STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

SOUTHWEST MUTUAL INSURANCE COMPANY

NEW SALEM, NORTH DAKOTA

AS OF
DECEMBER 31, 2011

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

Southwest Mutual Insurance Company

New Salem, North Dakota

as of December 31, 2011, 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 26th day of March, 2013.

Adam Hamm
Insurance Commissioner

TABLE OF CONTENTS

February 14, 2013
New Salem, North Dakota

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

Dear Commissioner Hamm:

Pursuant to your instructions and in accordance with the North Dakota Insurance Code and resolutions adopted by the National Association of Insurance Commissioners, an examination was made of the condition and affairs of the

Southwest Mutual Insurance Company
New Salem, North Dakota

as of December 31, 2011.

Southwest Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2006, by representatives of the State of North Dakota.

SCOPE OF STATUTORY 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, 2007, to December 31, 2011, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

STATUS OF PRIOR EXAM FINDINGS

All recommendations made in the prior report of statutory examination have been adequately addressed by the Company or are no longer relevant.

HISTORY

The Company was incorporated on April 16, 1900, as "The Morton County Mutual Fire and Lightning Insurance Company" and commenced business on July 21, 1900. At a later date, the Company's operating rights were extended to include the County of Oliver and the name was amended to "The Morton and Oliver Counties Mutual Fire and Lightning Insurance Company."

The Company's term of existence is perpetual as provided by N.D.C.C. § 26.1-13-03.

Effective January 1, 1997, the Company merged with Adams Farm Mutual Insurance Company located in Hettinger, North Dakota. The two companies formed a new company called Southwest Mutual Insurance Company located at New Salem, North Dakota.

MANAGEMENT AND CONTROL

Membership

The Company is controlled by the membership. Any person owning property within the limits of the territory within which the Company is authorized to transact business may become a member of the Company and be entitled to all the rights and privileges of membership.

Directors

The Bylaws provide that the general management of the Company's affairs, business, and property is vested in a Board of Directors consisting of seven members to be elected by the membership at an annual meeting, a majority of whom shall constitute a quorum to do business. They shall be elected by the members of the Company at the annual meeting for a period of three years and until their successors are elected and qualified; one-third of said directorate shall be elected at each annual meeting. No person who does not reside within such territorial limits shall become a director of the Company. Directors serving as of December 31, 2011, were as follows:

Name and Residence	Term Expires	Occupation
Ronald Gunsch Zap, ND	2014	Farmer
Darrel Suchy Mandan, ND	2015	Farmer
Robert Gaebe New Salem, ND	2015	Retired
Marcus Erhardt New Salem, ND	2013	Retired
Randy John New Salem, ND	2014	Farmer
Delores Reiner New Salem, ND	2015	Retired
Gordonna Toepke New Salem, ND	2013	Retired

Officers

The Bylaws provide that the directors shall elect from their number a President and a Vice President and shall also select a Secretary-Treasurer, who may or may not be a member of the Company, all of whom shall hold their office for one year and until successors are elected and qualified. Officers serving as of December 31, 2011, were as follows:

Name	Office
Ronald Gunsch	President
Darrel Suchy	First Vice President
Robert Gaebe	Second Vice President
Brenda Doll	Secretary-Treasurer

The Company's Manager, Brenda Doll, oversees the day-to-day operations of the Company. She also serves on the Board of Directors as the Secretary-Treasurer. These two positions are inherently conflicting in nature as the Secretary-Treasurer oversees the work of the Manager. **It is recommended that the Company review the job functions of the Manager and Secretary-Treasurer and develop procedures to reduce the fraud risk associated with having the same person performing both functions.**

CORPORATE RECORDS

The minutes of the meetings held by the membership and directors during the years under examination were reviewed for compliance with the Articles of Incorporation, Bylaws and statutory requirements.

There were no amendments to the Bylaws or Articles of Incorporation during the period under review.

Members

The Bylaws provide that the annual meeting of the Company shall be held at such time and place as determined by the Board of Directors. During the period under examination the annual meetings of the membership were held on the following dates: June 7, 2007; June 5, 2008; June 4, 2009; June 3, 2010; June 2, 2011; and June 5, 2012

Directors

During the period under examination the Board of Directors held 12 meetings in 2007, 2008, 2009, 2010, 2011 and 2012.

