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, 2015
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, 2015, 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 21st day of March, 2017.

Jon Godfread
Insurance Commissioner
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Minot, North Dakota
February 24, 2017

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

Dear Commissioner:

Pursuant to your instructions and statutory requirements, an examination has been made of the books, records, and financial condition of

West McLean County Farmers Mutual Insurance Company
Minot, North Dakota

as of December 31, 2015.

INTRODUCTION

West McLean Mutual Insurance Company, hereinafter referred to as the “Company,” was last examined as of December 31, 2010, by the North Dakota Insurance Department.

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 its corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2011 through December 31, 2015, 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 EXAMINATION FINDINGS

Our examination included a review to determine the current status of the 21 exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2006, to December 31, 2010. We determined that the Company has satisfactorily addressed all of these items.
SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings in the financial statements.

SUBSEQUENT EVENTS

On October 22, 2015, the Board of Directors approved the 2016 reinsurance contract proposal which included coverage for individual losses in excess of $150,000 and an Aggregate Excess attachment point covering all accumulated calendar year losses in excess of $600,000. This change effectively ended the Company's 60/40 Quota Share agreement with Grinnell Mutual Reinsurance Company (GMRC).

On June 16, 2016, the Company's members approved an amendment to the Articles of Incorporation adding eight counties—Adams, Billings, Bowman, Dunn, Golden Valley, Hettinger, Slope, and Stark—to its authorized territory. The Company now is authorized to operate in 27 counties.

Also on June 16, 2016, the members approved an amendment to its Bylaws allowing blanket policies to be written per underwriting guidelines and Board approval.

HISTORY

General

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 "The West McLean County Farmers Mutual Insurance Company."

In 2010, during the regularly scheduled five-year examination of the Company, the North Dakota Insurance Department discovered that the General Manager, Alan Henning, had misappropriated Company funds. On November 3, 2010, Mr. Henning was terminated for embezzlement of Company funds. Federal court proceedings ordered Mr. Henning to make $1,175,713.60 in restitution. As of the examination date, the Company has received $404,188.40 of that amount.
MANAGEMENT AND CONTROL

Membership

The Company is controlled by its membership. Any person owning property within the Company's authorized territorial limits 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.

The date and place of the annual meeting of the members is set by the Board of Directors. The annual meeting is followed with a reorganizational meeting to address the appointment of Directors. Notice of the annual meeting is mailed to all policyholders 10 days in advance of the meeting and is also included in the spring edition of the Company newsletter in May.

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, 2015, were as follows:

<table>
<thead>
<tr>
<th>Name and Residence</th>
<th>Term Expires</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ken Sayler</td>
<td>2018</td>
<td>Owner - Ken's Auto Body Shop</td>
</tr>
<tr>
<td>Garrison, ND</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DuWayne Walz</td>
<td>2017</td>
<td>Retired</td>
</tr>
<tr>
<td>Minot, ND</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lee Amon</td>
<td>2019</td>
<td>Owner/Agent – Amon Insurance Agency</td>
</tr>
<tr>
<td>Minot, ND</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jamie Williams</td>
<td>2019</td>
<td>Office Assistant – West McLean County Farmers Mutual Insurance Company</td>
</tr>
<tr>
<td>Minot, ND</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blake Amon</td>
<td>2019</td>
<td>Customer Service Representative – Amon Insurance Agency</td>
</tr>
<tr>
<td>Minot, ND</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Steve Bigelow</td>
<td>2018</td>
<td>Farmer/Part Owner – Central Machine</td>
</tr>
<tr>
<td>Makoti, ND</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Officers

Officers are elected by the Board of Directors annually during a reorganizational meeting held immediately after the Annual Meeting. Elected officers serving with their respective duties as of December 31, 2015, are as follows:

<table>
<thead>
<tr>
<th>Officer</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ken Sayler</td>
<td>President</td>
</tr>
<tr>
<td>DuWayne Walz</td>
<td>Vice President</td>
</tr>
<tr>
<td>Debra Keller</td>
<td>Secretary-Treasurer</td>
</tr>
</tbody>
</table>

Committees

During each of the years under review, the Board of Directors appointed a Standing Committee to examine the Company’s books and determine if an independent audit is necessary. This committee meets concurrently with the full Board. The Standing Committee was initially established to audit the Company’s books or choose a third party to do so and report findings to the full Board. All audits during the exam period were conducted by Dave Weiss. The 2012 audit reviewed compliance with the 2011 Corrective Action Plan, the 2013 audit reviewed the premium cycle, and the 2014 audit reviewed cash disbursements.

