

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION
OF
HOME MUTUAL INSURANCE COMPANY
WAHPETON, 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

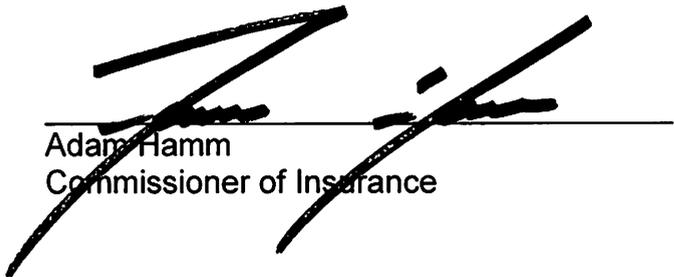
Home Mutual Insurance Company

Wahpeton, 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 17 day of April, 2016.





Adam Hamm
Commissioner of Insurance

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Wahpeton, North Dakota
February 26, 2016

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

Dear Commissioner:

Pursuant to your instructions and in accordance with the North Dakota Insurance Code, an examination was made of the books, records, and financial condition of

Home Mutual Insurance Company

Wahpeton, North Dakota

as of December 31, 2014.

INTRODUCTION

Home Mutual Insurance Company, Wahpeton, North Dakota, hereinafter referred to as the "Company," was last examined as of December 31, 2009, by a representative of the State of North Dakota.

SCOPE OF 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 the 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/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 14 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 again recommended that the Company and Home Insurance Agency (HIA) enter into a formal written agreement which includes a list of services to be provided, the method used to determine the cost of those services, and the dates the cost of those services will be paid.

The Company complied and entered into a formal agreement with HIA during the exam period. However, HIA did not pay the \$3,200 due to the Company between 2011 and 2014. In 2011, 2012, and 2014, HIA paid \$2,600 and in 2013, it paid \$2,000 to the Company. **It is recommended that the Company invoice HIA for its \$600 facility rental and \$2,600 service fee annually, per the terms of the agreement. It is also recommended that the Company invoice HIA for back rent due in the amount of \$3,000.**

It is recommended that the Company accrue a liability for earned but unused vacation time in accordance with the County Mutual Annual Statement Instructions.

The Company accrued a liability for the Manager's unused sick leave but did not create a liability for unused vacation time. **It is recommended that the Company establish a liability for unpaid salaries that includes all amounts earned but unpaid as of the period end.**

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 complied, but subsequently the Company's custodian amended the agreement so that the agreement was no longer compliant. **It is again recommended that the Company execute a custodial agreement with its broker that complies with N.D. Admin Code § 45-03-23-02.**

It is recommended that the Company develops a Conflict of Interest policy and has its directors, officers and key employees complete a conflict of interest statement each year.

The Company partially complied. Conflict of interest disclosures are signed annually, but numerous conflicts, such as agents serving on the Board of Directors, Directors inspecting risks and adjusting claims, were not disclosed within these statements. **It is again**

recommended that the Directors and officers disclose all relevant conflicts and that the Board review any conflicts and document its determination as to how these conflicts are to be addressed in the Board minutes.

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

SUBSEQUENT EVENTS

Subsequent to the examination period, the Company entered into a new reinsurance contract with Grinnell Mutual Reinsurance Company. This contract, effective January 1, 2016, increases the individual per risk limit for the Company to \$20 million without the need for facultative reinsurance.

Also subsequent to the examination period, Harold Jordheim resigned from the Board. Keath Borchert, a retired college admissions director, was elected to fill the open position.

HISTORY

The Company was incorporated June 16, 1886, as The Home Mutual Insurance Company of Richland County, Dakota Territory, under Chapter 70 of the 1885 Session Laws of the Dakota Territory and commenced business on July 3, 1886.

The Company's term of existence was originally established for 30 years. The Articles and Bylaws were subsequently amended in accordance with N.D.C.C. § 26.1-13-03 making the Company's existence perpetual.

The Company was organized for the specific purpose of mutually insuring the property of its members against any risk of hazard by fire, lightning, and limited extended coverage.

At the March 2, 1989, annual meeting of the membership, the Articles of Incorporation were amended changing the name of the Company to read "The Home Mutual Insurance Company."

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 of membership. No person who does not reside within such territorial limits shall become a director of the Company.

