STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

HARTLAND MUTUAL INSURANCE COMPANY
MINOT, NORTH DAKOTA

AS OF
DECEMBER 31, 2012

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, 2012, 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 27th day of February, 2014.

Adam Hamm
Commissioner

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Minot, North Dakota
January 17, 2014

Honorable Adam Hamm
Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue, Dept. 401
Bismarck, ND 58505-0320

Dear Commissioner:

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

Hartland Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2007, by the North Dakota Insurance Department (Department).

SCOPE OF EXAMINATION

This examination was a risk focused 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 its corporate affairs and insurance operations. This statutory examination covers the five-year period from January 1, 2008, to and including December 31, 2012, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

Our examination was conducted in accordance with examination policies and standards established by the North Dakota Insurance Department and procedures recommended by the NAIC. In accordance with the NAIC *Financial Condition Examiners Handbook*, we planned and performed the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. Our examination also included assessment of the accounting principles used and significant estimates made by management as well as evaluation of the overall financial statement presentation, management's compliance with Statutory Accounting Principles, annual statement instructions, and when applicable, to domestic state regulations.

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

The examination included a review to determine the current status of the five exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2003, to December 31, 2007. We determined that the Company had satisfactorily addressed all of these items, except the following:

Recommendation	Response
It is again recommended that the Company require its officers, directors and key employees complete a conflict of interest statement annually.	Except for 2008, the Company's key employees did not sign conflict of interest statements.

Additional detail for this recommendation is addressed under the Corporate Records section of this report.

SUMMARY OF SIGNIFICANT FINDINGS

There were no material adverse findings or material changes in the financial statements.

SUBSEQUENT EVENTS

On July 25, 2013, the Company's Board of Directors approved the purchase of an office suite in Bismarck for $425,572 plus an additional $115,245 for office build-out costs. The suite will be leased to the Company's subsidiary, A&M Insurance Agency. The total purchase price exceeds the two percent of admitted assets limit under N.D.C.C. § 26.1-05-19(26)(c) for real estate held for the production of income. The excess over that limit is admitted under the basket clause at N.D.C.C. § 26.1-05-19(33).

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. ch. 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.

The Company purchased the following insurance agencies: Hartland Agency, Inc. on August 13, 2001; James River Insurance Agency, Inc. on January 1, 2007; and A&M Insurance Agency, Inc. on December 29, 2008.

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 serving the Company at December 31, 2012, were as follows:

Name and Address	Business Affiliation
Richard Ruud Parshall, North Dakota	Farmer
William Riebe Pingree, North Dakota	Retired Farmer
Dennis Burud Bottineau, North Dakota	Retired Bank Investment Officer
Wesley Hagen Berthold, North Dakota	Retired Farmer
Sherry Myers Voltaire, North Dakota	Farm Worker
Tom Philion Minot, North Dakota	Accountant – Minot Builders Supply
Ryan Taylor Towner, North Dakota	Rancher & State 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, 2012, were as follows:

Name	Office
Richard Ruud	Chairman of the Board
Tom Philion	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.

Audit Committee

Under N.D. Admin. Code § 45-03-20-02(3), if an audit committee is not designated by the insurer, the insurer's entire board of directors shall constitute the audit committee. Since the Company did not designate an Audit Committee, the Company's full Board of Directors serves as its Audit Committee. During the period under examination, the Company's independent auditor, Brady Martz & Associates, P.C. (BMA), conducted annual audits of the Company's books and records. During the examination period, BMA did not present its annual audit report findings and recommendations to the Board of Directors or to an Audit Committee thereof as required by N.D. Admin. Code § 45-03-20-12.1(1) which states:

> The audit committee shall be directly responsible for the appointment, compensation, and oversight of the work of any accountant, including resolution of disagreements between management and the accountant regarding financial reporting, for the purpose of preparing or issuing the audited financial report or related work pursuant to this chapter. Each accountant shall report directly to the audit committee.

The Company stated that BMA presents its findings and recommendations to Lynn Frey, President, Ryan Wetzel, Controller, and Miles Clauson, Claims Manager who are not members of the Board, at the completion of field work. Mr. Frey then subsequently provides BMA's findings and recommendations to the full Board at its June meeting for approval.

It is recommended that the Company's external auditors present their annual audit report findings and recommendations to the entire Board of Directors or the designated Audit Committee thereof as required by N.D. Admin. Code § 45-03-20-12.1(1).

