STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

DUNDEE MUTUAL INSURANCE COMPANY

PARK RIVER, NORTH DAKOTA

AS OF
DECEMBER 31, 2014

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

Dundee Mutual Insurance Company

Park River, North Dakota

as of December 31, 2014, 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 6th day of January, 2016.

Adam Hamm
Commissioner

TABLE OF CONTENTS

SCOPE OF STATUTORY EXAMINATION 1
STATUS OF PRIOR EXAM FINDINGS 1
SUBSEQUENT EVENTS 2
HISTORY 2
MANAGEMENT AND CONTROL 3
- Membership 3
- Directors 3
- Officers 4
- Committees 4

CORPORATE RECORDS 5
- Amendments to Articles of Incorporation and Bylaws 5
- Board of Directors, Members, and Committee Minutes 5
- Members 5
- Directors 6
- Conflict of Interest 6
- Corporate Resolutions 6

EMPLOYEE WELFARE AND PENSION PLANS 6
FIDELITY BOND AND OTHER INSURANCE 6
TERRITORY AND PLAN OF OPERATION 7
- Agency Appointments 7

SIGNIFICANT OPERATING RESULTS 8
- Growth 8
- Operating Ratios 8

MARKET CONDUCT ACTIVITY 8
- Treatment of Policyholders 8

OPERATING AGREEMENTS 9
- Grinnell Adjusting Service 9

OPERATIONS REVIEW 9
REINSURANCE 9
ACCOUNTS AND RECORDS 10
- Custodial Agreements 11
- Claim Complaints 14

FINANCIAL STATEMENTS 15

COMMENTS ON FINANCIAL STATEMENTS 18
Assets 18
Premiums in Course of Collection 18
Federal Income Tax Recoverable 18
Liabilities 19
Reinsurance Premiums Due and Payable 19
Liability and Equipment Breakdown Premium Payable to Grinnell 19
Surplus to Policyholders 20
CONCLUSION 21
COMMENTS AND RECOMMENDATIONS 22

October 30, 2015
Park River, North Dakota

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 in accordance with the North Dakota Insurance Code and resolutions adopted by the National Association of Insurance Commissioners, an examination was made of the books, records, and financial condition of

Dundee Mutual Insurance Company
Park River, North Dakota

as of December 31, 2014.

Dundee Mutual Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2009, 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, 2010, to December 31, 2014, including any material transactions and events occurring subsequent to the examination date and noted during the course of this statutory examination.

STATUS OF PRIOR EXAM FINDINGS

Our examination included a review to determine the current status of the 13 exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2005, to December 31, 2009. We determined that the Company had satisfactorily addressed all of these items, except the following:

Recommendation	Response
It is recommended that the Company update all of its standing authorization forms to require at least two signatures to withdraw money or open new accounts. It is also recommended that the authority to borrow money not be included as part of the standing authorization.	The Company did not comply. The Company has multiple bank accounts that still require only one signature to withdraw money or open new accounts. In addition, there are also multiple bank accounts that allow the Company the authority to borrow money.
It is recommended that the Company review its cash disbursement process and consider shifting incompatible functions to other employees.	The Company did not comply. The Company did not shift incompatible functions to other employees.
It is recommended that the Company execute a custodial agreement with its broker which complies with N.D. Admin. Code § 45-03-23-02.	The Company did not comply. The Company's custodian agreement with Ameriprise Financial and Franklin Investors does not meet the required provisions of N.D. Admin. Code § 45-03-23-02.
It is recommended that the Company establish a liability or receivable at year end for the difference between its estimated tax liability at year end and the total payments actually made during the year.	The Company did not comply. The Company did not establish a liability or receivable at year end for the difference between its estimated tax liability at year end and the total payments actually made during the year.

Findings and recommendations related to the above areas are addressed under various captions below for the current period under examination.

