

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

REPORT OF EXAMINATION

OF

**STEELE TRAILL COUNTY MUTUAL
INSURANCE COMPANY**

FINLEY, NORTH DAKOTA

**AS OF
DECEMBER 31, 2014**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

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

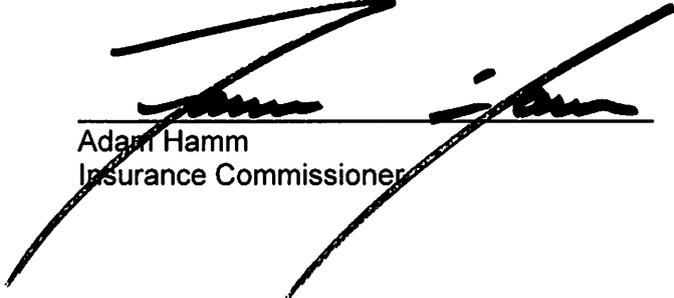
Steele Traill County Mutual Insurance Company

Finley, 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 25th day of January, 2016.



Adam Hamm
Insurance Commissioner

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Finley, North Dakota
December 30, 2015

Honorable Adam Hamm
Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505-0320

Dear Commissioner:

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 Traill County Mutual Insurance Company
Finley, North Dakota**

as of December 31, 2014.

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

SCOPE OF STATUTORY 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 13 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 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.

The Company did not comply. The Company implemented an investment committee but the quarterly review and approval of investment transactions was not evident within the committee minutes. Under this code citation, the Company is also required to review and approve its investments against its guidelines at least annually. **It is again recommended that the Company document the review and approval of investment transactions made by its broker within its Board or committee minutes at least quarterly and approve investments at least annually by a formal resolution of the Board per N.D. Admin. Code § 45-03-12-05.**

It is again 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.

The Company did not comply. The Company exceeded FDIC limits at multiple banks throughout the examination period. **It is again recommended that the Company limit its deposits 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 report the correct balance for its unpaid loss reserve on the annual statement.

The Company did not comply. The prior examination comment referred to the Company's case reserves, which are now sufficient. The Company did not establish and report a liability for incurred but not reported (IBNR) claims, which are reported together with case reserves to equal the estimated ultimate unpaid loss reserves as required by the County Mutual Annual Statement Instructions. **It is again recommended that the Company report the correct balance for its unpaid loss reserve on the annual statement.**

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

SUBSEQUENT EVENTS

On September 14, 2015, the Company entered into a custodial agreement with First Western Bank and Trust (First Western) of Minot to replace the noncompliant Cetera Investment Services, LLC agreement. The Company also entered into an investment advisory agreement with Stonebridge Capital Advisors, LLC (Stonebridge) on September 14, 2015, to manage the

funds within the First Western custodial account. Stonebridge has full discretionary authority over the Company's investments, subject to the Company's investment guidelines. The safekeeping agreement with First Western is compliant with the required provisions of N.D. Admin. Code § 45-03-23-02.

On March 27, 2014, the Company's members approved an amendment to the Company's Articles of Incorporation adding three counties--Benson, Kidder and Wells—to its authorized territory. The amendment was not filed with the Secretary of State until March 19, 2015. The Secretary of State approved the filing on May 1, 2015.

HISTORY

Effective January 1, 2006, Steele County Farmers Mutual Insurance Company (Steele County), established June 10, 1893, and Farmers Mutual Insurance Company of Traill County (Traill County), established June 22, 1885, merged to form Steele Traill County Mutual Insurance Company. After the merger, the Company's home office was located in Finley, North Dakota, with a satellite office in Portland, North Dakota. The Portland satellite office was closed in 2007, leaving only the Finley office. Amy Johnson, who was the manager of Steele County prior to the merger, stayed on as manager of the merged Company. Prior to the merger, Steele County had three Board members and Traill County had four Board members. After the merger, all seven Board members served on the merged company's Board of Directors. Since the merger, two of the Board positions have opened, but it was decided that they would remain unfilled. The Company's Articles of Incorporation sets the minimum number of directors at five, which is the current number of Board members.

The Company was 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, 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.