Directors

The management of the Company's affairs, business, and property is vested in a Board of Directors composed of five members elected for staggered terms of three years each at the annual meeting of the membership. 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, 2014, were as follows:

<u>Name and Residence</u>	<u>Term Expires</u>	<u>Occupation</u>
Francis Rubish Fairmount, ND	2014	Retired Farmer/Agent
Brent Sloten Wahpeton, ND	2016	Farmer
Mark Huseth McLeod, ND	2016	Farmer/Agent
Harold Jordheim Fargo, ND	2015	Retired Farmer/Agent
Duane Akvik Walcott, ND	2015	Bus Driver/Agent

Officers

Officers are elected at the organizational meeting of the Board of Directors by a majority vote for a period of one year or until their successors are elected and qualified. Officers serving at December 31, 2014, were as follows:

<u>Name</u>	<u>Office</u>
Francis Rubish	President
Brent Slotten	Vice President
Dorothy Dockter	Secretary-Treasurer

Executive Committee

The Bylaws provide that the directors shall choose an Executive Committee which shall consist of the President and Vice President of the Company and one other director selected by the Board from its members. The Executive Committee shall have authority to act for the Company in emergency measures and to transact such business on behalf of the Company as it deems expedient and shall have the authority and duty to select and make investments of surplus funds held by the Company.

Members of the Executive Committee as of December 31, 2014, were as follows:

Francis Rubish
Brent Slotten
Duane Akvik

Audit Committee

The Bylaws provide that the members of the Company shall elect at their annual meeting and from their membership at large an Audit Committee which shall consist of three members who shall conduct an annual audit of the affairs of the Company.

Members of the Audit Committee as of December 31, 2014, were as follows:

Lois Berndt
Darrell Wahler
Lynn Michaelson

The audit performed by this committee consists of a review of the Annual Statement, confirmation of Company assets, review of policyholder files, review of transactions from the check book and a review of claim files. After completing the audit, the committee signs a letter stating that the audit has been completed. The letter is then read at the next annual meeting of the policyholders.

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.

Amendments to Articles of Incorporation and Bylaws

No amendments or changes were made to the Articles of Incorporation during the period under examination. The Company amended its Bylaws in 2012 to add a restriction on the Secretary-Treasurer's ability to borrow money from the securities or intangible assets owned by the Company without prior knowledge and approval of the Executive Committee.

Members

During the period under examination, the annual meetings of the membership were held on the following dates: March 25, 2010; March 31, 2011; March 29, 2012; March 28, 2013; and March 27, 2014.

Directors

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

CONFLICT OF INTEREST

The Company implemented a Conflict of Interest policy since the prior examination, but the disclosures omitted several conflicts of interest. Directors who are agents, perform claim adjustments, or complete risk reviews should disclose these potential conflicts of interest on their annual conflict of interest disclosures every year that the conflict exists.

It is again recommended that the Directors and officers disclose all relevant conflicts and that the Board review any conflicts and document its determination as to how these conflicts are to be addressed in the Board minutes.

AFFILIATED COMPANIES

Home Insurance Agency (HIA) is a North Dakota domiciled corporation operating as an insurance agency. The four owners of HIA also serve as directors for the Company. The Company and HIA share office space and the Company performs the day-to-day operations of HIA. For these shared services, the Company received from HIA:

2010	\$3,200
------	---------

The prior examination, completed in 2011, recommended that the Company enter into a formal agreement with HIA that specified the amount HIA would reimburse the Company for the shared office space and services it rendered for HIA.

During the current examination period, the two parties entered into a formal written agreement that states rent of \$600 is due to the Company each year. Reimbursement for services rendered by the Company for HIA is billed hourly with a minimum annual amount of \$2,600.

During the period under this agreement the Company received the following amounts from Home Insurance Agency as reimbursement for services provided by the Company:

2011	\$2,600
2012	\$2,600
2013	\$2,000
2014	\$2,600

The total received under this agreement was \$9,800, \$3,000 less than the contract amount.

It is recommended that the Company invoice HIA for its \$600 facility rental and \$2,600 service fee annually, per the terms of the agreement. It is also recommended that the Company invoice HIA for back rent due in the amount of \$3,000.

No exam correction for this receivable will be reported as the \$3,000 back rent is over 90 days past due and non-admitted per Statement of Statutory Accounting Principles (SSAP) 34 Section (5)(b).

EMPLOYEES WELFARE AND PENSION PLANS

The Company does not offer health, vision, or dental insurance to its employees.

In 2007, the Company established an IRA retirement plan for the Manager. The Board votes each year as to how much will be contributed to it by the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company has blanket fidelity coverage in force which provides \$100,000 coverage for losses to business personal property and money and securities resulting from dishonest acts committed by any of the Company's employees. The coverage meets the minimum amount of fidelity insurance suggested in the NAIC Financial Examiners Handbook.