SUBSEQUENT EVENTS

On March 31, 2015, the Company's Board of Directors approved moving all investments from its custodian, Wells Fargo Advisors, to First Western State Bank (First Western) of Minot. Effective August 4, 2015, the Company entered into an investment management agreement with Stonebridge Capital Advisors (Stonebridge). Stonebridge has full discretionary authority over the Company's investments, subject to the Company's investment guidelines. Effective August 8, 2015, the Company entered into a safekeeping agreement with First Western. The safekeeping agreement with First Western is compliant with the required provisions of N.D. Admin. Code § 45-03-23-02.

HISTORY

The Company was incorporated March 14, 1889, and commenced business on March 15, 1889, under the name of "Dundee Walsh County Farmers Mutual Fire Insurance Company" with its home office and principal place of business at Dundee, North Dakota. Later, the home office was moved from Dundee to the farm residence of the Secretary-Treasurer whose post office address was Hoople, North Dakota. In 1976, the home office was moved to Park River, North Dakota.

The Company was organized for the purpose of insuring the property of its members against loss or damage by fire, lightning and other hazards as permitted under N.D.C.C. ch. 26-13.

In 1957, the coverage was extended to include windstorm and hail (except on growing crops) and in 1966 was further extended to include vandalism and malicious mischief, theft, water damage, freezing of plumbing, heating, and air conditioning systems, livestock, collapse, glass breakage, and collision or overturn of implements.

At the annual meeting of the membership dated November 19, 1957, the name of the Company was changed from "Dundee Walsh County Farmers Mutual Fire Insurance Company" to "Dundee Walsh County Farmers Mutual Insurance Company."

At the annual meeting of the membership held June 21, 1972, the Articles of Incorporation were amended changing the name of the Company to read "Dundee Mutual Insurance Company."

On September 26, 1984, the policyholders voted to reorganize the Company to comply with N.D.C.C. ch. 26.1-12 whereby the Company changed its status from a county mutual insurance company to an incorporated mutual insurance company. At the February 13, 1986, Board of Directors meeting, the Board agreed to voluntarily surrender its current Certificate of Authority to do business as an incorporated mutual and agreed to revert to county mutual status to comply with N.D.C.C. ch. 26.1-13. This Certificate of Authority was issued on May 7, 1986.

The Company has perpetual existence as provided under N.D.C.C. § 26.1-13-03.

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. A person must reside within such territorial limits to be a director of the Company.

Directors

The Bylaws provide that the number of directors shall be determined each year at the annual meeting of the membership and shall not be less than 5 nor more than 15, 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. At the election of members to the Board of Directors, each member shall be entitled to one vote, either in person or by proxy, for each director to be elected.

Directors serving as of December 31, 2014, were as follows:

Name and Residence	Term Expires	Occupation
Doug Davis Grafton, ND	2015	Farmer
Larry Gellner Langdon, ND	2017	Farmer
Luther Meberg Park River, ND	2015	Farmer
Allen Ruzicka Fordville, ND	2016	Farmer
Dennis Skorheim Jr. Adams, ND	2017	Farmer

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, 2014, were as follows:

Name	Office
Larry Gellner	President
Luther Meberg	Vice President
Eugene Bossert	Secretary-Treasurer

Committees

According to the Company's Bylaws, a nominating committee shall be named by the Chairman of the Board of Directors at the January meeting. This committee shall consist of three members and no more than one member of the committee can be a current member of the Board of Directors.

The nominating committee member from the Board was appointed by the Chairman of the Board of Directors at the December meeting during the examination period, except 2011, when the appointment was made at the February meeting. The remaining two members of the nominating committee were not named by the Chairman of the Board of Directors during the January meeting as required by the Company's Bylaws. Except for 2011, the Company was unable to report who the two independent members of the three-member committee were during the examination period.

It is recommended that the Company comply with its Bylaws or amend its Bylaws to ensure compliance with the Company's operations. It is also recommended that committee appointments be documented in the Company's minutes.

CORPORATE RECORDS

Amendments to Articles of Incorporation and Bylaws

The following amendment was made to the Articles of Incorporation during the period under examination:

March 29, 2011 **Articles:** The registered agent for the company shall be manager, Eugene Bossert.

