

INSTRUCTIONS FOR PREPARING TOWNSHIP MUTUAL ANNUAL STATEMENT

Accurate recordkeeping is an integral part of the insurance business. Recordkeeping in financial institutions differs from other industries. The fiduciary (guardian or trustee of others' resources) responsibilities of management are far greater in financial institutions than in any other industry and it is extremely important that the confidence of the public be maintained.

To maintain this confidence it is necessary that management be aware of the condition of the organization at all times. In large part, management gains this awareness through the recordkeeping and accounting functions. These functions generate the information necessary for management to make sound judgments in the operations of the company, i.e., investment management, underwriting and claims management, expansion-growth, merger, reinsurance evaluation, to name but a few of these areas.

Minnesota Statute §67A.241, Subdivision 1, states in pertinent part; "(Recordkeeping) The commissioner may prescribe a basis upon which a township mutual insurance company shall maintain its records which shall reflect the true financial condition of the company." The annual statement requires a company to maintain a double entry bookkeeping system on an incomplete cash-accrual basis. The required general ledger is essentially on a cash basis with the addition of some non-cash entries for premium and assessments receivable, reinsurance recoveries due and payable, and amounts withheld for the account of others. Other items such as investment income due or accrued, losses unpaid, expenses unpaid, unearned premiums, and unpaid taxes are inventoried and entered directly into the annual statement and categorized as non-ledger.

GENERAL INSTRUCTIONS

(Amounts to be rounded to whole dollars)

1. Prepare a Trial Balance of the General Ledger before any entries are made in the annual statement. Be sure the Trial Balance is in balance. Ledger and book values are used interchangeably throughout the annual statement and have the same meaning.
2. Enter the figures from the general ledger trial balance to the appropriate places in Exhibits 1 through 9 with ledger liabilities going directly to Page 3. Complete Exhibit 11 by entering the totals as indicated from the other exhibits. The amounts for the ledger liabilities, such as amounts withheld and funds payable on reinsurance, represent the increase or decrease in the amount for the same account at the end of the prior year.
3. Complete Schedules A through H. The non-ledger items such as income due and accrued should be entered in Exhibits 1 and 9. Totals from these schedules should be compared to the corresponding items in the exhibits.

4. Enter all non-ledger inventoried items into the exhibits and the balance sheet. The non-ledger items include:

Net Losses Unpaid - Exhibit 5, Col. 7, must agree with Page 3, Line 1, Col. 1.

Operating Expenses Unpaid - Exhibit 8, Col. 2, must agree with Page 3, Line 2, Col. 1

Unearned Premiums - Exhibit 3, Col. 8, must agree with Page 3, Line 3, Col. 1.

5. Complete Exhibit 10 and transfer all items in Column 2 to Exhibit 9, Column 3.
6. Complete Exhibit 9 and transfer all items in Column 4 to Page 2, Column 1.
7. Complete Page 4 - Statement of Income. This statement summarizes the exhibits to arrive at Net Income, Line 17. Transfer Net Income to Line 19.
8. Complete Page 3. An example of Item 7 (Amounts withheld for accounts of others) is Federal Income Tax and Social Security Tax that you have withheld from employees, but have not yet paid to the collectors.
9. Line 18 on Page 3 must equal Line 23 on Page 2.

HELPFUL SUGGESTIONS

If they do not balance, here are some helpful steps to take:

1. Check your trial balance figures to be sure your general ledger was in balance.
2. Check that Exhibit 11 has been reconciled and that all ledger items are reported correctly in the exhibits.
3. Check Exhibit 10 to be sure you have reported the non-admitted assets properly, particularly those related to invested asset write-in items.
4. Trace all of the non-ledger items outstanding at the end of the current year and at the end of the prior year into the exhibits and from there into the Statement of Income and Policyholders' Surplus Account (Page 4).
5. Check the calculation of unrealized capital gains and losses on investments as write-in items in Exhibit 10, Column 3. Check that each item was properly brought forward to Exhibit 2, Column 4.
6. Check each item on Pages 2, 3, and 4 to be sure that each item was properly brought forward from each exhibit.
7. Check addition and subtraction in all exhibits.
8. Check the Balance Account (Book Surplus) in the general ledger to ascertain whether any entries have been made directly to this account rather than opening a separate account for one or two items. Such entries might have been missed in completing the various exhibits in the annual statement.