Corporate Resolutions

The standing authorization forms at all of the Company's banks allow one person to withdraw, transfer money or open new accounts. Good control practices require at least two signatures to minimize the risk of fraud. **It is recommended that the Company update all of its standing**

authorization forms to require at least two signatures to withdraw, transfer money or open new accounts.

EMPLOYEES WELFARE AND PENSION PLANS

The Company offers a Simple Employee Retirement Program which is open to all full-time employees upon completion of one full year of employment. The Company contributes three percent of the employee's gross salary each pay period. The selection of investments is left to the sole discretion of each participant in the program.

FIDELITY BOND AND OTHER INSURANCE

At July 1, 2012, there was in force a policyholder's protection plus bond covering the Company against acts committed by dishonest employees including forgery, alteration, trading losses, and computer systems fraud in the amount of $250,000 subject to a $5,000 deductible. The coverage meets the minimum amount of fidelity insurance recommended in the NAIC's Financial Examiners Handbook.

The Company also had in force a directors and officers liability insurance policy providing a $1,000,000 limit of liability each policy year. Each claim is subject to a $10,000 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.

The Company insures its home office building, which is a commercial property inside the platted limits of the incorporated city of New Salem, through a policy written on its own paper. Writing commercial policies inside the platted limits of incorporated cities is a violation of N.D.C.C. § 26.1-13-15. **It is recommended that the Company cancel its home office insurance policy and that the Company either self-insure its home office or obtain a policy from a third party.**

In addition, the Company's Secretary-Treasurer and Manager, Brenda Doll, receives commission for writing a general liability, stop gap, and business auto coverage through Grinnell Mutual Reinsurance Company under Morton Insurance Agency for the Company. On these liability policies, the Manager is the agent of record and the involvement is not being properly disclosed on her conflict of interest form. **It is recommended that all Company officers and directors disclose any conflict of interests on the conflict of interest statement forms and that any conflicts noted be addressed by the Board of Directors.**

TERRITORY AND PLAN OF OPERATION

At December 31, 2011, the Company had 46 independent agents, 10 agencies, and 5 captive agents and was authorized to transact business in the following counties:

Adams	Billings	Burleigh	Bowman	Dunn
Hettinger	Golden Valley	Grant	Kidder	McKenzie
McLean	Mercer	Morton	Mountrail	Oliver
Sioux	Slope	Stark	Williams	

During the exam period the Company wrote four commercial properties that were within the platted limits of an incorporated city. In accordance with N.D.C.C. § 26.1-13-15 commercial risks can only be written on properties located outside the platted limits of an incorporated city. **It is recommended that the Company nonrenew the commercial policies written on risks inside the platted limits of incorporated cities at the end of each policy's current term and that the Company no longer write commercial properties inside the platted limits of an incorporated city in accordance with N.D.C.C. § 26.1-13-15.**

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company for the 10-year period ended December 31, 2011. Data from 2002 through 2006 is compiled from the prior statutory examination. Data with respect to the years 2007 through 2011 is as compiled from home office copies of the filed Annual Statements. The operational results are presented on a modified cash basis.

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policyholders	Net Premiums Written	Underwriting Deductions	Investment And Other Income	Net Income (Loss)
2002	$1,477,863	$ 949,751	$ 528,112	$1,256,624	$1,240,929	$ 94,728	$ 110,423
2003	1,705,272	868,132	837,140	1,212,011	1,061,995	90,257	240,273
2004	2,041,789	821,134	1,220,655	1,115,843	848,197	83,088	350,734
2005	1,987,616	1,000,180	987,436	1,184,914	1,342,068	103,595	(53,559)
2006	2,022,286	727,273	1,295,013	1,145,054	982,182	110,331	273,203
2007	2,798,359	744,162	2,054,197	1,127,200	791,533	206,511	542,178
2008	2,709,650	1,086,769	1,622,881	1,115,105	1,057,251	113,182	171,035
2009	2,664,032	752,784	1,911,248	1,024,126	1,325,062	112,152	(188,784)
2010	2,408,548	571,217	1,837,331	1,042,396	1,472,818	116,181	(314,342)
2011	2,522,715	868,962	1,653,753	1,007,085	1,062,595	3,164	(52,346)

Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the five-year period ending December 31, 2011:

	2011	2010	2009	2008	2007
Premiums	100%	100%	100%	100%	100%
Deductions:					
Losses and Loss Adjustment	55.1	94.3	75.6	46.0	26.9
Underwriting Expenses	50.4	47.0	53.8	48.8	43.3
Total Deductions	105.5	141.3	129.4	94.8	70.2
Net Underwriting Gain (Loss)	(5.5)	(41.3)	(29.4)	5.2	29.8

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

Claims — Based on a limited review of claim files, the Company pays claims fairly within policy provisions upon receipt of satisfactory proof of loss or damage.

Advertising — The Company's advertising consists primarily of newspaper, radio, and miscellaneous ads (i.e., county fair). The advertising material was reviewed and did not appear to be deceptive.

OPERATIONS REVIEW

In June 2012, representatives of Grinnell Mutual Reinsurance Company (Grinnell) performed an operations review of the Company covering the following areas:

- General Operations
- Underwriting and Loss Control
- Claims

This was the fourth review performed by Grinnell and it contained seven recommendations and three comments. Of the recommendations and comments made by Grinnell none were considered material to this examination.

The Operations Review was subsequent of the exam period but the review was completed before field work was started for the examination.

REINSURANCE

The Company ceded reinsurance under a reinsurance treaty with Grinnell Mutual Reinsurance Company during the years under examination. This nonaffiliated ceding contract consists of individual occurrence of loss and aggregate excess as summarized below. The contract contained all the required clauses including the insolvency clause required by N.D.C.C. § 26.1-02-21.

Type:	Excess	
Reinsurer:	Grinnell Mutual Reinsurance Company	
Scope:	All policy forms and endorsements issued by the Company	
	(A)	Individual Occurrence of Loss Excess - Covers all fire and windstorm risks written by the Company in excess of a $150,000 retention subject to the following limits: Dwellings $1,000,000 Farm Outbuildings $1,000,000 Livestock/Poultry/Horse Operations $1,000,000 Commercial and Public Property $1,000,000
	(B)	Aggregate Excess - Provides coverage for 100 percent of the Company's aggregate net losses in excess of a defined retention limit. The retention limit for 2011 was $813,582.
Premium:	(A)	Individual Occurrence of Loss Excess - The 2011 monthly premium rate per $1,000 adjusted gross fire risks in force was $0.0083.
	(B)	Aggregate Excess - The 2011 monthly premium rate per $1,000 of adjusted gross fire risks in force was $0.0316.
Commissions:	Up to 5% of contingent commission, if the 5 year loss ratio (calculated as the ratio of the most current 5 years of "reinsurance recoveries" to "reinsurance premium") is less than 5%.	
Termination Date:	The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days notice in writing.	

The contract 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.*

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, 2011, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2011 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

The Company does not have a written capitalization policy. A capitalization policy would specify the threshold over which fixed assets should be capitalized and would, therefore, require Board approval before the expenditure was made. Without such a policy, the Company may be unable to consistently determine whether Board approval is required for any improvements which may be made to the Company's home office. **It is recommended that the Company establish a written capitalization policy for fixed assets that is approved by the Board of Directors.**

During the year 2010, the Company made real estate improvements for a HVAC system of $5,237.84 and there was no indication of authorization from the Board of Directors in the Board meeting minutes. **It is recommended that all future real estate additions or improvements over the Company's capitalization amount be approved by the Board of Directors per its written capitalization policy and documented in the official meeting minutes thereof.**

During the exam period the Company did not have a custodial agreement in place with its broker, Stifel Nicolaus, as required by N.D. Admin. Code Chapter 45-03-23. However, subsequent to the exam period, the Company entered into a brokerage agreement with its new broker, Edward Jones, on December 20, 2012. This agreement meets all requirements of N.D. Admin. Code Chapter 45-03-23.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 2011, as determined by this examination and its operating results for the year then ended.

