STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

WEST MCLEAN COUNTY FARMERS MUTUAL INSURANCE COMPANY MINOT, NORTH DAKOTA

AS OF DECEMBER 31, 2010

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

West McLean County Farmers Mutual Insurance Company
Minot, North Dakota

as of December 31, 2010, 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 2nd day of September 2011.

Adam Hamm
Insurance Commissioner

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Minot, North Dakota
June 16, 2011

Honorable Adam Hamm
Commissioner of Insurance
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 Insurance Code, an examination was made of the condition and affairs of the

West McLean County Farmers Mutual Insurance Company

Minot, North Dakota

as of December 31, 2010.

INTRODUCTION

West McLean County Farmers Mutual Insurance Company, Minot, North Dakota, hereinafter referred to as the "Company," was last examined as of December 31, 2004, 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, 2005, to and including December 31, 2010, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

The North Dakota Insurance Department began its regularly scheduled five-year examination of the Company on October 20, 2010. The exam was to cover the period of January 1, 2005, through December 31, 2009. During a review of the Company's files it was discovered that the General Manger, Alan Henning, had misappropriated Company funds. On November 3, 2010, Alan Henning was terminated for embezzlement of Company funds. Criminal charges are currently pending against him. Debra Keller was appointed General Manager on January 11, 2011, to replace Alan Henning.

STATUS OF PRIOR EXAM FINDINGS

The Company is in compliance with all recommendations set forth in the previous examination report except the following:

Recommendation	Action by the Company
It is recommended that the Company review its stock positions for compliance with the limitations set forth in N.D.C.C. §§ 26.1-05-19(21)(a) and 26.1-05-19(33) and report a non-admitted asset in its annual statement in the event that the market value of stocks exceeds statutory limits.	The Company was not in compliance with this recommendation at the examination date.

SUBSEQUENT EVENTS

At the January 11, 2011, Board of Directors meeting, President Vernon Wenger, Director Mike Pankow, and Director Craig Eraas resigned from the Company's Board of Directors. The vacant positions left by the resignations of Directors Pankow and Eraas were filled by Vicki Moseng and Blaine Kotasek, respectively. Vice President John Bearmen was elected Interim President of the Board to complete the remaining term of President Wenger. John Bearmen is also an appointed agent of the Company. The Department understands that Mr. Bearman was only to serve as President until the former President's term expired; however, Mr. Bearman was subsequently elected as President for another term at the next election of officers. The positions of President and Vice President of the Board are inherently conflicting in nature with those of an appointed agent as the President and Vice President have significant influence on the Company's operations including setting underwriting standards and the commission structure of appointed agents. **It is recommended that the Board of Directors adopt a corporate policy that appointed agents may not serve as either President or Vice President of the Company due to the inherent conflict of interest.**

At May 31, 2011, the Company's admitted assets totaled $1,000,071, liabilities totaled $457,514 and surplus to policyholders totaled $542,557.

HISTORY

The Company was incorporated on February 19, 1907, under the then existing laws of the State of North Dakota as the "West McLean County Farmers Mutual Lightning and Fire Insurance Company," with its home office and principal place of business at Garrison, North Dakota. Business commenced in April 1907.

The Company was organized for the specific purpose of mutually insuring the property of its members against any and all risks of hazard permitted by law, with all of the rights and privileges granted or permitted by law. The Company's term of existence is on a perpetual basis in accordance with N.D.C.C. § 26.1-13-03.

In 1956, the name of the Company was changed to read, "The West McLean County Farmers Mutual Insurance Company."

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 Bylaws provide that the management of the Company's affairs, business, and property is vested in a Board of Directors composed of five to seven 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, 2010, were as follows:

Name and Residence	Term Expires	Occupation
Vernon Wenger Minot, North Dakota	2011	Retired
John Bearman Minot, North Dakota	2012	Insurance Agent
Ronald Hummel, Sr. Garrison, North Dakota	2011	Retired
Art Schreiner Coleharbor, North Dakota	2012	Retired
Kristina Warta Glenburn, North Dakota	2013	Administrative Assistant
Mike Pankow Minot, North Dakota	2013	Business Owner
Craig Eraas Minot, North Dakota	2013	Elementary School Principal

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, 2010, were as follows:

Name	Office
Vernon Wenger	President
John Bearman	Vice President
Vacant	Secretary-Treasurer

The Company did not immediately fill the Secretary-Treasurer position after Alan Henning was terminated on November 3, 2010. At the February 24, 2011, Board of Directors meeting, Debra Keller was appointed the new Secretary-Treasurer.

