NC DEPARTMENT OF INSURANCE
MIKE CAUSEY • COMMISSIONER

FINANCIAL EXAMINATION
Tel 919.807.6600 Fax 919.807.6638

I, Mike Causey, Commissioner of Insurance in and for the State of North Carolina do hereby certify that: I have caused to County Hall Insurance Company, Inc. A Risk Retention Group, as of December 31, 2018 with the original on file at this Department and find the same to be a correct copy of the whole said original.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed my official seal at the City of Raleigh, this the 29th day June 2020.

Mike Causey
Commissioner of Insurance

Ke Xu, CPA, CFE
Chief Financial Examiner
Financial Examination Division

County Hall Insurance Company, Inc.
A Risk Retention Group

Charlotte, North Carolina

Report on Limited-Scope Examination

As of December 31, 2018

TABLE OF CONTENTS

February 20, 2020

Honorable Mike Causey
Commissioner of Insurance
State of North Carolina
Raleigh, North Carolina

Sir:

Pursuant to your instructions and in accordance with Section ("§") 58-2-131 pursuant to 58-10-430(d) of the General Statutes of North Carolina ("GS"), the North Carolina Department of Insurance ("Department") conducted a limited-scope examination of

County Hall Insurance Company, Inc., A Risk Retention Group

(hereinafter referred to as the "Company"), at its main administrative and statutory home office located at 401 North Tyron Street, Charlotte, North Carolina. The following report on examination is respectfully submitted. The Company is a risk retention group as defined in GS § 58-10-340(37) and GS § 58-22-10(10).

SCOPE OF THE EXAMINATION

This limited-scope examination was performed in accordance with auditing standards established by the Department. The scope of this examination was not comprehensive but included a limited review of specific areas of concern regarding the Company's practices and procedures, its corporate and accounting records, details of certain transactions, and an evaluation of certain assets and liabilities reported as of December 31, 2018 and March 31, 2019. This report is not intended to communicate all matters of importance for an understanding of the Company's financial condition as of December 31, 2018. Therefore, the findings and conclusion contained within this report are based solely on the work performed on the specific areas of concern and are provided in the Summary of Examination Objectives and Findings.

We conducted our examination in accordance with auditing standards established by the Department and the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook. The scope of this examination was limited to the following areas of concern relative to the 2018 Annual Statement and the Quarterly Statement as of March 31, 2019.

1) Uncollected Premiums
2) Deferred Premiums
3) Capital Contributions Receivable
4) Subsequent Collection of Receivables
5) Presentation and Disclosure
6) Aging of Accounts Receivable

7) Cash Receipts and Remittances
8) Contracts and Agreements
9) Related Party Transactions
10) Board Oversight for Related Party Transactions
11) Fidelity Insurance

This may include assessing significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with GS Chapter 58 and evaluating management's compliance with Generally Accepted Accounting Principles. This examination does not attest to the fair presentation of the financial statements included herein.

This examination report includes significant findings of fact and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g. subjective conclusions, proprietary information, etc.) are not included within the examination report but separately communicated to the Company.

The books and records of the Company are audited annually by independent certified public accountants in accordance with GS § 58-10-185(a) pursuant to GS § 58-10-420(e). Johnson Lambert LLP of Burlington, Vermont, the designated independent public accountant of the Company, issued an unmodified opinion for the year ended December 31, 2018.

REPORT ACRONYMS

10-4 Preferred Risk Managers Inc.	"10-4"
Board of Directors	"Board"
Chelsea Financial Group, Inc.	"Chelsea"
County Hall Insurance Company, Inc., A Risk Retention Group	"Company"
County Hall Holdings, LLC	"CH Holdings"
Criterion Claims Solutions of Omaha, Inc.	"Criterion"
CTC Transportation Insurance Services, LLC (California)	"CTC-CA"
CTC Transportation Insurance Services of Hawaii, LLC	"CTC-HI"
General Statutes of North Carolina	"GS"
Generally Accepted Accounting Principles	"GAAP"
Lexicon Insurance Management LLC	"Lexicon"
National Association of Insurance Commissioners	"NAIC"
North Carolina Administrative Code	"NCAC"
North Carolina Department of Insurance	"Department"
Spirit Commercial Auto Risk Retention Group, Inc.	"Spirit"
Ultimate Controlling Person	"UCP"

Summary of Examination Objectives and Findings

Uncollected Premiums

<u>Examination objective</u>: To verify the accuracy, cut-off, and completeness of the uncollected premiums and agents' balances in the course of collection totaling $7,291,146 at December 31, 2018 and $8,369,184 at March 31, 2019.

<u>Finding</u>: The Company reported incorrect amounts for uncollected premiums and agents' balances in the course of collection in both reporting periods due to improperly applying cash received. Based on our review, CTC Transportation Insurance Services, LLC (California) (CTC-CA) should have applied the Company's policyholder remittances to capital contributions receivable first, then to premiums receivable, and lastly to premium taxes receivable. CTC-CA did not apply the amounts collected correctly and as a result, the uncollected premium balance was understated by $580,807 at December 31, 2018 and $460,566 at March 31, 2019. The Company is directed to provide accurate financial reporting to the Department pursuant to GS § 58-2-165(c).

