

**STATE OF NORTH DAKOTA  
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION**

**OF**

**HARTLAND MUTUAL INSURANCE COMPANY  
MINOT, NORTH DAKOTA**

**AS OF  
DECEMBER 31, 2007**

STATE OF NORTH DAKOTA  
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

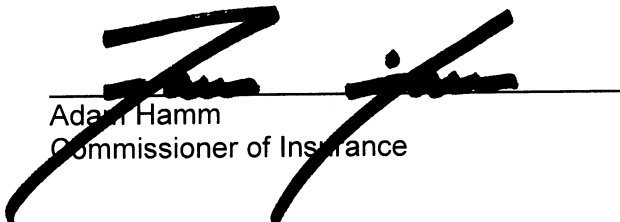
**Hartland Mutual Insurance Company**

**Minot, North Dakota**

as of December 31, 2007, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto  
set my hand and affixed my official seal at my  
office in the City of Bismarck, this 24 day of  
May, 2011.



  
\_\_\_\_\_  
Adam Hamm  
Commissioner of Insurance

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Minot, North Dakota  
December 1, 2009

Honorable Alfred W. Gross  
Chair, Financial Condition Committee  
Subcommittee, NAIC  
State Corporation Commission  
Bureau of Insurance  
P.O. Box 1157  
Richmond, VA 23218

Honorable Merle D. Scheiber  
Secretary, Midwestern Zone  
South Dakota Division of Insurance  
Department of Revenue and Regulation  
445 East Capitol Avenue  
Pierre, SD 57501-3185

Honorable Adam Hamm  
Commissioner of Insurance  
North Dakota Insurance Department  
600 East Boulevard  
Bismarck, ND 58505-0320

Commissioners:

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

**Hartland Mutual Insurance Company  
Minot, North Dakota**

as of December 31, 2007.

Hartland Mutual Insurance Company, Minot, North Dakota, hereinafter referred to as the Company, was last examined as of December 31, 1997, by representatives of the State of North Dakota.

**SCOPE OF EXAMINATION**

This examination was a financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2003, to and including December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Work papers provided by the Company's independent auditor, Brady, Martz & Associates, P.C. were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

This examination was conducted by Examiners from the North Dakota Insurance Department, representing the Midwestern Zone.

## STATUS OF PRIOR EXAM FINDINGS

All recommendations made in the prior report of statutory examination have been adequately addressed by the Company except as follows:

<u>Recommendation</u>	<u>Response</u>
It is recommended that the Company require its officers, directors and responsible employees to complete a conflict of interest statement on an annual basis.	The Company had the members of its Board of Directors complete a conflict of interest statement in 2004 only. <b>It is again recommended that the Company require its officers and directors to complete a conflict of interest statement annually.</b>

## SUBSEQUENT EVENTS

On December 23, 2008, the Company incorporated A&M Insurance Agency, Inc. and contributed \$10,000 in working capital. On December 30, 2008, A&M Insurance Agency, Inc. purchased the assets of A&M Insurance, Inc. for \$518,000. \$10,000 of the purchase price was attributable to the office furniture and fixtures. The remaining \$508,000 was ascribed to goodwill. Under SSAP 68, paragraph 7, goodwill is limited to 10% of the Company's capital and surplus adjusted to exclude any net positive goodwill, EDP equipment and operating system software, and net deferred tax assets. Under SSAP 68, goodwill resulting from the purchase shall be amortized to unrealized capital gains and losses on investments over the period in which the Company benefits economically, not to exceed 10 years. The Department was properly notified of the acquisition as required under N.D.C.C. § 26.1-10.1-02(1).

## HISTORY

### General

The Company was originally incorporated on July 1, 1905, as a county mutual insurance company titled The Grant Farmers Mutual Fire and Lightning Insurance Company of Ward County. In 1987 the Company and Kenmare Farmers Mutual Insurance Company merged and the name of Company was changed to Grant-Kenmare Mutual Insurance Company.

At the annual meeting of the membership held on June 15, 1993, the name of the Company was changed to Grant Mutual Insurance Company.

Effective January 30, 1998, the Company and Scandinavian Farmers Mutual Insurance Company of Bottineau, North Dakota, combined to form a new company named Hartland Mutual Insurance Company.