Standing Committee

The Bylaws state that the President of the Board of Directors shall yearly appoint a standing committee whose duty it shall be to examine annually the Secretary-Treasurer's books and to certify to such examination by their signature. The failure of the President to appoint such a standing committee annually as required by the Bylaws was a significant contributing factor in allowing the former Secretary-Treasurer's misappropriations to remain undetected for an extended period of time. **It is recommended that the Company's President comply with the Bylaws and annually appoint a standing committee to examine the Secretary-Treasurer's books. The standing committee should document its work and conclusions reached and these documents should be retained for Department review.**

CONFLICT OF INTEREST

The Company does not have a Conflict of Interest policy and has not implemented a conflict of interest procedure for directors, officers and key employees. **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 annually.**

On February 24, 2011, the Company's Board of Directors approved and implemented a Conflict of Interest policy that requires all directors, officers and key employees to sign a conflict of interest statement 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

At the Annual Meeting of the Company's members the following amendments were made to the Articles of the Company:

March 17, 2005 - Article III:	Added the Counties of Burleigh, Morton, Oliver and Pierce to the authorized territory of the Company.
March 17, 2008 - Article III:	Added the Counties of Kidder, Rolette and Wells to the authorized territory of the Company.

No other amendments or changes were made during the period under examination.

The Company was not in compliance with its Articles and Bylaws during the period under examination in regard to the following:

- The Company did not keep a record of attendance at its annual meetings from 2006-2010.
- The Company did not amend its Articles after three counties were added to its authorized territory in 2008.
- The Company's principal office is located in Ward County rather than McLean County as stated in its Articles.
- The Company's Bylaws state that a President, Vice President and Secretary-Treasurer shall be elected each year and serve a one-year term. The official minutes of the Board of Directors did not reflect the election of the President and Vice President in 2010 or the election of the Secretary-Treasurer in 2006, 2007, 2008 and 2010.

It is recommended that the Company keep a record of attendance for its annual meetings to verify that a quorum existed. It is recommended that the Company amend its Articles of Incorporation to list the current counties it is authorized to transact business in and update the location of the principal office. It is also recommended that the official minutes of the Board of Directors reflect the election of Company officers each year.

Members

During the period under examination the Annual Meetings of the membership were held on the following dates: March 17, 2005; March 16, 2006; March 15, 2007; March 17, 2008; June 18, 2009 and April 13, 2010.

Directors

During the period under examination the Board of Directors held 12 meetings in 2005, 4 in 2006, 5 in 2007, 6 in 2008, 7 in 2009, and 10 in 2010.

The official minutes of the Company's Board of Directors did not document approval of investment transactions during the period under examination. **It is recommended that the Company's Board of Directors approve all investment transactions pursuant to N.D.C.C.**

§ 26.1-05-18 and that such approval be evidenced in the official minutes of the Board of Directors or in the minutes of an authorized subcommittee.

<u>Corporate Resolutions</u>

The Company's standing authorization at one of the Company's banks allows one person to withdraw money, open new accounts or borrow money and the standing authorizations at three of its other banks contained no indication as to how many signatures are required to conduct such transactions. Appropriate control practices require at least two signatures to minimize the risk of fraud. **It is recommended that the Company update its standing authorizations to require two signatures to withdraw money or open new accounts and that the authority to borrow money not be included as part of any standing authorization.**

Effective April 1, 2010, N.D. Admin. Code Chapter 45-03-23, Custodial Agreements and the Use of Clearing Corporations, was changed to include a broker/dealer in the definition of a custodian. This change requires a written agreement with a broker/dealer when the broker/dealer holds securities for an insurance company. The written agreement with a broker/dealer must be authorized by the Board of Directors and must include terms that comply with N.D. Admin Code § 45-03-23-02. The Company did not have Custodial Agreements in place with Edward Jones or First International Bank & Trust at December 31, 2010. **It is recommended that the Company execute a custodial agreement with each broker that complies with N.D. Admin. Code § 45-03-23-02.**

FIDELITY BOND AND OTHER INSURANCE

The Company did not have a fidelity bond in place at December 31, 2010. Pursuant to N.D.C.C. § 26.1-13-08, the Secretary-Treasurer shall give a fidelity bond to the Company for the faithful performance of assigned duties. **It is recommended that the Company obtain a fidelity bond to cover the Secretary-Treasurer in accordance with N.D.C.C. § 26.1-13-08.**

Subsequent to the exam date, the Company obtained a fidelity bond covering the Secretary-Treasurer. The coverage of the new fidelity bond meets the minimum amount of fidelity insurance suggested in the NAIC Financial Examiners Handbook.