Deferred Premiums

<u>Examination objective</u>: To verify the accuracy, cut-off, and completeness of the deferred premiums, agents' balances and installments booked but deferred and not yet due totaling $13,879,212 as of December 31, 2018 and $16,326,063 as of March 31, 2019.

<u>Findings</u>: Without considering whether the amounts reported as deferred premiums, agents' balances and installments booked but deferred and not yet due actually meet the definition of such, the Company understated the amounts reported as at December 31, 2018 by $2,165,889 and at March 31, 2019 by $2,281,767, due to improperly applying cash received. Based on our review, CTC-CA should have applied the Company's policyholder remittances to capital contributions receivable first, then to premiums receivable, and lastly to premium taxes receivable. CTC-CA did not apply the amounts collected correctly. The Company is directed to provide accurate financial reporting to the Department pursuant to GS § 58-2-165(c).

Based on our review, the premiums reported as deferred premiums should actually be reported as uncollected premiums in the course of collection, as they are immediately due to the Company in full. The Company utilizes CTC-CA to bill annual premiums to its policyholders. The Company's policyholders then have the opportunity to 1) pay the annual premium balance in full or 2) enter into premium finance agreements with unrelated third-party companies or with Chelsea Financial Group, Inc. ("Chelsea"), an affiliate, to finance the annual premiums immediately due to the Company. Under insurance premium finance agreements, as defined in GS § 58-35-1, a service charge is computed on the principal balance of premiums which are advanced or to be advanced on behalf of the Company's policyholders by these premium finance companies. Per our review, it was noted that instead of advancing the full amount of the premium to CTC-CA, as detailed within the premium finance agreements executed between the Company's policyholders and Chelsea, Chelsea is allowed to pay monthly installments on behalf of the policyholders. Based upon the monthly installment payment structure utilized by Chelsea, which is noncompliant with their in-force premium finance agreements, the Company incorrectly accounts for the monthly premium payments due from Chelsea as deferred premium. Chelsea, an affiliate, is the only premium finance company that the Company allows to pay installments for premiums that should be advanced to the

Company in full per the agreed upon terms of the executed premium finance agreements. Based on our review of the Company's aged receivable reports, the amount of annual premiums financed by Chelsea and due in full totaled $17,589,208 at December 31, 2018 and $20,714,406 at March 31, 2019. The Company is directed to ensure its transactions with affiliates are fair and reasonable pursuant to GS § 58-19-30(a)(1). The Company is also directed to provide accurate financial reporting to the Department pursuant to GS § 58-2-165(c).

CAPITAL CONTRIBUTIONS RECEIVABLE

Examination objective: To verify the accuracy, cut-off, and completeness of the capital contributions receivable totaling $5,658,963 at December 31, 2018 and $6,637,928 at March 31, 2019.

Finding: The Company overstated the amount reported as capital contributions receivable at December 31, 2018 by $2,746,696 and $2,742,335 at March 31, 2019 due to the inaccurate calculations made by its affiliate, CTC-CA. Based on our review, CTC-CA should have applied the Company's policyholder remittances to capital contributions receivable first, then to premiums receivable, and lastly to premium taxes receivable. CTC-CA did not apply the amounts collected correctly. The Company subsequently reclassified $2,746,696 from capital receivable to premium receivable as of December 31, 2018 as a result of the annual audit performed by its designated certified public accountant. The Company is directed to provide accurate financial reporting to the Department pursuant to GS § 58-2-165(c).

Examination objective: To determine whether the 25% capital contribution charged to the Company's policyholders is in addition to the annual premium.

Finding: The Company is properly charging an additional 25% of annual premiums to policyholders for capital contributions, of which 21% is allocated to surplus and the remaining 4% is allocated to premium taxes and commission costs.

SUBSEQUENT COLLECTION OF RECEIVABLES

Examination objective: To verify the Company's subsequent collection of uncollected premiums, deferred premiums, and capital contributions receivable at December 31, 2018 and March 31, 2019.

Finding: The Company could not provide sufficiently detailed evidence for the Department to independently verify the subsequent collection of the specific receivable balances reported at the end of December 31, 2018 and March 31, 2019. Based on our review, the Company received a total of $21,416,196 in premium payments from CTC-CA from January 1, 2019 to March 31, 2019, however, the Department could not determine the total premium payments applied to amounts receivable at December 31, 2018 due to the accounting for renewals, cancellations and endorsements. It was also noted that the Company received a total of $24,231,709 in premium payments from CTC-CA from April 1, 2019 to June 30, 2019, however, the Department could not determine the total premium payments applied to amounts receivable at March 31, 2019 for the same reason described above. While the Company contends that premium payments were applied to amounts due by policy number at each reporting period, the amount due on a policy changes as a result of policy renewals, cancellations and endorsements, resulting in a continuous, rolling amount due for each policy, which lacks the specificity to determine appropriate cut-off. The information provided by CTC-CA detailing premium collections lumps all monies collected and applied to amounts due on each policy without regard to the effective dates of the policies, renewals or endorsements. The Company's Cash Applied Reports do not provide identifying factors to accurately determine the specific amounts collected and applied towards capital contributions receivable, premiums receivable, and premium taxes receivable by policy year as the calculation is performed manually. The Company is directed to keep a full and correct record of the business done by them in accordance to GS § 58-2-185 and to establish an allowance for doubtful accounts which includes the Company's estimate for the portion of its receivables deemed to be uncollectible.

