STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

FLAXTON FARMERS MUTUAL FIRE INSURANCE COMPANY

BOWBELLS, 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

Flaxton Farmers Mutual Fire Insurance Company

Bowbells, 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 5th day of June, 2014.

Adam Hamm
Insurance Commissioner

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May 23, 2014
Bowbells, North Dakota

Honorable Adam Hamm
Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue
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

Flaxton Farmers Mutual Fire Insurance Company
Bowbells, North Dakota

as of December 31, 2012.

Flaxton Farmers Mutual Fire Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 2007, 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, 2008, to 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

STATUS OF PRIOR EXAM FINDINGS

Our examination included a review to determine the current status of the eight 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 recommended that the Company increase the fidelity bond amount to $50,000 to comply with the fidelity bond minimum requirement from the NAIC Financial Examiners Handbook.	The Company did not comply. During the period under review, the Company maintained $25,000 in fidelity bond coverage.

Recommendation	Response
It is recommended that the Company limit its aggregate deposits in any one financial institution to the FDIC insured limit of $100,000 plus any excess deposit insurance coverage carried by the financial institution.	The Company did not comply. The Company has multiple accounts in excess of the FDIC insurance coverage limit.

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

HISTORY

The Company was incorporated on February 6, 1906, as "The Flaxton Farmers Mutual Fire Insurance Company of Ward County", and commenced business on June 10, 1906.

At the annual meeting of policyholders held on July 19, 1975, the Articles of Incorporation were officially amended, changing the name of the Company to "Flaxton Farmers Mutual Fire Insurance Company".

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

The Company was organized for the specific purpose of mutually insuring the property of its members against any risk of hazard by fire and lightning. During 1963, the Company extended its coverage to include the perils of windstorm, hail, explosion, aircraft or vehicles, smoke, riot, theft of personal property, injury or death of livestock, overturn or collision of farm machinery, vandalism or malicious mischief and additional living expenses.

MANAGEMENT AND CONTROL

Membership

The Company is controlled by its 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 accorded each member. No person who does not reside within such territorial limits shall become a director of the Company.

Directors

During the examination period, the Company amended its Bylaws twice reducing the number of directors from eight to seven in 2011, then from seven to six in 2012. The management of the Company's affairs, business, and property is vested in the Board of Directors who are elected for staggered terms of three years by the membership at the annual meeting. A majority of the entire Board of Directors constitutes a quorum for the transaction of business.

Directors duly elected and serving the Company at December 31, 2012, were as follows:

Directors	Term Expires	Occupation
Kerry Strom Portal, ND	2014	Retired Farmer
Richard Hinds Bowbells, ND	2013	Retired Farmer
Bruce Anderson Bowbells, ND	2013	Retired Manager Flaxton Farmers
Jay Espeseth Noon, ND	2015	Rancher Federal Border Inspector
Jerol Staael Stanley, ND	2015	Farmer
Nathan Jepsen Bowbells, ND	2014	CPA

Officers

Officers are elected annually by the Board of Directors at the first meeting of the Board of Directors held after each annual meeting. Officers serving at December 31, 2012, were as follows:

Name	Office
Richard Hinds	President
Nathan Jepsen	Vice President
James Anderson	Secretary-Treasurer

The Company's Manager, James Anderson, oversees the day-to-day operations of the Company. He 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.

Committees

The Board of Directors formed a Finance Committee during the prior examination period. This committee met on an as-needed basis, which was at least once per year except in 2012. The committee members as of the last meeting on February 18, 2011, were:

Bruce Anderson, Director
Jerol Staael, Director
James Anderson, Secretary-Treasurer

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.

The Company's Bylaws were amended in 2011 and 2012 to reduce the number of Directors from eight to seven and then from seven to six. There were no amendments to the Company's Articles of Incorporation during the exam period even though the Articles set the number of directors at eight as of the last revision on June 17, 1972

It is recommended that the Company amend its Articles of Incorporation to match the Company's Bylaws for the number of Board of Directors required.

Members

During the period under examination the annual meetings of the policyholders were held in accordance with the Company's Bylaws on the following dates: June 4, 2008; June 3, 2009; June 2, 2010; June 1, 2011; and June 6, 2012.