The Company had in force a directors and officers liability insurance policy providing a limit of liability of $1,000,000 each policy year. Each claim is subject to a $5,000 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.

The Company has business personal property coverage of $20,000. The policy also provides liability coverage of $500,000 per occurrence and has a $1,000,000 aggregate limit.

TERRITORY AND PLAN OF OPERATION

At December 31, 2010, the Company was authorized to transact business in the following counties:

Bottineau	Burke	Burleigh	Divide	Kidder
McHenry	McKenzie	McLean	Mercer	Morton
Mountrail	Oliver	Pierce	Renville	Rolette
Sheridan	Ward	Wells	Williams	

At December 31, 2010, the Company had 36 licensed agents and 4 licensed agencies.

In 2010, the Company wrote $366,845 of premiums in cities with populations of 10,000 people or greater. N.D.C.C. § 26.1-13-15 limits the Company to no more than 25% of its prior year Gross Written Premiums which was $250,994 for 2010. The Company exceeded this limit by $115,851. **It is recommended that the Company reduce its writings in cities with populations of 10,000 people or greater to comply with the limit prescribed in N.D.C.C. § 26.1-13-15.**

The Company wrote 11 commercial policies inside the platted limits of incorporated cities and 2 policies outside of its authorized territory in violation of N.D.C.C. § 26.1-13-15. **It is recommended that the Company nonrenew the commercial policies written on risks inside the platted limits of incorporated cities and on risks outside of its authorized territory at the end of each policy's current term and that the Company no longer write commercial properties inside the platted limits of an incorporated city or risks outside of its authorized territory in accordance with N.D.C.C. § 26.1-13-15.** Subsequent to the exam date the Company has nonrenewed four of the commercial polices at issue.

N.D.C.C. § 26.1-13-18 allows the Company to write a maximum amount of insurance on any single risk of the larger of $30,000 or 10% of admitted assets. Admitted assets at December 31, 2010, were $1,064,191. Applying the statutory limits would allow the Company to write a maximum of $106,419 on any single risk. The Company's Individual Occurrence of Loss limit with Grinnell Mutual Reinsurance Company at December 31, 2010, was $125,000, which exceeds the single risk limitation of N.D.C.C. § 26.1-13-18. **It is recommended that the Company monitor its Individual Occurrence of Loss limits and amend them, if necessary, so that the Company is in compliance with N.D.C.C. § 26.1-13-18.** Subsequent to the exam date the Company entered into a Quota Share reinsurance agreement with Grinnell Mutual Reinsurance Company effective January 1, 2011, where the maximum amount of coverage the Company has on any one risk is $100,000 which brings the Company into compliance with the single risk limitation.

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company since the previous examination. Data with respect to the years 2001-2003 and 2005-2009 is compiled from home office copies of the filed Annual Statements. Data for the years 2004 and 2010 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)
2001	$ 612,186	$172,324	$ 439,862	$220,893	$ 216,942	$ 44,612	$ 48,563
2002	632,630	121,187	511,443	291,284	332,902	42,538	920
2003	1,053,223	289,546	763,677	383,034	298,560	64,611	149,085
2004	646,293	370,937	275,356	474,792	471,195	43,776	47,373
2005	892,002	373,653	518,349	547,102	507,585	50,026	89,543
2006	1,201,327	399,868	801,459	570,676	326,212	39,192	283,656
2007	1,495,104	462,434	1,032,670	665,376	489,149	102,444	278,671
2008	1,313,670	475,026	838,644	737,729	792,281	71,158	16,606
2009	1,612,111	457,992	1,154,119	864,695	743,654	50,277	171,318
2010	1,069,191	772,865	296,326	902,744	1,589,236	65,036	(621,456)

Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the six-year period ending December 31, 2010:

	2010	2009	2008	2007	2006	2005
Premiums	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Deductions:						
Losses and Loss Adjustment	62.0%	48.0%	55.0%	31.2%	14.4%	54.6%
Underwriting Expenses	114.1%	38.0%	52.4%	42.3%	42.8%	38.2%
Total Deductions	176.0%	86.0%	107.4%	73.5%	57.2%	92.8%
Net Underwriting Gain (Loss)	(76.0)%	14.0%	(7.4)%	26.5%	42.8%	7.2%

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

Advertising: The Company's advertising consists primarily of newspaper, sports booklets and give-away items.