CORPORATE RECORDS

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, and policyholders meetings for the period under examination were read.

The minutes of the various meetings indicate that full board meetings were well attended and were held in compliance with the Bylaws, Articles of Incorporation and statutory requirements. The deliberations of the board were adequately documented and supported the Company's transactions and events.

The Company's Investment transactions are not approved by the full Board as required by N.D. Admin. Code § 45-03-12-05(3) which states:

> Investments shall be acquired and held under the supervision and direction of the board of directors and the board shall evidence by formal resolution, at least annually, that it has determined whether all investments have been made in accordance with delegations, standards, limitations, and investment objectives prescribed by the board or a committee of the board charged with the responsibility to direct its investments.

In addition, the Company's investment guidelines do not specify the quality, maturity, and diversification of investments and other specifications including investment strategies intended to assure that the investments and investment practices are appropriate for the business conducted by the insurer, its liquidity needs, and its capital and surplus as required by N.D.A.C. § 45-03-12-05(1), which states:

> The board of directors shall adopt a written plan for acquiring and holding investments and for engaging in investment practices that specifies guidelines as to the quality, maturity, and diversification of investments and other specifications including investment strategies intended to assure that the investments and investment practices are appropriate for the business conducted by the insurer, its liquidity needs, and its capital and surplus. The board shall review and assess the insurer's technical investment and administrative capabilities and expertise before adopting a written plan concerning an investment strategy or investment practice.

It is recommended that the Company evidence investment approval by formal resolution and that it develop specific investment guidelines in compliance with the requirements of N.D. Admin. Code § 45-03-12-05(1) and (3).

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. With the exception of 2008, only the directors and officers signed conflict of interest statements. The Company's two key management employees, Miles Clauson, Claims Manager, and Ryan Wetzel, Controller, did not sign conflict of interest statements.

It is again recommended that the Company require the directors, officers, and key management employees to sign conflict of interest statements each year.

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, 2012, the Company's investment in HAI was valued at $14,952.

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, 2012, the Company's investment in James River was valued at $8,680.

A&M Insurance Agency, Inc.

On December 30, 2008, A&M Insurance Agency, Inc. (A&M), a subsidiary of the Company, purchased the assets of A&M Insurance, Inc. for $528,000. At December 31, 2012, the Company's investment in A&M was valued at $322,370.

INTERCOMPANY AGREEMENTS

Hartland Agency Administrative Services Agreement

On February 5, 2002, the Company and Hartland Agency, Inc. (HAI), a wholly owned subsidiary, entered into an Administrative Services Agreement. The Company provides use of facilities, and management and sales-related services for HAI, which are billed quarterly to HAI based on the Company's costs to provide those services.

The following is a list of transactions between the entities in 2012:

- Rent paid by HAI to the Company $6,000
- Management fees paid by HAI to the Company $7,675
- Dividends paid by HAI to the Company $49,500

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. The Company provides use of facilities, and management and sales-related services for James River, 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 2012:

- Rent paid by James River to the Company $4,800
- Management fees paid by James River to the Company $80,350
- Dividends paid by James River to the Company $15,000

A&M Insurance Agency Administrative Agreement

On June 15, 2010, the Company and A&M Insurance Agency, Inc. (A&M), a wholly owned subsidiary, entered into an Administrative Service Agreement. The Company provides management and sales-related services for A&M, which are billed quarterly to A&M based on the Company's costs to provide those services.

The following is a list of transactions between the entities in 2012:

- Management fees paid by A&M to the Company $168,457
- Dividends paid by A&M to the Company $42,500

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, the Company was protected against fraudulent or dishonest acts of its employees by fidelity bond coverage through Western Surety Company. The bond insures the Company up to $150,000, which is in compliance with the NAIC suggested minimum amount of fidelity insurance.

The Company has other types of coverage including Directors and Officers Liability, Automobile, and Property which were considered adequate.

PENSION AND INSURANCE PLANS

Employee Benefit Plan

All qualified, full-time employees are provided with medical insurance, dental insurance, vision insurance, short- and long-term disability 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 2012 were $38,841.

TERRITORY AND PLAN OF OPERATION

At December 31, 2012, the Company was licensed and qualified to write property and casualty insurance in North Dakota. The Certificate of Authority issued by the State of North Dakota was reviewed and found to be in proper order and effect. The Company writes primarily fire and allied lines in only North Dakota.

