COUNTY MUTUAL INSURANCE COMPANY

ANNUAL STATEMENT INSTRUCTIONS

The forms which follow contain specific instructions to prepare the annual statement for North Dakota county mutual insurance companies. If you have any additional questions that are not fully explained herein, please call the Insurance Department at 1-800-247-0560 and ask for the examiners.

COUNTY MUTUAL ANNUAL STATEMENT INSTRUCTIONS

1. DATE OF FILING. This statement is required to be filed by March 1. This date is fixed by statute and no extension of time can be granted. Late filing is a violation which is subject to a $100 per day penalty (N.D. Cent. Code § 26.1-03-16).

2. The NAME OF THE COMPANY must be plainly entered at the top of all pages and schedules.

3. The County Mutual Annual Statement must be submitted electronically by diskette, CD-ROM, or email attachment and a signed jurat page must be submitted by hardcopy mailing. The County Mutual Annual Statement is a fillable Excel spreadsheet that is available on the Department's website.

4. BLANK SCHEDULES. If no entries are to be made, enter "None" on the schedule in question.

5. CHECK MARKS will not be accepted as answers to interrogatories.

6. All amounts must be shown in dollars and cents. Do not round to whole dollars.

7. The BOOK VALUE of Real Estate, Bonds and Stocks, and the amount loaned on Mortgages and Collateral Securities entered as Ledger Assets, page 3, must in all cases agree with the book value of the respective schedules.

8. BONDS. Bonds rated by an NAIC Acceptable Rating Organization (ARO), such as Moody's, Standard & Poor's and Fitch, are not required to be filed with the NAIC's Securities Valuation Office. Unrated bonds, however, must be filed with the Securities Valuation Office to obtain a designation and valuation.

   The market value of rated bonds may be reported at the market value reflected in the broker's year-end statement or as listed in the Wall Street Journal.

9. STOCKS. Stocks that are publicly traded and listed in the Wall Street Journal are not required to be filed with the Securities Valuation Office; privately issued stocks that are not listed by a national stock exchange must be filed with the Securities Valuation Office.

   Mutual fund investments listed in the Wall Street Journal and money market mutual funds issued by nationally recognized brokerage firms are not required to be filed with the Securities Valuation Office.

   The market value of filing-exempt stocks and mutual fund investments may be reported at the market value reflected in the broker's year-end statement or as listed in the Wall Street Journal.

10. A company OCCUPYING ITS OWN BUILDING, in whole or in part, should enter an adequate rent for its occupancy on page 2.

11. BANK BALANCES. In compiling the Schedule N, enter bank balances not earning interest on December 31 before those earning interest. Deposits in private banks or banking firms not under governmental supervision are to be specifically marked with the word “PRIVATE” after the name of the bank or financial institution.

12. EXCHANGES OF ASSETS are required to be identified by the abbreviation “ex” followed by a numeral in parentheses after a description of the asset disposed of and the asset acquired.

13. CREDIT FOR INTEREST DUE AND ACCRUED on bonds in default as to principal or interest should not be taken in “Interest due and accrued” Non-Ledger Assets, the reason being that the market value of bonds in default already includes interest due and accrued.

14. PROFIT AND LOSS entries must be itemized and should be entered GROSS in both Income and Disbursements; general expense items must also be itemized and entered in sufficient detail to indicate their precise nature.

15. If the Annual Statement and Schedules do not contain complete information, or are not prepared as required, they will not be accepted by this Department.

16. USE OF BROKERAGE FIRMS AS CUSTODIANS OF INSURANCE COMPANY INVESTMENTS. It is legal for a brokerage firm to act as the custodian or depository for insurance company investments/securities because there are no statutory provisions specifying what entities may or may not hold county mutual insurance company investments.

    The written agreement between the brokerage firm and the county mutual insurer is acceptable if the brokerage deposits are protected from loss by the Securities Industries Protection Corporation or similar institution (offering protection up to $500,000,000).

    In the event that the brokerage deposits are not so protected, then the written agreement between the brokerage firm and the insurer should contain the following safekeeping provisions:

    a. The broker shall be obligated to indemnify the insurance company for any loss of securities occasioned by the negligence or dishonesty of the broker’s officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.

b. In the event that there is a loss of securities for which the broker shall be obligated to indemnify the insurance company, the broker shall promptly replace the securities or the value thereof and the value of any loss of rights or privileges resulting from said loss of securities.

c. The agreement may provide that the broker will not be liable for any failure to take any action required to be taken under the agreement in the event and to the extent that the taking of such action is prevented or delayed by war (whether declared or not and including existing wars), revolution, insurrection, riot, civil commotion, act of God, accident, fire, explosion, laws, regulations, orders, or other acts of any governmental authority, or any other cause whatever beyond its reasonable control.

PAGE 1 – JURAT PAGE

1. All lines must be properly completed.

2. Date Organized; Date Commenced Business

   Include day, month, and year for each item.

3. Schedule of Directors

   Include all directors, including the President and Vice President.

4. The annual statement must be verified by the signature and oath of the President or the Vice President and of the Secretary and of the person preparing the statement. The signatures must be original signatures; facsimile signatures will not be accepted. (N.D. Cent. Code § 26.1-03-09)

5. The signatures on this page must be notarized.

PAGE 2: SECTION I – BEGINNING BALANCE

The "beginning balance" on page 2 must AGREE WITH line 12 of page 3 of the prior year's annual statement.

