STATE OF MINNESOTA

OFFICE OF THE ATTORNEY GENERAL

SUITE 1800
445 MINNESOTA STREET
ST. PAUL, MN 55101-2134
TELEPHONE: (651) 297-2040

June 29, 2012

Lynae K.E. Olson
Court Administrator
600 Ramsey County Courthouse
15 Kellogg Boulevard West
St. Paul, MN 55102

Re: ***In the Matter of the Liquidation of Minnesota Surety and Trust Company***
Court File No. 62-CV-11-9400

Dear Ms. Olson:

On behalf of the Minnesota Department of Commerce, and pursuant to Minn. Stat. § 60B.25 (2010) and the Liquidation Order dated November 22, 2011, I enclose for filing the second Quarterly Report, signed June 29, 2012, with attachments.

Let me know if you have any questions. Thank you for your attention to this matter.

Very truly yours,

CHRISTOPHER M. KAISERSHOT
Assistant Attorney General

(651) 757-1264 (Voice)
(651) 297-1235 (Fax)

Enclosure

cc: Rick Theisen (Via Email) (w/ encls.)

AG: #3038777-v1

State of Minnesota | **District Court**

County of Ramsey | **Second Judicial District**

62-CV-11-9400

In Re: The Matter of the Liquidation of Minnesota Surety and Trust Company

QUARTERLY REPORT
MINN. STAT. § 60B.25

REPORT ON PROGRESS OF LIQUIDATION PROCEEDINGS

JULY 1, 2012

NOW COMES Mike Rothman, Commissioner of Commerce of the State of Minnesota, in his capacity as the statutory and court-appointed liquidator of Minnesota Surety and Trust Company, ("MSTC") and for his summary of progress and current status of the MSTC liquidation proceedings, states as follows:

1. The court placed MSTC in liquidation on November 22, 2011.
2. The court appointed the Commissioner of the Minnesota Department of Commerce (hereinafter "Liquidator") as Liquidator of MSTC.
3. The liquidator files this Quarterly Report pursuant to the Commissioner's obligation to "report to the court…on the progress of the liquidation…" Minn. Stat. § 60B.25.

REPORT

I. Assets

The Liquidator has continued to marshal assets of MSTC and now believes sufficient assets exist to make an initial distribution to the Minnesota Insurance Guaranty Association ("MIGA"). In accordance with Minnesota Statutes section 60B.46, on June 29, 2012, the

Liquidator provided its Notice of Intent for Application to Disburse Assets (the "Notice") to the commissioners of insurance in Colorado, Minnesota, Montana, North Dakota, South Dakota and Utah. A copy of the Notice is attached hereto as Exhibit A. An Application to Disburse Assets will be filed with the Court after the conclusion of the 30-day notice period as required by Minnesota Statutes section 60B.46.

II. Financial Statements

The Liquidator attaches hereto as Exhibit B the financial statement for MTSC as of March 31, 2012.

III. Notice and Claims

1. The Liquidator published notice of MSTC's liquidation in the St. Paul Pioneer Press on June 15, 16 and 17, 2012 in accordance with the requirements of Minnesota Statutes section 60B.26.

2. The Liquidator mailed notice in the form of a proof of claim form by first class mail to those persons reasonably expected to have claims against MSTC in accordance with the requirements of Minnesota Statutes sections 60B.26 and 60B.38.

3. The Liquidator provided data to MIGA necessary for the payment of unearned premiums claims on surety bonds written in Minnesota by MSTC On May 31, 2012.

4. The Liquidator is reviewing information submitted by former agents of MSTC for the release of agent Build-Up Fund accounts.

IV. Operations

5. The Liquidator has posted the previous quarterly progress report and other relevant documents to the Liquidator's website.

Respectfully submitted,

MIKE ROTHMAN
Commissioner
Minnesota Department of Commerce

By his Special Deputy Liquidator

Rick Theisen

Rick Theisen

6 / 29 / 2012

Date

State of Minnesota **District Court**

County of Ramsey **Second Judicial District**

62-CV-11-9400

In Re: The Matter of the Liquidation of Minnesota Surety and Trust Company

NOTICE OF INTENT FOR APPLICATION TO DISBURSE ASSETS

TO: COMMISSIONERS OF INSURANCE FOR THE STATES OF COLORADO, MINNESOTA, MONTANA, NORTH DAKOTA, SOUTH DAKOTA AND UTAH:

PLEASE TAKE NOTICE: THE LIQUIDATOR INTENDS TO MAKE APPLICATION TO THE COURT FOR DISBURSAL OF ASSTS TO THE MINNESOTA INSURANCE GUARANTEE ASSOCIATION.

1. The Liquidator has determined that there are sufficient assets available to make a distribution to the Minnesota Insurance Guaranty Association ("MIGA") and pursuant to Minn. Stat. §60B.46 proposes to make an initial distribution to MIGA.
2. The Liquidator has reserved assets for the payment of the expenses of the administration of the liquidation.
3. The Liquidator knows of no secured creditors or any claims of a higher priority than MIGA.

4. MSTC wrote surety policies in the State of Minnesota.
5. There are no other guaranty associations that will cover claims made against Minnesota Surety and Trust Company ("MSTC").
6. The Liquidator has secured an Early Access Agreement with MIGA which meets the requirements of Minn. Stat. §60B.46. That agreement also provides for the report and accounting of all assets disbursed to MIGA, disbursements made by MIGA and interest earned on those assets by MIGA.
7. The Liquidator proposes to distribute $27,100 to MIGA which he believes is sufficient to pay all of the unearned premium claims in Minnesota in full and provides for the cost of the associated expenses of MIGA to date.
8. The disbursements will be made from the assets marshaled to date, and the Liquidator will consider subsequent disbursements of assets as they become available.
9. Notice of this application was provided by certified mail to MIGA along with the commissioners of insurance in Colorado, Minnesota, Montana, North Dakota, South Dakota and Utah on June 29, 2012.