The following amendment was made to the Bylaws during the period under examination:

March 30, 2010 **Bylaws:** The members of the company shall meet annually on the last Tuesday in March, in each year, in Park River, North Dakota. Special meetings may be called by the President, or by any four members of the Board of Directors, upon 60 days written notice mailed to the members. Twenty members, either in person or by proxy, shall constitute a quorum for the transaction of business at any regular or special meeting.

Board of Directors, Members, and Committee Minutes

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 was no evidence in the minutes noting retrospective approval of individual investment transactions made by the Company's brokers as required by N.D. Admin. Code § 45-03-12-05(4).

It is recommended that the Company document the review and approval of investment transactions made by its brokers within its Board minutes at least quarterly in compliance with N.D. Admin. Code § 45-03-12-05(04).

Members

The Bylaws provide that the annual meeting of the Company shall be held on the last Tuesday in March in Park River, North Dakota. During the period under examination the annual meetings of the membership were held on the following dates: March 30, 2010; March 29, 2011; March 27, 2012; March 26, 2013; and March 25, 2014.

Directors

During the period under examination the Board of Directors held five meetings in 2010, 2011 and 2013 and four meetings in 2012 and 2014.

Conflict of Interest

The Company has a conflict of interest policy for directors, officers, and key employees and conflict of interest statements are completed annually. However, the signed conflict of interest statements were only reviewed by the Board of Directors in 2010, 2013, and 2014.

It is recommended that the Company's Board of Directors annually review the conflict of interest statements and all disclosures. If conflicts are identified, it is recommended that the Company's Board of Directors develop a process to address identified conflicts.

Corporate Resolutions

The standing authorization forms at 18 of the financial institutions that the Company has a cash account allow one person to withdraw money, open new accounts or borrow money. Good control practices require at least two signatures to minimize the risk of fraud. There were multiple standing authorization forms that have a former employee listed as an authorized signer.

It is again recommended that the Company update all of its standing authorization forms to require at least two signatures to withdraw money or open new accounts. It is also again recommended that the authority to borrow money not be included as part of the standing authorization unless specifically approved by the Board of Directors. It is recommended that the Company update its standing authorizations to include only current employees of the Company.

EMPLOYEE WELFARE AND PENSION PLANS

The Company provides full health insurance to its two employees and their families. It does not provide health insurance to part-time employees.

The Company established a simplified employee pension plan for its employees in 1989. The Board votes on a yearly bonus for all employees and the employees have the option of taking their bonus in cash or contributing to their simple plan.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2014, a commercial blanket bond was in force which provided $50,000 coverage for losses resulting from dishonest acts committed by any of the Company's employees. The fidelity bond coverage did not meet the minimum amount of fidelity insurance recommended in the NAIC's *Financial Examiners Handbook*, which is $75,000.

However, subsequent to the exam period, the Company amended its fidelity bond and increased the amount of coverage from $50,000 to $75,000, which does meet the minimum 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 limit of liability of $1,000,000 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.

A commercial lines policy provides property coverage of $238,734 for the office building in Park River and business personal property coverage of $38,368. The policy also provides liability coverage of $500,000 per occurrence and a $1,000,000 aggregate limit.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company had 88 licensed agents and was authorized to transact business in the following counties:

Barnes	Benson	Burleigh	Cass	Cavalier	Eddy
Foster	Grand Forks	Griggs	Kidder	McHenry	McLean
Mercer	Morton	Nelson	Oliver	Pembina	Pierce
Ramsey	Richland	Sheridan	Steele	Stutsman	Towner
Traill	Walsh	Ward	Wells		

During the exam period, the Company wrote three nonresidential risks that were within the platted limits of an incorporated city. In accordance with N.D.C.C. § 26.1-13-15(3) nonresidential risks can only be written on properties located outside the platted limits of an incorporated city.

It is recommended that the Company nonrenew the policies written on the nonresidential risks inside the platted limits of an incorporated city at the end of the policies' current term and that the Company no longer write nonresidential risks inside the platted limits of an incorporated city in accordance with N.D.C.C. § 26.1-13-15(3).