The Company has directors and officers liability coverage providing a \$2,000,000 limit, subject to a \$10,000 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 has business personal property coverage and equipment breakdown coverage of \$11,582. The policy also provides general liability coverage of \$1,000,000 per occurrence and a \$2,000,000 aggregate limit.

The Company is the beneficiary on a \$50,000 20-year term life insurance policy on the life of the Secretary-Treasurer. This policy is intended to help with the training of a new Secretary-Treasurer in the event of premature death of the current Secretary-Treasurer.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company was authorized to transact business within the following counties:

Barnes	Cass	Dickey	Foster
Grand Forks	Griggs	LaMoure	Logan
McIntosh	Ransom	Richland	Sargent
Steele	Stutsman	Traill	

At December 31, 2014, the Company had eight licensed agents and two licensed agencies.

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over a 10-year period. Data with respect to the years 2005-2008 and 2010-2013 is as compiled from home office copies of the filed Annual Statements. Data for the years 2009 and 2014 reflects the results of examinations. The operation 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	932,105	267,049	665,055	327,230	258,233	42,177	111,174
2006	1,045,361	195,438	849,923	326,290	235,254	51,265	142,301
2007	1,044,810	203,330	841,480	349,830	418,138	65,875	(2,433)
2008	1,218,585	213,691	1,004,894	344,140	222,746	55,319	176,713
2009	1,293,154	197,831	1,095,323	316,146	294,103	54,090	76,133
2010	1,276,373	204,116	1,072,257	321,227	381,933	42,420	(18,286)
2011	1,212,052	192,590	1,019,461	316,359	417,097	34,081	(66,657)
2012	1,376,850	207,870	1,168,980	337,097	194,596	27,772	170,273
2013	1,338,872	228,669	1,110,203	356,932	433,622	26,082	(50,608)
2014	1,543,022	291,496	1,251,526	375,112	266,651	34,342	142,803

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	100.0%	100.0%	100.0%	100.0%	100.0%
Deductions					
Losses and Loss Adjustment	26.6%	78.7%	16.1%	86.4%	75.9%
Underwriting Expenses	44.5%	42.7%	41.6%	45.4%	43.0%
Total Deductions	71.1%	121.5%	57.7%	131.8%	118.9%
Net Underwriting Gain (Loss)	28.9%	(21.5%)	42.3%	(31.8%)	(18.9%)

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

Advertising: The Company's advertising consists primarily of newspaper, sports booklets and give-away items.

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

OPERATING AGREEMENTS

Grinnell Advisory Company

On March 1, 2011, the Company entered into a contract with Grinnell Advisory Company, a subsidiary of Grinnell Mutual Reinsurance Company, to perform claims adjusting and loss control inspection services.

For services provided in 2014, Grinnell Advisory Company billed the Company \$12,077.08. The fee charged is a flat rate for up to 55 claims. Any additional claims would be billed at \$400 per claim. The Company had 33 claims in 2014; Grinnell adjusted 18 of these claims. The remaining claims were adjusted by the Manager or Directors.

OPERATIONS REVIEW

In September 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 13 recommendations. Of the recommendations and comments made by Grinnell, none were considered material by this examination.

REINSURANCE

The Company's reinsurance treaty in force at December 31, 2014, is summarized below:

Non-affiliated Ceding Contract:

Type: Excess

Reinsurer: Grinnell Mutual Reinsurance Company

Scope: Fire, Lightning and Extended Coverages:

- (A) Individual Occurrence of Loss Excess - covers all risks written by the Company in excess of \$125,000 retention subject to the following limits:

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

(B) Aggregate Excess - provides coverage 100 percent of the Company's aggregate net losses in excess of a defined retention limit. The retention limit for 2014 was \$261,198.

Premium: (A) Individual Occurrence of Loss Excess – The 2014 monthly premium rate per \$1,000 of adjusted gross fire risks in force was \$0.0157.

(B) Aggregate Excess - The 2014 monthly premium rate per \$1,000 of adjusted gross fire risks in force was \$0.0440.

Commissions: None

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 transactions cycles were reviewed during the course of the examination and all balances in the Annual Statement were test checked to the extent deemed necessary.

The Company's accounting system consists of Quicken, which is used by the Company as a check register, and Microsoft Excel, which is used to track cash receipts and cash disbursements. The Company uses the APPs core system for billing and other policy processing functions.

Custodial Agreements

During the exam period, the Company entered into a custodial agreement with broker-dealer Edward D. Jones & Co., L.P. (Edward Jones), under which Edward Jones provides safekeeping of the Company's invested assets. This agreement was executed

as a result of a prior examination finding that stated the Company did not have a compliant custodial agreement.