PAGE 2: SECTION II – INCOME – RECEIVED DURING YEAR

This operating statement must be on the cash basis of accounting. Income is to be reported when it is received and expenses and losses are to be reported in the year they are paid.

Line 1 – Gross Premium Income or Assessments

Include the gross amount of premiums, assessments, membership fees, subscriber fees, policy fees, and finance and service charges collected.

Line 1(a) – Return Premiums

Include that portion of the premium returned to the policyowner as a result of cancellation, rate adjustment, or a calculation that an advance premium was in excess of the actual premium.

Line 1(b) – Total Premiums or Assessments

This is the total of line 1 less line 1(a).

Line 1(c) – Deduct Premiums for Reinsurance Ceded to Other Companies

Include the net reinsurance premiums paid (gross premium less ceding commission).

Line 1(d) – Add Premiums Received for Reinsurance Assumed From Other Companies

Include the net premium received from ceding companies (gross premium less assuming commission).

Line 1(e) – Net Premium Income or Assessments From Other Companies

This is the total of line 1(b) minus (c) plus 1(d).

Line 2 – Interest on Bonds

Report all interest received on bonds. Include accrual of discount. Deduct amortization of premium and paid for accrued interest.

Line 3 – Dividends on Stock

Report all dividends received on stocks and all capital gains distributions from mutual funds.

Line 4 – Interest on Mortgage Loans or Notes

Report all interest received on mortgage loans on real estate.

Line 5 – Gross Rent From Company's Property, Including $ for Company's Own Occupancy

Include income from ownership of properties. Include an adequate rent for the company's own occupancy of its own building. This rental charge is made on the theory that such space can be rented to others or that the money invested in the building could have been invested in a security that would have generated interest income; therefore, the company is entitled to income on its investment. The rent the company charges itself should be comparable to rent received from others and/or rental rates of like property in the same area. An offsetting charge is made to rent expense. Deduct the interest paid on any encumbrances.

Line 6 – Interest on Cash on Deposit

Report all interest received on cash on deposit, certificates of deposits, savings accounts, and money market deposits. Include interest earned and credited to an account or certificate of deposit.

Line 7 – Profit on Sale or Maturity of Ledger Assets

Report all money received that is in excess of the book value of the investment that was sold.

Line 8 – Money Borrowed During the Year

Borrowed money is debt, other than subordinated surplus debentures, contribution notes, or similar indebtedness. Report the gross amount received. Exclude asset encumbrances.

Line 9 – Commissions and Service Fees Received

Report liability premiums received from policyholders of Grinnell Mutual Reinsurance Company less liability premiums remitted to Grinnell Mutual Insurance Company.

Lines 10-12 – Write-In Income

Report any other income received by the company.

PAGE 2: SECTION III – DISBURSEMENTS – DURING YEAR

Line 15 – Gross Amount of Losses Paid and Incurred During Current Year

Losses are amounts paid on behalf of an insured under an insurance contract. Include gross losses paid and incurred during the year for which the statement is prepared.

Line 16 – Gross Amount of Losses Paid Current Year But Incurred Previous Years

Include all other losses paid during the year that had an occurrence date prior to the current year.

Line 17 – Subrogation

Subrogation is the right of one who has taken over another's loss to also take over his right to pursue remedies against a third party. Include all recoveries received from third parties as a result of subrogation rights.

Line 18 – Salvage

Salvage is property taken over by an insurer to reduce its loss. Include all amounts received from the sale of salvage.

Line 18 – Reinsurance Recovered

Report all amounts received from reinsurance companies as reimbursement for losses that have been paid.

Line 19 – Net Amount of Losses Paid

Report the different of lines 15 + 16 – 17 – 18.

Line 20 – Claims Adjustment Expenses

Claim adjustment expenses are the expenses paid for adjusting a claim, such as investigation and attorney fees. Include all fees and expenses paid for company adjusters and independent adjusters.

Line 21 – Commissions Paid to Agents

Commissions represent that portion of the premium paid to the agent as compensation for his services. Include all payments, reimbursements, and allowances on direct writings. Amount must agree with the total reported in Column 4 of Section XI.

Line 22 – Directors Fees and Expenses

Include fees, compensation, expense reimbursements, and traveling expenses paid to directors for attendance at board or committee meetings and all other fees, compensation, and expenses paid to or on behalf of directors in their capacities as directors.

Line 23 – Salaries to Employees (Include Secretary)

Include salaries and wages, bonuses, and incentive compensation paid to employees, overtime payments, continuation of salary during temporary short-term absences, dismissal allowances, and payments to employees while in training.

Include salaries paid to the President, Vice President, Secretary, or other officers in their capacities as officers of the company.

Line 24 – Printing, Stationery, and Office Supplies

Include all items such as letterhead, envelopes, paper stock, adding machine tape, photocopies, waste baskets, ledger and minute books. Also include policy forms, books, newspapers, and periodicals.

Line 25 – Rent and Rent Items, Including $_____ for Company's Own Occupancy

Include rent for all premises occupied by the company, including an adequate rent for occupancy of its own building. Include expenses paid as a tenant for light, heat, water, fuel, interest, taxes, building maintenance, alterations, and service.

Line 26 – Real Estate Expenses (Other Than Taxes) (Include Depreciation)

Include the cost of repairs, maintenance, service, and operation of owned home office real estate including insurance.