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 Articles of Incorporation provide that the corporate powers of the Company shall be vested in a Board of Directors composed of at least 5 directors and not more than 15 directors, each of whom shall be elected by a majority vote at the annual meeting of the membership for terms of three years. 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:

<u>Name and Residence</u>	<u>Term Expires</u>	<u>Occupation</u>
Paul Moen Mayville, ND	2018	Farmer
Larry Carlson Finley, ND	2016	Farmer
Dave Mehus Hope, ND	2017	Farmer
Bruce Nelson Portland, ND	2016	Claims Adjustor
Dan Thompson Clifford, ND	2017	Farmer

Officers

Officers are elected at the organizational meeting of the Board of Directors by a majority vote for a period of one year. Officers serving at December 31, 2014, were as follows:

<u>Name</u>	<u>Office</u>
Paul Moen	President
Larry Carlson	Vice President
Amy Johnson	Secretary-Treasurer

The Company's Manager, Amy Johnson, 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 Manager.

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

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company amended its Articles of Incorporation in 2013 and 2014 to expand its authorized territory.

No amendments were made to the Bylaws during the period under examination.

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's Board of Directors did not approve the Company's investment transactions as required by N.D. Admin. Code § 45-03-12-05(3). There was also no retrospective approval of individual transactions carried out by the Company's broker as required by N.D. Admin. Code § 45-03-12-05(4).

It is again recommended that the Company document the review and approval of investment transactions made by its broker within its Board or committee minutes at least quarterly and approve investments at least annually by a formal resolution of the Board per N.D. Admin. Code § 45-03-12-05.

The Company's Board of Directors did not formally approve the contingent commission plan or the contingent commissions paid to its agencies during the exam period.

It is recommended that the Company obtain Board approval of the contingent commission rate schedule and the contingent commissions paid to its agencies and document this approval within the Board minutes.

Members

The Bylaws provide that the annual meeting of the Company shall be held at a time and place determined by the Board of Directors within the last 10 days of March. During the period under examination, the annual meetings of the policyholders were held on the following dates: March 20, 2010; March 24, 2011; March 22, 2012; March 28, 2013; and March 27, 2014.

Directors

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

Conflict of Interest

The Company has a conflict of interest policy for directors and officers. The Secretary/Manager did not complete a conflict of interest statement in 2014. There was no evidence of review of the disclosed conflicts within the Board minutes. There also was no mitigation strategies discussed for the disclosed conflicts.

It is recommended that the Company's Board of Directors complete and annually review the conflict of interest statements and all disclosures. If conflicts are identified, it is recommended that the Company's Board of Directors develop a process to address and mitigate any noted conflicts.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2014, the Company had a fidelity bond insuring against loss sustained by the Company as a result of dishonest or fraudulent acts committed by the named parties. The bond provided for a \$50,000 single loss limit of liability for loss caused by the Secretary/Manager or the Board President. The coverage did not meet the minimum amount of fidelity insurance recommended in the NAIC's *Financial Examiners Handbook*. Subsequent to the exam period, the Company increased its fidelity bond amount to \$75,000 per covered Director.

The Company also had in force 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.

A commercial lines policy was also in force that provides property coverage of \$10,000 on the Company's home office in Finley. The policy also provides general liability coverage of \$1,000,000 per occurrence and in aggregate.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company had 54 agents at 13 agencies and was authorized to transact business in the following 17 counties:

Steele	Trails	Griggs	Nelson
Cass	Richland	Sargent	Barnes
Ransom	Grand Forks	Foster	Walsh
Eddy	Ramsey	Stutsman	LaMoure
Dickey			

During the examination, the Company amended its Articles of Incorporation to add Dickey and LaMoure Counties to its authorized territory. The Company added these counties to accommodate agencies who had written business through Dakota Mutual Insurance Company until its dissolution in 2013.

During the examination, the Company provided documentation showing that at December 31, 2014, it had six agents producing business who were not appointed as insurance producers of the Company as required by N.D.C.C. § 26.1-26-06.