GROWTH OF THE COMPANY

The table below shows the Company's written premium activity compared to its surplus over the examination period:

	Premiums Written				
	2012	2011	2010	2009	2008
Direct	$5,695,611	$5,154,226	$4,822,069	$4,623,847	$4,434,640
Ceded	434,360	486,187	523,891	907,536	827,336
Net Premiums	$5,261,251	$4,668,039	$4,298,178	$3,716,311	$3,607,304
Surplus	$5,525,397	$3,417,792	$3,474,979	$3,863,445	$4,177,271
Premium-to-Surplus Ratio	95%	137%	124%	96%	86%

The Company's net premium written has grown by 46 percent and its premium to surplus ratio has remained conservative over the exam period.

LOSS EXPERIENCE

The table below shows the Company's loss reserves and losses incurred over the exam period:

	2012	2011	2010	2009	2008
Loss reserves	$259,878	$232,241	$497,003	$335,758	$466,692
LAE reserves	22,090	19,740	47,215	35,254	51,336
Total Reserves	$281,968	$251,981	$544,218	$371,012	$518,028
Losses and LAE Incurred	$1,289,450	$2,980,866	$3,566,301	$2,702,340	$3,432,148

The Company's loss reserves have decreased by 44 percent and its losses incurred have decreased by 62 percent while its net earned premium has increased by 36.4 percent over the exam period. Losses, which were higher than average in 2008, have trended down over the exam period with 2012 being an exceptionally light year for storm losses resulting in losses which were much lower than normal. Loss reserves have developed redundant over the exam period.

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.

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:

Livestock/Poultry/Horse Operations	$1,000,000
Commercial and Public Property	$1,000,000
Farm Product Storage Structures	$1,000,000
Farm Buildings	$2,000,000
Dwellings	$1,000,000

(B) Per Occurrence Catastrophe Coverage - Provides coverage 100 percent of the Company's aggregate net losses in excess of $300,000 per occurrence.

Premium:

(A) Individual Occurrence of Loss Excess - The 2012 annual premium was $0.0379 for fire and $ 0.0097 for wind per $1,000 of adjusted gross fire risks in force.

(B) Per Occurrence Catastrophe Coverage - The 2012 annual premium was $0.2639 per $1,000 of adjusted gross fire risks in force.

Effective Date: January 1, 2012

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 reinsurance agreement contain the insolvency clause required by N.D.C.C. § 26.1-02-21 and all of the required clauses set forth in the NAIC's *Accounting Practices and Procedures Manual.*

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, 2012, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2012 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 is audited annually by Brady Martz & Associates, P.C. (BMA), an outside firm of independent certified public accountants. BMA's work papers were made available to the Examiners and were used to extent deemed appropriate for this examination.

Claim Complaints

N.D.C.C. § 26.1-04-03(10) requires that the Company adopt and implement reasonable standards for the prompt handling of written communications, primarily expressing grievances, received by the Company from insureds or claimants. Currently, the Company only records complaints that are reported to the North Dakota Insurance Department. The Company does not have or maintain an internal complaints log that records all grievances received by the Company regardless of whether they were sent to the Insurance Department or not in order to meet the requirements of N.D.C.C. § 26.1-04-03(10).

It is recommended that the Company establish and maintain an internal complaints log that meets the requirements of N.D.C.C. § 26.1-04-03(10) for any complaints that are reported to the Company.

Custodial Agreements

The Company has agreements with broker-dealers, Wells Fargo Advisors, LLC (Wells Fargo) and Vision Brokerage Services, LLC (Vision) dated October 29, 2003, and July 22, 2008, respectively, under which Wells Fargo and Vision provide safekeeping of the Company's invested assets.

The Wells Fargo agreement was reviewed for compliance with N.D. Admin. Code § 45-03-23-02. The agreement was not authorized by the resolution of the Board of Directors or an authorized committee of the Board as required under with N.D. Admin. Code § 45-03-23-01. In addition, the following provisions were not included in the agreement:

a. Securities certificates held by the custodian must be held separate from the securities of the custodian and of all of its other customers.

b. Securities held indirectly by the custodian and securities in a clearing corporation must be separately identified on the custodian's official records as being owned by the insurance company. The records must identify which securities are held by the custodian or by its agent and which securities are in a clearing corporation. If the securities are in a clearing corporation, the records must also identify where the securities are and, if in a clearing corporation, the name of the clearing corporation and, if through an agent, the name of the agent.