Line 27 – Taxes on Real Estate

Include all real estate taxes paid on owned real estate.

Line 28 – State and Local Insurance Taxes

Include all state taxes paid which were based upon direct premiums.

Line 29 – Insurance Department Licenses and Fees

Include all agent's licenses, certificates of authority, statement publication fees, annual statement filing fees, and fees and expenses of examination by the State Insurance Department.

Line 30 – Payroll Taxes

Include all state (Job Service) and federal unemployment insurance taxes and U.S. Social Security taxes paid (company's share only).

Line 31 – Federal Income Taxes

Include all payments for federal income taxes and penalties and interest thereon.

Line 32 – Legal Fees and Auditing

Include all legal retainers, fees and other expenses, auditing fees of independent auditors, cost of services of tax experts, and notary fees paid. Exclude legal expenses in connection with investigation, litigation, and settlement of policy claims. (These are claims adjustment expenses.)

Include payments to newspapers for the publication of the abstract of the annual statement.

Line 33 – Travel and Travel Items

Include all traveling expenses of officers, employees, and agents, including hotel, meals, and telephone charges incurred while traveling. Include amounts paid to employees for use of their own cars on company business, cost of entertainment of guests, cost of presents given to others than employees, dues and subscriptions to social or civic clubs, and dues and subscriptions to accounting and legal societies.

Line 34 – Advertising

Include newspaper, magazine, and trade journal advertising for the purpose of solicitation and conversation of business. Include billboard sign and directory advertising, television and radio advertising, all pamphlets and sales aids prepared for distribution to the public, and all calendars and advertising novelties for distribution to the public. Exclude advertising required by law.

Line 35 – Dues and Donations

Include donations paid to organized charities, dues of statistical agencies and advisory and service organizations.

Line 36 – Equipment Purchased (or Depreciation on Same)

Include expenditures for furniture and equipment, equipment repair, and/or depreciation on furniture and equipment established as a ledger asset.

Line 37 – Insurance and Bonds

Include premiums paid for fidelity or surety bonds, insurance on contents of company occupied buildings, public liability insurance premiums, burglary and robbery insurance premiums.

Line 38 – Postage, Telephone, and Bank Charges

Include freight, postage, cost of telephone, and bank charges for collection and exchange.

Line 39 – Employee Relations and Welfare

Include all payments devoted to the payment of pension and retirement allowances, all payments for accident, health and hospitalization insurance for employees and payments for workers compensation.

Line 40 – Data Processing Expenses

Include all payments made for operating and nonoperating software, accounting software and computer applications. Include all fees paid for technical support relating to computer software.

Lines 41 and 42 – Miscellaneous

Expenses not listed as includable in other operating expense classifications shall be included in “Miscellaneous” including borrowed money repaid, and employee Christmas gifts not included elsewhere.

Line 43 – Total Funds Disbursed

Enter total of lines 15 through 42.

Line 44 – Balance (Line 14 – Line 43)

The amount of line 44 must agree with page 3, line 12.

PAGE 3: SECTION IV – LEDGER ASSETS

Line 1 – Bonds

Bonds are obligations issued by business units, government units, and certain nonprofit units having a fixed schedule for one or more future payments of money. This definition includes commercial paper, negotiable certificates of deposit, repurchase agreements, collateralized mortgage obligations (CMOs), mortgage participation certificates (MPCs), interest only and principal only certificates (IOs and Pos), and equipment trust certificates. Bond mutual funds must be classified as stocks, not bonds.

Report all bonds at book value (i.e., amortized cost) one Line 1. Book value is actual cost plus an annual adjustment for accrual of discount or minus an annual adjustment for amortization of premium.

Note that bonds with an NAIC designation of "1" and "2" are valued (admitted value) at amortized cost. Bonds with an NAIC designation of "3" through "6" are valued (admitted value) at the lower of amortized cost or market value. Enter any nonadmitted value of bonds with a "3" through "6" designation on page 3, line 25 (Book Value of Ledger Assets in Excess of Market Value).

Line 2 – Stocks

Stocks represent units of ownership in a corporation and include common and preferred stock, mutual fund shares, money market mutual funds, bond mutual funds, warrants, and options. A return on stock held for investment is generally in the form of cash dividends which are paid to the owner. Occasionally, dividends are paid in the form of additional shares of stock (reinvested dividends).

Report stocks at actual cost. Include dividends and capital gains distributions paid in the form of additional shares of stock (i.e., reinvested dividends).

Line 3 – Mortgage Loans or Notes

Mortgage loans represent obligations secured by first or second mortgages on real estate.

Report mortgage loans at the amount of the unpaid principal balance.

Line 4 – Real Estate

Real estate will consist solely of properties occupied by the company. The cost of real estate acquired by purchase is the actual amount paid upon purchase, plus the costs

incurred to place the real estate asset in usable condition. Elements of cost should also include brokerage fees, legal fees, demolition, clearing and grading, fees of architects and engineers, and any additional expenditures made for equipment and fixtures that are made a permanent part of the structure. Cost should be reduced by any amounts received for sales of rights or privileges in connection with the property or by any cash recoveries received after acquiring title to the property.

Report all real estate at actual cost, stated net of any encumbrance, plus permanent improvements less accumulated depreciation.

Repairs and maintenance expenditures may be classified as ordinary or extraordinary. As a general rule, expenditures for ordinary repairs that are necessary to put assets back into good operating condition, and for maintenance to keep them that way are expensed as they are incurred.

