

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

REPORT OF EXAMINATION

OF

**STEELE COUNTY FARMERS
MUTUAL INSURANCE COMPANY**

FINLEY, NORTH DAKOTA

**AS OF
DECEMBER 31, 2004**

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

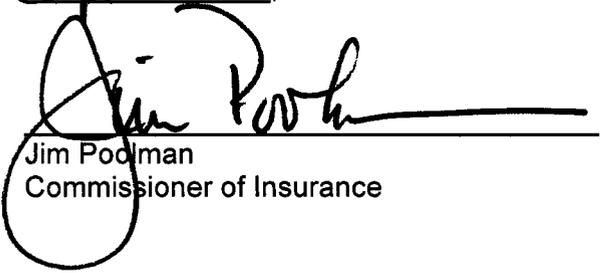
Steele County Farmers Mutual Insurance Company

Finley, North Dakota

as of December 31, 2004, 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 29th day of
September, 2005.



Jim Podman
Commissioner of Insurance

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Finley, North Dakota
April 20, 2005

Honorable Jim Poolman
Commissioner of Insurance
North Dakota Department of Insurance
600 East Boulevard
Bismarck, ND 58505-0320

Dear Sir:

Pursuant to your instructions and in accordance with the North Dakota Insurance Code and resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination was made of the books, records, and financial condition of

Steele County Farmers Mutual Insurance Company

Finley, North Dakota

as of December 31, 2004.

INTRODUCTION

Steele County Farmers Mutual Insurance Company, Finley, North Dakota, hereinafter referred to as the "Company," was last examined as of December 31, 1999, by a representative of the State of North Dakota.

SCOPE OF EXAMINATION

This examination was a financial condition examination conducted in accordance with N.D. Cent. Code § 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, 2000, to and including December 31, 2004, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The recommendations contained in the prior examination report dated December 31, 1999, have been adequately addressed by the Company except as follows:

Recommendation

Response

It is recommended that the Company implement a procedure to provide for authorization, on no less than a quarterly basis, of investment purchases and sales by the Board of Directors or an Investment Committee appointed by the Board.

The Board of Directors did not always approve the purchase and sale of investments made by the Company during the period under examination.

It is recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an "entire contract" clause.

The reinsurance contract with Grinnell Mutual Reinsurance Company did not contain an "entire contract" clause at December 31, 2004.

It is recommended that the Company include an ad valorem credit and an examination expense credit on future premium tax returns. It is also recommended that the Company include the applicable unused ad valorem credits and 1994 examination expense credit on its premium tax return for the year 2000.

The Company did not use most of the examination expenses credits related to the cost of the 1999 examination nor did it take an ad valorem tax credit in years 2001, 2003 and 2004.

HISTORY

The Company was incorporated June 10, 1893, as the Farmers Mutual Fire and Lightning Insurance Company of Steele County with its home office and principal place of business at the Township Hall of Enger Township in Steele County, North Dakota. In 1896, the home office and principal place of business was moved to Sherbrooke, and on December 10, 1918, the home office and principal place of business was established at the rural residence of the Secretary-Treasurer at Finley, North Dakota. Since 1986, the Company's home office and principal place of business has been located in the city of Finley, North Dakota.

At the annual meeting of the membership held on June 25, 1971, the name of the Company was changed to "Steele County Farmers Mutual Insurance Company."

The Company is organized pursuant to the provisions of N.D. Cent. Code Chapter 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. Cent. Code Chapter 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. Cent. Code § 26.1-13-03.

MANAGEMENT AND CONTROL

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 a Board of Directors composed of five 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, 2004, were as follows:

<u>Name and Residence</u>	<u>Term Expires</u>	<u>Occupation</u>
Larry Carlson Finley, North Dakota	2005	Farmer
Morris Ostmo Northwood, North Dakota	2007	Farmer
Gerry Leadbetter Finley, North Dakota	2006	Farmer
David Mehus Hope, North Dakota	2006	Farmer
John Brager Finley, North Dakota	2005	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, 2004, were as follows:

<u>Name</u>	<u>Office</u>
Gerry Leadbetter	President
John Brager	Vice President
Amy Johnson	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.