Respectfully submitted,

MIKE ROTHMAN
Commissioner
Minnesota Department of Commerce

By his Special Deputy Liquidator

Rick Theisen

Rick Theisen

6 / 29 / 2012

Date

Minnesota Surety and Trust Company

P.O. Box 133
Farmington, CT 06034
888-723-0004

VIA Certified First Class Mail

June 29, 2012

Mr. Mike Rothman
Commissioner
Minnesota Department of Commerce
85th Seventh Place East
Saint Paul, MN 55101

RE: Notice of Application to Distribute Assets of Minnesota Surety and Trust Company

Dear Commissioner Rothman:

Minnesota Surety and Trust Company (MSTC) was ordered into liquidation on November 22, 2011 by Ramsey County District Court Judge John H. Guthmann. A copy of the Liquidation Order is posted on the Minnesota Depatment of Commere's website. The Liquidator plans to file an application with the Ramsey County District Court to distribute a portion of the assets of MSTC to the Minnesota Insurance Guaranty Association (MIGA) on or after July 30, 2012. MIGA is the only state insurance guaranty association that provides coverage for the types of polices written by MSTC. A copy of the Liquidator's proposal is attached.

Please direct any questions regarding the application or proposal to Wayne Johson, Special Deputy Liquidator. He can be receached by e-mail at wayne.johnson@riskreg.com or by phone at (850) 363-4853.

Sincerely,

Rick Theisen
Special Deputy Liquidator

Property and Casualty Companies

QUARTERLY STATEMENT

AS OF MARCH 31, 2012

OF THE CONDITION AND AFFAIRS OF THE

MINNESOTA SURETY AND TRUST COMPANY

NAIC Group Code

NAIC Comp: Employer's ID Number 41-0665921

Organized under the Laws of Minnesota

State of Domicile Minnesota

Country of domicile United States

Incorporated/Organized: August 28, 1945

Commenced Business: August 28, 1945

Statutory Home Office	85 7th Place East, Suite 500, St. Paul, MN 55101-2198
Main Administrative Office	85 7th Place East, Suite 500, St. Paul, MN 55101-2198
Mail Address	P.O. Box 133, Farmington, CT 06034
Primary Location of Books and Records	85 7th Place East, Suite 500, St. Paul, MN 55101-2198
Internet Web Site Address	http://mn.gov/commerce/topics/enforcement/liquidations.jsp
Statutory Statement Contact	Rick Theisen (651) 297-4297

OFFICERS

(None-Company in Liquidation)

OTHER OFFICERS

None - Company in Liquidation)

DIRECTORS OR TRUSTEES

None - Company in Liquidation)

State of Minnesota
County of Ramsey } SS

The officers of this reporting entity being duly sworn, each depose and say that they are the described officer of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions there from for the period ended, and have been completed in accordance with the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual except to the extent that:: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Rick Theisen

Rick Theisen
Chief Examiner, Special Deputy Liquidator

ASSETS

	Current Year			
	Assets	Nonadmitted Assets	Net Admitted Assets (Column 1 minus Column 2)	December 31 Prior Year Net Admitted Assets
1 Bonds	1,350,222		1,350,222	1,600,717
2 Stocks:				
2.1 Preferred stocks				
2.2 Common Stocks				
3 Mortgage loans on real estate:				
3.1 First Liens				
3.2 Other than first liens				
4 Real estate				
4.1 Properties occupied by the company				
4.2 Properties held for the production of income (less $ encumbrances)				
4.3 Properties held for sale (less $ encumbrances)				
5 Cash ($553,492 , Schedule E -Part 1), cash equivalents ($, Schedule E- Part 2)	553,492		553,492	343,118
6 Contract loans				
7 Derivates				
8 Other invested assets				
9 Receivable for securities				
10 Securities lending reinvested collateral assets (Schedule DL)				
11 Aggregate write-ins for invested assets				
12 Subtotals, cash and invested assts (Line 1 through Line11)	1,903,714	0	1,903,714	1,943,835
13 Title plants less$ charged off (for Title insurers only)				
14 Investment income due and accrued	6,188		6,188	14,854
15 Premiums and considerations:				
15.1 Uncollected premiums and agents' balances in the course of collection	26,950	26,950	0	0
15.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ earned but unbilled premiums)				
16 Reinsurance:				
16.1 Amounts recoverable from reinsurers				
16.2 Funds held by or deposited with reinsured companies				
16.3 Accrued retrospective premiums				
17 Amounts receivable relating to uninsured plans				
18.1 Current federal and foreign income tax recoverable and interest thereon				
18.2 Net deferred tax asset	76,000	76,000	0	0
19 Guaranty funds receivable or on deposit				
20 Electronic data processing equipment and software				
21 Furniture and equipment, including health care delivery assets ($)				
22 Net adjustment in assets and liabilities due to foreign exchange rates				
23 Receivables from parent, subsidiaries and affiliates				
24 Health care ($) and other amounts receivable				
25 Aggregate write-ins for other than invested assets	6,594		6,594	7,162
26 Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Line 12 to Line 25)	2,019,446	102,950	1,916,496	1,965,851
27 From Separate Accounts, Segregated Accounts and Protected Cell Accounts				
28 Total (Line 26 and Line 27)	2,019,446	102,950	1,916,496	1,965,851
DETAILS OF WRITE-INS				
1101				
1102				
1103				
1198 Summary of remaining write-ins for Line 11 from overflow page				
1199 Totals (Lines 1101 through 1103 plus 1198)(Line 11 above)				
2501 Cash Surrender Value Life Insurance			6,594	7,162
2502				
2503				
2598 Summary of remaining write-ins for Line 25 from over flow page				
2599 Totals (Lines 2501 through 2503 plus 2598)(Line 25 above)			6,594	7,162