PRESENTATION AND DISCLOSURE

Examination objective: To determine proper presentation and disclosure of the uncollected premiums, deferred premiums, and capital contributions receivable balances at December 31, 2018 and March 31, 2019, in accordance with Generally Accepted Accounting Principles ("GAAP"), which provide that capital contribution receivable balances may only be recorded if received prior to the issuance of the statements.

Finding: Based on our review of the issues discovered during our examination and described above regarding the Company's uncollected premiums, deferred premiums, and capital contributions, the Department could not conclude that the Company's reported balances in the financial statements as of December 31, 2018 and March 31, 2019 were properly presented and disclosed in accordance with GAAP. The Company is directed to establish an allowance for doubtful accounts which includes the Company's estimate for the portion of its receivables deemed to be uncollectible and to keep a full and correct record of the business done by them in accordance to GS § 58-2-185 and North Carolina Administrative Code ("NCAC") 11C.0105.

AGING OF ACCOUNTS RECEIVABLE

Examination objective: To verify the accuracy of the Company's aging of accounts receivables as provided in the "Aged Receivable Report" as of December 31, 2018 and March 31, 2019.

Finding: The Department could not conclude that the Company's Aged Receivable Report was accurate at each reporting period as we discovered differences when tracing the amounts due to the Company's policy system. The difference in the amounts due from each policyholder were a result of policy changes made prior to the reporting date as it can take up to 30 days for an endorsement or policy change to be reflected in the policy system. Due to the differences noted, the Department was unable to determine the accurate amounts due from each policyholder as of the dates specified. The Company is directed to keep a full and correct record of the business done by them in accordance to GS § 58-2-185 and NCAC 11C.0105.

Examination objective: To determine the Company's compliance at December 31, 2018 and March 31, 2019 with the 90-day Outstanding Clause of the program management agreement with its affiliate, CTC Transportation Insurance Services of Hawaii, LLC ("CTC-HI") which provides that all balances greater than 90 days past due are to be paid by CTC-HI, regardless of collection.

Finding: CTC-HI does not provide any services to the Company under their program management agreement with the Company. CTC-HI and CTC-CA have a cost sharing agreement, whereby CTC-CA provides services to the Company on behalf of CTC-HI. CTC-HI is a shell company that pays CTC-CA a percentage of direct written premiums for the services CTC-CA provides to the Company. The Company is not in compliance with the provisions of its agreement as no funds are paid to the Company until after the funds have been collected by the program manager, including balances greater than 90 days past due. The Company's Aged Receivables Report indicated that receivables over 90 days past due totaled $2,976,362 at December 31, 2018 and $3,612,239 at March 31, 2019; however, the aging report was determined to be inaccurate and the actual amounts owed by CTC-CA could differ from the Company's report. The Company is directed to ensure compliance with the terms of its executed agreement and to keep a full and correct record of the business done by them in accordance to GS § 58-2-185 and NCAC 11C.0105.

CASH RECEIPTS AND REMITTANCES

<u>Examination objective</u>: To verify that Thomas Mulligan, the Company's Ultimate Controlling Person ("UCP"), has no access to funds that ultimately belong to the Company, including confirming that the UCP retained no signatory authority over the bank accounts held by entities within the holding company system.

<u>Finding:</u> Thomas Mulligan, the Company's former Chief Executive Officer and the Company's current UCP, resigned from all management positions related to all companies in the holding company system in March 2019; however, the Department verified that Thomas Mulligan had signatory authority and access to Company funds held in eleven (11) bank accounts as of November 19, 2019. It was also noted that Brenda Guffey, a former employee who was terminated in March 2019, had signatory authority and access to Company funds held in five (5) bank accounts as of November 19, 2019. Based on our review, there were no changes to the list of authorized bank signatures from March 2019 to November 2019. Only one authorized signature is required on Company checks and there is no dollar limitation. The Department recommends the Company update its list of authorized bank signatures for all Company bank accounts and require dual signatures on Company checks. The Company is directed to provide an updated list of authorized signatures for all Company bank accounts confirming the former employees have been removed as authorized signers on the Company's bank accounts and to provide documentation which identifies the individuals who initiated and authorized all wire transfers over $100,000 between March 2019 and the date of this Report on Examination.

<u>Examination objective</u>: To determine whether the Company has adequate controls over cash receipts and remittances and that all funds are appropriately segregated and paid to the Company in a timely manner.

<u>Finding:</u> The Company does not appear to have adequate controls over cash receipts and remittances as the Company could not provide any evidence for the Department to confirm the identity of the individuals who initiate and/or approve the Company's wire transfers to CTC-CA for the payment of operating expenses, related party fees, claims, or any other expenses. The Company is directed to keep a full and correct record of the business done by them in accordance to GS § 58-2-185 and NCAC 11C.0105.