The Examiner noted that the Bylaws and Articles of Incorporation contained several antiquated provisions which are no longer followed by the Company. **It is again recommended that the Company amend or restate its Articles of Incorporation and Bylaws to update the provisions to reflect current Company and industry practices.**

The following is a summary of the amendments adopted by the policyholders during the period under examination:

- | | |
|----------------|---|
| June 30, 2000 | Reduced the number of members on the Board of Directors from nine members to seven members. |
| | Increased the Company's authorized territory to 15 counties. |
| | Changed the date of the annual meeting of the policyholders to the last Tuesday in March. |
| March 25, 2003 | Reduced the number of members on the Board of Directors from seven members to five members. |
| March 30, 2004 | Changed the Company's authorized territory from 15 counties to 15 specifically identified counties (see Territory and Plan of Operation). |

Members

During the period under examination the annual meetings of the policyholders were held on the following dates: June 30, 2000; March 27, 2001; March 26, 2002; March 25, 2003; and March 30, 2004.

Directors

During the period under examination the Board of Directors held three meetings in 2000, seven meetings in 2001, six meetings in 2002 and 2003, and eight meetings in 2004. The following difference was noted:

Prior Approval of Investments: The minutes of the Board of Directors do not reflect approval of investment transactions as required by North Dakota insurance law. N.D. Cent. Code § 26.1-05-18 requires the Board of Directors or a board-appointed Investment Committee to authorize an investment transaction before it is made. The North Dakota Insurance Department has deemed board or committee approvals on no less than a quarterly basis to be in compliance with the law when the requirements of N.D. Admin. Code § 45-03-12-05 are followed. **It is again recommended that the Company implement a procedure pursuant to N.D. Admin. Code § 45-03-12-05 to provide for quarterly authorization of investment transactions by the Board of Directors.**

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2004, there was in force a continuous position schedule fidelity bond in the amount of \$25,000 covering the Secretary-Treasurer for the faithful performance of duty. The coverage meets the minimum amount of fidelity insurance recommended by the NAIC's guidelines.

The Company also had in force a directors and officers liability insurance policy providing a \$500,000 limit of liability each policy year. Each claim is subject to a \$2,500 deductible. The

policy provides coverage for errors or omissions in the performance of professional services and wrongful acts of a director or officer while acting solely in their individual or collective capacities as directors and officers.

A commercial lines policy provides property and liability coverages for the Company's home office.

TERRITORY AND PLAN OF OPERATION

At December 31, 2004, the Company was authorized to transact business in the following counties:

Barnes	Cass	Eddy	Foster
Grand Forks	Griggs	Nelson	Ramsey
Ransom	Richland	Sargent	Steele
Stutsman	Traill	Walsh	

At December 31, 2004, the Company had 23 licensed agents.

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over a 10-year period. Data with respect to the years 1995-1998 and years 2000-2003 is compiled from home office copies of the filed Annual Statements. Data for the years 1999 and 2004 reflect the results of statutory examinations.

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policy- holders	Net Premiums Written	Under- writing Deductions	Investment and Other Income	Net Income (Loss)
1995	\$380,925	\$ 93,180	\$287,745	\$ 91,700	\$139,802	\$45,594	\$ (2,508)
1996	410,824	107,542	303,282	77,791	139,882	48,942	(13,149)
1997	370,655	71,751	298,904	81,755	131,208	48,927	(526)
1998	387,289	63,782	323,507	79,623	95,081	38,126	22,668
1999	371,628	87,587	284,041	71,600	110,309	28,432	(10,277)
2000	384,749	80,039	304,710	92,903	110,202	28,132	10,833
2001	395,481	94,375	301,106	74,725	121,466	54,589	7,848
2002	350,240	74,305	275,935	90,165	138,327	10,294	(37,868)
2003	457,686	105,082	352,604	172,131	92,495	35,275	114,911
2004	559,190	149,040	410,150	212,023	144,517	19,492	86,998

Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the five-year period ending December 31, 2004:

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>
Premiums	100.0%	100.0%	100.0%	100.0%	100.0%
Deductions:					
Losses and Loss Adjustment	28.0%	11.9%	47.2%	87.3%	53.3%
Underwriting Expenses	40.2%	41.9%	106.2%	75.3%	65.3%
Total Deductions	68.2%	53.8%	153.4%	162.6%	118.6%
Net Underwriting Gain (Loss)	31.8%	46.2%	(53.4%)	(62.6%)	(18.6%)

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

Claims From an examination of claim files, the Company appears to pay claims fairly within policy provisions upon receipt of satisfactory proof of loss or damage.

Advertising The Company's advertising consists primarily of give-away items and directory advertising along with radio and newspaper advertising.

OPERATING AGREEMENTS

Universal Adjustment Services, Inc.

In March 2004, the Company and four other North Dakota domestic county mutual insurance companies entered into a contract with Universal Insurance Services, Inc. (Universal) for the purpose of obtaining claims adjusting and risk review services on an extended basis from Universal. The contract provides for Universal to perform a maximum of 450 claim adjustments or risk reviews per year. Claims adjusted by Universal above that number will be billed to the incurring entity at the rate of \$30 per hour plus mileage and per diem.

For services provided, Universal shall receive the annual sum of \$60,000 to be paid in monthly installments of \$5,000 each. (For year 2004, the sum was prorated to \$45,000.) In addition to the \$60,000 annual compensation, Universal shall receive additional payments of \$3,750 in 2004 and \$5,000 in each of the years 2005 and 2006.

The agreement terminates on December 31, 2006, or earlier if Universal fails to perform its contractual obligations. The contract shall continue and be binding upon any one or more of the five insurance companies signing this contract if they participate in a merger or consolidation.

For 2004, the Company's share of the \$5,000 monthly charge was determined to be \$347.50 per month. The total amount paid by the Company in 2004 for services provided by Universal under the contract was \$3,388.13.

Rental Agreement

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

The term of the lease is one year from July 1, 2004, until June 30, 2005. The lease shall automatically renew each year if certain stipulations set forth in the agreement are met. The agreement provides for lease payments of \$250 per month payable on the first of each month.

OPERATIONS REVIEW

In October 2000, representatives of Grinnell Mutual Reinsurance Company (Grinnell) performed an operations review covering the following areas:

- Claims
- Underwriting
- Loss control

As a result of that review, the Company developed various manuals recommended by Grinnell and implemented other procedures suggested by Grinnell.

Grinnell performed another operations review in September 2003 covering the same operational areas.

REINSURANCE

The reinsurance treaty in force at December 31, 2004, is summarized below.

Nonaffiliated Ceding Contract:

Type:	Excess
Reinsurer:	Grinnell Mutual Reinsurance Company
Scope:	All policy forms and endorsements issued by the Company
(A)	Individual Occurrence of Loss Excess - Covers all fire and windstorm risks written by the Company in excess of a \$50,000 retention subject to the following limits:
	Dwellings \$500,000
	Farm Outbuildings \$750,000
	Livestock/Poultry/Horse Operations \$500,000
	Commercial and Public Property \$500,000

- (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 2004 was \$87,310.
 - (C) First Occurrence of Loss Excess – 100% of net losses retained by the Company for a single occurrence exceeding \$30,000 to a maximum occurrence cap of \$50,000.
- Premium:
- (A) Individual Occurrence of Loss Excess - The 2004 annual premium was \$0.2258 for fire and \$0.1069 for wind per \$1,000 adjusted gross fire risks in force.
 - (B) Aggregate Excess - The 2004 annual premium was \$0.3869 per \$1,000 of adjusted gross fire risks in force.
 - (C) First Occurrence of Loss Excess - \$.1536 per \$1,000 of adjusted gross fire risks in force.
- Termination Date: The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days notice.