The Board also periodically designates directors to sit on the Investment/Executive Committee. This committee met once, apart from the full Board, during the exam period. It was determined by the Board that, because full Board meetings occurred monthly and membership was limited by the amount and availability of directors, matters pertaining to investments or audits would be discussed and voted upon during the regularly scheduled monthly meetings. The committee’s members were as follows:

<table>
<thead>
<tr>
<th>Standing Committee</th>
<th>Investment Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jamie Williams</td>
<td>Steve Bigelow</td>
</tr>
<tr>
<td>Lee Amon</td>
<td>Lee Amon</td>
</tr>
<tr>
<td>DuWayne Walz</td>
<td>DuWayne Walz</td>
</tr>
</tbody>
</table>

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

Changes to the Articles of Incorporation during the exam period included:

June 28, 2012 - Article V: Number of directors was changed to a minimum of five and maximum of seven.
The following changes occurred to the Bylaws during the exam period:

June 28, 2012 - Article IX: Directors compensation, except mileage reimbursement, was eliminated.

Article IV: Number of directors was changed to a minimum of five and maximum of seven.

Article VII: Board appointed power to solicit agents and adjusters.


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

**Members**

During the period under examination, the annual meetings of the policyholders were held on the following dates: May 17, 2011; June 28, 2012; June 19, 2013; June 19, 2014; and June 18, 2015.

**Directors**

During the period under examination, the Board of Directors held 11 meetings in 2011, 10 meetings in 2012, 12 meetings in 2013 and 2014, and 10 meetings in 2015.

**CONFLICT OF INTEREST**

On February 24, 2011, the Board of Directors implemented a Conflict of Interest policy that requires all directors, officers, and key employees to disclose conflicts of interest annually. All potential conflicts are discussed during Board meetings. There were no material conflicts noted during the review of disclosure statements.

**EMPLOYEE WELFARE AND PENSION PLANS**

The Company does not offer health, vision, or dental insurance to its employees.

The Company does offer a bonus plan to its staff members. The Manager receives five percent of the prior year over year surplus increases. The Office Assistant receives either a $2,000 bonus or two percent of the prior year over year increase in surplus, whichever is greater. On November 9, 2016, the Board approved that bonuses are based on gross surplus, no bonuses will be paid that exceed Company surplus increase from prior year, and all legal recoveries received from Henning are to be excluded from the bonus calculation.
FIDELITY BOND AND OTHER INSURANCE

The Company has blanket fidelity coverage in force which provides $100,000 coverage for losses associated with employee dishonesty. The Company also has a second fidelity bond in force which provides $25,000 of coverage for losses resulting from dishonest acts caused by the Secretary/Treasurer. The coverage meets the minimum amounts of fidelity insurance suggested in the NAIC Financial Examiners Handbook.

The Company has Directors and Officers liability coverage providing a $1,000,000 limit subject to a $20,000 deductible per claim. 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 also has business personal property coverage of $25,000 and general liability coverage of $1,000,000 per occurrence and a $2,000,000 aggregate limit.

TERRITORY AND PLAN OF OPERATION

At December 31, 2015, the Company had 52 licensed independent agents. The Company was authorized to transact business within the following counties:

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

The Company paid commissions to 16 agencies during the exam period, only 8 of which were appointed as producers by the Company. N.D.C.C. § 26.1-26-06 states that an insurance producer may not act as an agent of an insurer unless the insurance producer is appointed by that insurer. When an agency collects commissions from the insurer on behalf of its agents, it is acting as an agent and requires an appointment by that insurer.