The Company does not receive cash and remittances collected on its behalf by its affiliate, CTC-CA in a timely manner, which is no later than 7 days based on CTC-CA's internal policies and procedures. CTC-CA collects all remittances for premiums and other receivable balances due to the Company and deposits the funds into its general trust account. In the general trust account, the Company's funds are comingled with cash and remittances collected by CTC-CA for several other insurance carriers before being transferred to the Company's bank accounts. Based on our review, the number of days between the date that payments are posted to CTC-CA's general trust account and the date that the funds are deposited into the Company's bank account ranged from between 7 days to 410 days, with an average lag time of 30 days. The Company is directed to ensure that the funds collected on its behalf by CTC-CA are deposited into its bank accounts within 7 days as specified in CTC-CA's internal policies and procedures. The Company is also directed to enter into a program management agreement with CTC-CA based on the services being provided to the Company.

CONTRACTS AND AGREEMENTS

Examination objective: To determine whether the Company entered into any contracts without prior review and approval from the Department.

Finding: The Company does not have an executed agreement for the services being provided by its affiliate, CTC-CA, in accordance to GS 58-19-30(b)(4). CTC-CA provides all personnel and pays all operating expenses for all program management, managing general agent services, brokerage, risk management and loss services provided for all insurance programs administered within the holding company system. CTC-CA is compensated based on a percentage of the Company's direct written premiums for managing general agent services, underwriting, and brokerage services related to auto physical damage and cargo coverages. Pursuant to GS 58-19-30(b), the Company is directed to submit an agreement to the Department for review and approval for the services being provided by CTC-CA.

RELATED PARTY TRANSACTIONS

Examination objective: To verify the accuracy of the Company's recorded related party transactions and to determine whether the fees paid to affiliates are in accordance with executed agreements as of December 31, 2018 and March 31, 2019.

Finding: Based on our review, the Company's recorded related party transactions were accurate, and the fees paid to affiliates were consistent with the provisions specified in the Company's executed agreements.

The Company had the following related party agreements in place as of December 31, 2018:

The Company has a program management agreement with an affiliate, CTC-HI, effective January 1, 2017, whereby CTC-HI is responsible for the marketing and underwriting of polices, endorsements, notices of cancellation, notices of nonrenewal, coding, premium collection and all related activities incidental to the issuance of policies. CTC-HI is compensated based on 23.5% of direct written premiums for program management services. Under this agreement, the Company paid fees totaling $6,342,801 in 2018. CTC HI's daily affairs are controlled and managed by Scott McCrae, Chief Executive Officer of CTC-CA, and Matthew Simon, Chief Operating Officer of CTC-CA, another Company affiliate. CTC-HI and CTC-CA have a cost sharing agreement, whereby CTC-CA performs all of the aforementioned services for the Company. CTC-HI is a shell company that pays its brokers 12.5 to 13% of its commission and the remaining 10% is remitted to CTC-CA for the services it provides to the Company under the cost sharing agreement. Thomas Mulligan, the Company's UCP, owns 100% of CTC-HI and CTC-CA.

The Company has a Claims Administration Agreement with an affiliate, Criterion Claims Solutions of Omaha, Inc. ("Criterion"), effective September 1, 2016, whereby Criterion provides claims management services to and on behalf of the Company which include; recommending loss reserves on claims and settling claims and issuing loss and expense payments. Criterion is compensated 3.5% of direct written premium for claims administrative services. Under this agreement the Company has paid fees totaling $944,672 in 2018. Thomas Mulligan, the Company's UCP, owns 100% of Criterion.

The Company has a management agreement with an affiliate, Lexicon Insurance Management LLC ("Lexicon"), effective May 1, 2017, whereby Lexicon provides the following services: 1) serves as a representative for the Company in North Carolina; 2) acts as an officer of the Company to facilitate regulatory and financial filings; 3) provides management, accounting and financial information to the Company's management and Board; and 4) coordinates or provides services related to investment accounting, insurance, and reinsurance. The Company pays Lexicon an annual fee of $250,000 plus 2% of the annual fee for administrative overhead expenses and reimburses Lexicon for software fees and income taxes paid on behalf of the Company. Under this agreement, the Company paid fees totaling $259,787 in 2018. Thomas Mulligan, the Company's UCP, owns 50% of Lexicon.

The Company has a service agreement with an affiliate, 10-4 Preferred Risk Managers, Inc. ("10-4"), effective October 16, 2018, whereby 10-4 provides risk management and loss control services in accordance with CTC-CA's policies for underwriting, loss advisory, and coverage verification related to the Company's established claims. The Company is charged $125 per claim for the services provided by 10-4 under this agreement. Thomas Mulligan, the Company's UCP, owns 100% of 10-4.

BOARD OVERSIGHT FOR RELATED PARTY TRANSACTIONS

Examination objectives: To determine the extent of the Company's internal controls regarding the Board of Directors ("Board") oversight for affiliated transactions and ongoing operations of the Company.

