Company's invested assets. This agreement was executed as a result of a prior examination finding stating that the Company did not have a compliant custodial agreement. The agreement meets the requirements of N.D. Admin. Code § 45-03-23-02.

Claim Complaints

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.

It is recommended that the Company establish and maintain an internal complaints log that meets the requirements of N.D.C.C. § 26.1-04-03(10) for any complaints or grievances that are reported to the Company.

Policyholder Counts

The Company reported 629 policyholders on its 2014 Annual Statement. The Company's accounting records showed 24 policyholders who had multiple policies. The Company also included three policies that had been either cancelled or nonrenewed between 2012 and 2014 and one test entry, further overstating the policyholder count by four. Per the report, another four policies appeared twice due in part to the Company's mid-term transition from its MAPs+ policy processing system to its current APPs system. The Company's correct policyholder count at December 31, 2014, was 597.

It is recommended that the Company check for duplicate policies owned by the same policyholder and report only the number of unique policyholders on the annual statement.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 2014, as determined by this examination and its operating results for the year then ended.

**Cass County Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2014**

ASSETS

LEDGER ASSETS:

Bonds	\$832,844
Stocks	660,843
Real estate	5,000
Checking Account	14,279
Cash on Deposit	150,041
Wells Fargo Cash Account	127,510
Furniture and Fixtures	540

TOTAL LEDGER ASSETS **\$1,791,057**

NON-LEDGER ASSETS:

Interest Due and Accrued on Bonds	\$ 10,765
Rental Income Due	5,000
Premiums in Course of Collection	97,438
Market Value of Stocks over Book Value	13,931

TOTAL NON-LEDGER ASSETS **\$ 122,133**

DEDUCT: ASSETS NOT ADMITTED

Furniture and Fixtures	\$ 540
Rental Income over 90 days past due	5,000

TOTAL NON-ADMITTED ASSETS **\$ 5,540**

TOTAL NET ADMITTED ASSETS **\$1,912,650**

LIABILITIES

Unpaid Losses	\$106,362
Unpaid Loss Adjustment Expense	1,167
Advance Premiums	1,574
Unearned Premium Reserve	381,728
Commissions Due and Payable	17,792
Unpaid Taxes	6,003
Unpaid General Expenses	3,558
Premiums Payable to Grinnell	6,140
Reinsurance Premiums Due and Payable	839
Miscellaneous Liabilities	1,312

TOTAL LIABILITIES **\$ 526,475**

SURPLUS TO POLICYHOLDERS **\$1,386,175**

TOTAL LIABILITIES AND SURPLUS **\$1,912,650**

Cass County Mutual Insurance Company
Statement of Cash Receipts and Cash Disbursements
For the Year of 2014

INCOME:

Gross Premium Income	\$726,221
Less: Return Premiums	10,356
Premiums for Reinsurance Ceded	<u>108,940</u>

NET PREMIUM INCOME \$606,925

Interest on Bonds	28,452
Dividends on Stocks	9,222
Gross Rent From Company's Property	7,200
Interest on Cash on Deposit	296
Profit on Sales or Maturity of Ledger Assets	(12,250)
Commissions Received on Liability & EB Premiums	10,076
GMRC Contingency	3,929
Other Income	\$ 817

TOTAL INCOME RECEIPTS \$654,667

DISBURSEMENTS:

Gross Losses Paid, Occurring During 2014	\$ 323,679
Gross Losses Paid in 2014, Occurring in Prior Years	18,639
Deduct: Reinsurance Recovered	<u>80,700</u>

NET LOSSES PAID \$ 261,618

Claim Adjustment Expenses	17,759
Commissions Paid to Agents	125,430
Directors' Fees and Expenses	2,875
Salaries to Employees	74,708
Printing, Stationery, and Office Supplies	2,488
Rent and Rent Items	4,385
Real Estate Expenses	13,482
Taxes on Real Estate	766
State and Local Insurance Taxes	9,240
Insurance Department Licenses and Fees	951
Payroll Taxes	3,863
Federal income taxes	11,890
Legal Fees and Auditing	3,990
Travel and Travel Items	4,479
Advertising	13,464
Dues and Donations	6,029
Equipment	12,163
Insurance and Bonds	8,186
Postage, Telephone and Bank Charges	4,986
Employee Relations and Welfare	10,427
Data Processing Expenses	19,279
Investment Expenses	15,010
Meeting Expenses	5,898
Miscellaneous Expenses	<u>988</u>