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

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over a 10-year period. Data with respect to the years 2006-2009 and 2011-2014 was taken from Annual Statements prepared by the Company. Data for the years 2010 and 2015 reflect the results of statutory examinations.
<table>
<thead>
<tr>
<th>Year</th>
<th>Admitted Assets</th>
<th>Total Liabilities</th>
<th>Surplus as Regards Policyholders</th>
<th>Net Premiums Written</th>
<th>Underwriting Deductions</th>
<th>Investment and Other Income</th>
<th>Net Income (Loss)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1,201,327</td>
<td>399,868</td>
<td>801,459</td>
<td>570,676</td>
<td>326,212</td>
<td>39,192</td>
<td>283,656</td>
</tr>
<tr>
<td>2007</td>
<td>1,495,104</td>
<td>462,434</td>
<td>1,032,670</td>
<td>665,376</td>
<td>489,149</td>
<td>102,444</td>
<td>278,671</td>
</tr>
<tr>
<td>2008</td>
<td>1,313,670</td>
<td>475,026</td>
<td>838,644</td>
<td>737,729</td>
<td>792,281</td>
<td>71,158</td>
<td>16,606</td>
</tr>
<tr>
<td>2009</td>
<td>1,612,111</td>
<td>457,992</td>
<td>1,154,119</td>
<td>864,695</td>
<td>743,654</td>
<td>50,277</td>
<td>171,318</td>
</tr>
<tr>
<td>2010</td>
<td>1,069,191</td>
<td>772,865</td>
<td>296,326</td>
<td>902,744</td>
<td>1,589,236</td>
<td>65,036</td>
<td>(621,456)</td>
</tr>
<tr>
<td>2011</td>
<td>962,077</td>
<td>462,888</td>
<td>499,189</td>
<td>22,257</td>
<td>535,968</td>
<td>326,498</td>
<td>(187,213)</td>
</tr>
<tr>
<td>2012</td>
<td>1,002,024</td>
<td>370,474</td>
<td>631,551</td>
<td>117,848</td>
<td>414,328</td>
<td>236,333</td>
<td>(60,147)</td>
</tr>
<tr>
<td>2013</td>
<td>1,224,419</td>
<td>476,360</td>
<td>748,060</td>
<td>263,069</td>
<td>191,256</td>
<td>331,069</td>
<td>402,882</td>
</tr>
<tr>
<td>2014</td>
<td>1,566,572</td>
<td>633,682</td>
<td>922,890</td>
<td>279,355</td>
<td>350,239</td>
<td>347,503</td>
<td>276,619</td>
</tr>
<tr>
<td>2015</td>
<td>1,962,931</td>
<td>677,030</td>
<td>1,285,901</td>
<td>561,655</td>
<td>389,545</td>
<td>216,267</td>
<td>388,377</td>
</tr>
</tbody>
</table>

**Operating Ratios**

The underwriting ratios presented below are on a cash basis and encompass the six-year period ending December 31, 2015:

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Premiums</strong></td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Deductions:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Losses and Loss Adjustment</td>
<td>9.6</td>
<td>19.0</td>
<td>(32.1)</td>
<td>172.1</td>
<td>541.6</td>
</tr>
<tr>
<td>Underwriting Expenses</td>
<td>59.7</td>
<td>106.4</td>
<td>104.8</td>
<td>179.5</td>
<td>1,866.5</td>
</tr>
<tr>
<td><strong>Total Deductions</strong></td>
<td>69.3</td>
<td>125.4</td>
<td>72.7</td>
<td>351.6</td>
<td>2,408.1</td>
</tr>
<tr>
<td><strong>Net Underwriting Gain (Loss)</strong></td>
<td>30.7</td>
<td>(25.4)</td>
<td>27.3</td>
<td>(251.6)</td>
<td>(2,308.1)</td>
</tr>
</tbody>
</table>

**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.
OPERATING AGREEMENTS

Investment Advisor Services

During the period under examination, the Company used the services of Stonebridge Capital Advisors, L.L.C., a Registered Investment Advisor (RIA) as its Investment Advisor. The Company has a written agreement in place with Stonebridge Capital Advisors authorizing discretionary trading pursuant to the Company’s Board approved investment policy statement.

Loss Adjusting Services Agreement

During the examination period, the Company contracted with FarMutual Adjusting Program (Mutual Claim Services) a subsidiary of Grinnell Mutual Reinsurance Company, to perform claims adjusting services. The 2015 terms of this agreement include adjustment services for a limit of 60 claims at a fixed fee of $14,100 for the calendar year. This fee is due in installments of $1,175 on the first of each month. Additional claims over the 60 claims will be adjusted at a rate of $400 per claim.

Office Rental Agreement

The Company has a five-year lease agreement with Dakota REIT for its office space in Minot which began September 1, 2013, and will expire on August 31, 2018. At December 31, 2015, the Company’s annual rent was $7,002.