Directors

During the period under examination, the Board of Directors met four times each year from 2008 through 2012.

Approval of Investments

The minutes of the Board of Directors do not reflect approval of investment transactions as required by statute. N.D.C.C. § 26.1-05-18 requires the Board of Directors or a Board-appointed Investment Committee authorize an investment transaction before it is made. N.D. Admin Code § 45-03-12-05 specifies how investment approval can be accomplished. During the examination period, the Company did not meet the following requirements of N.D. Admin. Code § 45-03-12-05(3) and (4):

> 3. 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.

4. On no less than a quarterly basis, the board of directorsor committee of the board of directors shall:

   a. Receive and review a summary report on the insurer's investment portfolio, its investment activities, and investment practices engaged in under delegated authority, in order to determine whether the investment activity of the insurer is consistent with its written plan; and

   b. Review and revise, as appropriate, the writtenplan.

It is recommended that the Board of Directors or a Board-appointed Investment Committee thereof approve investment transactions and review the Company's investment guidelines pursuant to N.D. Admin. Code § 45-03-12-05(3) and (4).

Conflict of Interest

The Company did not have an established procedure for annually disclosing potential conflicts of interest to its Board of Directors of any material interest or affiliation on the part of its officers, directors or key employees which is in, or likely to, conflict with the official duties of such person. The Board did not complete these disclosures on an annual basis during the examination period. The Company began requiring annual conflict of interest disclosures in 2013 and no material conflicts were noted.

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

EMPLOYEES WELFARE AND PENSION PLANS

The Company offers no employee welfare or pension plans.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2012, there was in force a continuous position schedule fidelity bond covering the Secretary-Treasurer for the faithful performance of duty in the amount of $25,000. Two of the Company's secretaries were also covered for $25,000. The fidelity bond coverage does not meet the minimum amount of fidelity insurance recommended in the NAIC's*Financial Examiners Handbook* which is $75,000. The same deficiency was noted in the prior examination except that, at that time, the minimum was only $50,000.

It is again recommended that the Company increase the fidelity bond amount to $75,000 to comply with the fidelity bond minimum requirement from the NAIC *Financial Examiners Handbook*.

The Company is covered by a professional liability and directors and officers liability policy with a $2 million per occurrence and a $2 million aggregate limit each policy year, subject to a $5,000 deductible per claim. 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 also is covered under a commercial general liability policy. Limits under this policy include a $2 million general aggregate limit, $1 million per occurrence, $1 million personal and advertising injury, $100,000 fire damage liability, and $5,000 medical expenses.

The Company does not carry insurance on its furniture, fixtures, records, and files against insurable hazards.

TERRITORY AND PLAN OF OPERATION

At December 31, 2012, the Company had 35 licensed agents and was authorized to transact business within the following counties:

Bottineau	Burke	Divide	McHenry	McKenzie
McLean	Mercer	Mountrail	Nelson	Renville
Sheridan	Ward	Williams		

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company for the 10-year period ended December 31, 2012. Data from 2003 through 2007 is compiled from the prior statutory examination. Data with respect to the years 2008 through 2012 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)
2007	$1,981,698	$566,586	$1,415,112	$ 631,886	$542,968	$104,041	$192,959
2008	1,950,696	514,734	1,435,962	711,797	733,107	98,247	36,937
2009	2,155,789	534,750	1,621,039	752,007	669,820	68,044	150,231
2010	2,149,017	550,380	1,598,637	838,467	948,125	95,842	(13,816)
2011	2,278,998	647,819	1,631,179	896,155	814,658	81,802	163,299
2012	2,577,081	928,012	1,649,069	1,031,113	872,680	79,189	237,622

Operating Ratios

The underwriting ratios presented below are on a cash basis and encompass the five-year period ending December 31, 2012:

	2012	2011	2010	2009	2008
Premiums	100%	100%	100%	100%	100%
Deductions:					
Losses and Loss Adjustment	43.6	51.2	69.7	43.5	64.4
Underwriting Expenses	41.0	39.7	43.3	45.6	44.2
Total (Operating Ratio)	84.6	90.9	113.1	89.1	108.6
Net Underwriting Gain (Loss)	15.4	9.1	(13.1)	10.9	(8.6)

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

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

- Management
- Underwriting
- Claims
- Financial Strength
- Reinsurance Experience
- Risk Retention

The Grinnell audit scored between Fair and Excellent and showed no areas of "Needs Improvement."