DEFINITION OF TERMS

Admitted Assets:	<p>Cash and other property which is reasonably available to pay claims.</p> <p>Under insurance accounting principles the value of electronic data processing (computer) equipment or operating systems software may be carried as an admitted asset. However, the original cost must have exceeded \$25,000 and the cost must be amortized in full over a period not to exceed ten full calendar years.</p>
Attachment Point:	<p>A term usually used to define the point at which a reinsurer agrees to pay the reinsured a specified amount of reinsurance in a contract that provides protection to the reinsured for all losses during the year after all other reinsurance recoveries.</p>
Excess Reinsurance:	<p>The ceding company (reinsured) pays a negotiated premium. The reinsurer responds only when the loss exceeds a specified retention or attachment point.</p>
Facultative Reinsurance:	<p>Reinsurance of individual risks at the option of the ceding company and of the reinsurer, whether under a contract or by negotiation in respect to each individual risk.</p>
Non-Admitted Assets:	<p>Assets where uncertainty exists with regards to their value, such as accrued interest on bonds in default, the excess of market values over ledger values, furniture, supplies, premiums/assessments over 90 days past due, etc. Electronic data processing application software (with the exception of operating systems software) cannot be carried as an admitted or non-admitted asset, but must be expensed.</p>
Pro Rata (Share) Reinsurance:	<p>The ceding company (reinsured) cedes (pays) a proportionate share of the original premium of a risk for which the reinsurer allows a commission. The reinsurer pays all losses on that risk in the same proportion as the premium was ceded.</p>
Reinsurance:	<p>Acceptance by an insurance company called a reinsurer of all or part of the risk of loss of another insurance company.</p>

Reinsured, Original, Primary, Reassured or Ceding Company:	Any of these terms can be used to identify the company who is purchasing the reinsurance.
Reinsurer:	The company accepting the reinsurance.
Retention:	The amount of insurance which the reinsured (ceding company) keeps net on a single risk/occurrence.
Retrocession:	The method whereby a reinsurer distributes its risk by passing on to another insurer (the retrocessionaire) all or part of the reinsurance accepted by the reinsurer. This may be a pool of insurers which reinsure, among themselves, large risks. The administrator of the pool assigns risk to participants on prearranged percentage or proportion.
Treaty Reinsurance:	Risks are automatically accepted by the reinsurer in accordance with the contract.

INSTRUCTIONS FOR COMPLETING EXHIBITS

Exhibit 1 - Investment Income Earned

This Exhibit is the summary of Schedules B, C, D, E, F, G, and H. Information contained in this Exhibit can be obtained from these schedules. All expenses incurred on the investment income earned should be reported as a deduction on line 9. The amount comes from Exhibit 8, Line 31, Column 4. The purpose of this deduction is to record those expenses that are incurred as a result of owning and managing the investments reported in the schedules.

NOTE: Accumulation of discount and amortization of premiums, and depreciation for buildings (real property) may be made by the straight-line method or by any method recognized by the IRS.

Exhibit 2 - Capital Gains and Losses on Investments

The unrealized capital gains and losses reported for the items in Column 4 are calculated by taking the difference between the non-admitted amounts of invested assets reported in Column 3 of Exhibit 9 at the end of the current year and Column 3 of Exhibit 9 at the end of the prior year. The non-admitted amount of each invested asset reported in Column 3 of Exhibit 9 should also be reported as a write-in item in Exhibit 10.

The total unrealized capital gain or loss is not reported to the Statement of Income on Page 4, Line 8, but rather goes into the Policyholders' Surplus on Page 4, Line 21.

EXAMPLE: If a bond with an amortized value of \$100,000 was in default and had a market value of \$75,000, the \$75,000 would be reported as part of the bond total in Exhibit 9, Column 4 - Net Admitted Assets. The difference of \$25,000 would be reported in Exhibit 9, Column 3 - Assets Not Admitted. If the same bond had been in default at the end of the prior year and had a market value at that time of \$85,000, that amount would have been reported in Column 4 and \$15,000 in Column 3 of Exhibit 9 of the prior year's annual statement. In the current annual statement the difference between the \$15,000 Asset Not Admitted at the end of the prior year and the \$25,000 Asset Not Admitted at the end of the current year would be recorded as an unrealized capital loss of (\$10,000) in Exhibit 2, Line 1, Column 4.