Claims: Based on a limited review of claim files, the Company appears to pay claims fairly within policy provisions.

OPERATIONS REVIEW

In October 2008, a representative of Grinnell Mutual Reinsurance Company (Grinnell) performed an operations review of the Company, covering the following areas:

- General Operations
- Underwriting and Loss Control
- Claims

The review contained five recommendations and three comments. Of the recommendations and comments made by Grinnell, none were considered material by this examination.

REINSURANCE

The reinsurance treaty in force at December 31, 2010, 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 $125,000 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

(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 2010 was $592,223.

Premium:

(A) Individual Occurrence of Loss Excess - The 2010 monthly premium rate per $1,000 of adjusted gross fire risks in force was $0.0146

(B) Aggregate Excess - The 2010 monthly premium rate per $1,000 of adjusted gross fire risks in force was $0.0346.

Commissions:	None
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.C.C. § 26.1-02-21 and all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual.*

On January 1, 2011, the Company entered into a new reinsurance agreement as summarized below:

Nonaffiliated Ceding Contract:

Type: Quota Share

Reinsurer: Grinnell Mutual Reinsurance Company

Scope: All policy forms and endorsements issued by the Company

(A) Quota Share - Covers all fire and windstorm risks written by the Company on a 90/10 split:

Dwellings	$1,000,000
Farm Outbuildings	$1,000,000
Livestock/Poultry/Horse Operations	$1,000,000
Commercial and Public Property	$1,000,000

(B) Quota Share Excess - Provides coverage for 100 percent of the Company's aggregate net losses in excess of a defined retention limit. The retention limit for 2011 is $67,656.

Premium:

(A) Quota Share - The 2011 annual premium is 90% of the Company's net written premium.

(B) Quota Share Excess - The 2011 annual premium is determined by multiplying the Company's retained net premium written in the current contract year by 10%.

Commissions: 35%

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.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 transactions cycles were reviewed during the course of the examination and a trial balance as of December 31, 2010, was obtained and traced to the appropriate schedules of the Company's 2010 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

The Company uses the Mutual Automation Package (Map+) software program for policy processing and premium billing. Cash receipts, cash disbursements and general ledger entries were maintained using the Medlin Accounting general ledger module. The Medlin program generates a bank reconciliation and various reports including a trial balance, income statement and balance sheet. Subsequent to the exam date, the Company began using Quickbooks Pro for cash receipts, cash disbursements and general ledger entries.

During the examination period, the former General Manager (GM) diverted policy premiums for his own personal use. The former GM would collect the mail and enter the payments into Map+. However, payments retained by the former GM were not recorded in the cash receipts. Since there was no reconciliation performed between premium receipts booked in Map+ and the cash receipts journal, the misappropriation was not detected. **It is recommended that the Company separate the job functions of premium receipt processing and cash reconciliations or consider using a lockbox for premium receipts.**

During a review of the cash receipts and cash disbursements journal, the examiners noted the following issues:

- Interest payments received were not always recorded in the cash receipts journal.
- Not all daily deposits recorded in the cash receipts journal matched the amount deposited per the bank statement.

It is recommended that the Company record all income received during the year into the cash receipts journal and the cash receipts journal be reconciled monthly with deposits shown on the bank statements.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 2010, as determined by this examination and its operating results for the year then ended.

West McLean County Farmers Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2010