STATEMENT AS OF MARCH 31, 2012 OF THE MINNESOTA SURETY AND TRUST COMPANY

LIABILITIES, SURPLUS AND OTHER FUNDS

	1 Current Statement Date	2 December 31, Prior Year
1 Losses	90,537	90,537
2 Reinsurance payable on paid losses and loss adjustment expenses		
3 Loss adjustment expenses	15,843	15,843
4 Commissions payable, contingent commissions and other similar charges	1,630	1,630
5 Other expenses (excluding taxes, licenses and fees)	367,998	200,851
6 Taxes, licenses and fees (excluding federal and foreign income taxes)	25,050	25,050
7 .1 Current federal and foreign income taxes (including $ on realized capital gains (losses)		
7 .2 Net deferred tax liability		
8 Borrowed money	191,633	195,091
9 Unearned premiums	30,875	30,875
10 Advanced premium		
11 Dividends declared and unpaid:		
11.1 Stockholders		
11.2 Policyholders		
12 Ceded reinsurance premiums payable (net of ceding commissions)		
13 Funds held by company under reinsurance treaties		
14 Amounts withheld or retained by company for account of others	329,038	329,038
15 Remittances and items not allocated		
16 Provision for reinsurance		
17 Net adjustments in assets and liabilities due to foreign exchange rates		
18 Drafts outstanding		
19 Payable to parent, subsidiaries and affiliates	112,151	112,151
20 Derivatives		
21 Payable for securities		
22 Payable for securities lending		
23 Liability for amounts held under uninsured plans		
24 Capital notes $ and interest thereon $		
25 Aggregate write-ins for liabilities		
26 Total liabilities excluding protected cell liabilities (Line 1 through Line 25)	1,164,755	1,001,066
27 Protected cell liabilities		
28 Total liabilities (Line 26 and Line 27)	1,164,755	1,001,066
29 Aggregate write-ins for special surplus funds		
30 Common capital stock	500,000	500,000
31 Preferred capital stock		
32 Aggregate write-ins for other than special surplus funds		
33 Surplus notes	1,212,000	1,212,000
34 Gross paid in and contributed surplus	100,000	100,000
35 Unassigned funds (surplus)	(1,060,259)	(847,215)
36 Less treasury stock, at cost:		
36.1 Shares common (value included in Line 30 $		
36.2 Shares preferred (value included in Line 31 $		
37 Surplus as regards policyholders (Line 29 to Line 35, less Line 36) Page 4, Line 39	751,741	964,785
38 Totals (Page 2, Line 28, Column 3)	1,916,496	1,965,851
DETAILS OF WRITE-INS		
2501		
2502		
2503		
2598 Summary of remaining write-ins for Line 25 from overflow page		
2599 Totals (Lines 2501 through 2503 plus 2598) (Line 25 above)		
2901		
2902		
2903		
2998 Summary of remaining write-ins for Line 29 from overflow page		
2999 Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)		
3201		
3202		
3203		
3298 Summary of remaining write-ins for Line 32 from overflow page		
3299 Totals (Line 3201 through 3203 plus 3298) (Line 32 above)		

STATEMENT OF INCOME

	1 Current Year to Date	2 Prior Year to Date	Prior Year Ended December 31
UNDERWRITING INCOME			
1 Premiums earned:			
1.1 Direct (Written $)		133,532	464,571
1.2 Assumed (Written $)			
1.3 Ceded (Written $)			
1.4 Net (Written $)			
	-	133,532	464,571
DEDUCTIONS:			
2 Losses incurred (Current accident year $):			
2.1 Direct	(461)	(5,020)	110,320
2.2 Assumed			
2.3 Ceded			
2.4 Net			
3 Loss adjustment expenses incurred	300	6,915	(16,580)
4 Other underwriting expenses incurred	235,764	185,707	995,887
5 Aggregate write-ins for underwriting deductions			
6 Total underwriting deductions (Lines 2 through 5)	235,603	187,602	1,089,627
7 Net income of protected cells			
8 Net underwriting gain (loss) (Line 1 minus Line 6 + Line 7)	(235,603)	(54,070)	(625,056)
INVESTMENT INCOME			
9 Net investment income earned	7,266	(1,115)	66,282
10 Net realized capital gains (losses) less capital gains tax of $	-	3,809	20,377
11 Net investment gain (loss) (Lines 9 + 10)	7,266	2,694	86,659
OTHER INCOME			
12 Net gain or (loss) from agents' or premium balances charged off (amount received $ amount charged off $)			
13 Finance and service charges not included in premiums			
14 Aggregate write-ins for miscellaneous income	11,323	(11,116)	5,710
15 Total other income (Lines 12 through 14)	11,323	(11,116)	5,710
16 Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Lines 8 plus Line 11+ 15)	(217,014)	(62,492)	(532,687)
17 Dividends to policyholders			
18 Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes (Line 16 minus Line 17)	(217,014)		(532,687)
19 Federal and foreign income taxes incurred			
20 Net income (Line 18 minus Line 19) (to Line 22)	(217,014)	(62,492)	(532,687)
CAPITAL AND SURPLUS ACCOUNT			
21 Surplus as regards policyholders, December 31 prior year	964,765	1,399,076	1,399,076
22 Net income (from Line 20)	(217,014)	(62,492)	(532,687)
23 Net transfers (to) from Protected Cell accounts			
24 Change in net unrealized capital gains or (losses) less capital gains tax of $		5,707	
25 Change in net unrealized foreign exchange capital gain (loss)		(1,501)	
26 Change in net deferred income tax			(1,000)
27 Change in nonadmitted assets	3,980		96,579
28 Change in provision for reinsurance			
29 Change in surplus notes			
30 Surplus (contributed to) withdrawn from protected cells			
31 Cumulative effect of changes in accounting principles			
32 Capital Changes			
32.1 Paid in			
32.2 Transferred from surplus (Stock Dividend)			
32.3 Transferred to surplus			
33 Surplus adjustments:			
33.1 Paid in			
33.2 Transferred to capital (Stock dividend)			
33.3 Transferred from capital			
34 Net remittances from or (to) Home Office			
35 Dividends to stockholders			
36 Change in treasury stock (Page 3, Line 36.1 and Line 36.2, Column 2 minus Column1)			
37 Aggregate write-ins for gains and losses in surplus			2,817
38 Change in surplus as regards policyholders for the year (Line 22 through Line 37)	(213,034)	(58,286)	(434,291)
39 Surplus as regards policyholders, as of statement date (Lines 21 plus 38)	751,751	1,340,790	964,785
DETAILS OF WRITE-INS			
501			
502			
503			
598 Summary of remaining write-ins for Line 5 from overflow page			
599 Totals (Line 0501 through Line 0503 plus Line 0598) (Line 5 above)	-	-	96,478
1401 Fiduciary Fees	1,468	(11,116)	
1402 Auction Proceeds	9,855		
1403 Other Miscellaneous income			
1498 Summary of remaining write-ins for Line 14 from overflow page			
1499 Totals (Line 1401 through Line 1403 plus Line 1498) (Line 14 above)	11,323	(11,116)	-
3701 Prior Year Adjustments			2,817
3702			
3703			
3798 Summary of remaining write-ins for Line 37 from overflow page			
3799 Totals (line 3701 through Line 3703 plus Line 3798) (Line 37 above)	-	-	2,817