N.D.C.C. § 26.1-26-02(5) defines "insurance producer" as a person required to be licensed under the laws of this state to sell, solicit, or negotiate insurance. N.D.C.C. § 26.1-26-02(9) defines "person" as an individual or a business entity. If a business entity is doing insurance business in North Dakota by contracting with an insurance company to do business here and/or using the business name to market insurance in North Dakota, the entity must be licensed as an insurance producer. An appointment by the insurer is necessary if the business entity is marketing insurance for the insurer and acting as an agent of the insurer.

As the Company contracts with and pays its commissions directly to its agencies rather than through its individual agents, agency appointments are required. None of the Company's agencies were appointed.

It is recommended that the Company only produce business through appointed agents and agencies per N.D.C.C. § 26.1-26-06.

During the examination period, the Company insured a boat lift outside of its authorized territory. Although the lift is insured as scheduled personal property, the nature of the insured item requires it to be semi-permanently installed outside of the Company's authorized territory. Typically, scheduled personal property coverage is allowed outside of the authorized territory on a temporary basis, while traveling for example.

It is recommended that the Company not insure property outside of its authorized territory per N.D.C.C. § 26.1-13-15(1).

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over the 10-year period ending December 31, 2014. Data with respect to the years 2005-2008 and 2010-2013 is compiled from home office copies of the filed Annual Statements. Data for the years 2009 and 2014 reflects the results of the statutory examination. The operational results are presented on a cash basis.

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policyholders	Net Premiums Written	Underwriting Deductions	Investment And Other Income	Net Income (Loss)
2005	\$1,237,039	\$ 363,858	\$ 873,181	\$ 530,499	\$ 429,619	\$ 57,776	\$158,658
2006	1,522,535	394,227	1,128,308	629,351	406,906	49,252	271,698
2007	1,745,421	477,317	1,268,104	678,440	653,910	157,762	182,292
2008	1,925,205	523,771	1,401,435	740,535	556,843	76,273	259,965
2009	2,218,832	528,357	1,690,475	753,157	572,539	91,894	272,512
2010	2,435,349	505,521	1,929,828	742,180	619,696	96,777	219,262
2011	2,717,239	588,087	2,129,152	823,108	640,069	117,578	300,616
2012	3,137,120	576,266	2,560,853	982,305	723,107	124,381	383,579
2013	3,272,386	908,399	2,363,987	1,147,643	1,069,287	33,496	111,852
2014	3,641,284	1,054,184	2,587,100	1,262,870	1,025,829	79,313	316,355

Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the five-year period ending December 31, 2014:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Premiums	100%	100%	100%	100%	100%
Deductions:					
Losses and Loss Adjustment	40.6	54.4	32.8	38.8	45.2
Underwriting Expenses	40.7	38.8	40.8	39.0	38.3
Total Deductions	81.2	93.2	73.6	77.8	83.5
Net Underwriting Gain (Loss)	18.8	6.8	26.4	22.2	16.5

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 Grinnell Mutual co-branded logo products, sports fliers, and miscellaneous ads (i.e., county fair). The advertising material was reviewed and no violations of N.D.C.C. § 26.1-04-03(2) were noted.

OPERATING AGREEMENTS

Universal Adjustment Services, Inc.

In March 2004, the Company along with four other North Dakota domestic county mutual insurance companies entered into a contract with Universal Insurance Services, Inc. (Universal) to obtain claims adjusting and risk review services on an extended basis. In January 2009, the contract was amended to reflect Universal's services would be shared by the Company and Griggs Nelson Mutual Insurance Company.

In 2014, Universal completed 18 risk reviews and adjusted 116 claims for the Company. The Company recorded the expenses associated with each of these services as loss adjusting expenses. Risk reviews should be accounted for as underwriting expenses per the County Mutual Annual Statement Instructions.

For services provided in 2014, Universal received \$46,973 from the Company. As part of the contract, Universal performs claims adjusting and risk review services. Per the contract, there is no fixed number of claim adjustments or risk reviews to be performed.

It is recommended that the Company allocate the fixed fee paid to Universal Adjustment Services between underwriting expenses and claims adjustment expenses based the

number of claims adjusted and risk reviews performed by Universal Adjustment Services.

Grinnell Advisory Company

On August 1, 2014, the Company entered into an 18-month claims adjusting contract with Grinnell Advisory Company (GAC). The terms of this agreement include adjustment services for a limit of 25 claims at a fixed fee of \$6,250 over the 18-month contract period. This fee is due in monthly installments of \$347.22 due on the first of each month. Additional claims over the 25 claims will be adjusted at a rate of \$400 per claim.