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 coverage as summarized below.

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 $125,000 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 2012 was $636,836.

Premium:

(A) Individual Occurrence of Loss Excess - The 2012 monthly premium rate per $1,000 adjusted gross fire risks in force was $0.0156.

(B) Aggregate Excess - The 2012 monthly premium rate per $1,000 of adjusted gross fire risks in force was $0.0516.

Commissions: Up to five percent of contingent commission, if the five year loss ratio (calculated as the ratio of the most current five years of "reinsurance recoveries" to "reinsurance premium") is less than five percent.

Termination Date: The agreement may be terminated only as of the last day of any calendar year by either party upon 90days 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, 2012, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2012 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

Custodial Agreements

The Company has brokerage relationships with four brokers, Merrill Lynch, Pierce, Fenner & Smith Inc. (Merrill Lynch), UBS Financial Services Inc. (UBS), Thrivent Investment Management Inc. (Thrivent), and Invesco Investment Services Inc. (Invesco). The Merrill Lynch and UBS agreements were determined to be compliant with N.D. Admin. Code ch. 45-03-23 except that the Company's Board of Directors did not approve the agreements as required in N.D. Admin. Code § 45-03-23-02(2) which states:

> 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 Thrivent and Invesco 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 paperform.

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 recommended that the Company obtain agreements for Thrivent and Invesco that comply with N.D. Admin. Code § 45-03-23-02(2) and that all agreements be approved by the Board of Directors.

<u>Agency Agreements</u>

The examiners found that the Company does not require written contracts with its agents or agencies. A written contract would specify the terms and obligations of both parties and would benefit both parties by providing formal documentation of the relationship should any misunderstandings arise.

It is recommended that the Company enter into formal written contracts with each of its appointed agents and agencies.

<u>Claim Complaints</u>

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 that are reported to the Company.

FINANCIAL STATEMENTS

The following statements reflect the financial condition of the Company as of December 31, 2012, as determined by this examination and its operating results for the year then ended.

Flaxton Farmers Mutual Fire Insurance Company
Statement of Assets, Liabilities, and Surplus
December 31, 2012

ASSETS:			
LEDGER ASSETS:			
Bonds	$ 323,745		
Stocks	634,484		
Cash on Hand and Checking Account	3,648		
Cash on Deposit	1,566,250		
TOTAL LEDGER ASSETS		$2,528,127	
NONLEDGER ASSETS:			
Interest Due and Accrued on Bonds	$ 3,424		
Dividends Due and Accrued on Stocks	352		
Interest Due and Accrued on certificates of deposit and passbook savings	931		
Assessments or premiums in course of collection	35,173		
Market Value of Stocks over Book Value	29,020		
Total Non-Ledger Assets	68,900		
TOTAL NONLEDGER ASSETS		$2,597,027	
DEDUCT: ASSETS NOT ADMITTED			
Other assets not admitted	$ 19,946		
TOTAL NONADMITTED ASSETS		$ 19,946	
TOTAL NET ADMITTED ASSETS			$2,577,081
LIABILITIES:			
Unpaid Losses	$ 85,757		
Unpaid Loss Adjustment Expense	1,745		
Advanced Premiums	20,951		
Unearned Premium Reserve	660,390		
Commissions Due and Payable to Agents	35,632		
Unpaid Taxes	9,152		
Unpaid Salaries	16,962		
Unpaid General Expenses	411		
2012 Federal Income Tax Payable	67,766		
Reinsurance Premiums Due and Payable	28,916		
All other liabilities	330		
TOTAL LIABILITIES		$ 928,012	
SURPLUS TO POLICYHOLDERS			$ 1,649,069
TOTAL LIABILITIES AND SURPLUS			$ 2,577,081

Flaxton Farmers Mutual Fire Insurance Company
Operating Results
For the Year 2012