STATEMENT AS OF MARCH 31, 2012 OF THE MINNESOTA SURETY AND TRUST COMPANY

CASH FLOW

		1 Current Year to Date	2 Prior Year to Date	3 Prior Year Ended December 31
1	Premiums collected net of reinsurance	0	78,666	402,930
2	Net investment income	7,266	(17,956)	52,255
3	Miscellaneous income	11,323	(11,116)	5,710
4	Total (Lines 1 to 3)	18,589	49,594	460,895
5	Benefit and loss related payments	(161)	4,480	4,744
6	Net transfers to Separate Account, Segregated Accounts and Protected Cell Accounts			
7	Commissions, expenses paid and aggregate write-ins for deductions	63,356	199,389	479,541
8	Dividends paid to policyholders			
9	Federal and foreign income taxes paid (recovered net of $.....tax on capital gains (losses)			
10	Total (Lines 5 through 9)	63,195	203,869	484,285
11	Net cash from operations (Line 4 minus Line 10)	(44,606)	(154,275)	(23,390)
12	Proceeds from investments sold, matured or repaid:			
	12.1 Bonds	251,000	255,153	204,495
	12.2 Stocks			27,144
	12.3 Mortgage loans			
	12.4 Real estate			
	12.5 Other invested assets			
	12.6 Net gains or (losses) on cash, cash equivalents and short-term investments			
	12.7 Miscellaneous proceeds			
	12.8 Total investment proceeds (Lines 12 to 12.7)	251,000	255,153	231,639
13	Cost of investment acquired (long-term only):			
	13.1 Bonds		147,613	245,892
	13.2 Stocks			
	13.3 Mortgage loans			
	13.4 Real estate			
	13.5 Other invested assets			
	13.6 Miscellaneous application			
	13.7 Total investment acquired (Lines 13.1 to 13.6)	0	147,613	245,892
14	Net increase (or decrease) in contract loans and premium notes			
15	Net cash from investments (Line 12..8 minus Line 13.7 and Line 14)	251,000	107,540	(14,253)
	Cash from Financing and Miscellaneous Sources			
16	Cash provide (applied)			
	16.1 Surplus notes, capital notes			
	16.2 Capital and paid in surplus, less treasury stock			
	16.3 Borrowed funds		9,156	
	16.4 Net deposits on deposit-type contracts and other insurance liabilities			329,038
	16.5 Dividends to stockholders			
	16.6 Other cash provided (applied)	3,980	40,487	
17	Net cash from financing and miscellaneous sources (Lines 16.1 through Line 16.4 minus Line 16.5 plus Line 16.6)	3,980	49,643	329,038
	RECONCILIATION OF CASH, CASH EQUILVALENTS AND SHORT-TERM INVESTMENTS			
18	Net change in cash, cash equivalents and short-term investments (Line 11, plus Lines 15 and 17)	210,374	2,908	291,395
19	Cash, cash equivalents and short-term investments:			
	19.1 Beginning of year	343,118	51,723	51,723
	19.2 End of period (Line 18 plus Line 19.1)	553,492	54,631	343,118

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

Organization

Minnesota Surety and Trust Company (the Company) was incorporated and commenced operations on August 28, 1945, under the Statutes of the State of Minnesota. The Company was a licensed property and casualty insurer under Minnesota Statutes Section 60A.06. Effective November 17, 2011, the Company's Minnesota Certificate of Authority to operate as an insurer was revoked. Effective November 22, 2011, the Company was ordered into liquidation.

The Company is a majority owned subsidiary of First Heartland Surety and Casualty Services Company (First Heartland). The Company was engaged in underwriting surety and bail bonds in the sates of Minnesota, North Dakota, Montana, Utah, South Dakota and Colorado. The coverage on the surety and bail bonds was marketed to customers though a network of independent insurance agents and brokers. The Company also provided trust services primarily to individuals in Minnesota.