Effective March 29, 1999, James River Mutual Insurance Company, Jamestown, North Dakota, merged into the Company.

Effective March 29, 2001, the Company reorganized under N.D.C.C. Chapter 26.1-12 as an incorporated mutual insurance company. The Company's term of existence is perpetual and shall be for up to a period of 30 years.

### **Board of Directors**

The Bylaws provide that the number of directors shall consist of a minimum of seven directors and no more than nine directors. The Board of Directors are elected at the annual meeting of the Company which is held on the third Tuesday of June of each year. The Board of Directors shall meet immediately following each annual meeting to reorganize the Board and to elect officers for the ensuing year. The Board of Directors shall also meet at least quarterly for regular meetings.

The minutes show that the annual meetings of the Board were held as required by the Bylaws. In addition to the annual meetings, the Board held five additional meetings in each year during the examination period.

Directors duly elected and serving the Company at December 31, 2007, were as follows:

<b><u>Name and Residence</u></b>	<b><u>Term Expires</u></b>	<b><u>Occupation</u></b>
Richard Ruud Parshall, North Dakota	2009	Farmer
William Riebe Pingree, North Dakota	2008	Retired Farmer
Dennis Burud Bottineau, North Dakota	2009	Retired Banker
Wesley Hagen Berthold, North Dakota	2009	Retired Farmer
Sherry Myers Voltaire, North Dakota	2010	Farm Worker
Tom Phillion Minot, North Dakota	2010	CPA
Ryan Taylor Towner, North Dakota	2010	Legislator

## Officers

According to the Bylaws, the officers shall consist of a Chairman of the Board, a Vice Chairman, a President (who is also the Chief Executive Officer of the company), a Secretary, and a Treasurer. The offices of President, Secretary and Treasurer may be held by the same person.

Officers are elected at the organizational meeting of the Board of Directors by a majority vote for a period of one year or until their successors are elected and qualified. Officers serving at December 31, 2007, were as follows:

<u>Name</u>	<u>Office</u>
Richard Ruud	Chairman of the Board
William Riebe	Vice Chairman
Lynn Frey	President
Lynn Frey	Secretary
Lynn Frey	Treasurer

## Committees

The Bylaws provide that the Chairman of the Board, President and Vice Chairman shall constitute an Executive Committee which shall have such powers as the Board of Directors may delegate. The Board of Directors and the Executive Committee shall meet at the request of the President. The Executive Committee did not meet during the examination period.

## Conflict of Interest

The Company has an established procedure for disclosing potential conflicts of interest to its Board of Directors of any material interest or affiliation on the part of its officers, directors or key employees which is in or likely to conflict with the official duties of such person. The Company had the members of its Board of Directors complete a conflict of interest statement in 2004 only. **It is again recommended that the Company require its officers, directors and key employees complete a conflict of interest statement annually.**

## Articles of Incorporation and Bylaws

The Company made no changes to its Articles or Bylaws during the period under examination.

## Board of Directors, Policyholders, and Committee Minutes

The minutes of the Board of Directors, policyholders, and committee meetings for the period under examination were read and reviewed for compliance with the Bylaws, Articles of Incorporation and statutory requirements. The minutes reflected the elections of directors and officers, approvals of investment transactions, and approvals of other pertinent matters requiring corporate review.

## AFFILIATED COMPANIES

### Hartland Agency, Inc.

Hartland Agency, Inc. (HAI) is an independent insurance agency which also represents the Company as an agent. The Company formed HAI in 2001 to purchase the assets of Grant Agency. The Company is the direct parent of HAI through its ownership of 1,000 shares of no par value capital stock issued by HAI. At December 31, 2007, the Company's investment in HAI was valued at \$27,121.

### James River Insurance Agency, Inc.

On January 13, 2007, the Company purchased all of the outstanding common stock of the James River Insurance Agency, Inc. (James River) for \$160,000. At December 31, 2007, the Company valued its investment in James River at its underlying equity of \$9,095 in accordance with SSAP 97, paragraph 7(b)(iii). No notification to the Department was required under N.D.C.C. § 26.1-10.1-02(1).