The contract contained the insolvency clause required by N.D. Cent. Code § 26.1-02-21 and all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual* except for the "entire contract" clause. **It is again recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an "entire contract" clause.**

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, 2004, was obtained and traced to the appropriate schedules of the Company's 2004 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

The Company uses the Mutual Automation Package (Mapplus) software program for policy processing and billing. The cash receipts journal, claims register and other miscellaneous accounting records are maintained in Excel spreadsheets. Cash disbursements and general journal entries are maintained on a Medlin Accounting general ledger module. The Medlin program generates a bank reconciliation and various reports including a trial balance, income statement and balance sheet.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 2004, as determined by this examination and its operating results for the year then ended.

Steele County Farmers Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2004

ASSETS

LEDGER ASSETS:

Stocks	\$ 78,702.14
Checking Account	74,330.73
Cash on Hand and on Deposit	<u>399,749.76</u>

TOTAL LEDGER ASSETS \$552,782.63

NONLEDGER ASSETS:

Interest Due and Accrued on Cash on Deposit	\$2,891.03
Furniture, Fixtures and Automobiles	3,015.59
Market Value of Stocks over Book Value	<u>3,516.66</u>

TOTAL NONLEDGER ASSETS 9,423.28

DEDUCT: ASSETS NOT ADMITTED

Furniture and Fixtures	\$ 3,015.59
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TOTAL NONADMITTED ASSETS 3,015.59

TOTAL NET ADMITTED ASSETS \$559,190.32

LIABILITIES

Unpaid Losses	\$ 15,310.21
Unpaid Loss Adjustment Expense	500.00
Unearned Premium Reserve	125,892.47
Unpaid Taxes	1,751.00
Unpaid General Expenses	319.61
Reinsurance Premiums Due and Payable	4,026.94
Amounts Withheld on Account of Others	<u>1,239.84</u>

TOTAL LIABILITIES \$ 149,040.07

SURPLUS TO POLICYHOLDERS 410,150.25

TOTAL LIABILITIES AND SURPLUS \$559,190.32

Steele County Farmers Mutual Insurance Company
Statement of Cash Receipts and Cash Disbursements
December 31, 2004

INCOME

Gross Premium Income	\$260,193.07	
LESS: Return Premiums	3,412.17	
Premiums for Reinsurance Ceded	<u>44,757.90</u>	
NET PREMIUM INCOME		\$ 212,023.00
Dividends on Stocks	1,873.26	
Gross Rent from Company's Property	1,420.00	
Interest on Cash on Deposit	5,194.45	
Profit on Sale or Maturity of Ledger Assets	5,215.38	
Commissions Received on Liability Premiums	5,668.63	
Miscellaneous Income	<u>120.00</u>	
TOTAL INCOME RECEIPTS		\$231,514.72

DISBURSEMENTS

Gross Losses Paid and Incurred in 2004	<u>\$ 55,476.06</u>	
NET LOSSES PAID		\$ 55,476.06
Claim Adjustment Expenses	3,867.02	
Commissions Paid to Agents	32,913.04	
Directors' Fees and Expenses	3,998.90	
Salaries to Employees	14,594.28	
Printing, Stationery, and Office Supplies	832.08	
Rent and Rent Items	2,000.00	
Real Estate Expenses	3,606.70	
Taxes on Real Estate	2,622.69	
State and Local Insurance Taxes	5,413.00	
Insurance Department Licenses and Fees	310.00	
Payroll Taxes	2,767.44	
Legal Fees and Auditing	663.34	
Travel and Travel Items	377.93	
Advertising	938.12	
Dues and Donations	2,225.69	
Data Processing Expenses	2,633.22	
Insurance and Bonds	4,153.58	
Postage, Telephone, and Bank Charges	3,047.53	
Employee Relations and Welfare	346.08	
Miscellaneous Expenses	<u>1,730.09</u>	
TOTAL FUND DISBURSED		<u>144,516.79</u>
NET GAIN		<u><u>\$86,997.93</u></u>