The financial statements have been prepared in conformity with the accounting practices prescribed or permitted by the National Association of Insurance Commissioners and the Minnesota Department of Commerce.

B. Use of estimates in the Preparation of the Financial statements & Accounting Policy

The Company records bail bond premiums on the net remittances method. As such, the difference between the fee, generally 10% of the bond, and the premium has not been recorded in these financial statements.

Premiums written are recorded on an annual basis to match the billing to the policyholder. Premiums on other than bail bonds are earned on a pro rata basis over the life of the insurance policy. Audit adjustments to premiums are recognized in the period that the adjustment becomes known. Unearned premium reserves are established for the portion of premiums billed applicable to the unexpired term of the premium.

Certain costs of acquiring new business, principally commissions premium taxes and other variable policy issuance and underwriting expenses, are expensed when due.

Unpaid claim and settlement expenses are based on estimates of reported and unreported claims and related settlement expenses. The Company does not discount the reserve liability for future policy claims settlement expenses.

Investments in fixed maturity bonds are recorded at amortized cost under the valuation standards of the National Association of Insurance Commissioners. No provision is made for temporary declines in market values below amortized cost as the Company generally intends to hold these investments until maturity and does not expect to realize an significant losses. If, however, a permanent impairment occurs in a security, the Company writes the security down to the new value. Short-term investments are recorded at cost, which approximates market. Investments in common and preferred stocks are carried at estimated market values based on published market quotations.

Realized gains and losses are computed based on specific identification of the cost of the securities sold. Unrealized gains and losses of common and preferred stock are included in surplus.

Cash and short-term investments include demand and savings deposits at several financial institutions. At times cash on deposit may exceed federally insured limits. For purposes of the statement of cash flows, the Company considers all highly liquid investments with a maturity of one year or less, when purchased, to be cash equivalents.

NOTES TO FINANCIAL STATEMENTS

2. ACCOUNTING CHANGES AND CORRECGTIONS OF ERRORS
No change.

3. BUSINESS COMBINATIONS AND GOODWILL
No change.

4. DISCONTINUED OPERATIONS
The Company was ordered into liquidation by the State of Minnesota on November 22, 2011.

5. INVESTMENTS
During the period covered by these financial statements, the Company had no mortgage loans, real estate loans, debt restructuring, reverse mortgages, loan backed securities or repurchase agreements.

6. JOINT VENTURES, PARTNERSHIPS AND LIMITED LIABILITY COMPANIES
No change.

7. INVESTMENT INCOME
No change.

8. DERIVIATIVE INSTRUMENTS
No change.

9. INCOME TAXES
No change.

10. INFORMATION CONCERNING PARENT, SUBSIDIARIES AND AFFILIATES
First Heartland owns 380,099 of the 500,000 issued and outstanding shares of Company capital common stock. First Heartland also holds surplus notes in the Company in the amount of $215,000. The Company paid First Heartland $1,950 in 2012 for rents and services provided. The Company had no management or service contract to cover these payments.

The Company made payments of $690 to Plunkett & Associates , an affiliated law firm, for services rendered to the Company during the first quarter of 2012.

11.DEBT
As of March 31, 2012, the Company had the following secured and unsecured notes payable:
1) Promissory note payable to First Heartland In the amount of $191,633.
2) Demand note payable to a principal of the Company in the amount of $112,151.

12. RETIREMENT, DEFERRED COMPENSATION AND POST RETIREMENT BENEFIT PLANS
No change.

13. CAPITAL AND URPLU, DIVIDEND RETRICTION AND QUAI-REORGANIZATION
No change.

14. CONTINGENCIES
No change.

15. LEASES
The Company is not a party to any leases.

16. INFORMATION ABOUT FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK
No change.

17. SALE, TRANSFER AND SERVICING OF FINANCIAL ASSETS AND EXTINGUISHMENTS OF LIABILITIES
The Company repaid a secured loan to a local financial institution in the amount of $3,191 during the first quarter.

18. GAIN OR LOSS TO THE REPORTING ENTITY FROM UNINSURED PLANS
No change.

19. DIRECT PREMIUM WRITTEN/PRODUCED BY MANAGING GENERAL AGENTS/ADMINISTRATORS
No change.

20. FAIR VALUE MEASUREMENTS
Bonds: Fair values for bonds are determined using quoted market prices from an orderly market at the reporting date for those or similar investments.

	2012 Statement Value	2012 Fair Value	2011 Statement Value	2010 Fair Value
Bonds:	$1,350,222	$1,461,708	$1,600,717	$1,747,587

NOTES TO FINANCIAL STATEMENTS

21. OTHER ITEMS
No Change

22. EVENTS SUBSEQUENT
No change.

23. REINSURANCE
No change.

24. RETROSPECTIVELY RATED CONTRACTS
No change.

25. CHANGES IN INCURRED LOSSES AND LOSS ADJUSTMENT EXPENSES
No change.

26. INTERCOMPANY POOLING ARRANGEMENTS
No change.

27. STRUCTURED SETTLEMENTS
No change.

28. HEALTH CARE RECEIVABLES
No change.

29. PARTICIPATING POLICIES
No change.

30. PREMIUM DEFICIENCY RESERVES
No change.

31. HIGH DEDUCTIBLES
No change.

32. DISCOUNTING OF LIABILITIES FOR UNPAID LOSSES
No change.

33., ASBESTOS/ENVIRONMENTAL RESERVE
No change.