Agency Appointments

N.D.C.C. § 26.1-26-06 requires that an insurance producer may not act as an agent of an insurer unless the insurance producer becomes an appointed insurance producer of that insurer. At December 31, 2014, the Company had 17 agencies writing business that were not an appointed insurance producer of the Company.

It is recommended that the Company appoint all agencies that are directly paid commissions to comply with N.D.C.C. § 26.1-26-06.

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over the 10-year period ending December 31, 2014. Data with respect to the years 2005-2008 and 2010-2013 is compiled from home office copies of the filed Annual Statements. Data for the years 2009 and 2014 reflects the results of the statutory examination. 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)
2005	1,396,219	417,157	979,062	702,312	961,494	61,404	(197,778)
2006	1,730,287	438,994	1,291,294	733,336	490,124	80,292	323,503
2007	1,991,128	451,080	1,540,048	741,403	631,444	144,222	254,181
2008	2,395,901	503,066	1,892,835	801,375	499,108	110,248	412,516
2009	2,531,637	544,553	1,987,084	846,082	824,634	89,466	110,914
2010	2,657,649	619,593	2,038,056	862,350	827,737	116,732	151,346
2011	2,638,578	599,299	2,039,279	909,173	918,845	(13,040)	(22,711)
2012	3,120,965	611,836	2,509,129	968,279	565,534	69,414	472,159
2013	3,506,499	738,093	2,768,406	1,095,151	813,131	101,459	383,480
2014	3,823,303	818,562	3,004,741	1,108,177	955,270	99,921	252,828

Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the five-year period ending December 31, 2014:

	2014	2013	2012	2011	2010
Premiums	100%	100%	100%	100%	100%
Deductions:					
Losses and Loss Adjustment	42.6	33.4	16.6	56.8	48.3
Underwriting Expenses	43.6	40.8	41.8	44.3	47.7
Total Deductions	86.2	74.2	58.4	101.1	96.0
Net Underwriting Gain (Loss)	13.8	25.8	41.6	(1.1)	4.0

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, sports booklets, and miscellaneous ads (i.e., county fair). The advertising material was reviewed and no violations of N.D.C.C. § 26.1-04-03(2) were noted.

OPERATING AGREEMENTS

Grinnell Adjusting Service

On April 1, 2011, the Company entered into a contract with Grinnell Advisory Company, a subsidiary of Grinnell Mutual Reinsurance Company, to perform claims adjusting and risk review services.

For services provided in 2014, Grinnell Advisory Company was paid $23,000. The fee charged is a flat rate for up to 100 claims adjustments and 35 risk reviews. Any additional claims would be billed at $400 per claim.

It is recommended that the Company allocate the fixed fee paid to Grinnell Advisory Company between underwriting expenses and claims adjustment expenses based on the number of claims adjusted and risk reviews performed by Grinnell Advisory Company.

OPERATIONS REVIEW

Representatives of Grinnell Mutual Reinsurance Company (Grinnell) performed an operations review of the Company in July 2012 covering the following areas:

- General Operations
- Underwriting and Loss Control
- Claims

This was the fourth review performed by Grinnell and contained six suggestions none of which were considered significant by this examination.

REINSURANCE

The reinsurance treaty in force at December 31, 2014, is summarized below.

Nonaffiliated Ceding Contract:

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 risks written by the Company in excess of $175,000 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
Farm Machinery and Equipment Storage	2,000,000

(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 2014 was $877,078.

(C) Comprehensive Personal Liability and Farmers Comprehensive Personal Liability covers 100% of all comprehensive personal liability and farmers comprehensive personal liability losses.

Premium:

(A) Individual Occurrence of Loss Excess - The 2014 monthly premium was $0.0105 per $1,000 adjusted gross fire risks in force.

(B) Aggregate Excess - The 2014 monthly premium rate per $1,000 of adjusted gross fire risks in force was $0.0363.

(C) Comprehensive Personal Liability and Farmers Comprehensive Personal Liability 100% of premiums charged.

Commissions: Sliding scale contingent commission from zero percent to five percent based on the five year loss ratio.