When the amount of Assets Not Admitted for the current year is larger than the amount for the prior year the difference is reported as an unrealized capital (loss) in Exhibit 2. If the amount for the current year is less than for the prior year the difference is reported as an unrealized capital gain in Exhibit 2.

Exhibit 3 – Written and Earned Premiums

Column 2: Direct written premiums must be billed premiums.

EXAMPLE: All policies and increases with a December effective date must be debited to Premiums Receivable (or Agents' Receivable) and credited to Written Premiums in the month of December. Cancellations and decreases must be handled in the same manner. As the premiums are paid, the payment is debited to Cash/Bank and credited to Premiums Receivable (or Agents' Receivable).

Column 3: Report premiums that you have received on reinsurance that your Company has reinsured (retrocession pool). See Exhibit 7, Column 3.

Column 5: If an adjustment (either a return or additional premium) is due on the current year's experience, it must be included in this column. If it is due from the reinsurer, it should be set up as a receivable and reported on Page 2, Line 15 and Exhibit 9, Line 15. If it is due to the reinsurer, it should be set up as a liability and reported on Page 3, Line 5.

Column 7 & 8: Unearned Premiums are calculated on premiums in force. To simplify this calculation, direct written premiums (Col. 2) will be considered as premiums in force. Unearned premiums must also be calculated on reinsurance assumed (Col. 3). If you carry pro rata reinsurance and the reinsurer sets up an unearned premium reserve on those premiums, these premiums can be deducted from your premiums in force before making the unearned premium calculations. The unearned premium reserve shall be calculated on the premiums in force as follows:

- (a) For 6 month policies, or policies on which premiums are paid every 6 months, apply 50% to the premiums in force for the last six months.
- (b) For 12 month policies, or policies on which premiums are paid annually, apply 50% to the premiums in force for the last 12 months. NOTE: If a Company is already using, or prefers to use, the monthly pro rata method in place of the above calculation, this is acceptable. The Company must be consistent in the method used and report the pro-rata method following Exhibit 3.
- (c) Policies that have been billed in advance are considered unearned premiums in their entirety. EXAMPLE: Policies with a January effective date, but billed in December.

Exhibit 4 – Assessment Income and Receivable

This Exhibit includes the assessments received and receivable. Most companies will indicate N/A in this schedule as they rarely assess policyholders. Advance premiums are not assessments and are included in Exhibit 3.

Exhibit 5 – Paid and Incurred Losses

Column 2: Deduct salvage and subrogation when received from paid losses. Do not deduct salvage or subrogation that has not been collected. It cannot be taken into income until it is collected. If it has been set up on the books as a receivable, the receivable must be reported as a non-admitted asset.

Column 3: These are losses that you pay as a reinsurer of another company. (i.e. RAM Retrocession Pool).

Column 4: These are recoveries for which you have actually received payment from the reinsurer.

Column 5: These are recoveries on losses which you have paid but have not received payment from the reinsurer. These should also be reported on Exhibit 9, Line 13.

Column 7 & 8: When calculating losses unpaid, estimate the amount of loss (not including adjusting expense) of each reported loss that is unpaid as of December 31st. Include losses unpaid from a retrocession pool or other reinsurance assumed arrangement. If reinsurance is to be recovered based on your estimate of loss, deduct the reinsurance to be recovered to arrive at the losses unpaid. Take into consideration all losses reported to you up to the time you prepare the Annual Statement that occurred before December 31st. Your Company should estimate an amount for losses unpaid that have occurred, but have not been reported to you (Incurred But Not Reported). This estimate should be based on past experience. NOTE: Unpaid Loss adjustment expenses must also be estimated but they are reported as unpaid operating expenses in Exhibit 8, Line 12.

Exhibit 6 – Reinsurance Ceded

The purpose of this Exhibit is to summarize some of the provisions of your reinsurance contracts and the current years experience so that you can use it in the evaluation of your reinsurance program. Your reinsurer may assist you in preparing this Exhibit.

Column 1: Report the name and NAIC number of your reinsurer - not the broker.