Through the examination date, the Company paid GAC \$1,736.10 for adjusting services. Since August 1, 2014, GAC adjusted two claims for the Company.

Rental Agreement

On July 6, 2004, the Company entered into a lease agreement with 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 was for one year, but it automatically renews each year as long as rent remains current, the office passes inspection, and a 30-day notice has not been given by either party. The agreement provides for monthly lease payments of \$250 payable on the first of the month.

OPERATIONS REVIEW

Representatives of Grinnell Mutual Reinsurance Company (Grinnell) performed an operations review of the Company in July 2012 covering the following areas:

- General operations
- Underwriting and loss control
- Claims

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

REINSURANCE

The reinsurance treaty in force at December 31, 2014, is summarized below.

Grinnell Mutual Reinsurance Company

Nonaffiliated Ceding Contract:

Type:	Excess										
Scope:	All policy forms and endorsements issued by the Company: (A) Individual Occurrence of Loss Excess - covers all risks written by the Company in excess of \$200,000 retention subject to the following limits: <table><tr><td>Dwellings</td><td>\$1,000,000</td></tr><tr><td>Farm Outbuildings</td><td>1,000,000</td></tr><tr><td>Livestock/Poultry/Horse Operations</td><td>1,000,000</td></tr><tr><td>Commercial and Public Property</td><td>1,000,000</td></tr><tr><td>Farm Machinery and Equipment Storage</td><td>2,000,000</td></tr></table> (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 \$863,771.	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
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										
Premium:	(A) Individual Occurrence of Loss Excess - The 2014 annual premium was \$0.1472 per \$1,000 adjusted gross fire risks in force. (B) Aggregate Excess - The 2014 annual premium was \$0.4982 per \$1,000 of adjusted gross fire risks in force.										
Commissions:	Sliding scale contingent commission from zero percent to five percent based on the five year loss ratio.										
Termination Date:	The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days' notice in writing.										

The contract contained the insolvency clause required by N.D.C.C. § 26.1-02-21 and all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual*.

Hartford Steam Boiler

Nonaffiliated Ceding Contract:

Type:	100% Excess of \$0 Loss
Scope:	All policy forms and endorsements issued by the Company:
(A) Business Equipment Breakdown*	\$5 million limit
(B) Employment Practices Liability*	\$50,000 limit
(C) Farmowners Equipment Breakdown	\$5 million limit
(D) Home Systems Protection	\$50,000 limit
(E) Identity Recovery*	\$15,000 annual per insured
(F) Service Line	\$10,000 per Service line failure

*The Company does not currently write coverage for these lines.

Premium:

(C) Farmowners Equipment Breakdown	\$50 per policy
(D) Home Systems Protection	\$25 per policy
(F) Service Line	\$25 per policy

Termination Date: The agreement may be terminated only as of the last day of any calendar year by either party upon 180 days' notice in writing.

Retention: The Company has a net \$0 retention on these lines of business. All claims are paid by the Company and reimbursed 100% by Hartford Steam Boiler.

The contract contained the insolvency clause required by N.D.C.C. § 26.1-02-21 and all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual*.

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2014, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2014 Annual Statement. Revenues and expenses were tested to the extent deemed necessary.

The Company's trial balance did not list all accounts and transactions necessary to tie it to the Annual Statement.

It is recommended that the Company complete a listing of any nonledger entries used in order to show how the trial balance reconciles to the annual statement.

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 that stated the Company did not have a compliant custodial agreement.

The Wells Fargo agreement was reviewed and determined to be in compliance with the requirements of N.D. Admin. Code § 45-03-23-02(2).

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. The Company has an acceptable internal complaints log that records all grievances received by the Company as required by N.D.C.C. § 26.1-04-03(10).

Escheatment Procedures

At December 31, 2014, the Company had three checks outstanding from 2012. Per the requirements of N.D.C.C. ch. 47-30.1, checks issued and outstanding more than two years should be remitted to unclaimed property.