Extraordinary expenditures which add to or prolong the life of the property should be capitalized. In practice, most companies establish a minimum capitalization amount. Individual expenditures below this minimum are expensed rather than capitalized to avoid capitalization of immaterial amounts.

N.D. Cent. Code § 26.1-05-19(26) and (27) must be complied with. These subsections require in part that an investment is any single parcel of real estate cannot exceed 2% of the admitted assets, and land and buildings used as home office cannot exceed 10% of the company's admitted assets.

Line 5 – Cash on Hand $_____; Check Accounts $_____

Cash on hand consists of petty cash funds and negotiable checks, cashier's checks, money orders, and certified checks that are in the process of being deposited. Checking accounts are demand deposits that are subject to immediate withdrawal through the issuance of a check or draft.

Report cash on hand and checking accounts at book value.

Line 6 – Cash on Deposit

Cash on deposit includes demand deposits and non-negotiable temporary investments in banks, savings and loan associations, credit unions, and investment brokerage houses that are in the form of savings accounts and demand certificates of deposit. Demand CDs are classified as cash as long as they are non-negotiable.

Line 7 (Blank)

Write in any ledger asset for which a specific line has not been titled.

Line 8 – Assessments or Premiums in Course of Collection

Enter any premiums booked (included on line 1, page 2) but not yet received at December 31 that have been included in the company's ledger accounts.

The uncollected premium, can be shown net of commissions or, if the commission is not netted, a corresponding liability is reflected.

Usually the uncollected, booked premiums are shown as non-ledger items.

Line 10 – Furniture, Fixtures, and Automobiles

Report the actual cost of furniture, fixtures, and automobiles less accumulated depreciation. Include on this line only furniture, fixtures, and automobiles which have been capitalized, i.e., items which have not been treated as an expense in the year of acquisition. All companies must list all property that belongs to the county mutual in Section B – Part 1.

Line 11 – Other Assets

This line may contain any unusual asset item that is not specifically designated in line 1 through line 10.

Line 12 – Total Ledger Assets

Add line 1 through line 11 and enter the total on this line. As noted, this line must agree with page 2, line 44.

PAGE 3: NON-LEDGER ASSETS

Line 13 – Interest Due and Accrued on Bonds

Income due represents certain amounts of income which are legally owed to the company as of the statement date but have not yet been received. Income accrued represents interest that would be collectable if the obligation were to mature as of the statement date.

This line must agree with the total amount of due and accrued interest reported in Section VII – Part 1.

Line 14 – Dividends Due and Accrued on Stocks

Report dividends on stocks that are declared to be ex-dividend on or prior to the statement date and payable after that date.

This line must agree with Section VII – Part 2, Column 11.

Line 15 – Interest Due and Accrued on Mortgage Loans or Notes

This line must agree with Section VIII, Column 15.

Line 16 – Interest Due and Accrued on Certificates of Deposit and Passbook Savings

This line must agree with Schedule N, Column 5.

Line 17 – Furniture, Fixtures, and Automobiles

Include the book value of furniture, fixtures, and equipment, if these are not carried as ledger assets. This line must agree with Schedule B – Part 1, Column 9.

Exclude: Furniture, fixtures, and automobiles established as a ledger asset on line 10 of page 3.

Line 18 – Assessments or Premiums in Course of Collection

Assessments or Premiums In Course of Collection: Enter any installment premiums for the current policy period not yet received at December 31 that are not included in the company's ledger accounts.

Line 19 – Market Value of Stocks Over Book Value

Stocks are valued at market. A non-ledger asset exists if the market value of stocks exceeds book value.

Line 20 – Reinsurance Recoverable on Paid Losses

Include all receivables due from reinsurance companies on losses which have been paid prior to year-end.

Line 21 – Total Non-Ledger Assets

This is the total of line 13 through line 20.

Line 22 – Gross Assets (Lines 12 to 21 Inclusive)

Add line 12 and line 21 to get this amount.

ASSETS NOT ADMITTED

Line 23 – Assessments or Premiums Over 90 Days Due

Include premiums in the course of collection (line 8 or line 18) which are over 90 days past due at December 31.

Line 24 – Furniture, Fixtures, and Automobiles

Under statutory accounting principles, furniture, fixtures, and automobiles are treated as a non-admitted asset.

Line 25 – Book Value of Ledger Assets in Excess of Market Value

Include the excess of book value over market value of stocks. Include the excess of book value over market value of bonds having an NAIC designation of “3” through “6”.

Lines 26 and 27 – Other Assets Not Admitted

Include any non-admitted assets not specifically designated on line 23 through line 25.

Include the value of investments in excess of statutory limitations:

- The total amount of common stock from a single entity that exceeds 3% of admitted assets.
- The total amount of common stock held in the aggregate, which exceeds the greater of 25% of admitted assets or 100% of surplus.

Line 28 – Total Assets Not Admitted

Total of line 23 through line 27.

Line 29 – Total Net Assets Admitted (Line 22 Minus Line 28)

This line must agree with the amount shown on page 3, line 44.

PAGE 3: SECTION V – LIABILITITES

Line 30 – Unpaid Losses

Include an estimate for all claims in course of settlement and also a reserve for incurred but not reported losses. Deduct reinsurance recoverable on unpaid losses to arrive at a net figure to be reported here.