34. SUBSCRIBER SAVINGS ACCOUNTS
No change.

35. MULTIPLE PERIL CROP INSURANCE
No change.

36. FINANCIAL GUARANTEE INSURANCE
No change.

GENERAL INTERROGATORIES

Part 1 - COMMON INTERROGATORIES

GENERAL

1.1 Did the reporting entity experience any material transactions requiring the filing of Disclosure of Material Transactions with the State of Domicile, as required by the Model Act?		Yes ( )	No (X)
1.2 If yes, has the report been filed with the domiciliary state?		Yes ( )	No ( )
2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?		Yes ()	No (X)
2.2 If yes, date of change:			
3 Have there been any substantial changes in the organizational chart since the prior quarter end? If yes, complete the Schedule Y- Part 1- organization al chart.		Yes ( )	No (X)
4.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?		Yes ( )	No (X)
4.2 If yes, provide the name of entity, NAIC Company Code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as result of the merger or consolidation.			
5 If the reporting entity is subject to a management agreement, including third-party administrator(s), managing general agent(s), attorney-in fact, or similar agreement, have there been any significant changes regarding the terms of the agreement of principals involved?	Yes ()	No ()	NA (X)
6.1 State as of what date the latest financial examination of the reporting entity was made or is being made.		12/31/2009	
6.2 State the as of date that the latest financial examination report become available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.		12/31/2009	
6.3 State as of what the latest financial examination report become available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).		07/15/2010	
6.4 By what department or departments? Minnesota Department of Commerce			
6.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments?	Yes ()	No ()	NA (X)
6.6 Have all of the recommendations within the latest financial examination report been complied with	Yes ()	No ()	NA(X)
7.1 Has the reporting entity had any Certificate of Authority, licenses or registration (including corporate registration, if applicable) suspended		Yes (X)	No ()
7.2 If yes, give full information: The Company is in liquidation and no longer writing business in any state.			
8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?		Yes ()	No(X)
8.2 If response to 8.1 is yes, please identify the name of the bank holding company.			
8.3 Is the Company affiliated with one or more banks, thrifts or securities firms?		Yes ()	No (X)
8.4 If response to 8.3 is yes, please provide below the names and location (city and state of the main office) of any affiliates regulated by a federal regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC) and identify the affiliate's primary federal regulator.]			
9.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing: (a) Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships: (b) Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity; (c) Compliance with applicable governmental law, rules and regulations; (d) The prompt internal reporting of violations to an appropriate person or persons identified in the code; and (e) Accountability for adherence to the code.		Yes (X)	No ()
9.11 If the response to 9.1 is No, please explain:			
9.2 Has the code of ethics for senior management been amended?		Yes ()	No (X)
9.21 If the response to 9.2 is Yes, provide the nature of any waiver(s).			

FINANCIAL

10.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?		Yes ()	No (X)
10.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount:			

GENERAL INTERROGATORIES

INVESTMENT

11.1 Were any of the stocks, bonds, or other assets of the reporting entity loaned, placed under option agreement, or otherwise made available for use by another person? (Exclude securities under securities lending agreements.) Yes () No (X)

11.2 If yes, give full and complete information relating thereto:

12 Amount of real estate and mortgages held in other invested assets in Schedule BA: $0

14.1 Does the reporting entity have any investments in parent, subsidiaries and affiliates? Yes () No (X)

14.2 If yes please complete the following:

14.21 Bonds

14.22 Preferred Stock

14.23 Common Stock

14.24 Short-Term Investments

14.25 Mortgage Loans on Real Estate

14.26 All Other

14.27 Total Investment in Parent, Subsidiaries and Affiliates

14.28 Total Investment in Parent included in Lines 14.21 to 14.28 above

15.1 Has the reporting entity entered into any hedging transactions reported on Schedule DB? Yes () No (X)

15.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? Yes () No ()

16 Excluding items in Schedule E - Part 3 - Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 1.III - General Examination Considerations, F. Outsourcing of Critical Functions, Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes (X) No ()

16.1 For all agreement that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

Name of Custodian(s)	Custodian Address
Wells Fargo Bank NA	
US Bank NA	

16.2 For all agreement that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

Name of Custodian(s)	Custodian Address

16.3 Has there been any changes, including name changes, in the custodian(s) identified in 16.1 during the current quarter? Yes () No (X)

16.4 If yes, give full and complete information relating thereto:

16.5 Identify all investment advisors, broker/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

17.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes (X) No ()

17.2 If no, list exceptions:

STATEMENT AS OF MARCH 31, 2012 OF THE MINNESOTA SURETY AND TRUST COMPANY

GENERAL INTERROGATORIES

(Responses to these Interrogatories should be based on changes that have occurred since prior year end unless otherwise note.)

Part 2

PROPERTY & CASUALTY INTERROGATORIES

1. If the reporting entity is a member of a pooling arrangement, did the agreement or the reporting entity's participation chang Yes () No () NA (X)
   If yes, attach an explanation.

2. Has the reporting entity reinsured any risk with any other reporting entity and agreed to release such entity from liability, in whole or in part from any loss that may occur on the risk, or portion thereof, reinsured? Yes ( ) No (X)
   If yes, attach an explanation.