It is recommended that the Company comply with the requirements of N.D.C.C. ch. 47-30.1 and remit all outstanding checks outstanding more than two years to unclaimed property.

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.

**Steele Trail County Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
as of December 31, 2014**

ASSETS

LEDGER ASSETS:

Bonds	\$ 1,142,772
Stocks	889,282
Checking Accounts	253,877
Cash on Deposit	<u>1,258,241</u>

TOTAL LEDGER ASSETS \$3,544,172

NONLEDGER ASSETS:

Premiums in Course of Collection	\$ 115,936
Interest due and Accrued on Bonds	12,651
Interest Due and Accrued on certificates of deposit and passbook savings	1,060
Furniture, Fixtures and Equipment	<u>1,302</u>

TOTAL NONLEDGER ASSETS 130,949

DEDUCT ASSETS NOT ADMITTED:

Furniture and Fixtures	\$ 1,302	
Book value of ledger assets in excess of market	<u>32,535</u>	<u>33,837</u>

TOTAL NET ADMITTED ASSETS \$3,641,284

LIABILITIES

Unpaid Losses	\$ 76,144
Advance Premiums	29,225
Unearned Premium Reserve	755,488
Commission Due and Payable to Agents	34,003
Unpaid Taxes	8,136
Unpaid General Expenses	1,262
Reinsurance Premiums Due and Payable	26,055
Federal Income Tax Due	112,495
Write-in:	
Reins. Payable on Salvage/Subro Recovery	<u>11,376</u>

TOTAL LIABILITIES \$1,054,184

SURPLUS TO POLICYHOLDERS 2,587,100

TOTAL LIABILITIES AND SURPLUS \$3,641,284

Steele Traill County Mutual Insurance Company
Statement of Income and Disbursements
as of December 31, 2014

INCOME:

Gross Premium Income	\$1,520,096	
Less: Return Premiums	42,864	
Premiums for Reinsurance Ceded	214,362	
NET PREMIUM INCOME	\$1,262,870	
Interest on Bonds	25,111	
Dividends on Stocks	58,492	
Interest on Cash on Deposit	3,997	
Commissions and Fees Received on Equipment	6,914	
Breakdown & Liability Premiums		
Loss on Sale of Ledger Assets	(16,933)	
Other Income	1,732	
TOTAL INCOME RECEIPTS		\$1,342,183

DISBURSEMENTS:

Gross Losses Paid and Incurred in 2014	\$ 447,320	
Gross Losses Paid in 2014 But Incurred in Prior Years	112,933	
Deduct: Salvage & Subrogation	96,025	
Reinsurance Recovered	1,524	
NET LOSSES PAID	\$ 462,704	
Claim Adjustment and Risk Review Expenses	49,404	
Commissions Paid to Agents	263,548	
Directors Fees and Expenses	6,871	
Salaries to Employees	82,919	
Printing, Stationary, and Office Supplies	4,004	
Rent and Rent Items	3,000	
State and Local Insurance Taxes	29,627	
Insurance Department Licenses and Fees	722	
Payroll Taxes	6,650	
Legal Fees and Auditing	1,975	
Travel and Travel Items	14,715	
Advertising	7,035	
Dues and Donations	7,150	
Equipment Purchased	4,509	
Insurance and Bonds	19,839	
Postage, Telephone, and Bank Charges	6,500	
Employee Relations and Welfare	7,590	
Data Processing Expenses	24,498	
Annual Meeting	9,219	
Investment Expenses	10,362	
Miscellaneous Expenses	2,987	
TOTAL FUNDS DISBURSED	1,025,828	
Net Gain		\$ 316,355

COMMENTS ON THE FINANCIAL STATEMENTS

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	\$ 0	\$ 115,936
Total	<u>\$ 0</u>	<u>\$ 115,936</u>

The Company did not report its net deferred premiums at December 31, 2014, per the Accounts Receivable Report, as required by the County Mutual Annual Statement Instructions.

It is recommended that the Company report Net Deferred Premiums as a nonledger asset in accordance with the County Mutual Annual Statement Instructions.