OPERATIONS REVIEW

In July 2012, a representative of GMRC performed an operations review of the Company, covering the following areas:

- General Operations
- Underwriting and Loss Control
- Claims

The review contained three comments and no recommendations. The Company complied with the three comments. No other outstanding comments or recommendations were noted.
REINSURANCE

The following is a summary of the significant reinsurance treaties in force at December 31, 2015:

Grinnell Mutual Reinsurance Company

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 60/40 split:

- Dwelling $1,000,000
- Farm Machinery/Storage Buildings $2,000,000
- Farm Products $1,000,000
- Livestock/Poultry/Horse Operations $1,000,000
- Commercial/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 2015 is $154,176.

Premium:

(A) Quota Share - The 2015 annual premium is 60% of the Company's net written premium.

(B) Quota Share Excess - The 2015 annual premium is determined by multiplying the Company's retained net premium written in the current contract year by 5%.

Commissions: 35 percent commission on ceded property premiums.

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.

All treaties contained an insolvency clause as 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  $35 per policy
(D) Home Systems Protection  $10 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, 2015, was extracted from the general ledger and traced to the appropriate schedules of the Company’s 2015 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

In January 2015, the Company began transitioning from the MAPS+ policy processing system and QuickBooks GL system to the IMT APPS GL and policy processing system. Throughout 2015, the Company ran both systems in parallel to ensure operating effectiveness of the new system. The Company stopped using QuickBooks and MAPS+ systems on December 31, 2015.

The Company had an account at First Western Bank and Trust with a balance that exceeded the federal deposit insurance limit or $250,000.
It is recommended that the Company limit its deposits in any one banking institution to no more than the FDIC or NCUA insured limits or obtain insurance protection covering the deposits exceeding the FDIC or NCUA limits.

**Internal Complaints Log**

N.D.C.C. § 26.1-01-03(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).

**Custodial Agreement**

During the period under examination, the Company's securities were held by First Western Bank and Trust (FWB&T) in Minot, North Dakota. This agreement is in compliance with N.D. Admin. Code § 45-03-23-02.

**FINANCIAL STATEMENTS**

The following pages present a Statement of Assets, Liabilities, Surplus, and Other Funds as of December 31, 2015.
West McLean County Farmers Mutual Insurance Company  
Statement of Assets, Liabilities, and Surplus  
December 31, 2015

**ASSETS:**

**LEDGER ASSETS:**
- Bonds: $544,606  
- Stocks: 165,211  
- Cash on hand: 1,123,401  
- Cash on deposit: 17,349  
- Premiums in Course of Collection: 84,642  
- Furniture, fixtures and equipment: 2,428  
- **TOTAL LEDGER ASSETS**: $1,937,636

**NONLEDGER ASSETS:**
- Interest Due and Accrued On Bonds: 6,308  
- Furniture, fixtures and equipment: 6,635  
- Market value of stocks over book value: 11,707  
- Federal Income Tax Receivable: 3,100  
- **TOTAL NONLEDGER ASSETS**: 27,750

**DEDUCT: ASSETS NOT ADMITTED**
- Furniture, fixtures and equipment: 2,428  
- Premiums Over 90 Days Past Due: 26  
- **TOTAL NONADMITTED ASSETS**: 2,454

**TOAL NET ADMITTED ASSETS**: $1,962,931

**LIABILITIES:**
- Unpaid losses: 2,922  
- Incurred but not reported claims (IBNR estimate): 2,912  
- Unpaid loss adjustment expense: 1,175  
- Advance premiums: 16,170  
- Unearned premium reserve: 528,824  
- Commissions due and payable to agents: 12,620  
- Unpaid taxes (include premium taxes): 6,457  
- Unpaid salaries: 25,964  
- Unpaid general expenses (include Ins. Dept. fees): 1,342  
- Reinsurance premiums due and payable: 71,929  
- Premiums written for others: 3,377  
- All other liabilities: 3,339  
- **TOTAL LIABILITIES**: 677,030

**SURPLUS TO POLICYHOLDERS**: 1,285,901

**TOTAL LIABILITIES AND SURPLUS**: $1,962,931
West McLean County Farmers Mutual Insurance Company
Statements of Cash Receipts and Cash Disbursements
December 31, 2015

INCOME:

Gross Premium Income 1,001,789
Less:  
  Return Premiums 28,048
  Premiums for Reinsurance Ceded 412,087
NET PREMIUM INCOME $561,655

Interest on Bonds 3,096
Dividends on Stocks 3,816
Interest on Cash on Deposit (Banks and Savings & Loan Deposits) 2,118
Profit on sale or Maturity of Ledger Assets 3,027
Commissions and Service Fees Received 9,699
Recovery from Henning Restitution 185,436
Equipment Breakdown – Pass Through Premiums 4,492
Adjustment to Ledgerize Furniture & Fixtures 3,796
Miscellaneous Income 787
TOTAL INCOME RECEIPTS $777,922