## INTERCOMPANY AGREEMENTS

### Administrative Services Agreement

On February 5, 2002, the Company and Hartland Agency, Inc. (HAI) entered into an Administrative Services Agreement that provides for the Company to submit quarterly billings to HAI for use of facilities and for management and support services provided with payment due within 30 days. The agreement states that compensation will be based on "number of employees, hours worked, or percentage of job allocated to agency work." Use of facilities and support service will be billed "in proportion to their use and cost."

The following is a list of transactions between the entities in 2007:

- |  |          |
|--|----------|
| ▪ Rent paid by HAI to the Company            | \$1,200  |
| ▪ Management fees paid by HAI to the Company | \$5,694  |
| ▪ Dividends paid by HAI to the Company       | \$47,500 |

### James River Administrative Services Agreement

Effective February 13, 2007, the Company and James River Agency, Inc. (James River), a wholly owned subsidiary, entered into an Administrative Services Agreement whereby the Company provides management and sales related services for the agency which are billed quarterly to James River based on the Company's costs to provide those services.

The following is a list of transactions between the entities in 2007:

- |  |          |
|--|----------|
| ▪ Rent paid by James River to the Company            | \$4,800  |
| ▪ Management fees paid by James River to the Company | \$35,563 |
| ▪ Dividends paid by James River to the Company       | \$32,500 |

## **FIDELITY BOND AND OTHER INSURANCE**

At December 31, 2007, there was in force a blanket position bond insuring the Company against loss of money or other property which the Company shall sustain through any fraudulent or dishonest act or acts committed by any employee. The bond provides for a \$100,000 limit of liability for loss caused by any employee. The coverage does not meet the minimum amount of fidelity insurance suggested in the NAIC *Financial Examiners Handbook* which requires a minimum of \$150,000 based on the Company's current size. On November 3, 2010, the Company increased its fidelity bond coverage through Western Surety Company to the \$150,000 recommended amount.

The Company also had in force a directors and officers liability insurance policy providing a limit of liability of \$1,000,000 each policy year. Each claim is subject to a \$5,000 deductible. The policy provides coverage for errors or omissions in the performance of professional services and wrongful acts of a director or officer while acting solely in their individual or collective capacities as directors and officers.

Insurance coverage on the Company's home office building and investment real estate was reviewed and appeared to be adequate.

## **PENSION AND INSURANCE PLANS**

### **Employee Benefit Plan**

All qualified, full-time employees are provided with medical insurance, dental insurance, vision insurance, long term care insurance and life insurance.

### **401(k) Plan**

In 2002, the Company established a 401(k) plan for qualifying employees. The plan permits eligible employees to defer a percentage of their compensation each year. The Company makes matching contributions equal to 100 percent of employee salary deferrals up to 6 percent of deferred salary.

The Company's contributions to the plan in 2007 were \$29,968.

## **TERRITORY AND PLAN OF OPERATION**

### **Territory**

The Company is currently licensed and qualified to transact business in the State of North Dakota. The Certificate of Authority issued by the state of North Dakota was reviewed and found to be in proper order and effect.

## Plan of Operation

The Company insures against the property perils typically found in homeowners and farmowners policies. Grinnell Mutual Reinsurance Company of Grinnell, Iowa, writes the applicable liability coverages for those policies.

## Marketing

At December 31, 2007, the Company had approximately 270 licensed agents and 49 agencies in the State of North Dakota.

## **GROWTH OF THE COMPANY**

The financial growth of the Company for the five-year period ended December 31, 2002, was as follows:

	<b>Net Premiums Written</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Direct	\$4,527,370	\$4,477,543	\$4,357,726	\$4,099,364	\$3,828,537
Ceded	788,987	693,856	420,257	418,075	350,726
Net Premiums	<u>\$3,738,383</u>	<u>\$3,783,687</u>	<u>\$3,937,469</u>	<u>\$3,681,289</u>	<u>\$3,477,811</u>
Surplus	\$4,678,324	\$4,738,829	\$4,008,019	\$4,836,083	\$4,373,296
Premium-to-Surplus Ratio	80%	80%	98%	76%	80%

The Company's net premiums written to surplus ratio was conservative and remained fairly constant over the examination period.