Southwest Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2011

ASSETS:			
LEDGER ASSETS:			
Bonds	$ 631,525		
Stocks	637,315		
Real Estate	99,612		
Cash on Hand and Checking Account	96,506		
Cash on Deposit	964,322		
TOTAL LEDGER ASSETS		$2,429,280	
NONLEDGER ASSETS:			
Interest Due and Accrued on Bonds	$ 10,357		
Dividends Due and Accrued on Stocks	3,765		
Interest Due and Accrued on certificates of deposit and passbook savings	2,020		
Furniture, Fixtures and Automobiles	33,864		
Assessments or premiums in course of collection	121,371		
Reinsurance Recoverable on Paid Losses	4,754		
Total Non-Ledger Assets	176,131		
TOTAL NONLEDGER ASSETS		2,605,411	
DEDUCT: ASSETS NOT ADMITTED			
Furniture, Fixtures, Automobiles	$ 33,864		
Book Value of Ledger Assets in Excess of Market Value	48,832		
TOTAL NONADMITTED ASSETS		(82,696)	
TOTAL NET ADMITTED ASSETS			$2,522,715
LIABILITIES:			
Unpaid Losses	$ 229,984		
Unpaid Loss Adjustment Expense	1,740		
Advanced Premiums	13,422		
Unearned Premium Reserve	593,388		
Commissions Due and Payable to Agents	1,198		
Unpaid Taxes	8,189		
Unpaid General Expenses	1,233		
Reinsurance Premiums Due and Payable	19,968		
All other liabilities	(161)		
TOTAL LIABILITIES		$868,962	
SURPLUS TO POLICYHOLDERS			$1,653,753
TOTAL LIABILITIES AND SURPLUS			$2,522,715

Southwest Mutual Insurance Company
Operating Results
For the Year 2011

INCOME:			
Gross Premium Income	$1,185,545		
Less: Returned Premiums	42,528		
Total Premiums or assessments	1,143,017		
Deduct premiums for reinsurance ceded to other comp.	135,932		
NET PREMIUM INCOME		$1,007,085	
Interest on Bonds		53,245	
Dividends on Stocks		11,657	
Gross Rent From Company's Property		6,240	
Interest on Cash on Deposit		6,555	
Loss on sale or Maturity of Ledger Assets		(100,786)	
Commissions and fees received on Liability business		25,829	
Other Income		423	
TOTAL INCOME RECEIPTS			$1,010,249
DISBURSEMENTS			
Gross Losses Paid and Incurred in 2011	$ 514,275		
Gross Losses Paid in 2011 But Incurred in Prior Years	392,403		
Deduct: Subrogation Received	11,216		
Deduct: Salvage $750 Rein. Recovered $384,008	384,758		
NET LOSSES PAID		$510,704	
Claim Adjustment Expenses		43,714	
Commissions Paid to Agents		188,438	
Directors' Fees and Expenses		15,713	
Salaries to Employees		126,537	
Printing, Stationery, and Office Supplies		12,420	
Rent and Rent Items		6,000	
Real Estate Expenses		7,996	
Taxes on Real Estate		1,555	
State and Local Insurance Taxes		18,426	
Insurance Department Licenses and Fees		1,118	
Payroll Taxes		15,952	
Federal Income Tax		11,682	
Legal Fees and Auditing		3,201	
Travel and Travel Items		5,401	
Advertising		3,651	
Dues and Donations		7,029	
Equipment		28,141	
Insurance and Bonds		9,158	
Postage, Telephone, and Bank Charges		7,819	
Employee Relations and Welfare		8,479	
Data Processing Expenses		8,544	
Miscellaneous Expenses		9,346	
Annual MGT, Inspection Fees & Mileage, Cont. Ed.		11,571	
TOTAL FUNDS DISBURSED			1,062,595
NET GAIN (LOSS)			$ (52,346)

COMMENTS ON FINANCIAL STATEMENTS

Financial statement balances at December 31, 2011, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Assets