Finding: We reviewed the minutes of the meetings of the Board for the period under examination. Based on our review, it appears the Board provides sufficient oversight for the general operations of the Company and a review of affiliated agreements annually; however, the Board minutes did not contain documentation of any review, discussion or approval of the specific related party transactions relating to the approved affiliated agreements during the year, to ensure the Company and the related parties were adhering to the agreed upon terms. The Company is directed to ensure its Board reviews and approves affiliated transactions to ensure the amounts are correct, fair, and paid in accordance to the respective contracts, in accordance to GS 58-22-15(3)(d).

FIDELITY INSURANCE

Examination objective: To determine whether the Company is covered by fidelity insurance at the recommended minimum suggested by the NAIC.

Finding: The Company's affiliated service providers have fidelity bond coverage totaling $2.5 million, in aggregate, and errors and omissions coverage totaling $11 million, in aggregate. The Department noted that the Company is not listed as a beneficiary on any of the policies. The NAIC Financial Condition Examiners Handbook's recommended minimum range for the Company's fidelity bond coverage is $500,000 to $600,000. We recommend that the Company's name be added to the fidelity and errors and omissions policies covering its affiliated service providers.

OTHER REGULATORY CONCERNS

The Company executed a Casualty Excess of Loss reinsurance agreement effective June 15, 2019 with various Lloyd's of London Syndicates, without obtaining the Department's prior approval. The Company disclosed that approximately $1.1 million of new business had been written under this agreement, as of the disclosure date to the Department, July 5, 2019, and was subsequently notified of its violation of GS § 58-

22-15(b) and GS § 58-10-395(a). The Company is directed to comply with GS § 58-22-15(b) and GS § 58-10-395(a).

As of December 31, 2018, the Company violated its licensure stipulation with the Department, requiring a maximum rolling annual net premiums written to surplus ratio of 2:1. The Company reported a ratio of 2.56:1 As a result of this violation, the Company was required to file an Action Plan with the Department, which was not accepted due to overly optimistic projections which did not account for the Company's current operational losses. On March 31, 2019, the Company's rolling annual net premiums written to surplus calculation was 2.58:1. The Company is directed to adhere to its licensure stipulation and maintain a rolling annual net premiums written to surplus ratio of 2:1.

The Company entered into an affiliated service agreement with 10-4, effective October 16, 2018, without providing prior notification to the Department and without obtaining prior approval in violation of GS § 58-19-30(b). The Company is directed to comply with GS § 58-19-30(b).

COMPANY HISTORY

The Company became a licensed risk retention group as defined in GS § 58-10-340(37) on April 22, 2016 in the State of Hawaii. The Company began writing business on October 1, 2016 and re-domesticated to North Carolina, effective December 31, 2016. The Company writes commercial auto liability insurance coverage for its members, is licensed only in North Carolina and is currently registered in 45 states. The Company has no employees and is its daily operations are managed by a captive manager and various affiliated service providers.

The Company has reported significant growth in direct written premiums since its inception increasing from approximately $15.4 million in 2017 to approximately $50.7 million in 2018.

CAPITAL STOCK

As of December 31, 2018, the Company's capitalization consisted of the following:

Description	Value
Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	$1,000,000
Par value per share	$1.00

No additional shares were issued during the period under examination. As of December 31, 2018, all outstanding shares are owned by County Hall Holdings, LLC ("CH Holdings"), which is indirectly wholly owned by Thomas Mulligan, the Company's UCP. CH Holdings has two classes of stock: Class A (voting) and Class B (non-voting). CH Holdings issued 1,000,000 Class A shares to an insured, Whitehall, Swan & Adams Freight Forwarding LLC, giving it 100% of the voting rights, dividend rights, and rights upon dissolution. Whitehall, Swan & Adams Freight Forwarding LLC is also 100% owned by Thomas Mulligans, the Company's UCP. To purchase insurance from the Company, independent trucking companies are required to purchase one share of CH Holdings' Class B stock. Class B shareholders are also required to make annual capital contributions to the CH Holdings amounting to 25% of the insurance premiums for the year ended December 31, 2018.

The Company received additional paid in surplus of $12,665,790 and $4,751,154 from CH Holdings in 2018 and March 31, 2019, respectively. At December 31, 2018, the Company reported $17,443,933 in gross paid-in and contributed surplus and $(1,792,643) in unassigned funds.

DIVIDENDS TO STOCKHOLDER

The Company paid no dividends in 2018 and 2019. Dividends on common stock are paid as declared by the Board of the Company. Under the insurance regulations of North Carolina, except as provided by GS § 58-19-30, the maximum amount of dividends which the Company may pay to shareholders is limited to the greater of 10% of the most recent year-end policyholders' surplus or net income (excluding realized capital gains) earned for that same year-end.

MANAGEMENT AND CONTROL

BOARD OF DIRECTORS

The business of the Company is operated by an affiliated captive manager, Lexicon, and subject to review by the Board. The bylaws specify that the number of Directors shall be not less than one. Directors are elected annually, by the stockholders at each annual meeting, and each director elected shall hold office until a successor is appointed and qualified.