Column 2: Report whether contract is excess or pro rata (i.e.. annual aggregate excess, per occurrence excess, excess per risk, pro rata first surplus, etc.). If facultative reinsurance is used (specific cessions) indicate whether it is excess or pro rata. Columns 3, 4, 5, and 6 do not apply to facultative.

Column 4: This is the amount of insurance your Company retains (net) on a single risk, single occurrence, or annual aggregate. The attachment point is the point at which your reinsurer begins paying the Company.

Column 5: Must be stated in your reinsurance contract - usually 100%, 95%, 90%, etc.

Column 6: Must be stated in your reinsurance contract. If unlimited, so state.

Column 7: In Exhibit 5, Column 4, Reinsurance Recovered on Losses Paid, is reported by Line of Business. The purpose of Exhibit 6 is to report the amounts by reinsurance contract.

Column 8: In Exhibit 5, Column 5, Reinsurance Recoverable on Losses Paid, is reported by Line of Business. The purpose of Exhibit 6 is to report the amounts by reinsurance contract.

Column 9: In Exhibit 3, Column 5, Reinsurance Ceded, is reported by Line of Business. The purpose of Exhibit 6 is to report the amount of premium ceded by reinsurance contract.

Column 10: Report in this column only the amount of unearned premium that the reinsurer is setting up for the Company because of pro rata reinsurance that has been ceded to the reinsurer. This amount should be available from the reinsurer.

Question 1: This is generally only on pro rata/share reinsurance.

Question 2: Reinsurance contracts will usually define "Single Risk" or state that the "Company shall be the judge of a single risk." A Company must determine its largest single risk either on a PML (Possible Maximum Loss) basis or Farmstead Basis. The annual statement footnote defines the largest single risk insured by your Company that may be destroyed in a single occurrence as "any structure or structures and personal property that could be destroyed in a single event or incident by fire, lightning, etc."

Exhibit 7 - Reinsurance Assumed

Members of a retrocession pool should secure the information needed for this Exhibit from the manager of the pool.

Column 2: Report whether contract is excess or pro rata.

Column 3: Report total premiums actually received during the year from the reinsured reported in Column 1.

Column 4: Record any amounts due from reinsured but unpaid as of December 31st.

Column 8: Report losses paid by your Company, as the reinsurer, to the reinsured reported in Column 1.

Column 9: Report losses owed by your Company to the reinsured but unpaid as of December 31st.

Exhibit 8 - Expenses

Column 1: This Column is to be prepared on an as paid (cash) basis.

Column 2: All unpaid amounts at the end of the current year should be determined by expense classification. An easy way of making this determination is to first review all checks issued since the first of the new year and determine if the payment was for services or expenses which had been incurred in the current year. Such amounts should be reported as unpaid at the end of the current year. Next, review all unpaid invoices to determine if the charge was for services or expenses incurred in the current year, and if so, these amounts should also be considered unpaid for purposes of Exhibit 8, Column 2. Finally, consider if invoices have been received for all services or expenses rendered during the current year. Even if an invoice has not been received, an estimate of the cost of the service or expense which was rendered or incurred in the current year should be made and also included in Exhibit 8, Column 2.

Column 3: Amounts to be included in this Column are taken from the prior year's annual statement.

Column 4:

Total Operating Expenses (Line 25), are carried forward to Page 4, Line 5, Column 1.

Total Investment Expenses (Line 31), are carried forward to Exhibit 1, Line 9, Column 5.

OPERATING EXPENSE CLASSIFICATION

Advertising

Cost of the following:

- space in newspapers, periodicals, billboards, programs and other publications
- circulars, pamphlets, calendars and literature issued for advertising or promotional purposes
- radio broadcasts
- signs, frames, medals, etc., for agents
- souvenirs for general distribution
- directory listings
- sponsorship of things and events

Boards, bureaus and associations

Dues, assessments, fees and charges of:

- advisory and service organizations, such as the National Association of Mutual Insurance Companies, MAFMIC, etc
- Minnesota Insolvency Fund
- trade associations
- statistical or underwriting bureaus or agencies

Commissions paid or retained by agents

- all payments of commission on direct writings computed as a percentage of premiums made to licensed agents or other fees paid as compensation
- all commissions received from reinsurers on premiums paid to reinsurers

Contributions

- donations to organized charities
- flowers and memorials

Conventions, meetings, education

- registration fees and expenses incurred by employees and directors for attendance at all trade conventions, education meetings and general meetings for companies, except Board and Board Committee meetings for your own company (see Directors Fees)
- Company Annual Meeting expense (food, hall rental, door prizes, etc.)