## **LOSS EXPERIENCE**

The following represents the five-year history of the Company's loss reserves and losses incurred:

	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
Loss reserves	\$189,730	\$362,933	\$2,500	\$156,766	\$126,697
LAE reserves	20,870	39,923	375	23,515	19,005
Total Reserves	<u>\$210,600</u>	<u>\$402,856</u>	<u>\$2,875</u>	<u>\$180,281</u>	<u>\$145,702</u>
Losses and LAE Incurred	<u>\$2,345,348</u>	<u>\$1,940,217</u>	<u>\$3,750,444</u>	<u>\$1,969,207</u>	<u>\$1,117,173</u>

## REINSURANCE

The Company's reinsurance treaty in force at the time of the examination is summarized below.

### Nonaffiliated Ceding Contract:

Type:	Excess								
Reinsurer:	Grinnell Mutual Reinsurance Company								
Scope:	Fire, Lightning and Extended Coverages; Windstorm and Hail Coverage:  (A) Individual Occurrence of Loss Excess - Covers all risks written by the Company in excess of a \$300,000 retention subject to the following limits: <table><tr><td>Dwellings</td><td>\$750,000</td></tr><tr><td>Farm Outbuildings</td><td>\$750,000</td></tr><tr><td>Livestock/Poultry/Horse Operations</td><td>\$500,000</td></tr><tr><td>Commercial and Public Property</td><td>\$500,000</td></tr></table> (B) Catastrophe per Occurrence - Provides coverage 100 percent of the Company's aggregate net losses in excess of \$500,000 per occurrence.  (C) Aggregate Excess Reinsurance - Provides coverage for 100 percent of the Company's aggregate net losses in excess of a defined retention limit. The retention limit for 2007 was \$3,574,241.	Dwellings	\$750,000	Farm Outbuildings	\$750,000	Livestock/Poultry/Horse Operations	\$500,000	Commercial and Public Property	\$500,000
Dwellings	\$750,000								
Farm Outbuildings	\$750,000								
Livestock/Poultry/Horse Operations	\$500,000								
Commercial and Public Property	\$500,000								
Premium:	(A) Individual Occurrence of Loss Excess - The 2007 annual premium was \$.0603 for fire and \$ 0.0067 for wind per \$1,000 of adjusted gross fire risks in force.  (B) Catastrophe per Occurrence - The 2007 annual premium was \$.133 for wind per \$1,000 of adjusted gross wind risks in force.  (C) Aggregate Excess - The 2007 annual premium was \$.4151 per \$1,000 of gross fire risks in force.								
Commissions:	None								
Termination Date:	The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days notice.								

The agreement contained the insolvency clause required by N.D.C.C. § 26.1-02-21 and all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual* except for the "entire contract" clause. However, subsequent contracts with Grinnell do include the clause; therefore, no comment was considered necessary.

## ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2007, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2007 Annual Statement. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

Premium and policy related transactions along with loss statistical records and accounting transactions are processed using an application software program purchased from Grinnell Mutual Reinsurance Company. The Company's hardware at December 31, 2007, consisted of approximately 15 personal computers.

The Company is audited annually by an outside firm of independent certified public accountants. The work papers of this firm were made available to the Examiners and were used to an extent deemed appropriate for this examination.

The Examiners noted the following differences with respect to the Company's accounts and records:

- At December 31, 2007, the Company reported a Certificate of Deposit (CD) at United Community Bank as cash; however, it exceeded the \$100,000 single issuer limitation for CDs with a maturity date of more than one year as set forth in North Dakota Insurance Department (NDID) Bulletin 2003-3. Also the total funds held at United Community Bank exceeded the FDIC insured limits of \$100,000 and the Company does not have additional protection for those amounts. Subsequent to the examination period the FDIC raised the limit of protection to \$250,000 per depositor and the NDID issued Bulletin 2010-2 which increased the limit of a CD from \$100,000 to \$250,000 to align with the FDIC limit. **It is recommended that the Company correctly report its CDs on the Annual Statement in accordance with NDID Bulletin 2010-2 and limit its deposits in any one banking institution to no more than the FDIC insured limits or obtain insurance covering the deposits exceeding the FDIC limits.**
- The Company incorrectly reported items in Schedule P, Part 1 of the Annual Statement by allocating salvage and subrogation recoverable to the incorrect years. **It is recommended that the Company report salvage and subrogation recoverable in the correct year when completing the Annual Statement.**