Bonds

The following schedule discloses the description, par value, book value, and market value of bonds owned at December 31, 2011:

	Par Value	Book Value	Market Value
Description	Company	Company	Company
U.S. Government	$ 631,000	$ 631,525	$ 639,289
Brokerage CD(s)	709,000	712,336	746,180
Totals	$1,340,000	$1,343,861	$1,385,469

The Company classified and recorded multiple Certificates of Deposit (CDs) under Section VII - Part 1 Bonds when the Company should have classified these CDs as cash accounts under Schedule N, as required by North Dakota Insurance Department Bulletin 2010-2 (Bulletin 2010-2). The reclassification results in a reduction to bonds of $712,336.

According to Bulletin 2010-2, "Current statutory accounting classifies CDs maturing in one year or less as cash and CDs maturing in more than one year as bonds. Bonds investments must be filed with the Securities and Valuation Office (SVO), but cash accounts are not subject to the SVO filing requirement." Since the Company's CDs do mature in more than one year, they could only classify them as bonds if they were filed with the SVO, and since the CDs were not, they should have been classified as cash accounts under Schedule N if certain requirements were met.

According to Bulletin 2010-2, "a domestic insurance company may classify a certificate of deposit, of any maturity, as cash provided:

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 $250,000; and

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

It is recommended that the Company classify CDs with maturities greater than one year as cash if the CDs meet the requirements of Bulletin 2010-2 and the CDs have not been filed with the SVO.

Cash

The following schedule discloses the balance of cash owned at December 31, 2011:

Description	Balance Company	Balance Examination
Cash on Hand	$ 96,506	$ 96,506
Cash on Deposit	251,986	251,986
Brokerage CD(s)	0	712,336
Totals	$348,492	$1,060,828

The examination adjustment reflects the reclassification of brokerage CDs from bonds to cash as further described in the "Bonds" comment above.

Stocks

Book values were verified to the Company's accounting records and to broker's statements. Market values were determined using unit prices listed in the *Securities Valuation Manual, Wall Street Journal* or broker's statements.

The Company is not in compliance with the N.D.C.C. § 26.1-05-19(21)(a) which states investments in preferred, guaranteed, and common stocks issued or guaranteed by a single person may not exceed three percent of the insurance company's admitted assets. At December 31, 2011, the following stock investments exceeded the three percent limitation:

Description	Market Value	3% Limit	Excess
Growth Fund America	$130,914	$72,246	$58,668
Total	$130,914		$58,668

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 Growth Fund America in excess of the three percent limit is admitted. The basket clause provided an additional investment authority of $168,574 at December 31, 2011.

After applying the basket clause the entire amount of the investment was admitted. **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.**

Premiums in Course of Collection

Premiums in course of collection as determined by this examination consisted of the following items and amounts:

Description	**Company**	**Examination**
Deferred Premiums	$ 0	$ 114,522
Assessments or premiums in course of collection (A/R Account Non-Ledger)	6,849	6,849
Total	$6,849	$ 121,371

The Company has the ability to run a "Deferred" report which shows premiums paid in advance of its due date and also deferred premiums. The Company elects to not book these premiums and did not report them on Annual Statement page 3, line 18 at December 31, 2011. Per the County Mutual Annual Statement Instructions, the Company is allowed to record these premiums as a nonledger asset, but the Company is not reporting deferred premiums as a nonledger asset. **It is recommended that the Company report deferred premiums as a nonledger asset in accordance with the County Mutual Annual Statement Instructions.**

Liabilities

Unpaid Losses

The Company's liability for unpaid losses at year end was determined by this examination to be $229,984 or $23,651 more than what was reported by the Company. The liability for unpaid losses was determined using subsequent loss payments through December 31, 2012.

Unearned Premium Reserve

The Company's gross unearned premium reserve is automatically computed by the Rural Computer Consultants software application using the daily pro-rata method. This report can be set to compute the liability based on actual billed premiums or annualized premiums. The Company had the report set for actual billed premiums instead of annualized premiums as required by SSAP 53. The Company reported the correct amount of Advanced Premium on the Annual Statement, but reported it with the Unearned Premium Reserve liability instead of on its own line as per the County Mutual Annual Statement Instructions. The following schedule shows the components of the unearned premium reserve at December 31, 2011:

Description	**Company**	**Examination**
Gross Unearned Premiums	$503,304	$606,811
Advanced Premiums	-	(13,423)
Net Unearned Premiums	$503,304	$593,388

It is recommended that the Company recognize its unearned premium reserve based on annualized premiums in accordance with SSAP 53.