Directors fees

- directors fees and other compensation of directors for attendance at the Board or Board Committee meetings
- other fees, compensation and expenses paid to directors or committee members

Employee benefits

A) Pensions and insurance benefits for employees:

- cost of retirement insurance
- payments or appropriations to funds irrevocably devoted to the payment of pensions or other employee benefits
- pensions or other retirement allowances
- accident and health and hospitalization insurance for employees
- group life insurance for employees
- workmen's compensation insurance
- any other insurance for the benefit of employees – exclude cost of insurance on lives of employees when the company is the beneficiary (such cost shall not appear among expenses, but shall be charged to surplus on Page 4, Line 22-24)

B) All Other:

- advertising - help wanted
- character or credit reports on employees or applicants for employment
- gatherings, outings and entertainment for employees
- meals
- donations to or on behalf of employees
- food and catering for employees

Inspection and loss prevention

- survey, credit and commercial reports obtained for underwriting purposes
- appraisals for underwriting purposes
- fire records
- inspection, engineering and accident and loss prevention billed separately
- literature, booklets, placards, signs, etc., issued solely for accident and loss prevention
- maps and corrections used for underwriting purposes

Insurance and bonds

- fidelity or surety bonds covering employees and agents.
- burglary and robbery insurance premiums.
- public liability insurance premiums (excluding owned real estate).
- premiums for insurance on office contents.
- cost of insurance on automobiles.
- all other insurance premiums not specifically provided for in other operating accounts.

Interest expense

- Interest on borrowed money. Do not include interest on mortgage of home office building. This should be included in Exhibit 8, Expenses, Line 26.

Legal and auditing

- legal retainers, fees, and other legal expenses (except on losses and salvage)
- auditing fees of independent auditors for examining records
- cost of services of tax experts
- fees and expenses of other than employees for collection balances
- notary fees
- consultations

Loss adjustment expense

- independent adjusters - fees and expenses of independent adjusters or settling agents
- legal - fees and expenses of lawyers for legal services in the defense, trial or appeal of suits or for other claim services
- bonds - premium costs of bonds
- appeal costs and expenses - appeal bond premiums, charges for printing records, charges for printing briefs, court fees incidental to appeals
- general court costs and fees - entry fees and other court costs and other fees not to be included in losses - NOTE: interest and costs assessed as part of or subsequent to judgment are to be included in losses
- miscellaneous - costs of appraisals, expert examinations, surveys, plans, estimates, photographs, maps, weather reports, detective reports, audits, credit or character reports, watchman, notary fees, certified copies of certificates and legal documents and veterinarian fees

Office equipment and maintenance

- rent, depreciation and repairs of furniture, equipment and office machines
- cost of cleaning, towels, ice, water, light bulbs, and other expenses incidental to office maintenance

Payroll taxes

- old age benefits taxes (social security) - employer's portion
- federal unemployment insurance taxes
- state unemployment insurance taxes

Postage, telephone and exchange

- express and freight
- postage
- cost of telephone, telegrams and cables
- bank charges for collection and exchange
- bank service charges

Printing and stationery

- printing, stationery and office supplies

Rent and lease expense

- rent of home office and branch offices
- rent for space occupied in buildings owned
- interest, taxes, etc., paid in lieu of rent for leased premises
- cost of alterations and repairs of leased premises
- rent of storage, safekeeping and warehouse space

Salaries

- salaries, bonus, overtime, pay while on leave, dismissal allowance, pay while training and other compensation of employees and officers - exclude salaries or wages of janitors, caretakers, and maintenance men paid in connection with owned real estate (include in miscellaneous real estate expenses, Exhibit 8, Line 29)

State taxes, licenses and fees

- Commerce Department licenses and fees.
- state premium tax (or fire marshall tax).
- filing fees.
- personal property tax/sales tax.
- other taxes, licenses or fees.
- payroll taxes (see Item 14).
- real estate taxes (see Exhibit 8).