c. All custodied securities that are registered must be registered in the name of the company or in the name of a nominee of the company or in the name of the custodian or its nominee or, if in a clearing corporation, in the name of the clearing corporation or its nominee.

d. Custodied securities shall be held subject to the instructions of the insurance company and shall be withdrawable upon the demand of the insurance company, except that custodied securities used to meet the deposit requirements set forth in North Dakota Century Code section 26.1-05-23 must, to the extent required by that section, be under the control of the insurance commissioner and must not be withdrawn by the insurance company without the commissioner's approval.

f. During the course of the custodian's regular business hours, any officer or employee of the insurance company, any independent accountant selected by the insurance company, and any representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, the custodian's records relating to custodied securities, but only upon furnishing the custodian with written instructions to that effect from an appropriate officer of the insurance company.

g. The custodian and its agents shall be required to send to the insurance company:

(1) All reports which they receive from a clearing corporation on their respective systems of internal accounting control; and

(2) Any reports prepared by outside auditors on the custodians or its agent's internal accounting control of custodied securities that the insurance company may reasonably request.

i. The custodian shall provide, upon written request from an appropriate officer of the insurance company, the appropriate affidavits, substantially in the form described in the appendices to this chapter, with respect to custodied securities.

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

m. In the event that there is a loss of custodied securities for which the custodian shall be obligated to indemnify the

insurance company, the custodian shall promptly replace the securities or their value thereof and the value of any loss of rights or privileges resulting from the loss of securities.

p. The custodian shall provide written notification to the insurer's domiciliary commissioner if the custodial agreement with the insurer has been terminated or if one hundred percent of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the insurance commissioner within three business days of the receipt by the custodian of the insurer's written notice of termination or within three business days of the withdrawal of one hundred percent of the account assets.

The Vision agreement was reviewed for compliance with N.D. Admin. Code § 45-03-23-02. The agreement was not authorized by the resolution of the Board of Directors or an authorized committee of the Board as required under with N.D. Admin. Code § 45-03-23-01. In addition, the following provisions were not included in the agreement:

a. Securities certificates held by the custodian must be held separate from the securities of the custodian and of all of its other customers.

b. Securities held indirectly by the custodian and securities in a clearing corporation must be separately identified on the custodian's official records as being owned by the insurance company. The records must identify which securities are held by the custodian or by its agent and which securities are in a clearing corporation. If the securities are in a clearing corporation, the records must also identify where the securities are and, if in a clearing corporation, the name of the clearing corporation and, if through an agent, the name of the agent.

c. All custodied securities that are registered must be registered in the name of the company or in the name of a nominee of the company or in the name of the custodian or its nominee or, if in a clearing corporation, in the name of the clearing corporation or its nominee.

d. Custodied securities shall be held subject to the instructions of the insurance company and shall be withdrawable upon the demand of the insurance company, except that custodied securities used to meet the deposit requirements set forth in North Dakota Century Code section 26.1-05-23 must, to the extent required by that section, be under the control of the insurance commissioner and must not be withdrawn by the insurance company without the commissioner's approval.

f. During the course of the custodian's regular business hours, any officer or employee of the insurance company, any independent accountant selected by the insurance company, and any representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, the custodian's records relating to custodied securities, but only upon furnishing the custodian with written instructions to that effect from an appropriate officer of the insurance company.

g. The custodian and its agents shall be required to send to the insurance company:

(1) All reports which they receive from a clearing corporation on their respective systems of internal accounting control; and

(2) Any reports prepared by outside auditors on the custodians or its agent's internal accounting control of custodied securities that the insurance company may reasonably request.

h. The custodian shall maintain records sufficient to determine and verify information relating to custodied securities that may be reported in the insurance company's annual statement and supporting schedules and information required in any audit of the financial statements of the insurance company.

i. The custodian shall provide, upon written request from an appropriate officer of the insurance company, the appropriate affidavits, substantially in the form described in the appendices to this chapter, with respect to custodied securities.

j. A national bank, state bank, or trust company shall secure and maintain insurance protection in an adequate amount covering the bank's or trust company's duties and activities as custodian for the insurer's assets and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator. A broker-dealer shall secure and maintain insurance protection for each insurance company's custodied securities in excess of that provided by the securities investor protection corporation in an amount equal to or greater than the market value of each respective insurance company's custodied securities. The commissioner may determine whether the type of insurance is appropriate and the amount of coverage is adequate.

l. The custodian shall be obligated to indemnify the insurance company for any loss of custodied securities

occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.