## FINANCIAL STATEMENTS

The financial statements of the Company are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2007  
Underwriting and Investment Exhibit, Year 2007  
Reconciliation of Capital and Surplus, January 1, 2003 through December 31, 2007  
Analysis of Examination Changes

**Hartland Mutual Insurance Company**  
**Statement of Assets, Liabilities, Surplus, and Other Funds**  
**as of December 31, 2007**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>
Bonds	\$1,311,993		\$1,311,993
Stocks:			
Common Stocks	891,344		891,344
Real Estate:			
Properties Occupied by the Company	270,067		270,067
Properties Held for the Production of Income	36,714		36,714
Cash	4,617,167		4,617,167
Investment income due and accrued	58,154		58,154
Agents' Balances or Uncollected Premiums:			
Premiums and Agents' Balances in Course of Collection	18,498		18,498
Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due	382,604		382,604
Federal Income Taxes Recoverable	13,993		13,993
Net deferred tax asset	226,794	\$50,923	175,871
Other Assets Nonadmitted	108,067	108,067	
Totals	<u>\$7,935,395</u>	<u>\$158,990</u>	<u>\$7,776,405</u>

**Hartland Mutual Insurance Company**  
**Statement of Assets, Liabilities, Surplus, and Other Funds**  
**as of December 31, 2007**

Losses		\$316,692
Loss adjustment expenses		20,870
Commissions payable, contingent commissions and other similar charges		192,034
Other expenses		48,311
Taxes, licenses, and fees		19,089
Unearned premiums		2,336,074
Advance premiums		46,311
Ceded reinsurance premiums payable		68,758
Amounts Withheld or Retained by Company for Account of Others		8,290
Payable to Grinnell Mutual Reinsurance Company		<u>41,652</u>
Total Liabilities		\$3,098,081
Unassigned Funds (Surplus)	\$4,678,324	
Surplus as Regards Policyholders		<u>4,678,324</u>
Total		<u><u>\$7,776,405</u></u>

**Hartland Mutual Insurance Company  
Underwriting and Investment Exhibit  
for the Year Ended December 31, 2007**

UNDERWRITING INCOME

Premiums earned		\$3,729,173
Deductions:		
Losses incurred	\$2,166,099	
Loss expenses incurred	179,249	
Other underwriting expenses incurred	<u>1,491,337</u>	
Total underwriting deductions		<u>3,836,685</u>
Net underwriting gain (loss)		\$(107,512)

INVESTMENT INCOME

Net investment income earned	\$352,228	
Net realized capital gains (losses)	<u>0</u>	
Net investment gain (loss)		352,228

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	\$ 195	
Finance and service charges not included in premiums	17,130	
Miscellaneous income	<u>36,547</u>	
Total other income		<u>53,872</u>
Net income before federal income taxes		\$ 298,588
Federal income taxes incurred		<u>77,554</u>
Net income		<u><u>\$221,034</u></u>

**Hartland Mutual Insurance Company**  
**Reconciliation of Capital and Surplus Accounts**  
**January 1, 2003, Through December 31, 2007**

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Capital and Surplus, December 31, previous year	<u>\$4,738,828</u>	<u>\$4,008,019</u>	<u>\$4,836,083</u>	<u>\$4,373,296</u>	<u>\$3,840,288</u>
Net income	221,034	848,358	(981,723)	391,415	237,394
Net unrealized capital gains or (losses)	(155,294)	49,528	(135,043)	84,235	269,952
Change in net deferred income tax	49,873	(279,556)	369,638	1,025	(70,308)
Change in non admitted assets	(48,078)	112,479	(80,936)	(13,888)	95,970
Examination adjustments	(128,039)				
Net change in Capital and Surplus for the year	<u>\$ (60,504)</u>	<u>\$ 730,809</u>	<u>\$ (828,064)</u>	<u>\$ 462,787</u>	<u>\$ 533,008</u>
Capital and Surplus, December 31, current year	<u>\$4,678,324</u>	<u>\$4,738,828</u>	<u>\$4,008,019</u>	<u>\$4,836,083</u>	<u>\$4,373,296</u>