Line 31 – Unpaid Loss Adjustment Expenses

Include an estimate for expenses that might be incurred in connection with the settlement of losses unpaid at the statement date. The liability should be the company's best estimate of the loss adjustment expenses that will be necessary to settle both reported and incurred but not yet reported unpaid losses. In addition to these expenses, the company must establish a liability for incurred but unpaid loss adjustment expenses.

Line 32 – Advance Premiums

Enter the amount of premiums received prior to the balance sheet date on policies with effective dates subsequent to the balance sheet date.

Line 33 – Unearned Premium Reserve

At the expiration of an insurance contract or policy, the entire premium has been earned. At any point prior to expiration, the company is required to establish a pro-rata portion of the premium as a liability to cover the remaining term. The company's total unearned premium reserve represents the unearned premium liability for all policies in force (including policies whose premiums were in the course of collection at year end and which premiums were treated as a non-ledger asset).

North Dakota county mutual insurance companies are required to calculate the unearned premium reserve on the semi-monthly pro-rata method. This method assumes that on the average, the same amount of business is written each day of any month so that the mean will be the middle of the month.

The unearned premium is reduced for the unearned portion of reinsurance premiums ceded. Companies are allowed to take credit against the unearned premium reserve for the reinsurance premiums in force when the reinsurance treaty provides for cessions on the written basis (premiums are paid in advance for a certain time). Companies are not entitled to reflect any reduction in the unearned premium reserve when the reinsurance treaty provides for cessions on an earned basis (that portion of the reinsurance premium calculated on a monthly, quarterly, or annual basis which is to be retained by

the reinsurer should the cession be canceled). The reinsurance credit must be calculated on the semi-monthly pro-rata basis on net reinsurance premiums ceded (gross reinsurance premiums ceded paid less the allowance for the ceding commission).

Line 34 – Commissions Due and Payable to Agents

This item represents the unpaid commissions to agents at the statement date.

Include commissions due and payable on premiums in the course of collection if same are reported at gross on line 8 or line 18.

Line 35 – Unpaid Taxes

Include unpaid premium taxes, state and federal unemployment taxes, and U.S. Social Security taxes.

Exclude Federal Income Taxes Due or Accrued.

Line 36 – Unpaid Salaries

Include all accrued but unpaid salary and wage items which were earned prior to the year end.

Line 37 – Unpaid General Expenses

The amount included in the balance sheet under this caption represents the company liability for general expenses applicable to the current year which are unpaid at year-end. Generally, the liability for purchases of supplies and materials should be established as of the receipt date or as of the order date for special items which are not returnable, such as letterhead stationery and envelopes.

Include Insurance Department fees – the fee for publication of the abstract of annual statement.

Line 38 – Interest Due and Accrued on Borrowed Money

Include due and accrued interest on debt other than subordinated surplus notes. Exclude interest on asset encumbrances.

Line 39 – Reinsurance Premiums Due and Payable

Include all net unpaid reinsurance premiums (gross premiums less ceding commission) and include an estimate for additional premiums due and payable under reinsurance contracts which provide for a deposit premium and a final settlement after each year end.

Lines 40 and 41 – All Other Liabilities

Include: Federal Income Taxes Due or Accrued

Amounts Withheld or Retained by Company for Account of Others (generally employee deductions for payroll taxes)

General Accounts Payable

Line 42 – Total Liabilities (Lines 30 through 41 Inclusive)

The amount to be entered on this line is the aggregate total of line 30 through line 41.

Line 43 – Surplus to Policyholders

The amount on this line is the difference between line 29 less line 42.

Line 44 – Balance (To Equal Line 29)

The amount on this line is the same as the amount entered on line 29.

SECTION VI – INSURANCE IN FORCE

Line 1 The amount to be entered on this line is taken from the prior year's annual statement Section VI, Line 2.

Line 2 Include insurance in force at the end of the year.

Line 3 The amount of reinsurance in force as of year end is deducted here. The amount is the total of Section X, Column 3 (Reinsurance Ceded).

Line 4 This amount is the net of line 2 minus line 3.

SECTION VII – PART 1 BONDS

Bonds should be grouped in the following manner and each group arranged alphabetically, then by interest rate, and then by maturity date:

1. Governments

2. State, territories, and possessions; political subdivisions of states; special revenue, special obligations, and non-guaranteed obligations of governments

3. Railroads

4. Public Utilities

5. Industrial and miscellaneous

Note that bond mutual funds must be classified as stocks.

Column 1 — Give a complete and accurate description of all bonds owned as listed on the broker's confirmation. Include CUSIP numbers. CUSIP numbers for all purchased publicly traded issued securities are available from the broker's confirmations or from the certificate itself.

Column 2 — Enter the name of the seller, i.e., brokerage firm, bank, etc.

Column 3 — Enter the date (month/day/year) that the bond was acquired. The trade date of the acquisition must be reported, not the settlement date.

Column 4 — Enter the par value of the bonds owned adjusted for the repayment of principal.

Column 5 — Include the original cost of acquiring the bond, including broker's commission. Actual cost should also be reduced by any payments of principal (i.e., the recovery of cost).

Column 6 — Include actual cost, adjusted for amortization of premium, accrual of discount, and payments of principal (i.e., the recovery of cost).

Column 7 — If available, enter the market value listed on year-end statements received from banks or brokers. If a market value is unavailable, enter the book value.

Column 8 — Show the rate of interest as stated on the face of the bond.