The following individuals served as directors as of December 31, 2018:

Name	Location	Principal Occupation
John Maloney	Brightwaters, NY	Certified Public Accountant
Scott McCrae	Lincoln, CA	Company President and Chief Executive Officer of CTC-CA
Bradford Smith	Neosho, MO	Physical Education Instructor
Odes Stroupe Jr	Charlotte, NC	Attorney

The Board has not designated any committees.

OFFICERS

The bylaws provide that the Board will elect the officers of the Company. The officers of the Company consist of a president, a secretary, a treasurer and any other officers deemed necessary by the Board. All officers shall hold office until the next annual meeting and thereafter until a successor shall have been duly appointed, or until the officer’s death, removal, or resignation. An individual may simultaneously hold more than one office.

The following individuals served as officers of the Company as of December 31, 2018:

Name	Title
Scott McCrae	President
Daniel George	Secretary
John Maloney	Treasurer

CORPORATE ORGANIZATION

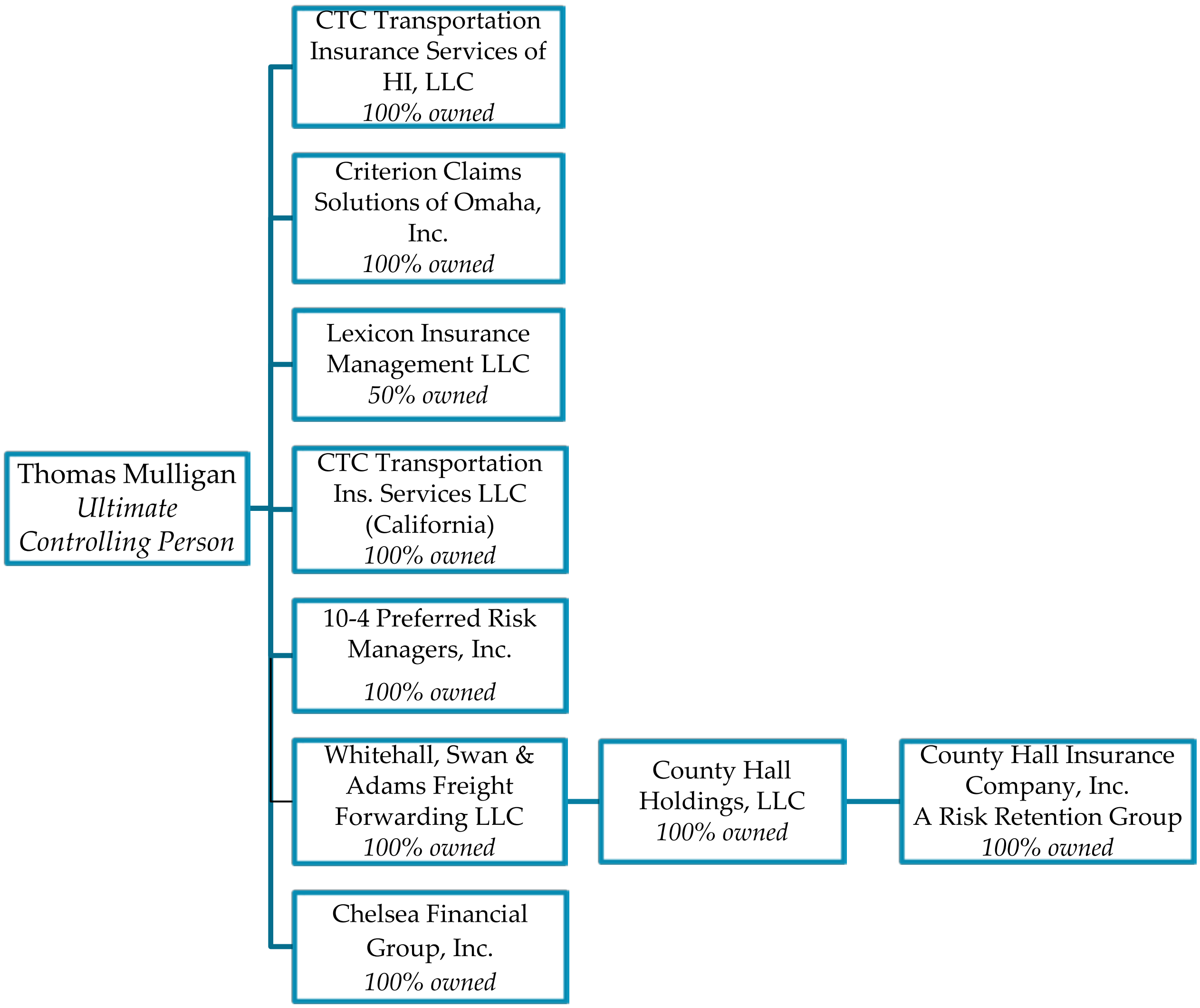
The Company is part of an insurance holding company system as defined in GS § 58-19.

The Company is ultimately owned by Thomas Mulligan, who also owns 50% of Lexicon, the Company's captive manager, and 100% of all the Company's affiliated service providers.