TOTAL FUNDS DISBURSED \$634,354

NET INCOME \$ 20,313

COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2014, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Assets

Assessments or Premiums in Course of Collection

The Company did not report premiums in course of collection on its annual statement. At December 31, 2014, the Company had \$29,474.61 of deferred premiums outstanding and \$67,963.07 in agents' balances outstanding.

In total, the Company had \$97,437.68 of premiums in course of collection at December 31, 2014, and reported \$0 of this asset. Per the County Mutual Annual Statement Instructions, the Company is required to record these premiums as either a ledger asset or non-ledger asset.

It is recommended that the Company report premiums in course of collection net of liability and equipment breakdown premiums as an asset in accordance with the County Mutual Annual Statement Instructions.

Rent Receivable

The Company reported a non-ledger asset for Rental Income Due of \$5,000. The \$5,000 represented rental income due to the Company from the tenants (KB&O) that occupy the office space in the back of the Company's home office building it owns in Casselton.

The amount reported at December 31, 2014, was due January 1, 2014. According to SSAP 34 – Section (5)(b), receivables outstanding more than 90 days are considered nonadmitted assets. Since the rent was due from KB&O on January 1, 2014, and was not received by the Company until January 2, 2015, the full amount of this asset should have been non-admitted on the Company's 2014 annual statement.

Market Value of Stocks over Book Value

The Company's market value of stocks over book value was decreased by \$4,320 because Knecht Insurance Agency (KIA) reports its financials on a cash basis and does not depreciate the value of its real estate. This \$4,320 represents the amount of depreciation that the KIA should have reported on its financials.

It is recommended that the Company prepare the Knecht Insurance Agency financials in accordance with GAAP and that an adjustment should be made to record depreciation of the agency's real estate investment.

Liabilities

Unearned Premium Reserve

The Company booked unearned premium reserves on the actual cash receipts for installment premiums and not on the annualized premiums in accordance with SSAP 53. This resulted in an understatement of the Company's liabilities of \$12,407. The total UPR should have been \$381,727.70 at December 31, 2014.

It is recommended that the Company book unearned premium reserves based on annualized premiums per SSAP 53.

Advance Premiums

The Company included \$1,573.91 of Advance Premiums in its 2014 gross written premiums. Two policies were paid in December, but had January 2015 effective dates and the Company did not include a liability for the advance premium.

It is recommended that the Company report all premiums collected prior to year end with effective dates in the New Year as advance premiums.

Unpaid Taxes

The Company included a liability for federal payroll tax of \$2,000 as part of its Unpaid Taxes. However, after review of the Company's 2014 transaction listing, it was noted that the Company had already paid its federal payroll taxes on December 31.

Reinsurance Premiums Due and Payable

The liability for Reinsurance Premiums Due and Payable was determined by this examination to be \$839.49 or \$6,139.71 less than what was reported by the Company as of December 31, 2014. The Company incorrectly included unremitted liability and equipment breakdown (E.B.) premiums due to Grinnell in their Reinsurance Premiums Payable.

It is recommended that the Company report its Liability and Equipment Breakdown Premiums as a write-in liability on page 3, line 40 or 41, of the Annual Statement.

Adjustments to Reinsurance Premiums Due and Payable are shown in the following schedule:

<u>Description</u>	<u>Company</u>	<u>Examination</u>	<u>Increase or (Decrease)</u>
Liabilities			
Reinsurance Premium Due and Payable	6,979	839	(6,140)
Liability and E.B. Premium due to Grinnell	0	6,140	(6,140)
Net Change			<u>\$ 0</u>

Surplus to Policyholders

Surplus to Policyholders was determined by this examination to be \$1,390,495 or \$80,457 more than what was reported by the Company. Adjustments to surplus are shown in the following schedule:

<u>Description</u>	<u>Company</u>	<u>Examination</u>	<u>Increase or (Decrease)</u>
Non-Ledger Assets			
Rent Receivable	5,000	0	(5,000)
Assessments or premiums in course of collection	0	97,438	97,438
Market Value of Stocks over Book Value			(4,320)
Liabilities			
Unpaid Premium Reserve	369,321	381,728	(12,407)
Advance Premiums	0	1,574	(1,574)
Unpaid Taxes	<u>2,000</u>	<u>0</u>	<u>2,000</u>
Net Change			<u>\$76,137</u>
Surplus to Policyholders per Company	\$1,310,038		
Exam Adjustments	<u>76,137</u>		
Surplus to Policyholders per Examination	\$1,386,175		

CONCLUSION

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

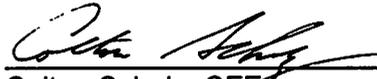
TOTAL ADMITTED ASSETS		<u>\$1,912,650</u>
Liabilities	\$ 526,475	
Surplus to Policyholders	<u>1,386,175</u>	
TOTAL LIABILITIES AND SURPLUS		<u>\$1,912,650</u>

Since the last examination conducted as of December 31, 2009, the Company's admitted assets have increased \$414,399, its total liabilities have increased \$274,910, and its surplus as regards to policyholders has increased by \$139,489.

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

In addition to the undersigned, Ed Moody, CFE, and Mary Raps, AFE, participated in this exam.

Respectfully submitted,



Colton Schulz, CFE
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is again recommended that the Company review the job functions of the General Manager and Secretary/Treasurer in order to develop procedures to reduce the fraud risk associated with having the same person performing both functions.

It is again recommended that the Company develop a Conflict of Interest Policy and have its directors, officers, and key employees complete conflict of interest disclosures each year. The Board should note the review and disposition of any conflicts noted in the Board minutes.

It is recommended that the Company's Board of Directors or its Investment Committee review and approve the Company's investment activities and investment practices to determine whether the investment activity is consistent with its written plan at least quarterly per N.D. Admin. Code § 45-03-12-05(4).

It is recommended that the Company's Audit Committee record minutes of any meetings held. It is also recommended that the Company's Audit Committee report the results of testing performed to the Board of Directors annually.

It is recommended that the Company obtain the Commissioner's approval for any capital contributions made to the Company's subsidiaries that exceed the limitations of N.D.C.C. § 26.1-10-05(2)(a). It is also recommended that the Company's Board of Directors approve all capital contributions made to the Company's subsidiaries.

It is recommended that the Company periodically review its holdings for compliance with N.D.C.C. §§ 26.1-10-02(2)(a) and 26.1-05-19(33). Amounts over the statutory maximum should be non-admitted.

It is recommended that the Company prepare the Knecht Insurance Agency financials in accordance with GAAP and that an adjustment should be made to record depreciation of the agency's real estate investment.

It is recommended that the Company add any employee or officer who has access to its cash and investment accounts to its Fidelity Bond.

It is recommended that the Company only accept business from an insurance producer who is an appointed insurance producer of the Company per the requirements of N.D.C.C. § 26.1-26-06. It is also recommended that the Company appoint all contracted agencies 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 Company nonrenew the policies written on the nonresidential risks inside the platted limits of an incorporated city at the end of each policy's current term and that the Company no longer write nonresidential risks inside the platted limits of an incorporated city in accordance with N.D.C.C. § 26.1-13-15(3).

It is recommended that the Company establish and maintain an internal complaints log that meets the requirements of N.D.C.C. § 26.1-04-03(10) for any complaints or grievances that are reported to the Company.

It is recommended that the Company check for duplicate policies owned by the same policyholder and report only the number of unique policyholders on the annual statement.

It is recommended that the Company report premiums in course of collection net of liability and equipment breakdown premiums as an asset in accordance with the County Mutual Annual Statement Instructions.

It is recommended that the Company book unearned premium reserves based on annualized premiums per SSAP 53.

It is recommended that the Company report all premiums collected prior to year end with effective dates in the new year as advance premiums.

It is recommended that the Company report its Liability and Equipment Breakdown Premiums as a write-in liability on page 3, line 40 or 41, of the Annual Statement.