Columns 9 & 10 Some bonds purchased at a value different than face value. The bond discount or premium should be amortized (written off) over the life of the bond. Any increase or decrease in the book value of bonds resulting from the amortization of the bond premium or discount over the life of the bond should be entered in Column 9 (Accrual of Discount) or Column 10 (Amortization of Premium).

The straight line method of amortization can be used for most bonds. Zero coupon bonds, however, require the scientific method of amortization to be used.

For bonds with a call date, amortize to the maturity date or call date, whichever produces the lowest book value.

CMO bonds will generally mature prior to the scheduled maturity date due to periodic principal payments. Obtain the estimated maturity date from your broker and amortize discount/premium to that estimated date rather than the scheduled maturity date.

Column 11 This column must be completed if any bonds are in default.

Column 12 Report any unusual occurrence with a bond, such as a delayed interest payment.

Column 13 Enter the NAIC designation in this column. For securities rated by an NAIC Acceptable Rating Organization (ARO), the NAIC ARO rating may be converted to an equivalent NAIC designation as published in the NAIC's Purposes and Procedures Manual, Appendix Section 4. For securities not rated by an NAIC ARO, the security must be filed with the SVO to obtain a designation and valuation. The following is a partial NAIC ARO list and their equivalent NAIC designations:

Moody's Rating	SVO
Aaa, Aa, A	1
Baa	2
Ba	3
B	4
Caa	5
Ca, C	6

Standard and Poor's Rating	SVO
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC+, CCC, CCC-	5
CC, C, D	6

Fitch Rating	SVO
AAA, AA+, AA, AA-, A+, A, A-	1
BBB+, BBB, BBB-	2
BB+, BB, BB-	3
B+, B, B-	4
CCC	5
CC, C, DDD, DD, D	6

All columns which require totals must be totaled.

SECTION VII – PART 2 STOCKS

Preferred stocks should be listed first and then common stocks. The stocks should be grouped as follows and each group arranged alphabetically:

1. Railroads
2. Public utilities
3. Banks, trusts, and insurance companies
4. Industrial and miscellaneous

Note that bond mutual funds, money market mutual funds, and mutual funds are classified as stocks.

Money market accounts at brokerage firms vary based on the firm being used. Money market cash accounts, which are not tied to underlying securities are classified as cash on Schedule N. Money market cash accounts tied to underlying securities are classified as stocks.

Column 1	A complete and accurate description of all stocks owned must be shown, including CUSIP numbers. CUSIP numbers for all purchased publicly traded issued securities are available from the broker's confirmations or the certificate itself.
Columns 2, 3 & 4	Must be properly and accurately completed.
Column 5	Include the par value of all preferred stocks and money market mutual fund accounts.
Column 6	Include the original cost of the stock, including broker's commission.
Column 7	Enter the rate obtained from the Wall Street Journal, or the rate listed on year-end broker's statements.
Column 8	Product of Columns 4 and 7.
Column 9	Column 6 and Column 9 will generally be the same.
Column 10	Enter the total of dividends and capital gain distributions received during the year.
Column 11	This column must be completed showing all dividends due and accrued as of December 31, based on a 365-day year.
Column 12	This column must be completed if any increases by adjustment were made to the book value during the year (generally left blank).

Column 13 This column must be completed if any decreases by adjustment were made to the book value during the year (generally left blank).

All columns which require totals must be totaled.

SECTION VII – PART 3 BOND AND STOCK ACQUISITIONS

Column 1	Bonds, preferred stocks, and common stocks are to be grouped separately. A complete and accurate description of each bond or stock must be given, including the CUSIP number.
Column 2	Show month, day, and year. Each issue of bonds or stocks acquired on more than one date may be totaled on one line and the word "various" inserted. Record the trade date, not the settlement date.
Column 3	Show the vendor from whom the investment was purchased. Dividends reinvested in a mutual fund should be labeled "Dividend Reinvestment".
Column 4	Show the accurate number of shares of stock purchased.
Column 5	Include cost of acquiring the bond or stock, including broker's commission. Include all dividends earned and reinvested in mutual funds.
Column 6	Show the actual par value of each bond, preferred stock and money market mutual fund purchased.
Column 7	Show the amount of accrued interest paid on the bonds purchased and the accrued dividends on stocks purchased.

All columns which require totals <u>must</u> be totaled.

SECTION VII – PART 4 BOND AND STOCK DISPOSALS

Columns 1 & 2	Bonds, preferred stocks, and common stocks are to be grouped separately. A complete and accurate description must be shown, including CUSIP numbers.
Column 3	Show month, day, and year that the security was sold or a principal payment was received. If multiple principal payments were received, insert "various". Record the trade date, not settlement date.
Column 4	If the bond matured or was called, so state and give the price at which called. When a return of principal is received from an investment (e.g., GNMA bond), label the amount in Column 4 as "Reduction in Principal".
Column 5	Show the number of shares of stock disposed of.
Column 6	Enter the amount of consideration received excluding accrued interest and broker's commission.
Column 7	The par value of the bonds, preferred stock and money market mutual fund must be shown.
Column 8	Show the actual cost of the initial investment, excluding amount paid for accrued interest.
Column 9	The book value (ledger value) as of the date of sale must be shown.
Columns 10 & 11	Include any amortization of premium or accrual of discount incurred during the year.
Columns 12 & 13	Profit (or loss) is computed by subtracting Column 9 from Column 6.
Column 14	Show the amount of interest received during the current year on the bonds sold.
Column 15	Show the amount of dividends received during the current year on the stocks sold.