Thomas Mulligan was also the owner of Spirit Commercial Auto Risk Retention Group, Inc. ("Spirit") and Federal Motor Carriers Risk Retention Group, Inc., which were placed in receivership for liquidation. As of the date of this Report on Examination, CTC-CA the Company's program manager, owes Spirit approximately $30 million, as cited within Spirit's Liquidation Order filed by the Nevada Department of Insurance on September 16, 2019.

ORGANIZATION CHART

The Company's 2018 Annual Statement Schedule Y contains a complete organization chart. The following is a summarized organizational chart of the companies within the holding company group as of December 31, 2018:



SUBSEQUENT EVENTS

Effective May 1, 2019, the capital contribution percentage for Class B shareholders increased from 25% to 31.5% of annual premiums.

The Department was notified on August 8, 2019 that John Maloney had resigned from his position as Treasurer of the Company and member of the Board.

Effective January 28, 2020, Scott McCrae resigned from his position as President of the Company and member of Board. The Company has elected Gerard C. Vince, II as a member of the Board and Interim President, effective February 16, 2020.

On February 6, 2020, Trans Star Holdings Group, LLC, which is ultimately controlled by Mr. Gerard C. Vince, II filed a *Form A – Statement Regarding the Acquisition of Control Of or Merger with a Domestic Insurer* with the Department, to purchase Thomas Mulligan's indirect 100% ownership of the Company and other affiliated service providers currently utilized by the Company. The filing is currently under review by the Department.

APPENDIX A - FINANCIAL STATEMENTS

The following financial statements are based on the GAAP financial statements filed by the Company with the Department for the period ending December 31, 2018 and 2017. The financial statements and supporting schedules as of December 31, 2017, are unexamined and are presented for information purposes only.

County Hall Insurance Company, Inc.
A Risk Retention Group
Statement of Assets

	December 31,	
	2018	2017 *(unexamined)*
Bonds	**$ 5,740,523**	-
Common stocks	**635,708**	-
Cash and short-term investments	**26,533,656**	14,454,308
Total cash and invested assets	**32,909,887**	14,454,308
Investment income due and accrued	**35,581**	2,326
Premiums and agents' balances in course of collection	**7,291,146**	1,140,097
Premiums and agents' balances booked but deferred and not yet due	**13,879,212**	1,050,875
Federal income tax recoverable	**60,000**	-
Net deferred tax asset	**474,794**	-
Furniture and equipment	**41,667**	**-**
Deferred policy acquisition costs	**7,596,569**	2,201,654
Capital contribution receivable	**5,658,963**	-
Prepaid expenses	**11,828**	8,009
Claims escrow	-	16,581
Total admitted assets	**$ 67,959,647**	$18,873,850

County Hall Insurance Company, Inc.
A Risk Retention Group
Statement of Liabilities, Capital and Surplus

	December 31,	
	2018	2017 *(unexamined)*
Losses	**$ 18,293,448**	4,636,420
Loss adjustment expenses	**104,350**	11,982
Commissions payable, contingent commissions and other similar charges	**642,422**	224,868
Other expenses	**(905,592)**	(220,504)
Taxes, licenses and fees	**1,611,431**	431,308
Net deferred tax liability	**-**	28,343
Unearned premiums	**28,353,298**	7,924,286
Advance premium	**-**	10,380
Ceded reinsurance premiums payable	**3,209,000**	(58,000)
Total Liabilities	**51,308,357**	12,989,083
Common capital stock	**1,000,000**	1,000,000
Gross paid in and contributed surplus	**17,443,933**	4,778,143
Unassigned funds	**(1,792,643)**	106,624
Surplus as regards policyholders	**16,651,290**	5,884,767
Total Liabilities, Capital and Surplus	**$ 67,959,647**	18,873,850

County Hall Insurance Company, Inc.
A Risk Retention Group
Statement of Income

	Year Ended December 31,	
	2018	2017 *(unexamined)*
Underwriting Income:		
Premiums earned	**$ 22,186,294**	8,336,129
Underwriting Deductions:		
Losses incurred	**16,534,425**	4,939,858
Loss adjustment expenses incurred	**625,924**	49,336
Other underwriting expenses incurred	**7,489,426**	3,183,712
Total underwriting deductions	**24,649,775**	8,172,906
Net underwriting (loss) gain	**(2,463,481)**	163,223
Investment Income:		
Net investment income earned	**209,609**	7,832
Net realized capital losses	**(82)**	(1,239)
Net investment gains	**209,527**	6,593
Net (loss) income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	**(2,253,954)**	169,816
Federal and foreign income taxes incurred	**(472,003)**	40,192
Net (Loss) Income	**$(1,781,951)**	129,624

County Hall Insurance Company, Inc.
A Risk Retention Group
Statement of Capital and Surplus

	December 31,	
	2018	2017 *(unexamined)*
Surplus as regards policyholders, beginning of year	**$ 5,884,767**	1,937,812
Net (Loss) Income	**(1,781,951)**	129,624
Change in net unrealized capital losses	**(117,316)**	(980)
Surplus adjustments to paid-in capital	**12,665,790**	3,818,311
Change in surplus as regards policyholders for the year	**10,766,523**	3,946,955
Surplus as regards policyholders, end of year	**$ 16,651,290**	5,884,767