ASSETS			
LEDGER ASSETS:			
Bonds	$345,891		
Checking Account	(19,672)		
Cash on Deposit	706,257		
TOTAL LEDGER ASSETS		$1,032,476	
NONLEDGER ASSETS:			
Interest Due on Certificates of Deposit	$ 2,503		
Miscellaneous Receivable	25,000		
Reinsurance Recoverable	28,923		
TOTAL NONLEDGER ASSETS		56,426	
DEDUCT: ASSETS NOT ADMITTED			
Book Value in Excess of Market Value	$19,711		
TOTAL NONADMITTED ASSETS		19,711	
TOTAL NET ADMITTED ASSETS			$1,069,191
LIABILITIES			
Unpaid Losses	$ 93,784		
Unpaid Loss Adjustment Expense	5,500		
Unearned Premium Reserve	503,443		
Commissions Due & Payable to Agents	36,450		
Unpaid Taxes	5,812		
Unpaid General Expenses	1,464		
Interest, Due and Accrued on Borrowed Money	5,385		
Reinsurance Premiums Due and Payable	19,282		
All Other Liabilities	1,745		
Borrowed Money	100,000		
TOTAL LIABILITIES		$772,865	
SURPLUS TO POLICYHOLDERS		296,326	
TOTAL LIABILITIES AND SURPLUS			$1,069,191

West McLean County Farmers Mutual Insurance Company
Statement of Cash Receipts and Cash Disbursements
For the Year Ended December 31, 2010

INCOME			
Gross Premium Income	$1,086,803		
Less: Return Premiums	45,945		
Premiums for Reinsurance Ceded	138,114		
NET PREMIUM INCOME		$902,744	
Dividends on Stocks		16,398	
Interest on Cash on Deposit		12,898	
Profit on Sale of Ledger Assets		17,316	
Commissions and Service Fees		23,890	
Other Income & Prior Period Adjustment		(5,466)	
TOTAL INCOME RECEIPTS			$967,780
DISBURSEMENTS			
Gross Losses Paid and Incurred in 2010	$531,076		
Gross Losses Paid in 2010 but Incurred in Prior Years	102,581		
DEDUCT: Salvage	1,000		
Reinsurance	76,143		
NET LOSSES PAID		$556,514	
Claim Adjustment Expenses		2,965	
Commissions Paid to Agents		183,337	
Directors' Fees and Expenses		9,432	
Salaries to Employees		80,132	
Printing, Stationery, and Office Supplies		6,599	
Rent and Rent Items		6,565	
Borrowed Money Repaid		115,000	
State and Local Insurance Taxes		18,285	
Insurance Department Licenses and Fees		532	
Payroll Taxes		4,122	
Federal Income Taxes		1,356	
Legal Fees & Auditing		2,250	
Travel and Travel Items		4,301	
Advertising		4,898	
Dues and Donations		8,015	
Equipment		2,465	
Insurance and Bonds		1,445	
Postage, Telephone, and Bank Charges		6,716	
Employee Relations and Welfare		5,000	
Data Processing Expenses		1,740	
Misc. Expenses		8,146	
Investment Fees		2,625	
Unaccounted for Funds		556,796	
TOTAL FUNDS DISBURSED			1,589,236
NET GAIN			($621,456)

COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2010, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Assets

Stocks

N.D.C.C. § 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, 2010, the market value of shares in five of the Company's investments exceeded the 3% of admitted asset limitation. The aggregate amount by which the two funds exceeded the 3% limitation was $144,009.

Additional investment authority for investments exceeding statutory limitations is found in N.D.C.C. § 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 basket clause provided an additional investment authority of $74,493 at December 31, 2010.

Due to the embezzlement of funds by former General Manager Alan Henning, $69,516 of the above securities should have been nonadmitted at December 31, 2010. Subsequent to the exam date the Company reinvested the amounts exceeding the 3% investment limitation into new funds and thus allowing the remaining $69,516 to become an admitted asset. **It is again recommended that the Company review its stock positions for compliance with the limitations set forth in N.D.C.C. §§ 26.1-05-19(21)(a) and 26.1-05-19(33) and report a nonadmitted asset in its annual statement in the event that the market value of its stocks exceeds the statutory limits.**

Miscellaneous Receivable

The asset for miscellaneous receivable at December 31, 2010, was $25,000 or $5,000 more than what was reported by the Company. The asset for miscellaneous receivable was based on a review of the 1st Quarter 2011 cash receipts journal and bank statements.