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 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, 2014, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2014 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

The previous exam noted in the Management Letter to the Board of Directors that the Company's accountant performs virtually all cash disbursements functions. She opens the mail, records the disbursement in the accounting program, signs the check and reconciles the bank account. This comment was not addressed during the period under examination.

It is again recommended that the Company review its cash disbursement process and consider shifting incompatible functions to other employees.

Custodial Agreements

At December 31, 2014, the Company had brokerage relationships with four brokers, Merrill Lynch, Wells Fargo Advisors, Ameriprise Financial, and Franklin Templeton. The Merrill Lynch and Wells Fargo Advisors agreements were determined to be compliance with N.D. Admin. Code § 45-03-23-02.

The Ameriprise Financial and Franklin Templeton agreements did not contain the following language as specified in N.D. Admin. Code § 45-03-23-02(2):

> 2. The agreement must be in writing and must be authorized by the resolution of the board of directors of the insurance company or of an authorized committee of the board. The terms of the agreement must comply with the following:
>
> 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.

e. The custodian shall be required to send or cause to be sent to the insurance company a confirmation of all transfers of custodied securities to or from the account of the insurance company. In addition, the custodian shall be required to furnish no less than monthly the insurance company with reports of holdings of custodied securities at such times and containing information as may be reasonably requested by the insurance company. The custodian's trust committee's annual reports of its review of the insurer's trust accounts shall also be provided to the insurer. Reports and verifications may be transmitted in electronic or paper form.

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.

k. The custodian shall be obligated to indemnify the insurance company for any loss of custodied securities, except that the custodian shall not be so obligated to the extent that the loss was caused by other than the negligence or dishonesty of the custodian.

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.

It is again recommended that the Company enter into custodial agreements with Ameriprise Financial and Franklin Investors that comply with N.D. Admin. Code § 45-03-23-02(2) and that these agreements be approved by the Board of Directors.

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, if the Company receives complaints, they are noted in the claim file itself. The Company does not have or maintain an internal complaints log that records all grievances received by the Company as required by 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 or grievances that are reported to the Company.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 2014, as determined by this examination and its operating results for the year then ended.

Dundee Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2014

ASSETS:			
LEDGER ASSETS:			
Bonds	$1,001,990		
Stocks	409,901		
Real Estate	42,014		
Cash on Hand and Checking Account	5,240		
Cash on Deposit	2,265,183		
Assessments or Premiums in Course of Collection	81,718		
Furniture, Fixtures, Automobiles	272		
Other Assets	11,120		
TOTAL LEDGER ASSETS		$3,817,438	
NONLEDGER ASSETS:			
Interest Due and Accrued on Bonds	$ 8,524		
Interest Due and Accrued on Cash on Deposit	8,168		
Federal Income Tax Recoverable	2,566		
TOTAL NONLEDGER ASSETS		19,258	
DEDUCT: ASSETS NOT ADMITTED			
Furniture, Fixtures, Automobiles	$ 272		
Book Value of Ledger Assets in Excess of Market Value	4,043		
Computer Software	9,078		
TOTAL NONADMITTED ASSETS		(13,393)	
TOTAL NET ADMITTED ASSETS			$3,823,303
LIABILITIES:			
Unpaid Losses	$ 121,270		
Unpaid Loss Adjustment Expense	500		
Advance Premiums	10,957		
Unearned Premium Reserve	636,746		
Commissions Due and Payable to Agents	10,840		
Unpaid Taxes	8,579		
Unpaid Salaries	6,239		
Unpaid General Expenses	615		
Reinsurance Premiums Due and Payable	15,929		
Liability and Equipment Breakdown Premium Payable to Grinnell	6,887		
TOTAL LIABILITIES		$818,562	
SURPLUS TO POLICYHOLDERS			$3,004,741
TOTAL LIABILITIES AND SURPLUS			$3,823,303

Dundee Mutual Insurance Company
Statement of Income and Disbursements
as of December 31, 2014