3.1 Have any of the reporting entity's primary reinsurance contracts been canceled? Yes ( ) No (X)
3.2 If yes, give full and complete information thereto

4.1 Are any of the liabilities for unpaid losses and loss adjustment expenses other than certain workers' compensation tabular reserves (see Annual Statement Instructions pertaining to disclosure of discounting for definition of "tabular reserves,") discounted at a rate of interest greater than zero? Yes ( ) No (X)

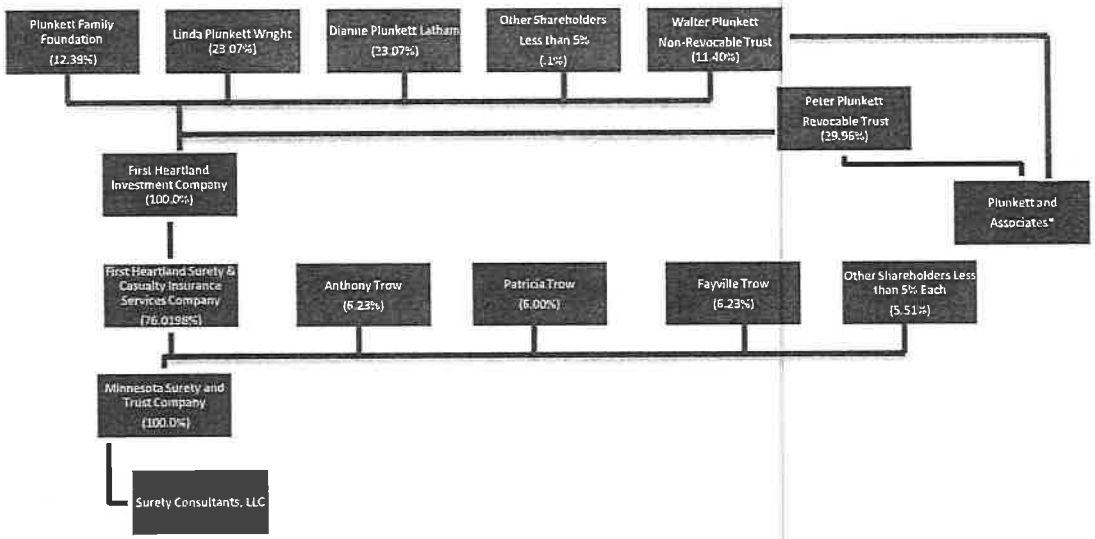
4.2 If yes complete the following schedule:

			Total Discount				Discount taken During Period			
1 Line of Business	2 Maximum Interest	3 Discount Rate	4 Unpaid Losses	5 Unpaid LAE	6 IBNR	7 TOTAL	8 Unpaid Losses	9 Unpaid LAE	10 IBNR	11 TOTAL

5. Operating Percentages
   5.1 A&H loss percent %
   5.2 A&H cost containment percent %
   5.3 A&H expense percent excluding cost containment expense %

6.1 Do you act as a custodian for health savings accounts? Yes ( ) No (X)
6.2 If yes, please provide the amount of custodial funds held as of the reporting date $
6.3 Do you act as an administrator for health savings accounts? Yes ( ) No (X)
6.4 If yes, please provide the balance of the funds administered as of the reporting date. $

Schedule Y



* Plunkett and Associates is owned by Peter Plunkett (75%) and Walter Plunkett (25%)

SCHEDULE F-CEDED REINSURANCE
NONE

SCHEDULE T - EXHIBIT OF PREMIUMS WRITTEN
NONE

PART 1 - LOSS EXPERIENCE
NONE

PART - 2 DIRECT PREMIUMS WRITTEN
NONE

PART - 3 LOSS AND LOSS ADJUSTMENT EXPENSE RESERVCES SCHEDULE
NONE

SCHEULE A - VERIFICATION
NONE

SCHEDULE B - VERIFICATION
NONE

SCHEDULE BA- VERIFICAQTION
NONE

SCHEDULE D - VERIFICATION

Bonds and Stocks	1 Year to Date	2 Prior Year Ended December 31
1. Book/adjusted carrying value of bonds and stocks, December 31 of prior year	1,600,717	1,788,425
2. Cost of bonds and stocks acquired	0	148,423
3. Accrual of discount	535	3,130
4. Unrealized valuation increase (decrease)		
5. Total gain (loss) on disposals		
6. Deduct consideration for bonds and stocks disposed of	251,000	338,724
7. Deduct amortization of premium	30	537
8. Total foreign exchange change in book/adjusted carrying vallue		
9, Deduct current year's other than temporary impairment recognizaed		
10. Book/adjusted carrying value at eand of current period (Lines 1+2+3+4+5-6-7+8-9)	1,350,222	1,600,717
11. Deduct total nonadmitted amounts		
12. Statement value at end of current period (Line 10 minus Line 11)	1,350,222	1,600,717

STATEMENT AS OF MARCH 31, 2012 OF THE MINNESOTA SURETY AND TRUST COMPANY

SCHEDULE D - PART 1B

Showing the Acquisitions, Dispositions and Non-Trading Activity

During the Current Quarter for all Bonds and Preferred Stock by Rating Class

	1 Book/Adjusted Carrying Value Beginning of Current Quarter	2 Acquisitions During Current Quarter	3 Dispositions During Current Quarter	4 Non-Trading Activity During Current Quarter	5 Book/Adjusted Carrying Value End of First Quarter	6 Book/Adjusted Carrying Value End of Second Quarter	7 Book/Adjusted Carrying Value End of Third Quarter	8 Book/Adjusted Carrying Value December 31 Prior Year
BONDS								
1. Class 1 (a)	1,600,717		251,000	505	1,350,222			
2. Class 2 (a)								
3. Class 3 (a)								
4. Class 4 (a)								
5. Class 5 (a)								
6. Class 6 (a)								
7. Total Bonds	1,600,717	0	251,000	505	1,350,222	0	0	0
PREFERRED STOCK								
8. Class 1								
9. Class 2								
10. Class 3								
11. Class 4								
12. Class 5								
13. Class 6								
14. Total Preferred Stock								
15. Total Bonds & Preferred Stock								

STATEMENT AS OF MARCH 31, 2012 OF MINNESOTA SURETY AND TRUST COMPANY

SCHEDULE D - PART 4

Show All Long-Term Bonds and Stock Sold, Redeemed or Otherwise Disposed of by the Company During the Current Quarter