Liabilities

Borrowed Money

Borrowed money represents the outstanding balance of amounts borrowed against the Company's certificates of deposit taken by the former General Manager Alan Henning without authorization from the Board of Directors. **It is recommended that the Company update its standing authorizations to require two signatures to withdraw money or open new accounts and that the authority to borrow money not be included as part of the standing authorization.**

Revenue

Interest on Cash on Deposit

The amount of interest on cash on deposit at December 31, 2010, was $12,898 or $1,583 less than what was reported by the Company. The examiners determined that the $1,583 of interest was the difference between the amount recorded in Medlin and the amount reported on the 1099 – Interest Income forms received by the Company. Due to the actions of former General Manager Alan Henning, Medlin accounts cannot be relied upon for accurate information. **It is recommended that the Company keep accurate records of all interest received and have adequate support for the amounts reported in the Annual Statement.**

Expenses

Equipment

The amount of equipment expense at December 31, 2010, was $2,465 or $2,295 more than what was reported by the Company. The Company did not record an expense for the depreciation of its furniture and fixtures in accordance with the *County Mutual Annual Statement Instructions*. **It is recommended that the Company record an expense for the depreciation of its furniture and fixtures in accordance with the *County Mutual Annual Statement Instructions*.**

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be in the amount of $296,326 or $5,000 more than the amount reported by the Company. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase (Decrease) To Surplus
Non-Ledger Assets:			
Misc Receivable	$ 20,000	$ 25,000	$5,000
Net Increase (Decrease)	$ 291,326	$ 296,326	$ 5,000

CONCLUSION

The financial condition of West McLean County Farmers Mutual Insurance Company, Minot, North Dakota, as determined by this examination as of December 31, 2010, is summarized as follows:

TOTAL ADMITTED ASSETS		$1,069,191
Total Liabilities	$772,865	
Surplus to Policyholders	296,326	
TOTAL LIABILITIES AND SURPLUS		$1,069,191

During the six-year period under examination, admitted assets increased by $422,898, liabilities increased by $401,928, and surplus to policyholders increased by $20,970.

In addition to the undersigned, Supervising Examiner Ed Moody, CFE, CPA and Examiner Nick Nankivel participated in this examination.

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

Respectfully submitted,

Matthew Fischer
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Board of Directors adopt a corporate policy that appointed agents may not serve as either President or Vice President of the Company due to the inherent conflict of interest.

It is recommended that the Company's President comply with the Bylaws and annually appoint a standing committee to examine the Secretary-Treasurer's books. The standing committee should document its work and conclusions reached and these documents should be retained for Department review.

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.

It is recommended that the Company keep a record of attendance for its annual meetings to verify that a quorum existed. It is recommended that the Company amend its Articles of Incorporation to list the current counties it is authorized to transact business in and update the location of the principal office. It is also recommended that the official minutes of the Board of Directors reflect the election of Company officers each year.

It is recommended that the Company's Board of Directors approve all investment transactions pursuant to N.D.C.C. § 26.1-05-18 and that such approval be evidenced in the official minutes of the Board of Directors or in the minutes of an authorized subcommittee.

It is recommended that the Company update its standing authorizations to require two signatures to withdraw money or open new accounts and that the authority to borrow money not be included as part of the standing authorization.

It is recommended that the Company execute a custodial agreement with each broker that complies with N.D. Admin. Code § 45-03-23-02.

It is recommended that the Company obtain a fidelity bond to cover the Secretary-Treasurer in accordance with N.D.C.C. § 26.1-13-08.

It is recommended that the Company reduce its writings in cities with populations of 10,000 people or greater to comply with the limit prescribed in N.D.C.C. § 26.1-13-15.

It is recommended that the Company nonrenew the commercial policies written on risks inside the platted limits of incorporated cities and on risks outside of its authorized territory at the end of each policy's current term and that the Company no longer write commercial properties inside the platted limits of an incorporated city or risks outside of its authorized territory in accordance with N.D.C.C. § 26.1-13-15.

It is recommended that the Company monitor its Individual Occurrence of Loss limits and amend them, if necessary, so that the Company is in compliance with N.D.C.C. § 26.1-13-18.

It is recommended that the Company separate the job functions of premium receipt processing and cash reconciliations or consider using a lockbox for premium receipts.

It is recommended that the Company record all income received during the year into the cash receipts journal and that the cash receipts journal be reconciled monthly with deposits shown on the bank statements.

It is again recommended that the Company review its stock positions for compliance with the limitations set forth in N.D.C.C. §§ 26.1-05-19(21)(a) and 26.1-05-19(33) and report a nonadmitted asset in its annual statement in the event that the market value of its stocks exceeds the statutory limits.

It is recommended that the Company keep accurate records of all interest received and have adequate support for the amounts reported in the Annual Statement.

It is recommended that the Company record an expense for the depreciation of its furniture and fixtures in accordance with the *County Mutual Annual Statement Instructions*.