INCOME:			
Gross Premium Income	$1,302,161		
Less: Returned Premiums	25,574		
Total Premiums or assessments	1,276,587		
Deduct premiums for reinsurance ceded to other comp.	245,474		
NET PREMIUM INCOME		$1,031,113	
Interest on Bonds		$ 9,981	
Dividends on Stocks		27,014	
Interest on Cash on Deposit		21,832	
Commissions and fees received on Liability business		20,362	
TOTAL INCOME RECEIPTS			$1,110,302
DISBURSEMENTS			
Gross Losses Paid and Incurred in 2012	$ 459,387		
Gross Losses Paid in 2011 But Incurred in Prior Years	10,282		
Deduct: Subrogation Received	28,550		
Deduct: Salvage $5,100 Rein. Recovered $3,408	8,508		
NET LOSSES PAID		$432,611	
Claim Adjustment Expenses		17,381	
Commissions Paid to Agents		215,077	
Directors' Fees and Expenses		2,934	
Salaries to Employees		129,147	
Printing, Stationery, and Office Supplies		2,552	
Rent and Rent Items		7,200	
State and Local Insurance Taxes		24,331	
Insurance Department Licenses and Fees		495	
Payroll Taxes		9,822	
Federal Income Tax		4,264	
Legal Fees and Auditing		650	
Travel and Travel Items		2,913	
Advertising		1,091	
Dues and Donations		6,901	
Insurance and Bonds		4,258	
Postage, Telephone, and Bank Charges		4,767	
Custodial Fees (Merrill Lynch $125 & UBS $150)		275	
Data Processing Expenses		4,819	
Miscellaneous Expenses (Ann. Mtg $845, Cleaning $348)		1,193	
TOTAL FUNDS DISBURSED			$ 872,680
NET GAIN (LOSS)			$ 237,622

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

N.D.C.C. § 26.1-05-19(21)(a) states that investments in preferred, guaranteed and common stocks issued by a single issuer may not exceed three percent of the insurance company's admitted assets. The following stock investments exceeded the three percent limitation:

Description	Book Value		Excess
	Company	3% Limit	
Columbia Dividend Income Fund CL A	$ 100,505	$ 76,778	$ 23,728
Franklin Utilities Fund	100,816	76,778	24,038
Investors Real Estate Trust	129,705	76,778	52,927
Thrivent Income Fund CL A	120,000	76,778	43,222
US Mortgage Fund CL A	131,958	76,778	55,180
Total			$199,094

N.D.C.C. § 26.1-05-19(33), commonly known as the basket clause, gives investment authority for the amount exceeding the three percent limitation. The basket clause is also subject to a limitation that, in the case of county mutual insurers, is the lesser of (a) seven percent of admitted assets, or (b) surplus in excess of $50,000. The Examiners applied the excess of the three percent, single issuer limitation to the basket clause as follows to compute the amount of non-admitted assets.

Description	Excess of 3% Single Issuer Limit	Admitted Under Basket Clause	Amount Non-Admitted
Columbia Dividend Income Fund A	$ 23,728	$ 23,728	$ 0
Franklin Utilities Fund	24,038	24,038	0
Investors Real Estate Trust	52,927	52,927	0
Thrivent Income Fund CL A	43,222	43,222	0
US Mortgage Fund CL A	55,180	35,234	19,946
Total			$ 19,946

After applying the basket clause limitation, $19,946 of the book value of the Company's stock investments is non-admitted.

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

Cash on Deposit

The Company holds funds in excess of the $250,000 Federal Deposit Insurance Corporation (FDIC) coverage in two banks: Dacotah Bank and Town & Country Credit Union.

The four certificates of deposit at Town & Country Credit Union are long-term certificates (i.e., 18 months) that do not meet the criteria under Bulletin 2010-2 for reporting as Cash on Schedule N. Bulletin 2010-1 requires that long-term CDs must be classified as bonds and be valued by the SVO if the following requirements are not met:

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

2. The aggregate amount of funds deposited by the domestic insurance company, as certificates of deposit or in any other form, with any single issuer does not exceed $250,000; and

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

It is again recommended that the Company limit its aggregate deposits in any one financial institution to the FDIC insured limit of $250,000 plus any excess deposit insurance coverage carried by the financial institution. It is also recommended that any long-term certificate of deposit that does not meet the requirements of Bulletin 2010-1 be classified as a bond rather than cash.