**Hartland Mutual Insurance Company  
Analysis of Examination Changes  
for the Year Ended December 31, 2007**

<b>Description</b>	<b>Annual Statement</b>	<b>Per Examination</b>	<b>Surplus Change</b>	
			<b>Increase</b>	<b>(Decrease)</b>
<b><u>Assets</u></b>				
Investment Income Due and Accrued	\$57,054	\$ 58,154	\$1,100	
Uncollected Premiums and Agent's Balances	16,106	18,498	2,392	
Federal Income Taxes Recoverable	16,170	13,993		(2,177)
<b><u>Liabilities</u></b>				
Losses	189,730	316,692		(126,962)
Advance Premiums	43,919	46,311		(2,392)
			<u>\$3,492</u>	<u>\$(131,531)</u>
Surplus Per Annual Statement		\$4,806,363		
Decrease Per Examination		(128,039)		
Surplus Per Examination		<u>4,678,324</u>		

## COMMENTS ON FINANCIAL STATEMENTS

Financial statement balances at December 31, 2007, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

### Assets

#### Investment Income Due and Accrued

The amount of this asset as determined by this examination was \$58,054 or \$1,100 more than the amount reported by the Company. The Company failed to report accrued interest on two bonds which had been purchased in December 2007. **It is recommended that the Company properly report all accrued interest on the Annual Statement.**

#### Uncollected Premiums and Agent's Balances

The amount of this asset determined by this examination was \$18,498 or \$2,392 more than the amount reported by the Company. The Company mistakenly deducted uncollected liability premiums twice from its uncollected premiums and agent's balances when completing the Annual Statement. **It is recommended that the Company properly deduct liability premiums from advance premiums, uncollected premiums and agent's balances.**

#### Federal Income Taxes Recoverable

The amount of this asset determined by this examination was \$13,993 or \$2,177 less than the amount reported by the Company. The exam change is the difference between the estimated amount recoverable and the actual amount that was recovered.

### Liabilities

#### Losses

The amount of this liability as determined by this examination was \$316,692 or \$126,962 more than the amount reported by the Company. The liability for losses was based on a review of subsequent payments for claims incurred in 2007 but paid through 2009.

#### Advance Premiums

The amount of this liability as determined by this examination was \$46,311 or \$2,392 more than the amount reported by the Company. The Company mistakenly deducted uncollected liability premiums from its advance premium liability when completing the Annual Statement. **It is recommended that the Company properly deduct liability premiums from advance premiums, uncollected premiums and agent's balances.**

## CONCLUSION

The financial condition of the Company, as of December 31, 2007, as determined by this examination is summarized as follows:

Admitted Assets		<u>\$7,776,405</u>
Total Liabilities	\$3,098,081	
Surplus as Regards Policyholders	<u>4,678,324</u>	
Liabilities, Surplus, and Other Funds		<u>\$7,776,405</u>

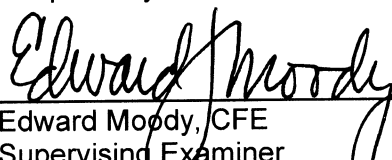
Surplus to policyholders was determined by this examination to be in the amount of \$4,678,324 or \$128,039 less than the amount reported by the Company.

Since the last examination conducted as of December 31, 2002, the Company's admitted assets have increased \$2,853,189, its total liabilities have increased \$868,876, and its surplus as regards policyholders has increased \$1,984,313.

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

In addition to the undersigned, Matt Fischer, Moses Chepkwony, Carole Kessel, CPA and Chief Examiner, and Mike Andring, FCAS participated in this examination.

Respectfully submitted,

  
\_\_\_\_\_  
Edward Moody, CFE  
Supervising Examiner  
North Dakota Insurance Department

## **COMMENTS AND RECOMMENDATIONS**

It is again recommended that the Company require its officers and directors to complete a conflict of interest statement annually.

It is recommended that the Company correctly report its CDs on the Annual Statement in accordance with NDID Bulletin 2010-2 and limit its deposits in any one banking institution to no more than the FDIC insured limits or obtain insurance covering the deposits exceeding the FDIC limits.

It is recommended that the Company report salvage and subrogation recoverable in the correct year when completing the Annual Statement.

It is recommended that the Company properly report all accrued interest on the Annual Statement.

It is recommended that the Company properly deduct liability premiums from advance premiums, uncollected premiums and agent's balances.