The Company's custodial agreement with Edward Jones was granted an exemption by the Department for N.D. Admin Code § 45-03-23-02(2)(p) effective August 21, 2012. Subsequent to the approval of this exemption, the agreement was replaced by Edward Jones with a new agreement which does not contain the non-exempted language required by N.D. Admin. Code § 45-03-23-02(2). Therefore, the exemption granted for the original agreement is no longer applicable. The revised agreement does not contain the following language as specified in N.D. Admin. Code § 45-03-23-02(2):

- a. Securities certificates held by the custodian must be held separate from the securities of the custodian and of all of its other customers.
- b. Securities held indirectly by the custodian and securities in a clearing corporation must be separately identified on the custodian's official records as being owned by the insurance company. The records must identify which securities are held by the custodian or by its agent and which securities are in a clearing corporation. If the securities are in a clearing corporation, the records must also identify where the securities are and, if in a clearing corporation, the name of the clearing corporation and, if through an agent, the name of the agent.
- c. All custodied securities that are registered must be registered in the name of the company or in the name of a nominee of the company or in the name of the custodian or its nominee or, if in a clearing corporation, in the name of the clearing corporation or its nominee.
- d. Custodied securities shall be held subject to the instructions of the insurance company and shall be withdrawable upon the demand of the insurance company, except that custodied securities used to meet the deposit requirements set forth in North Dakota Century Code section 26.1-05-23 must, to the extent required by that section, be under the control of the insurance commissioner and must not be withdrawn by the insurance company without the commissioner's approval.
- f. During the course of the custodian's regular business hours, any officer or employee of the insurance

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

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

 - (1) All reports which they receive from a clearing corporation on their respective systems of internal accounting control; and
 - (2) Any reports prepared by outside auditors on the custodians or its agent's internal accounting control of custodied securities that the insurance company may reasonably request.
- h. The custodian shall maintain records sufficient to determine and verify information relating to custodied securities that may be reported in the insurance company's annual statement and supporting schedules and information required in any audit of the financial statement 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.
- 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 execute a custodial agreement with its broker that complies with N.D. Admin Code § 45-03-23-02.

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.

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

ASSETS

LEDGER ASSETS:

Bonds	\$ 186,369
Stocks	186,458
Checking Account	41,330
Cash on Deposit	<u>1,093,493</u>

TOTAL LEDGER ASSETS **\$1,507,650**

NON-LEDGER ASSETS

Interest Due and Accrued on Bonds	\$ 2,244
Interest Due and Accrued on Cash on Deposit	2,110
Premiums in Course of Collection	22,443
Market Value of Stocks over Book Value	<u>8,575</u>

TOTAL NON-LEDGER ASSETS **\$ 35,372**

TOTAL NET ADMITTED ASSETS **\$1,543,022**

LIABILITIES

Unpaid Losses	\$ 10,000
Unpaid Loss Adjustment Expense	1,031
Unearned Premium Reserve	215,890
Advance Premiums	1,548
Unpaid Taxes	2,588
Unpaid Salaries	2,002
Unpaid General Expenses	80
Reinsurance Premiums Due and Payable	8,179
Unpaid Payroll Taxes	178
Unsettled Trade Liability	<u>50,000</u>

TOTAL LIABILITIES **\$ 291,496**

SURPLUS TO POLICYHOLDERS **1,251,526**

TOTAL LIABILITIES AND SURPLUS **\$1,543,022**

Home Mutual Insurance Company
Statement of Cash Receipts and Cash Disbursements
For the Year 2014

INCOME:

Gross Premium Income	\$447,372
Less: Return Premiums	3,605
Premiums for Reinsurance	<u>68,655</u>

NET PREMIUM INCOME \$375,112

Interest on Bonds	8,415
Dividends on Stocks	5,400
Interest on Cash on Deposit	5,160
Commissions Received on Premiums Written for Others	10,904
Home Agency Rent and Service Reimbursement	2,600
Grinnell Contingency Commission	<u>1,863</u>

TOTAL INCOME RECEIPTS \$409,454

DISBURSEMENTS:

Gross Losses Paid and Incurred in 2014	\$90,079
Gross Losses Paid in 2014 but Incurred in Prior Years	16,340
Deduct: Reinsurance Recovered	<u>19,333</u>

NET LOSSES PAID \$87,086

Claim Adjustment Expenses	12,633
Commissions Paid to Agents	69,478
Directors' Fees and Expenses	1,384
Salaries to Employees	42,700
Printing, Stationery and Office Supplies	2,896
Rent and Rent Items	4,960
State and Local Insurance Taxes	7,312
Insurance Department Licenses and Fees	290
Payroll Taxes	3,567
Legal Fees and Auditing	150
Travel and Travel Items	2,605
Advertising	1,278
Dues and Donations	3,784
Equipment Purchased (or Depreciation on Same)	1,796
Insurance and Bonds	5,917
Postage, Telephone and Bank Charges	2,557
Employee Relations and Welfare	2,747
Data Processing Expenses	10,627
Miscellaneous Expenses	<u>2,886</u>