DISBURSEMENTS:

Gross Losses Paid and Incurred in 2015 90,884
Gross losses paid current year but occurred in previous years 12,710
Deduct: Reinsurance recovered $ 63,569
NET LOSSES PAID 40,024

Claim Adjustment Expenses 14,050
Commissions Paid to Agents 136,879
Directors Fees and Expenses 2,600
Salaries to Employees 101,183
Printing, Stationery and Office Supplies 5,333
Rent and Rent Items 6,866
State and Local Insurance Taxes 16,894
Insurance Dept. Licenses & Fees 670
Payroll Taxes 6,782
Legal Fees and Auditing 2,198
Travel and Travel Items 4,618
Advertising 300
Dues and Donations 5,011
Equipment purchased (or depreciation on same) 1,368
Insurance and Bonds 5,139
Postage, Telephone, Internet and Bank charges 7,248
Data Processing Expenses 20,914
Meeting Expenses 3,310
Investment Fees 4,022
Annual Meeting Expense 1,571
Miscellaneous Expense 2,566

TOTAL FUNDS DISBURSED 389,545

NET INCOME $386,377
COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2015, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Assets

Premiums in Course of Collection

The Company excluded premiums 30 to 90 days past due. This caused the Company to understate premiums in course of collection by $14,966. The Company also recorded premium balances less than 30 days past due of $69,676 as a nonledger asset. Since the Company does run a full accrual ledger, these amounts should be recorded in the ledger asset portion of the balance sheet.

It is recommended that the Company report its premium receivables as ledger assets.

Federal Income Tax Receivable

The Company had a tax refund of $3,100 per its federal tax return, but did not report the amount as a recoverable asset.

It is recommended that the Company report federal income tax receivables as nonledger assets on the Annual Statement.

Income

Other Income

The Company entered a basis adjustment to correct its IRET stock book value twice which resulted in a $1,866 overstatement of other income.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be $1,285,901 or $18,066 more than the amount reported by the Company. Adjustments to surplus are shown in the following schedule:
<table>
<thead>
<tr>
<th>Description</th>
<th>Company</th>
<th>Examination</th>
<th>Increase (Decrease) to Surplus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ledger Assets:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Premiums in Course of Collection</td>
<td>69,676</td>
<td>84,642</td>
<td>14,966</td>
</tr>
<tr>
<td>Federal Income Tax Recoverable</td>
<td>0</td>
<td>3,100</td>
<td>3,100</td>
</tr>
<tr>
<td><strong>Net Increase</strong></td>
<td></td>
<td></td>
<td>$18,066</td>
</tr>
<tr>
<td>Surplus to Policyholders per Company</td>
<td>$1,267,835</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exam Adjustments</td>
<td></td>
<td>18,066</td>
<td></td>
</tr>
<tr>
<td>Surplus to Policyholders per Examination</td>
<td>$1,285,901</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**CONCLUSION**

The financial condition of the Company, as of December 31, 2015, as determined by this examination is summarized as follows:

**ADMITTED ASSETS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Liabilities</td>
<td>$677,030</td>
</tr>
<tr>
<td>Surplus as Regards Policyholders</td>
<td>1,285,901</td>
</tr>
</tbody>
</table>

**LIABILITIES, SURPLUS, AND OTHER FUNDS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus to Policyholders per Company</td>
<td>$1,962,931</td>
</tr>
</tbody>
</table>

Since the last examination conducted as of December 31, 2010, the Company’s admitted assets have increased $893,740, its total liabilities have decreased $95,835, and its surplus as regards policyholders has increased $989,575.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Chief Examiner Ed Moody, CFE, CPA, and Andrea Rebsom, Examiner, participated in this examination.

Respectfully submitted,

Colton Schulz, CFE
Examiner in Charge
North Dakota Insurance Department
COMMENTS AND RECOMMENDATIONS

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

It is recommended that the Company limit its deposits in any one banking institution to no more than the FDIC or NCUA insured limits or obtain insurance protection covering the deposits exceeding the FDIC or NCUA limits.

It is recommended that the Company report its premium receivables as ledger assets.

It is recommended that the Company report federal income tax receivables as nonledger assets on the Annual Statement.