Stocks

The Company exceeded the limits of N.D.C.C. § 26.1-05-19(21)(a) which limits investments in preferred, guaranteed, and common stocks issued or guaranteed by a single issuer to three percent of the insurance company's admitted assets. At December 31, 2014, the following stock investments exceeded the three percent limitation:

<u>Description</u>	<u>Market Value</u>	<u>3% Limit</u>	<u>Excess</u>
PIMCO Diversified Income Fund Class A	\$ 106,683	\$105,760	\$ 922
PIMCO Income Fund Class A	143,475	105,760	37,715
Total	<u>\$250,158</u>		<u>\$38,637</u>

However, N.D.C.C. § 26.1-05-19(33), commonly known as the basket clause, allows insurers to hold investments not specifically authorized elsewhere in an amount that does not exceed either seven percent 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. Based on the basket clause, the market values of PIMCO Diversified Income Fund Class A and PIMCO Income Fund Class A are in excess of the three percent limit are admitted. The basket clause provided an additional investment authority of \$246,774 at December 31, 2014.

It is recommended that the Company periodically review its holdings for compliance with N.D.C.C. § 26.1-05-19(21)(a).

Liabilities

Unpaid Losses

The Company's liability for unpaid losses at year end was determined by this examination to be \$76,144 or \$6,000 more than reported by the Company. The Company did not make a provision

for incurred but unreported losses (IBNR). Our calculation used a rolling five-year historical average of IBNR development to obtain the IBNR amount.

Unpaid losses as determined by this examination consisted of the following items and amounts:

Description	Company	Examination
Unpaid Losses (case reserves)	\$ 70,144	\$ 70,144
Incurred but not Reported (IBNR) claims	0	6,000
Total	\$ 70,144	\$ 76,144

It is again recommended that the Company report the correct balance for its unpaid loss reserve on the Annual Statement.

Advance Premiums

The Company did not book a liability for premiums received prior to the policy's effective date. Advance premiums at year end were determined to be \$29,225 as shown below:

Description	Company	Examination
Advance Premiums	\$ 0	\$ 29,225
Total	\$ 0	\$ 29,225

It is recommended that the Company report premiums received prior to the policy effective date as a liability in accordance with the County Mutual Annual Statement Instructions.

Unearned Premium Reserve

The Company's Unearned Premium Reserve (UPR) was determined to be \$26,738 more than the amount reported by the Company. The Company calculated its UPR based on installment premiums received rather than annualized installment premiums. Statement of Statutory Accounting Principles (SSAP) number 53 requires unearned premium reserve calculations be based on annualized premiums.

Unearned premiums as determined by this examination consisted of the following items:

Description	Company	Examination
Unearned Premium Reserve	\$728,750	\$ 757,975
Total	\$ 725,750	\$ 757,975

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

Reinsurance Payable for Salvage and Subrogation Recoveries on IOL loss

Reinsurance payable for salvage and subrogation recoveries on an IOL loss was added by this exam as a write-in liability. In August 2013, the Company had an individual occurrence loss (IOL) which exceeded the Company's \$175,000 per occurrence retention limit. A reinsurance claim was submitted to and paid by Grinnell Mutual Reinsurance Company (GMRC) for the

amount of the loss exceeding the \$175,000 IOL. Subsequent to the IOL settlement, the Company received a subrogation settlement and a payment for the salvage property. The Company did not repay the recovered amounts with the reinsurer based on the percentage of the loss paid by the Company and the reinsurer, as required by the reinsurance agreement. The amount due to GMRC for the recovered funds on the IOL loss is shown below:

<u>Description</u>	<u>Company</u>	<u>Examination</u>
Reinsurance Payable due to Subrogation and Salvage Recovered on IOL loss	\$0	\$ 11,376
Total	<u>\$ 0</u>	<u>\$ 11,376</u>

It is recommended that the Company follow the terms of its reinsurance contract regarding salvage and subrogation recoveries.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be \$2,587,100 or \$42,597 more than the amount reported by the Company in its 2014 Annual Statement. Adjustments to surplus are shown in the following schedule:

<u>Description</u>	<u>Company</u>	<u>Examination</u>	<u>Increase or (Decrease) to Surplus</u>
<u>Assets:</u>			
Assessments or premiums in course of collection	\$ 0	\$115,936	\$ 115,936
<u>Liabilities:</u>			
Unearned Premium Reserve	728,750	755,488	(26,738)
Advance Premiums	0	29,225	(29,225)
Incurred but Not Reported (IBNR) claims	0	6,000	(6,000)
Reinsurance Payable on IOL salvage and subrogation recoveries	0	11,376	(11,376)
Net Increase			<u>\$ 42,597</u>
Surplus to Policyholders as reported by Company	\$2,544,503		
Increase (Decrease) to Surplus from above	<u>42,597</u>		
Surplus to Policyholders per Examination	\$2,587,100		

Income Statement

Premiums for Reinsurance Ceded to Other Companies

Premiums for reinsurance ceded to other companies included the following items and amounts:

<u>Description</u>	<u>Company</u>	<u>Examination</u>
Premiums for reinsurance ceded to other companies	\$ 199,967	\$ 214,362
EB/Service line premium paid to HSB (write-in)	14,395	0
Total	<u>\$214,362</u>	<u>\$ 214,362</u>

The Company did not report its reinsurance premiums ceded to Hartford Steam Boiler for equipment breakdown and service line coverage in the correct location on the Annual Statement. The improper reporting of these reinsurance premiums inflated the Company's net premium income by \$14,395. The difference did not create a financial statement balance difference, as total income received remained unchanged.

It is recommended that the Company record its equipment breakdown and service line reinsurance premiums ceded on page 2, line 1c "Deduct premiums for reinsurance ceded to other companies" per the County Mutual Annual Statement Instructions.

CONCLUSION

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

TOTAL ADMITTED ASSETS		<u>\$3,641,284</u>
Liabilities	\$1,054,184	
Surplus to Policyholders	<u>2,587,100</u>	
 TOTAL LIABILITIES AND SURPLUS		<u>\$3,641,284</u>

During the five-year period under examination, admitted assets increased by \$1,422,452, liabilities increased by \$525,827, and surplus to policyholders increased by \$896,625.

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

In addition to the undersigned, Chief Examiner Ed Moody, CFE, participated in this exam

Respectfully submitted,



Colton Schulz, CFE
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is again recommended that the Company limit its deposits 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 review the job functions of the Manager and Secretary-Treasurer and develop procedures to reduce the fraud risk associated with having the same person performing both functions.

It is again recommended that the Company document the review and approval of investment transactions made by its broker within its Board or committee minutes at least quarterly and approve investments at least annually by a formal resolution of the Board per N.D. Admin. Code § 45-03-12-05.

It is recommended that the Company obtain Board approval of the contingent commission rate schedule and the contingent commissions paid to its agencies and document this approval within the Board minutes.

It is recommended that the Company's Board of Directors complete and annually review the conflict of interest statements and all disclosures. If conflicts are identified, it is recommended that the Company's Board of Directors develop a process to address and mitigate any noted conflicts.

It is recommended that the Company only produce business through appointed agents and agencies per N.D.C.C. § 26.1-26-06.

It is recommended that the Company allocate the fixed fee paid to Universal Adjustment Services between underwriting expenses and claims adjustment expenses based on the number of claims adjusted and risk reviews performed by Universal Adjustment Services.

It is recommended that the Company complete a listing of any nonledger entries used in order to show how the trial balance reconciles to the annual statement.

It is recommended that the Company comply with the requirements of N.D.C.C. ch. 47-30.1 and remit all outstanding checks outstanding more than two years to unclaimed property.

It is recommended that the Company record its equipment breakdown and service line reinsurance premiums ceded on page 2, line 1c "Deduct premiums for reinsurance ceded to other companies" per the County Mutual Annual Statement Instructions.

It is recommended that the Company report net deferred premiums as a nonledger asset in accordance with the County Mutual Annual Statement Instructions.

It is recommended that the Company periodically review its holdings for compliance with N.D.C.C. § 26.1-05-19(21)(a).

It is again recommended that the Company report the correct balance for its unpaid loss reserve on the Annual Statement.

It is recommended that the Company report premiums received prior to the policy effective date as a liability 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 follow the terms of its reinsurance contract regarding salvage and subrogation recoveries.

It is recommended that the Company not insure property outside of its authorized territory, per N.D.C.C. § 26.1-13-15(1).