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

n. The agreement may provide that the custodian 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, stoppage of labor, strikes or other differences with employees, laws, rules, orders, or other acts of any governmental authority, or any other cause whatever beyond its reasonable control.

o. In the event that the custodian gains entry in a clearing corporation through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian; provided, however, that if the agent shall be subject to regulation under the laws of a jurisdiction which is different from the jurisdiction the laws of which regulate the custodian, the insurance commissioner of the state of domicile of the insurance company may accept a standard of liability applicable to the agent which is different from the standard of liability applicable to the custodian.

p. The custodian shall provide written notification to the insurer's domiciliary commissioner if the custodial agreement with the insurer has been terminated or if one hundred percent of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the insurance commissioner within three business days of the receipt by the custodian of the insurer's written notice of termination or within three business days of the withdrawal of one hundred percent of the account assets.

Subsequent to the exam period, the Company entered into an agreement with Scottrade, Inc. This agreement was also not authorized by the resolution of the Board of Directors or an authorized committee of the Board as required under with N.D. Admin. Code § 45-03-23-01 and is not in compliance with N.D. Admin. Code § 45-03-23-02.

It is recommended that the Company enter into account agreements that meet the requirements of N.D. Admin. Code § 45-03-23-02 and that the agreements be approved by the Board of Directors.

Ad Valorem Tax Credit

The Company is allowed to offset real estate taxes paid on its home office property against its North Dakota premium tax obligation. This offset is known as the ad valorem tax credit. The Company did not allocate the ad valorem tax credit based on the proportion that Hartland Mutual Insurance Company and Hartland Insurance Agency occupy in the Company's principal office, as required by N.D.C.C. § 26.1-03-17(2).

It is recommended that the Company comply with N.D.C.C. § 26.1-03-17(2) and properly allocate the ad valorem tax credit on its premium tax return.

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, 2012
Statement of Income, Year Ended December 31, 2012
Reconciliation of Capital and Surplus, January 1, 2008 through December 31, 2012

Hartland Mutual Insurance Company
Statement of Assets
December 31, 2012

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$701,916		$701,916
Stocks:			
Common Stocks	2,065,637		2,065,637
Real Estate:			
Properties Occupied by the Company	176,221		176,221
Properties Held for the Production of Income	108,081		108,081
Cash	5,584,863		5,584,863
Investment income due and accrued	53,089		53,089
Agents' Balances or Uncollected Premiums:			
Premiums and Agents' Balances in Course of Collection	22,922		22,922
Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due	519,879		519,879
Net deferred tax asset	343,030	$87,858	255,172
Furniture and equipment	134,023	134,023	0
Totals	$9,709,661	$221,881	$9,487,781

Hartland Mutual Insurance Company
Liabilities, Surplus, and Other Funds
December 31, 2012

Losses		$259,878
Loss adjustment expenses		22,090
Commissions payable, contingent commissions and other similar charges		383,494
Other expenses		73,785
Taxes, licenses, and fees		35,551
Federal and foreign income taxes		117,018
Unearned premiums		2,951,617
Advance premiums		44,535
Ceded reinsurance premiums payable		38,328
Amounts Withheld or Retained by Company for Account of Others		10,208
Payable to Grinnell Mutual Reinsurance Company		25,880
Total Liabilities		$3,962,384
Unassigned Funds (Surplus)	$5,525,397	
Surplus as Regards Policyholders		5,525,397
Total		$9,487,781

Hartland Mutual Insurance Company
Statement of Income
December 31, 2012

Underwriting Income		
Premiums earned		$4,995,791
Deductions:		
Losses incurred	$1,133,759	
Loss expenses incurred	155,691	
Other underwriting expenses incurred	1,914,012	
Total underwriting deductions		3,203,462
Net underwriting gain (loss)		$1,792,329
Investment Income		
Net investment income earned	$261,546	
Net realized capital gains (losses)	123,077	
Net investment gain (loss)		384,623
Other Income		
Net gain (loss) from agents' or premium balances charged off	$ (47)	
Finance and service charges not included in premiums	14,305	
Miscellaneous income	46,945	
Total other income		61,203
Net income before federal income taxes		$2,238,155
Federal income taxes incurred		417,018
Net income		$1,821,137