NOTE: Federal income tax is reported separately on Page 4.

Travel and travel items

- transportation, hotel, meals, postage, telephone, telegraph, express and incidental living expenses of employees in connection with travel in performing duties for the Company
- depreciation, repairs and other operating expenses of automobiles, rental of any automobiles
- fees for automobile license plates
- cost of transportation, hotel, meals and entertainment of a guest of the Company
- cost of favors and presents given to or extended to people other than employees

Utilities

- lights, water, sewer
- heating
- cooling

Depreciation on furniture and fixtures

- depreciation for the year on furniture and fixtures

Interest on real estate encumbrances

- interest on encumbrances or loans secured by home office real property

Depreciation on real estate

- depreciation for the year on the home office property

Property tax on real estate

- taxes and assessments on the home office property

Miscellaneous real estate expenses

- salaries or wages of janitors, caretakers and maintenance men in connection with owned real estate
- cost of insurance in connection with owned real estate
- cost of advertising in connection with owned real estate

Miscellaneous investment expenses

- rent of safe deposit boxes
- custodian and trustee fees
- fees of investment counselors
- other direct investment expenses for which no specific provisions are made elsewhere

Exhibit 9 - Analysis of Assets

The purpose of this Exhibit is to record your ledger assets and make the adjustments necessary to arrive at admitted assets.

Column 1: These figures are entered directly from the trial balance of your ledger or from Schedules A, B, C, D, E, F, G, and H.

Column 2: Investment income due and accrued (Line 11) is usually handled as a non-ledger asset. This figure is the total of Exhibit 1, Column 3.

Column 3: Lines 10 and 12 are accounts over 90 days old. The total is recorded in Exhibit 10, Line 2, Column 2. Line 18 records the same figure as in Exhibit 10, Line 4, Column 2. Record all other non-admitted assets reported in Exhibit 10, Column 2.

Column 4: Admitted Assets equals Column 1 plus Column 2, minus Column 3.

Exhibit 10 - Analysis of Non-Admitted Assets

The purpose of this Exhibit is to eliminate from Admitted Assets certain ledger assets that are considered to be non-admitted assets by the Commissioner because uncertainty exists with regard to the value of the asset as of a given date.

Column 1: Non-admitted assets reported at December 31st of prior year.

Column 2: Non-admitted assets reported at December 31st of current year

- agents' balances or premiums/assessments over 90 days past due is any uncollected amount on your books that was due the Company before October 1st
- furniture, fixtures and automobiles - use net figures after depreciation
- other non-admitted assets:
 - application software
 - computer hardware exceeding \$25,000 initial cost
 - salvage and subrogation receivable

Be sure and write-in the non-admitted amount at December 31st of each invested asset.

Column 3: Enter the total of items in Column 3 relating to invested assets on Line 17. These items will equal the corresponding amounts reported in Exhibit 2, Column 4.

EXAMPLE:

	End of Prior Year	End of Current Year	Change for The Year
Uncollected Premiums	\$400.00	\$ 800.00	-\$400.00
Furniture and Fixtures	300.00	600.00	- 300.00
	\$700.00	\$1,400.00	-\$700.00

NOTE: An increase in non-admitted assets results in a \$700.00 reduction in surplus.

Exhibit 11 – Reconciliation of Ledger Assets

The annual statement contemplates that the accounting be on the modified cash basis. The items in Exhibit 11 are derived, as indicated from the various lines, from the other exhibits. The lines with no exhibit designation represent ledger liabilities or changes in ledger liabilities.

“Amounts withheld for the account of others” consists of ledger liabilities representing payroll deductions for social security and income taxes and various items in suspense. If these ledger liabilities totaled \$30,000 as of December 31st of the current year and \$20,000 as of December 31st of the prior year, the difference of \$10,000 would be reported on Line 5 as an Increase in Ledger Assets. However, if the total at December 31st of the prior year had been \$50,000, the difference of \$20,000 (\$30,000 less \$50,000) would be reported on Line 15 as a Decrease in Ledger Assets.

The same procedure would be followed in reporting the change between the prior and current years for other ledger liabilities.