County Hall Insurance Company, Inc.
A Risk Retention Group
Statement of Cash Flow

	Year Ended December 31,	
	2018	2017 *(unexamined)*
Cash from Operations		
Premiums collected net of reinsurance	**$ 26,892,540**	13,838,980
Net investment income	**176,354**	3,016
Total	**27,068,894**	13,841,996
Benefit and loss related payments	**2,877,397**	500,279
Commissions, expenses paid and aggregate write-ins	**7,110,393**	3,498,078
Federal and foreign income taxes paid	**60,000**	-
Total	**10,047,790**	3,998,357
Net cash from operations	**17,021,104**	9,843,639
Cash from Investments		
Proceeds from investments sold, matured, or repaid	**135,479**	-
Miscellaneous proceeds	**149,409**	-
Total investment proceeds	**284,888**	-
Cost of investments acquired	**6,656,126**	-
Total investments acquired	**6,656,126**	-
Net cash used by investments	**(6,371,238)**	-
Cash From Financing and Miscellaneous Sources		
Cash from capital and paid-in surplus, less treasury stock	**12,665,790**	3,818,311
Other cash (applied)	**(11,236,308)**	(1,171,591)
Net cash from financing and miscellaneous sources	**1,429,482**	2,646,720
Reconciliation of Cash and Short-Term Investment		
Net change in cash and short-term investments	**12,079,348**	12,490,359
Cash and short-term investments, beginning of year	**14,454,308**	1,963,949
Cash and short-term investments, end of year	**$ 26,533,656**	14,454,308

County Hall Insurance Company, Inc.
A Risk Retention Group
DISTRIBUTION OF REPORT ON EXAMINATION
December 31, 2018

Gerard C. Vince, Interim President
County Hall Insurance Company, Inc., A Risk Retention Group
10130 Perimeter Parkway, Suite 200
Charlotte, North Carolina 28216

CONCLUSION

We conclude that the Company complies with the minimum capital and surplus requirements of GS § 58-10-370 for the kinds of insurance that the Company has been authorized to write, which is $1,000,000.

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

Respectfully submitted,

Ke Xu, CPA, CFE
Chief Financial Examiner
North Carolina Department of Insurance

February 20, 2020

STATE OF NORTH CAROLINA

COUNTY OF WAKE

Kim Stevenson, CFE, Supervising Examiner, North Carolina Department of Insurance, being first, duly sworn, deposes and says that this report on examination, subscribed by her, is true and correct to the best of her knowledge and belief.

Signature: ______________________ Date: 2/20/2020
Kim Stevenson

Sworn and subscribed before me this 20th day of February, 2020.

Notary Public Signature: Grant James Myers Notary Public Seal:

GRANT JAMES MYERS
My Commission Expires
NOTARY PUBLIC
August 18, 2024
WAKE COUNTY, NC

County Hall Insurance Company, Inc., a Risk Retention Group
611 West Fort Scott Street
Butler, MO 64730
Phone: (760) 487-7399
Fax: (760) 487-7401

June 15, 2020

Ms. Ke Xu, CPA, CFE
Chief Financial Examiner
Financial Examination Division
North Carolina Department of insurance
1201 Mail Service Center
Raleigh, N.C. 27699-1201

RE: Report on Examination
County Hall Insurance Company, a Risk Retention Group (NAIC 15947)

Dear Ms. Xu:

We appreciate the opportunity to respond to the Report on Examination of County Hall Insurance Company, Risk Retention Group for the period of December 31, 2018. Pursuant to the requirements of the North Carolina Regulations, an electronic and paper copy of this letter has been provided to your office.

County Hall Insurance Company, a Risk Retention Group is committed to full collection of premiums due to it so that any deference is eliminated or minimized. To that end, as you may be aware, County Hall has severed and eliminated any further writings through Chelsea Premium Finance Company. For previously written policies, the North Carolina Insurance Department has authorized the installment billing plan to move forward and that all policies previously indicated as Chelsea financed where the policy premium has not been fully collected shall be offered to be incorporated into the approved installment billing structure by County Hall. This alternative benefits the insured members greatly as they are not exposed to increased charges without having their policies actually funded to County Hall. County Hall takes no position as to the contract between the insureds and Chelsea, however, County Hall working with our home state Regulator seeks to protect its members and the financial condition of the company by elimination of such issues. We expect that in short order the full number of policies shall be incorporated into the submitted and recently approved by the North Carolina Department of Insurance installment billing plan, within some thirty to forty-five days from the date hereof. To ensure these results take place, we are reporting our progress weekly in this regard relative to implementation and later processing to the North Carolina Department of Insurance.

We appreciate the input of the North Carolina Department of Insurance and the continued interest in County Hall. We welcomed the opportunity to work with your staff during the course of this examination and if there is any other information you require, please do not hesitate to contact me.

Sincerely,

GERARD C. VINCE, II

President of County Hall Insurance, a Risk Retention Group