Hartland Mutual Insurance Company
Reconciliation of Capital and Surplus Accounts
January 1, 2008, Through December 31, 2012

	2012	2011	2010	2009	2008
Capital and Surplus, December 31, previous year	$3,417,792	$3,474,979	$3,863,445	$4,177,271	$4,678,324
Net income	1,821,137	275,850	(526,789)	(13,883)	(775,414)
Net unrealized capital gains or (losses)	120,623	(43,149)	(17,746)	36,128	(23,418)
Change in net deferred income tax	(300,002)	(62,304)	189,422	(92,307)	295,376
Change in nonadmitted assets	465,845	65,472	(33,353)	(243,764)	(125,636)
Changes in accounting principles		(293,056)			
Correction of prior exam adjustments					128,039
Net change in Capital and Surplus for the year	$2,107,605	$ (57,187)	$ (388,466)	$ (313,826)	$ (501,053)
Capital and Surplus, December 31, current year	$5,525,397	$3,417,792	$3,474,979	$3,863,445	$4,177,271

COMMENTS ON FINANCIAL STATEMENTS

Financial statement balances at December 31, 2012, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Assets

Stocks

The Company exceeded the limits of N.D.C.C. § 26.1-05-19(21)(a) which limits investments in preferred, guaranteed, and common stocks issued or guaranteed by a single issuer to three percent of the insurance company's admitted assets. At December 31, 2012, the following stock investments exceeded the three percent limitation:

Description	Market Value	3% Limit	Excess
Investors Real Estate Trust	$391,880.00	$284,633	$107,246.60
Franklin Federal Tax Free Income Fund	291,772.00	284,633	7,138.60
Franklin High Yield Tax Free Income Fund	290,609.00	284,633	5,975.60
MFS Municipal Income Fund	290,363.00	284,633	5,729.60
Total	$1,264,624.00		$126,090.40

However, N.D.C.C. § 26.1-05-19(33), commonly known as the basket clause, allows insurers to hold investments not specifically authorized elsewhere in an amount that does not exceed either seven percent of the company's admitted assets, or the amount equal to the Company's capital and surplus in excess of the minimum capital and surplus required by law, whichever is less. Based on the basket clause, the market value of Investors Real Estate Trust, Franklin Federal Tax Free Income Fund, Franklin High Yield Tax Free Income Fund, and MFS Municipal Income Fund in excess of the three percent limit are admitted. The basket clause provided an additional investment authority of $664,145 at December 31, 2012.

It is recommended that the Company periodically review its holdings for compliance with N.D.C.C. § 26.1-05-19(21)(a) and (33). Amounts over the statutory maximum should be nonadmitted.

CONCLUSION

The financial condition of the Company, as of December 31, 2012, as determined by this examination is summarized as follows:

Admitted Assets		$9,487,781
Total Liabilities	$3,962,384	
Surplus as Regards Policyholders	5,525,397	
Liabilities, Surplus, and Other Funds		$9,487,781

Since the last examination conducted as of December 31, 2007, the Company's admitted assets have increased $1,711,375, its total liabilities have increased $864,303, and its surplus as regards policyholders has increased $847,073.

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, Mary Raps, Colton Schulz, and Mike Andring, FCAS, MAAA, of the North Dakota Insurance Department, participated in this examination.

Respectfully submitted,

Edward Moody

Edward Moody, CFE
Chief Examiner
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company's external auditors present their annual audit report findings and recommendations to the entire Board of Directors or the designated Audit Committee thereof as required by N.D. Admin. Code § 45-03-20-12.1(1).

It is recommended that the Company evidence investment approval by formal resolution and that it develop specific investment guidelines in compliance with the requirements of N.D. Admin. Code § 45-03-12-05(1) and (3).

It is again recommended that the Company require the directors, officers, and key management employees to sign conflict of interest statements each year.

It is recommended that the Company establish and maintain an internal complaints log that meets the requirements of N.D.C.C. § 26.1-04-03(10) for any complaints that are reported to the Company.

It is recommended that the Company enter into account agreements that meet the requirements of N.D. Admin. Code § 45-03-23-02 and that the agreements be approved by the Board of Directors.

It is recommended that the Company comply with N.D.C.C. § 26.1-03-17(2) and properly allocate the ad valorem tax credit on its premium tax return.

It is recommended that the Company periodically review its holdings for compliance with N.D.C.C. § 26.1-05-19(21)(a) and (33). Amounts over the statutory maximum should be nonadmitted.