INCOME:			
Gross Premium Income	$1,346,961		
Less: Returned Premiums	29,589		
Premiums for Reinsurance Ceded	209,195		
NET PREMIUM INCOME		$1,108,177	
Interest on Bonds		30,781	
Dividends on Stocks		8,531	
Gross Rent From Company's Property		6,000	
Interest on Cash on Deposit		18,078	
Profit on sale or Maturity of Ledger Assets		(2,351)	
Commissions and service fees received		13,839	
Liability commission retained		21,543	
Equipment Breakdown commission retained		3,370	
Other Income		130	
TOTAL INCOME RECEIPTS			$1,208,098
DISBURSEMENTS			
Gross Losses Paid and Incurred in 2014	$ 498,895		
Gross Losses Paid in 2014 But Incurred in Prior Years	41,090		
Deduct: Salvage & Subrogation	3,900		
Reinsurance Recovered	90,583		
NET LOSSES PAID		$ 445,502	
Claim Adjustment Expenses		26,329	
Commissions Paid to Agents		205,363	
Directors' Fees and Expenses		9,701	
Salaries to Employees		109,487	
Printing, Stationery, and Office Supplies		3,805	
Rent and Rent Items		10,953	
Real Estate Expenses		9,504	
Taxes on Real Estate		1,011	
State and Local Insurance Taxes		22,233	
Insurance Department Licenses and Fees		1,139	
Payroll Taxes		7,636	
Federal Income Tax		6,002	
Legal Fees and Auditing		1,674	
Travel and Travel Items		5,238	
Advertising		7,255	
Dues and Donations		8,648	
Equipment		1,471	
Insurance and Bonds		7,079	
Postage, Telephone, and Bank Charges		12,166	
Employee Relations and Welfare		36,963	
Data Processing Expenses		12,622	
Miscellaneous Expenses		1,203	
Seminars and Agent Seminars		2,286	
TOTAL FUNDS DISBURSED			955,270
NET GAIN (LOSS)			$ 252,828

COMMENTS ON FINANCIAL STATEMENTS

Financial statement balances at December 31, 2014, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Assets

Premiums in Course of Collection

Premiums in course of collection was determined by this examination to be $81,718 or $70,761 more than what was reported by the Company and consisted of the following items and amounts:

Description	Company	Examination
Assessments or premiums in course of collection	$ 10,957	$ 81,718
Total	$ 10,957	$ 81,718

The Company incorrectly reported aged premiums in course of collections gross of liability and equipment breakdown premiums, resulting in a $1,120 overstatement. In addition, the Company did not include net deferred premiums at December 31, 2014, resulting in a $71,881 understatement of the account.

It is recommended that the Company report aged premiums in course of collection net of liability and equipment breakdown premiums and deferred premiums net of liability and equipment breakdown premiums as an asset on page 3, line 8, of the Annual Statement in accordance with the *County Mutual Annual Statement Instructions.*

Federal Income Tax Recoverable

Federal Income Tax Recoverable was determined by this examination to be $2,566 greater than reported by the Company and consisted of the following items and amounts:

Description	Company	Examination
Federal Income Tax Recoverable	$ 0	$ 2,566
Total	$ 0	$ 2,566

The Company did not book an asset for the over payment of $2,566 to be refunded with the Company's 2014 Federal Income Tax Return.

It is again recommended that the Company establish a liability or receivable at year end for the difference between its estimated tax liability at year end and the total payments actually made during the year.

Liabilities

Reinsurance Premiums Due and Payable

Reinsurance Premiums Due and Payable was determined by this examination to be $15,929 or $6,887 less than reported by the Company and consisted of the following items and amounts:

Description	Company	Examination
Reinsurance Premiums Due and Payable	$ 22,816	$ 15,929
Total	$ 22,816	$ 15,929

Liability and Equipment Breakdown Premium Payable to Grinnell

Liability and Equipment Breakdown Premium Payable to Grinnell was determined by this examination to be $6,887 greater than reported by the Company and consisted of the following items and amounts:

Description	Company	Examination
Liability and Equipment Breakdown Premium Payable to Grinnell	$ 0	$ 6,887
Total	$ 0	$ 6,887

The Company incorrectly included the unremitted liability and equipment breakdown premiums due to Grinnell in its Reinsurance Premiums Payable.