1	2	3	4	5	6	7	8	9	10	Change in Book/Adjusted Carrying Value 11	12	13	14	15	16	17	18	19	20	21	22
CUSIP Identification	Description	Foreign	Disposal Date	Name of Purchaser	Number of Shares of Stock	Consideration	Par Value	Actual Cost	Prior Year Book/Adjusted Carrying Value	Unrealized Valuation Increase/ (Decrease)	Current Year's (Amortization)/ Accretion	Current Year's Other Than Temporary Impairment Recognized	Total Change in B./A.C.V. (11+12-13)	Total Foreign Exchange Change in B./A.C.V.	Book/Adjusted Carrying Value at Disposal Date	Foreign Exchange Gain (Loss) on Disposal	Realized Gain (Loss) on Disposal	Total Gain (Loss) on Disposal	Bond Interest/Stock Dividends Received During the Year	Stated Contractual Maturity Date	NAIC Designation or Market Indicator
912828XB6	US Treasury Note		01/15/2012	US Treasury		125,000	125,000	1,000	125,000						125,000				703	01/15/2012	1
912828XG4	US Treasury Note		03/15/2012	US Treasury		126,000	126,000	1,000	126,000						126,000				838	03/15/2012	1
8380000	Bonds - U.S. Governments					251,000	251,000		251,000						251,000				1,541	xxx	xxx
1100000	Total - bonds - U.S. Special Revenue and Special Assessment and all Non-Guaranteed Obligations of ...																				
1400000	Bonds - Industrial and Miscellaneous																				
8300007	Total - bonds - Part 4.					251,000	251,000	0	251,000	0	0	0	0	0	251,000	0	0	0	1,541	xxx	xxx
8399999	Total - Bonds					251,000	251,000	0	251,000	0	0	0	0	0	251,000	0	0	0	1,541	xxx	xxx
8999999	Total - Preferred Stocks																				
9799999	Total - Common Stocks																				
9899999	Total - Preferred and Common Stocks																				
9999999	Totals					251,000	251,000	0	251,000	0	0	0	0	0	251,000	0	0	0	1,541	xxx	xxx

Schedule DA - ParT 1
NONE

Schedule DA - Verification
NONE

Schedule DB - Part A Verification
NONE
Schedule DB - Part B Verification
NONE

Schedule DB - Part C - Section 1
NONE

Schedule DB - Part C - Section 2
NONE

Schedule DB -Verification
NONE

Schedule E -Verification
NONE

Schedule A -Part 2
NONE

Schedule A - Part 3
NONE

Schedule B -Part 2
NONE

Schedule BA - Part 2
NONE

Schedule BA - Part 3
NONE

Schedule D - Part 3
NONE

Schedule D - Part 4
NONE

Schedule DB - Part A - Section 1
NONE

Schedule DB - Pt. A - Sn. 1 - Footnote (a)
NONE

Schedule DB - Pt. B - Section 1
NONE

Schedule DB - Pt. B - Sn. 1 - Footnotes
NONE

Schedule DB - Part D
NONE

Schedule DL - Part 1
NONE

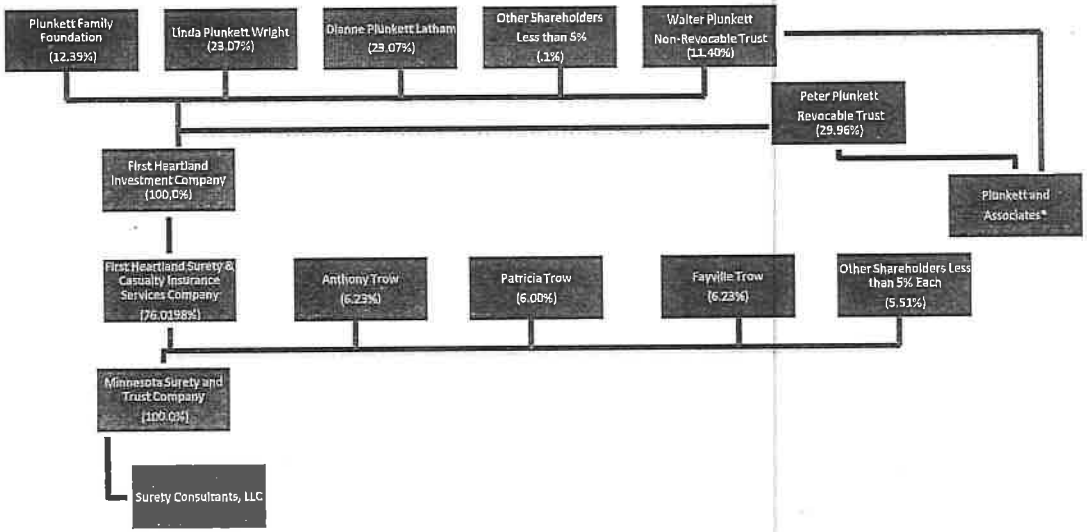
Schedule DL - Part 2
NONE

Schedule E - Part 2
NONE

SCHEDULE E - PART 1- CASH

1	2	3	4	5	Book Balance at End of Each Month During Current Q			9
					6	7	8	
Depository	Location	Rate of Interest	Amount of Interest Received During Current Quarter	Amount of Interest Accrued at Current Statement Date	First Month	Second Month	Third Month	
Sterling State Bank	Austin, Minnesota				92,454	133,636	94,913	xxx
Wells Fargo	Minneapolis, Minnesota				1,000	3,475	129,341	xxx
U.S. Bank	Austin, Minnesota				252,484	252,484	252,484	xxx
Home Federal Saving Bank	Austin, Minnesota				76,554	76,554	76,554	xxx
0199999 Totals - Open Depositories					422,492	466,149	553,292	xxx
0499999 Cash in Company's Office					200	200	200	xxx
0599999 Total					422,692	466,349	553,492	xxx

Schedule Y



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