All columns which require totals <u>must</u> be totaled.

Report principal paydowns on Asset-Backed Bonds in Section VII – Part 4.

SECTION VIII – MORTGAGE LOANS

Column 1	Include the mortgage loan identification number assigned by the company.
Columns 2 & 3	Include the year the loan was made by the county mutual in Column 2 and the year the loan will be paid in full in Column 3.
Columns 4-7	The record of mortgage is stamped on the front of the mortgage deed.
Columns 8, 9, & 10	These columns must be properly completed with the information received from the county mutual's income and disbursement records.
Column 11	Represents book value.
Columns 12-17	These columns must be properly completed showing all of the information pertaining to interest on each mortgage loan.
Columns 18 & 19	Include the amounts listed in the appraisal.
Column 20	Show the amount of fire insurance carried on the property. (The county mutual must be shown on the insurance policy as the mortgagee.)
Column 21	Include the city, county, and state of mortgage property.

All columns which require totals <u>must</u> be totaled.

SECTION IX – BUSINESS WRITTEN DURING THE YEAR

Gross Premiums Less Return Premiums

Lines of Business:

Fire — Allocate 50% of premiums received from fire and extended coverage policies as fire.

Windstorm — Allocate 50% of premiums received from fire and extended coverage policies as wind.

Column 1 — Direct Writings – Properly show the amount of premiums collected covering property classified as either urban or rural.

Column 2 — Reinsurance Assumed – Properly complete these columns if any insurance premiums are assumed from other insurance companies.

Column 3 — Reinsurance Ceded – Premiums paid to reinsurers must be shown in the respective columns as either urban or rural.

Column 4 — Net Premiums – The amounts to be shown in these columns is the net of Column 1 plus Column 2 minus Column 3.

All columns must be totaled and agree to the totals as shown for Column 4.

Losses Paid

Lines of Business:

Losses paid during the year must be properly allocated to each line of business applicable.

Column 1 — The amounts that must be reported in this column are all losses paid that involve business that was written directly by the company.

Column 2 — These are losses paid on reinsurance assumed.

Column 3 — Deduct all amounts recovered from reinsurance companies on direct losses paid.

Column 4 — Report only that amount of salvage or subrogation that has been converted to cash as of year end.

Column 5 — Net losses paid represents the net of Columns 1 and 2 less Columns 3 and 4.

All columns must be totaled and agree to the totals as shown in Column 5.

SECTION X – REINSURANCE SCHEDULE

Reinsurance Ceded

Column 1 List each reinsurer that had a reinsurance contract in force with the Company during the year.

Column 2 Addresses of the reinsurance companies must be shown.

Column 3 The gross amount of reinsurance in force with each reinsurer must be shown.

Column 4 The total amount of premiums paid during the year to each reinsurer must be shown. Total of Column 4 must agree to page 2, line 1c.

Column 5 Report the largest risk (amount) ceded to the reinsurer in excess of the retention held by the county mutual.

Column 6 This column is usually used to report the type of reinsurance contract in effect.

Reinsurance Assumed

Complete this schedule only if business is assumed from another insurance company.

SECTION XI

Show all salaries, compensation, commissions, and allowances paid in the current year to officers, directors, managers, agents, and employees. Travel or car allowances, if paid, are to be included. Attach additional sheets if necessary.

Column 1 Enter the full name of the person to whom the payment was made.

Column 2 Enter the title of the person to whom the payment was made (Director, President, Secretary, Clerk, etc.)

Column 3 Enter amount paid as salary and wages, bonuses, incentive compensation, overtime, etc. Total of Column 3 must agree with page 2, line 23.

Column 4 Enter the amount paid to each agent or agency during the year. Total of Column 4 must agree with page 2, line 21.

Column 5 Enter amounts paid relating to claims adjustment.

Column 6 Enter payments made to directors. Exclude any payments made pertaining to commissions, claims adjustments or travel. Total of Column 6 must agree with page 2, line 22.

Column 7 Enter travel expenses reimbursed to employees and directors. Exclude any travel reimbursements relating to claims adjusting. Total of Column 7 must agree with page 2, line 33.

SECTION XII – GENERAL INTERROGATORIES

Answer all pertinent questions and attach additional sheets if necessary.

Line 1 Report the net amount of risk which the company keeps (retains) for its own account on each line of business shown.
Fire _____, Wind _____, Liability _____.

Line 2 Amendments to the Bylaws must be filed with the Insurance Department. If these have not been previously filed, include the filing with the annual statement.

Line 3 List each county in which the company is authorized to write business.

Line 4 Report the name of the Secretary, Treasurer, or Secretary-Treasurer if one individual holds both positions and the face amount of the bond on each individual.

Line 5 List other individuals who are bonded, if any, and the face amount of the bond on each.

Line 6 Answer "yes" or "no" and include month, day, and year.

Line 7 The exact number of policyholders <u>must</u> be reported (estimates are <u>not</u> acceptable).

Line 8 An abstract of the annual statement should be furnished to members of a county mutual insurance company (as required by N.D. Cent. Code § 26.1-13-34) at each annual meeting. At a minimum, the abstract must include total admitted assets, total liabilities, surplus, net premiums, net losses, total receipts, and total disbursements.