It is recommended that the Company report its Liability and Equipment Breakdown Premiums Payable to Grinnell as a write-in liability on page 3, line 40 or 41, of the Annual Statement in accordance with the *County Mutual Annual Statement Instructions*.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be in the amount of $3,004,741 or $73,327 more than the amount reported by the Company. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase (Decrease) to Surplus
Assets:			
Premiums in Course of Collection	$ 10,957	$ 81,718	$ 70,761
Federal Income Tax Recoverable	0	2,566	2,566
Liabilities:			
Reinsurance Premiums Due and Payable	22,816	15,929	6,887
Liability and Equipment Breakdown Premium	0	6,887	(6,887)
Net Increase			$ 73,327

Surplus to Policyholders as reported by Company	$2,931,414
Increase(Decrease) to Surplus from above	73,327
Surplus to Policyholders per Examination	$3,004,741

CONCLUSION

The financial condition of Dundee Mutual Insurance Company, Park River, North Dakota, as determined by this examination is summarized as follows:

TOTAL ADMITTED ASSETS		$3,823,303
Liabilities	$ 818,562	
Surplus to Policyholders	3,004,741	
TOTAL LIABILITIES AND SURPLUS		$3,823,303

Since the last examination conducted as of December 31, 2009, the Company's admitted assets have increased $1,291,666, its total liabilities have increased $274,009, and its surplus as regards policyholders has increased $1,017,657.

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

In addition to the undersigned, Chief Examiner Ed Moody, CFE, participated in this exam

Respectfully submitted,

Mary K. Raps

Mary K. Raps, AFE
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company comply with its Bylaws or amend its Bylaws to ensure compliance with the Company's operations. It is also recommended that committee appointments be documented in the Company's minutes.

It is recommended that the Company document the review and approval of investment transactions made by its brokers within its Board minutes at least quarterly in compliance with N.D. Admin. Code § 45-03-12-05(04).

It is recommended that the Company's Board of Directors annually review the conflict of interest statements and all disclosures. If conflicts are identified, it is recommended that the Company's Board of Directors develop a process to address identified conflicts.

It is again recommended that the Company update all of its standing authorization forms to require at least two signatures to withdraw money or open new accounts. It is also again recommended that the authority to borrow money not be included as part of the standing authorization unless specifically approved by the Board of Directors. It is recommended that the Company update its standing authorizations to include only current employees of the Company.

It is recommended that the Company nonrenew the policies written on the nonresidential risks inside the platted limits of an incorporated city at the end of the policies' current term and that the Company no longer write nonresidential risks inside the platted limits of an incorporated city in accordance with N.D.C.C. § 26.1-13-15(3).

It is recommended that the Company appoint all agencies that are directly paid commissions to comply with N.D.C.C. § 26.1-26-06.

It is recommended that the Company allocate the fixed fee paid to Grinnell Advisory Company between underwriting expenses and claims adjustment expenses based on the number of claims adjusted and risk reviews performed by Grinnell Advisory Company.

It is again recommended that the Company review its cash disbursement process and consider shifting incompatible functions to other employees.

It is again recommended that the Company enter into custodial agreements with Ameriprise Financial and Franklin Investors that comply with N.D. Admin. Code § 45-03-23-02(2) and that these agreements be approved by the Board of Directors.

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 or grievances that are reported to the Company.

It is recommended that the Company report aged premiums in course of collection net of liability and equipment breakdown premiums and deferred premiums net of liability and equipment breakdown premiums as an asset on page 3, line 8, of the Annual Statement in accordance with the *County Mutual Annual Statement Instructions.*

It is again recommended that the Company establish a liability or receivable at year end for the difference between its estimated tax liability at year end and the total payments actually made during the year.

It is recommended that the Company report its Liability and Equipment Breakdown Premiums Payable to Grinnell as a write-in liability on page 3, line 40 or 41, of the Annual Statement in accordance with the *County Mutual Annual Statement Instructions.*