SPECIFIC INSTRUCTIONS FOR SCHEDULES

Schedule A - Cash Deposited in Checking Accounts

Companies may not increase the cash deposited in banks with deposits which bear deposit dates after December 31st. If the cash was actually in the possession of the Company on December 31st and was not deposited on that date, it should be reported as cash in Company’s office on Page 2, Line 1.

Column 1: Report complete name and address (include zip code) of financial institution.

Column 2: Report actual balance as reported on bank statement as of December 31st.

Schedule B - Cash Deposited at Interest

Investments made in certificates of deposit, savings accounts and time deposits in federally insured depositories should be reported in this schedule. If interest rates fluctuate during the holding period, the rate in Column 2 should indicate "v" or "various". Report complete name and address (include zip code) of financial institution. All certificates that have been redeemed or bank accounts that were closed during the year must be listed. No balance will be reported in Column 8 Book Value at December 31st for the redeemed or closed accounts.

- Regarding Schedules A and B, if the Company exceeds the limits of MN Stat. 67A.231(h), include documentation specifying when and the manner in which statutory compliance was obtained.

Schedule C - Guarantee Fund Certificates

Report all guarantee fund certificates owned by the Company at any time during the year and the balances, if any, on December 31st of the current year.

Schedule D - Part 1 – Bonds

Column 2: Report the CUSIP number for each bond. These are available from the brokers confirmation or the certificate itself.

Column 3: Report the type of bond as follows: C=corporate, CD=broker CD (i.e. tradable CD), G=municipal, city, state or federal bond (either a government obligation or special revenue bond), M=mortgage backed bond.

Column 10: Report the market value of the bonds at December 31st. You should be able to obtain a market value from your broker. If unavailable, use the amortized value.

Column 12: Accrued interest paid for at the time of purchase of the bond should be reported as a reduction of the gross amount of interest received.

Some bonds are purchased at a value different than face value. The original (actual) cost of the bond should be reported in Column 11. Do not include any accrued (purchased) interest. The bond discount or premium should be accumulated or amortized (written off) over the life of the bond, with the par value being reported in Column 9 and the adjusted book value reported in Column 8. The total of Column 8 is the book amortized value of the bonds and must agree with Exhibit 9, Line 5, Column 1. Any increase or decrease in the book value of bonds resulting from the amortization of the bond premium or accumulation of the discount during the year should be reported in Columns 14 and 15. Any net increase or decrease should be carried forward to Exhibit 1, Line 3, Column 2.

Schedule E - Part 1 - Investment Company Shares:

Section 67A.231, Subdivision (e) of the Minnesota Statutes states:

(e) Investments in the obligations stated in paragraphs (a), (b), (c), and (d), may be made either directly or in the form of securities of, or other interest in, an investment company registered under the Federal Investment Company Act of 1940. Investment company shares authorized pursuant to this subdivision shall not exceed 20 percent of the company's surplus. These obligations must be carried at the lower of cost or market on the annual statement filed with the commissioner and adjusted to market on an annual basis.

The statement value (Column 8) must be the lower of market value (Column 7) and actual cost (Column 5).

Schedule F - Part 1 - Common Stock

Section 67A.231, Subdivisions (j) and (k) of the Minnesota Statutes allow:

- (j) Up to \$1,500 in stock of an insurer which issues directors and officers liability insurance to township mutual insurance company directors and officers;
- (k) Up to \$10,000 in shares of stock of the National Association of Mutual Insurance Companies bank, subject to the commissioner's approval.

The statement value (Column 8) must be the lower of market value (Column 7) and actual cost (Column 5).

Schedule G - Mortgage Loans

Any mortgage loans made by the Company on real estate should be recorded in this schedule. This does not include loan encumbrances resulting from purchasing the company home office.

Schedule H - Real Estate

List the real estate and land owned by the Company. In most cases, this will be the home office building; however, it could also include land purchased for the eventual use of a home office.

Column 3: Improvements to Home Office. Follow the IRS guidelines as to what constitutes an "improvement".

Column 8: Record all rental income from tenants of buildings owned by the Company. It is suggested that the Company charge itself rent for the space occupied for the home office. The purpose of this is to properly charge the expense of doing business to operating expenses. The amount of rent charged yourself is to be reported as an expense in Exhibit 8 and Rental Income in this column so that the net effect for federal income tax is zero.