It is recommended that the Company report Advance Premiums on page 3, line 32 of the County Mutual Annual Statement in accordance with the County Mutual Annual Statement Instructions.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be $1,653,753 or $12,636 less than the amount reported by the Company. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase (Decrease) to Surplus
Ledger Assets:			
Assessments or premiums in course of collection	$ 6,849	$ 121,371	$ 114,522
Bonds	1,343,861	631,525	(712,336)
Cash on deposit	251,986	964,322	712,336
Liabilities:			
Unpaid Losses	206,333	229,984	(23,651)
Advance Premiums	0	(13,423)	(13,423)
Unearned Premium Reserve	503,304	593,388	(90,084)
Net Decrease			$ (12,636)

Surplus to Policyholders as reported by Company	$1,666,389
Increase(Decrease) to Surplus from above	(12,636)
Surplus to Policyholders per Examination	$1,653,753

SUBSEQUENT EVENTS

On December 20, 2012, the Company moved its investments previously held with Stifel Nicolaus to a brokerage account at Edward Jones in order to comply with the custodial agreement requirements of N.D. Admin. Code Chapter 45-03-23. The agreement with Edward Jones does meet the requirements of N.D. Admin. Code Chapter 45-03-23.

CONCLUSION

The financial condition of Southwest Mutual Insurance Company, New Salem, North Dakota, as determined by this examination is summarized as follows:

TOTAL ADMITTED ASSETS		$2,522,715
Liabilities	$ 868,962	
Surplus to Policyholders	1,653,753	
TOTAL LIABILITIES AND SURPLUS		$2,522,715

Since the last examination conducted as of December 31, 2006, the Company's admitted assets have increased $500,429, its total liabilities have increased $141,690, and its surplus as regards policyholders has increased $358,740.

In addition to the undersigned, North Dakota Insurance Department Examiner Colton Schulz, Financial Analyst Matt Fischer, AFE and Chief Examiner Ed Moody, CFE, CPA participated in this examination.

The Examiners express their appreciation for the courteous cooperation extended them during the course of this examination.

Respectfully submitted,

Mary K. Raps

Mary Raps
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company review the job functions of the Manager and Secretary-Treasurer and develop procedures to reduce the fraud risk associated with having the same person performing both functions.

It is recommended that the Company update all of its standing authorization forms to require at least two signatures to withdraw, transfer money or open new accounts.

It is recommended that the Company cancel its home office insurance policy and that the Company either self-insure its home office or obtain a policy from a third party.

It is recommended that all Company officers and directors disclose any conflict of interests on the conflict of interest statement forms and that any conflicts noted be addressed by the Board of Directors.

It is recommended that the Company nonrenew the commercial policies written on risks inside the platted limits of incorporated cities at the end of each policy's current term and that the Company no longer write commercial properties inside the platted limits of an incorporated city in accordance with N.D.C.C. § 26.1-13-15.

It is recommended that the Company establish a written capitalization policy for fixed assets that is approved by the Board of Directors.

It is recommended that all future real estate additions or improvements over the Company's capitalization amount be approved by the Board of Directors per its written capitalization policy and documented in the official meeting minutes thereof.

It is recommended that the Company classify CDs with maturities greater than one year as cash if the CDs meet the requirements of Bulletin 2010-2 and the CDs have not been filed with the SVO.

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.

It is recommended that the Company report deferred premiums as a nonledger asset in accordance with the County Mutual Annual Statement Instructions.

It is recommended that the Company recognize its unearned premium reserve based on annualized premiums in accordance with SSAP 53.

It is recommended that the Company report advance premiums on page 3, line 32 of the County Mutual Annual Statement in accordance with the County Mutual Annual Statement Instructions.