COMMENTS TO THE FINANCIAL STATEMENTS

Stocks

The following schedule reflects the book, market and admitted value of stocks owned at December 31, 2004:

<u>Description</u>	<u>Book Value</u>	<u>Admitted and Market Value</u>
Investment Company of America, Class C	\$18,070.86	\$19,514.00
Washington Mutual Investors Fund	20,726.51	20,405.00
ML Short Term U.S. Govt. Fund	38,404.77	37,321.00
NAMICO Insurance Company, Inc.	1,500.00	4,978.80
Totals	<u>\$78,702.14</u>	<u>\$82,218.80</u>

Book values were verified to the accounting records and statements from brokers. Market values were determined using unit prices listed in the *Securities Valuation Manual*, *Wall Street Journal* or statements from brokers.

N.D. Cent. Code § 26.1-05-19(21)(a) restricts investments in preferred, guaranteed, and common stocks (includes mutual funds) issued or guaranteed by a single person to an amount not in excess of 3% of the insurance company's admitted assets. At December 31, 2004, the market value of shares in the Investment Company of America, Washington Mutual Investors Fund and ML Short Term U.S. Govt. Fund exceeded the 3% of admitted asset limitation.

Additional investment authority for investments exceeding statutory limitations is found in N.D. Cent. Code § 26.1-05-19(33), commonly known as the basket clause. It provides additional investment authority allowing insurers to invest funds in investments not specifically authorized elsewhere to an amount that does not exceed either 7% of the company's admitted assets, or the amount equal to the company's capital and surplus in excess of the minimum capital and surplus required by law, whichever is less.

The Examiner used the additional investment authority provided by N.D. Cent. Code § 26.1-05-19(33) to treat the December 31, 2004, market value of Investment Company of America, Washington Mutual Investors Fund and ML Short Term U.S. Government Fund as the admitted value for those investments.

Real Estate

The Company sold its home office building located in Finley, North Dakota on June 30, 2004. The sale produced a realized capital gain of \$5,215.

Checking Account

The Company's operating account had a balance of \$74,330.73 at December 31, 2004 after allowing for outstanding checks. The year end bank balance on the December 31, 2004, bank reconciliation was verified by a confirmation received from the depository.

Cash on Deposit

Cash on deposit consisted of 13 interest bearing certificates of deposit, and a money market account. The deposits were held by six area banks. The aggregate balance of the certificates of deposit at December 31, 2004, was \$366,700; the balance in the money market account was \$33,049.76. The Examiner verified the year end balances by confirmation received from the depositories.

At December 31, 2004, the Company's deposit in two banks exceeded FDIC insured limits. **It is recommended that the Company limit its deposit in any one banking institution to FDIC insured amounts or obtain insurance protection covering the deposits exceeding FDIC insured limits.**

It was noted that a former officer and director of the Company is still listed as an "authorized signatory" for the checking and money market account with Citizens State Bank. **It is recommended that the Company remove the names of former officers and directors from the list of individuals authorized to withdraw funds from accounts containing assets of the Company.**

Liabilities

Unpaid Losses

The reserve for unpaid losses at December 31, 2004, was determined by this examination to be in the amount of \$15,310.21 or \$9,310.21 more than the reserve established by the Company. The Examiner established the reserve for unpaid losses based on a review of subsequent payments and current reserves for claims incurred in 2004 but still unpaid.

Unpaid Loss Adjustment Expenses

The reserve for unpaid loss adjustment expenses at December 31, 2004, was determined to be \$500 or \$500 more than the amount reported by the Company in its 2004 Annual Statement.

Unearned Premium Reserve

The Company computes its unearned premium reserve using the semi-monthly pro-rata method. A review of the Company's computations indicated that the Company's reserve was properly computed at December 31, 2004.

Unpaid Taxes

This liability consists of unpaid premium taxes at December 31, 2004, and was verified to the 2004 Reconciled Premium Tax Statement.