Line 9 State the "as of" date of the latest financial examination report. This date should be the date of the examined balance sheet and not the date the report was completed or released. This will always be the "as of December 31, 20XX" date.

Line 10 Report the nature of any material contingent liabilities including but not limited to additional taxes, long-term contracts, guarantees of liabilities of other companies, and indemnification agreements. Include in the disclosure the date incurred or discovered; the nature of the contingent liability, contract, agreement, or commitment; the amount or amounts, if known; the status as of the annual statement date; and all other information necessary for a full disclosure.

Describe any pending legal proceedings which are beyond the ordinary course of business which could have a material financial effect.

SCHEDULE N

Enter all bank balances that are not interest-bearing as of December 31 before those that are interest-bearing. Arrange them alphabetically according to the bank name.

Show all banks, trust companies, savings and loan associations, and credit unions in which a deposit was maintained at any time during the year with balances carried in each bank, trust company, savings and loan, and credit union on the last day of each month of the current year.

Column 1	Report the full name and location of the depository. Show the maturity date and an identification number in the case of certificates of deposit or time deposits.
Column 2	Report the December 31 bank balance according to the company's records. The total of Column 2 must agree with the sum of amounts on page 3, line 5 (Checking Account) and line 6 (Cash on Deposit).
Column 3	Report the rate of interest for each deposit as of December 31.
Column 4	Report the aggregate amount of interest received during the year for the investment shown on each line. Include interest earned and credited to an account or certificate of deposit. The total of Column 4 must agree with page 2, line 6 (Interest on Cash on Deposit).
Column 5	Report the interest that was earned as of year end but not yet received or credited to an account or certificate of deposit. The total of Column 5 must agree with page 3, line 16 (Interest Due and Accrued on Certificates of Deposit and Passbook Savings).
Columns 6-17	Report the balance maintained in any deposit on the last day of each month. Include amounts for all applicable months. Do not draw lines or use arrows to indicate the monthly balance.

In accordance with Bulletin 2003-3, a certificate of deposit of any maturity may be reported as cash in Schedule N if all the following conditions are met:

1. The issuer of the certificate of deposit is a solvent bank, trust company, savings and loan association, or credit union that is insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Administration; and

2. The aggregate amount of funds deposited by the domestic insurance company, as certificates of deposit or in any other form, with any single issuer does not exceed $100,000; and

3. The certificate of deposit is payable only to the named depositor which is the domestic insurance company.

If aggregate deposits held with a single institution exceed $100,000, than all CDs held with that institution must be reported in Part 1 of Section VII.

A certificate of deposit issued by the Certificate of Deposit Account Registry Service (CDARS) must be reported in Part 1 of Section VII because the certificate is held in the name of the financial institution and not the name of the county mutual insurance company.

Do not report a certificate of deposit purchased at a premium or discount to par in Schedule N. Such securities must be reported in Part 1 of Section VII and amortized over the security's expected life.

All certificates of deposit reported in Part 1 of Section VII must be filed with the NAIC's Securities Valuation Office (SVO) in order to obtain an NAIC designation.

SCHEDULE A – PART 1 - REAL ESTATE

Showing All Real Estate Owned December 31 of Current Year

Column 1 Show the location and description of the property, including the legal description.

Column 2 State the day, month, and year that each parcel was acquired.

Column 3 Include the name of the seller or name of the supplier of goods or services on capitalized items.

Column 4 Include amount expended to purchase the property, additions, and capitalized improvements.

Column 5 Include all current year acquisitions and permanent improvements.

Exclude all items with a cost less than $250 and those with a useful life of one year or less.

Column 6 The net amount of Column 4 minus Column 6 must equal page 3, line 4 of the prior year's annual statement.

Column 7 Depreciation must be calculated in accordance with N.D. Cent. Code § 26.1-05-19(26)(d) and (27)(c) which provide that real estate and the cost of improvements must be depreciated annually at an average rate of not less than 2% of the original cost. The percent must be shown in this column.

Column 8 The dollar amount of the current year depreciation must be shown for each item or parcel listed. Total of Column 8 must be included on page 2, line 26.

Column 9 The book value at the end of the current year must agree with amounts shown in Column 4 plus Column 5 less amounts shown in Column 6 and less Column 8. The total of Column 9 must agree with the amount on page 3, line 4.

Column 10 Include: Rent received from tenants.

An amount for rent relating to the company's occupancy of its own building.

Total of Column 10 must agree with the amount on page 2, line 5.

Column 11 Include: Real estate taxes paid.

Real estate expenses including depreciation.

Rent and rent items.

Column 11 items must be included on page 2, line 25, line 26, and line 27.

SCHEDULE B – PART 1 – FURNITURE, FIXTURES, AND AUTOMOBILES

Itemize all furniture, fixtures, and automobiles owned by the company.

Include items which are fully depreciated because an accurate inventory of all items owned by the company must be maintained at all times.

Include electronic data processing equipment.

Column 1 Enter an accurate description, including the identification number assigned by the company (serial number).

Column 2 Enter the day, month, and year of acquisition.

Column 3 Enter the name of the supplier of goods or services.

Column 4 Enter the actual purchase cost including shipping and handling and any set-up fees.

Enter an estimated cost for items for which the actual cost is unavailable.

Column 7 Depreciate furniture and equipment as follows:

Office furniture – 10%

Office equipment – 20%

Data processing system and components – 20% or more (N.D. Cent. Code § 26.1-05-19(28))

Other – 10%