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
Assessments or premiums in course of collection (A/R Account Non-Ledger)	$ 0	$ 35,173
Total	$ 0	$ 35,173

The Company has the ability to run a "Deferred Installment Policy Listing" which shows deferred premiums. The Company did not report its deferred premiums on page 3, line 18 at December 31, 2012. Per the County Mutual Annual Statement Instructions, the Company is required to record these premiums as a non-ledger asset.

It is recommended that the Company report Deferred Premiums as a non-ledger asset in accordance with the County Mutual Annual Statement Instructions.

Interest Due and Accrued

This Company did not report interest due and accrued on three of its six bonds. This deficiency resulted in an unreported asset of $2,590.

The Company reports its December Thrivent Financial dividend payments in the following year. In 2012, this resulted in a $38 difference. The County Mutual Annual Statement Instructions and the Statements of Statutory Accounting Principles (SSAP) #34 requires that amounts which are legally owed to the Company as of the statement date but have not been received be accrued for.

It is recommended that the Company recognize income on an accrual basis in accordance with the County Mutual Annual Statement Instructions andSSAP #34.

Liabilities

Unpaid Losses

The Company's liability for Unpaid Losses at year end was determined by this examination to be $85,757 or $13,724 more than what was reported by the Company. The liability for Unpaid Losses was determined using subsequent loss payments through December 31, 2013.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be $1,649,069 or $4,093 more than the amount reported by the Company. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase (Decrease) to Surplus
Non-Ledger Assets:			
Accrued Interest on Bonds	834	3,424	2,590
Assessments or premiums in course of collection	0	35,173	35,173
Assets Not Admitted:			
Other Assets	0	19,946	(19, 946)
Liabilities:			
Unpaid Losses	72,033	85,757	(13,724)
Net Increase			$ 4,093

Surplus to Policyholders as reported by Company	$1,644,976
Increase(Decrease) to Surplus from above	4,093
Surplus to Policyholders per Examination	$1,649,069

SUBSEQUENT EVENTS

The Company had no material subsequent events between the examination date and the end of field work.

CONCLUSION

The financial condition of Flaxton Farmers Mutual Fire Insurance Company, Bowbells, North Dakota, as determined by this examination is summarized as follows:

TOTAL ADMITTED ASSETS		$2,577,081
Liabilities	$ 928,012	
Surplus to Policyholders	1,649,069	
TOTAL LIABILITIES AND SURPLUS		$2,577,081

Since the last examination conducted as of December 31, 2007, the Company's admitted assets have increased $595,383, its total liabilities have increased $361,426, and its surplus as regards policyholders has increased $233,957.

In addition to the undersigned, North Dakota Insurance Department Examiner Mary Raps 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,

Colton Schulz
Colton Schulz
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 amend its Articles of Incorporation to match the Company's Bylaws for the number of Board of Directors required.

It is recommended that the Board of Directors or a Board-appointed Investment Committee thereof approve investment transactions and review the Company's investment guidelines pursuant to N.D. Admin. Code § 45-03-12-05(3) and (4).

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

It is again recommended that the Company increase the fidelity bond amount to $75,000 to comply with the fidelity bond minimum requirement from the NAIC *Financial Examiners Handbook*.

It is recommended that the Company obtain agreements for Thrivent and Invesco that comply with N.D. Admin. Code § 45-03-23-02(2) and that all agreements be approved by the Board of Directors.

It is recommended that the Company implement written contracts with all of its appointed agencies.

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 periodically review its stock holdings for compliance with N.D.C.C. § 26.1-05-19(21)(a) and (33). Amounts over the statutory limitations should be non-admitted.

It is recommended that the Company recognize investment income on an accrual basis in accordance with the County Mutual Annual Statement Instructions andSSAP 34.

It is again recommended that the Company limit its aggregate deposits in any one financial institution to the FDIC insured limit of $250,000 plus any excess deposit insurance coverage carried by the financial institution. It is also recommended that any long-term certificate of deposit that does not meet the requirements of Bulletin 2010-1 be classified as a bond rather than cash.

It is recommended that the Company report Deferred Premiums as a non-ledger asset in accordance with the County Mutual Annual Statement Instructions.