TOTAL FUNDS DISBURSED 266,651

NET INCOME \$142,803

COMMENTS TO THE FINANCIAL STATEMENTS

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

Assets

Cash on Deposit

The Company reported its cash on deposit at December 31, 2014, as \$1,043,493. This amount did not include a Certificate of Deposit (CD) that was purchased on December 31, 2014. Investments are reported based on the trade date and not the settlement date. The CD should have been reported in Schedule N.

Premiums in Course of Collection

The Company did not report premiums in course of collection on its annual statement. At December 31, 2014, the Company had \$22,443.40 of premiums in course of collection and reported \$0 of this asset. Per the County Mutual Annual Statement Instructions, the Company is required to record these premiums as either a ledger asset or non-ledger asset.

It is recommended that the Company report premiums in course of collection net of liability and equipment breakdown premiums as an asset in accordance with the County Mutual Annual Statement Instructions.

Liabilities

Advance Premiums

The Company included \$1,548 of Advance Premiums in its 2014 gross written premiums. Three policies were paid in December, but had January 2015 due dates and the Company did not include a liability for the advance premium.

It is recommended that the Company report all premiums collected prior to year end for policies with effective dates in the next accounting year as advance premiums.

Unsettled Trade

The Company reported its cash on deposit at December 31, 2014, as \$1,043,493. This amount did not include a Certificate of Deposit (CD) that was purchased on December 31, 2014. Investments are reported based on the trade date and not the settlement date. An exam adjustment was made to recognize the \$50,000 increase in Cash on Deposit and the offsetting \$50,000 unsettled trade liability at December 31, 2014.

Unpaid Salaries

The Company reported a liability for unpaid salaries of \$888.90 at December 31, 2014. This amount represents the Manager's unused sick time. No liability was created for the manager's unused vacation time, causing a liability understatement of \$1,113.

It is again recommended that the Company establish a liability for unpaid salaries that includes all amounts earned but unpaid as of the period end.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be \$1,251,526 or \$19,782 more than the amount reported by the Company. Adjustments to surplus are shown in the following schedule:

Caption	Company	Examination	Increase or (Decrease)
Ledger Assets			
Cash on Deposit	\$1,043,493	\$1,093,493	\$ 50,000
Non-Ledger Assets			
Premiums in Course of Collection	0	22,443	22,443
Liabilities			
Advance Premiums	0	1,548	(1,548)
Unsettled Trade	0	50,000	(50,000)
Unpaid Salaries	889	2,002	<u>(1,113)</u>
Net Change			<u>\$ 19,782</u>

CONCLUSION

The financial condition of Home Mutual Insurance Company, Wahpeton, North Dakota, as determined by this examination as of December 31, 2014, is summarized as follows:

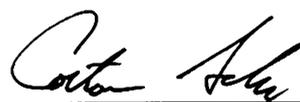
TOTAL ADMITTED ASSETS		<u>\$1,543,022</u>
Total Liabilities	\$ 291,496	
Surplus to Policyholders	<u>1,251,526</u>	
TOTAL LIABILITIES AND SURPLUS		<u>\$1,543,022</u>

Since the last examination conducted as of December 31, 2009, the Company's admitted assets have increased \$249,868, its total liabilities have increased \$93,665, and its surplus as regards policyholders has increased by \$156,203.

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

In addition to the undersigned, Chief Examiner Ed Moody, CFE and Matt Fischer, CFE participated in this exam.

Respectfully submitted,



Colton Schulz, CFE
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company invoice HIA for its \$600 facility rental and \$2,600 service fee annually, per the terms of the agreement. It is also recommended that the Company invoice HIA for back rent due in the amount of \$3,000.

It is recommended that the Company establish a liability for unpaid salaries that includes all amounts earned but unpaid as of the period end.

It is again recommended that the Company execute a custodial agreement with its broker that complies with N.D. Admin Code § 45-03-23-02.

It is again recommended that the Directors and officers disclose all relevant conflicts and that the Board review any conflicts and document its determination as to how these conflicts are to be addressed in the Board minutes.

It is recommended that the Company report premiums in course of collection net of liability and equipment breakdown premiums as an asset in accordance with the County Mutual Annual Statement Instructions.

It is recommended that the Company report all premiums collected prior to year end for policies with effective dates in the next accounting year as advance premiums.