In reviewing the premium tax returns for the period under examination, it was noted that the Company did not reduce its premium taxes by the examination expense credit for the cost of the 1999 examination nor did it use the entire examination expense credit attributable to the

Examiner's expenses for the same exam. It was also noted that the Company did not reduce premium taxes by an ad valorem credit for years 2001, 2003 and 2004.

It is recommended that the Company use the ad valorem credit and examination expense credit allowed in N.D. Cent. Code § 26.1-03-17.2 and N.D. Admin. Code § 45-03-06-04 when determining its premium tax obligations for reporting on the quarterly estimated tax statements and reconciled premium tax statements.

Unpaid General Expenses

This liability represents general expenses incurred but unpaid as of year end. The liability determined by the Examiner was \$319.61 or \$237.50 more than that reported by the Company.

Reinsurance Premiums Due and Payable

Reinsurance premiums due and payable consist of a payable to Grinnell Mutual Reinsurance Company for reinsurance premiums due for the month of December 2004.

Liability Premiums Payable to Grinnell Mutual

This liability represents the balance due Grinnell Mutual Reinsurance Company for net liability premiums collected from Company policyholders for liability business written direct by Grinnell Mutual.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be in the amount of \$410,150.25 or \$10,047.71 less than the amount reported by the Company in its 2004 Annual Statement.

Adjustments affecting the surplus account are reflected in the following exhibit:

<u>Caption</u>	<u>Company</u>	<u>Examination</u>	<u>Increase or (Decrease)</u>
<u>Liabilities</u>			
Unpaid Losses	\$6,000.00	\$15,310.21	\$(9,310.21)
Unpaid Loss Adjustment Expenses	0	500.00	(500.00)
Unpaid General Expenses	82.11	319.61	(237.50)
Net Change			<u>\$(10,047.71)</u>

CONCLUSION

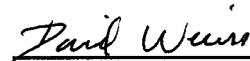
The financial condition of Steele County Farmers Mutual Insurance Company, Finley, North Dakota, as determined by this examination as of December 31, 2004, is summarized as follows:

TOTAL ADMITTED ASSETS		<u>\$559,190.32</u>
Total Liabilities	\$149,040.07	
Surplus to Policyholders	<u>410,150.25</u>	
TOTAL LIABILITIES AND SURPLUS		<u>\$559,190.32</u>

Since the last examination conducted as of December 31, 1999, the Company's admitted assets have increased \$187,561.91, its total liabilities have increased \$61,452.81, and its surplus as regards policyholders has increased \$126,109.10.

The Examiner expresses his appreciation for the courteous cooperation extended him during the course of this examination.

Respectfully submitted,



David Weiss, CFE
Examiner
N.D. Insurance Department

SUBSEQUENT EVENTS

In February 2005, the Company and the Farmers Mutual Insurance Company of Traill County, Portland, North Dakota, filed an Agreement and Plan of Consolidation dated January 8, 2005, with the North Dakota Insurance Department. The agreement provides that the two entities would consolidate to form a new North Dakota domestic insurance company with the name "Steele Traill County Mutual Insurance Company."

COMMENTS AND RECOMMENDATIONS

It is again recommended that the Company amend or restate its Articles of Incorporation and Bylaws to update the provisions to reflect current Company and industry practices.

It is again recommended that the Company implement a procedure pursuant to N.D. Admin. Code § 45-03-12-05 to provide for quarterly authorization of investment transactions by the Board of Directors.

It is again recommended that the Company amend the reinsurance agreement with Grinnell Mutual Reinsurance Company to include an "entire contract" clause.

It is recommended that the Company limit its deposit in any one banking institution to FDIC insured amounts or obtain insurance protection covering the deposits exceeding FDIC insured limits.

It is recommended that the Company remove the names of former officers and directors from the list of individuals authorized to withdraw funds from accounts containing assets of the Company.

It is recommended that the Company use the ad valorem credit and examination expense credit allowed in N.D. Cent. Code § 26.1-03-17.2 and N.D. Admin. Code § 45-03-06-04 when determining its premium tax obligations for reporting on the quarterly estimated tax statements and reconciled premium tax statements.