# STATE OF NORTH DAKOTA

# BISMARCK, NORTH DAKOTA

# REPORT OF EXAMINATION

# OF

# DAKOTA FIRE INSURANCE COMPANY
# BISMARCK, NORTH DAKOTA

# AS OF
# DECEMBER 31, 2013

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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

**Dakota Fire Insurance Company**

**Bismarck, North Dakota**

as of December 31, 2013, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

COMMISSIONER OF INSURANCE SEAL STATE OF NORTH DAKOTA

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my official seal at my office in the City of Bismarck, this 15th day of June, 2015.

Adam Hamm
Commissioner

Bismarck, North Dakota
May 14, 2015

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

Dear Commissioner:

Pursuant to your instructions and statutory requirements, a financial examination has been made of the books, records and financial condition of

**Dakota Fire Insurance Company**
**Bismarck, North Dakota**

hereinafter referred to as the "Company", was last examined as of December 31, 2008, by the North Dakota Insurance Department (Department). That examination represented a financial condition examination and covered the period from January 1, 2004, to December 31, 2008. The Company's statutory home office is located at 1838 East Interstate Avenue, Bismarck, North Dakota; however, the current examination was conducted at the Company's main administrative office located at 717 Mulberry Street, Des Moines, Iowa. The report of examination is herein respectfully submitted.

## SCOPE OF EXAMINATION

This examination was a risk focused financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review its corporate affairs and insurance operations. This statutory examination covers the five-year period from January 1, 2009, to and including December 31, 2013, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination.

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

Work papers provided by the Company's independent auditor, Ernst & Young L.L.P., were reviewed and where deemed appropriate, certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

This exam was conducted with the Iowa Insurance Division with Iowa serving as the lead state in the coordinated examination of the insurance companies that are part of Employers Mutual Casualty Company (EMC Group) as shown below:

| Company | Domicile |
|---|---|
| Dakota Fire Insurance Company | North Dakota |
| EMC Property & Casualty Company | Iowa |
| EMC Reinsurance Company | Iowa |
| EMCASCO Insurance Company | Iowa |
| Hamilton Mutual Insurance Company | Iowa |
| Illinois EMCASCO Insurance Company | Iowa |
| Union Insurance Company of Providence | Iowa |

## STATUS OF PRIOR EXAM FINDINGS

Our examination included a review to determine the current status of the two exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2004, to December 31, 2008. We determined that the Company had satisfactorily addressed both of these items.

## SUMMARY OF SIGNIFICANT FINDINGS

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

## SUBSEQUENT EVENTS

There were no significant subsequent events noted through the date of this report.

## COMPANY HISTORY

### General

The Company was incorporated on August 23, 1957, as a stock insurance company under the provisions of Chapters 10-02 and 26-08 of the North Dakota Revised Code of 1943, and amendments thereto, as the "Dakota Fire Insurance Company" with its home office and principal place of business in Bismarck, North Dakota. The Company commenced business on January 10, 1958. In 1973, Employers Mutual Casualty Company assumed control of the Company by acquiring 78 percent of outstanding shares. Through subsequent purchases of stock and a series of affiliated transactions, ownership of the Company was transferred to EMC Insurance Group, Inc. in 1981.

The Articles of Incorporation provide that the Company may carry the lines of insurance as authorized under N.D. Cent. Code § 26.1-05-02.

## Capital Stock

As of December 31, 2013, 1,500,000 shares of common stock were outstanding and 100 percent of outstanding shares were held by EMC Insurance Group, Inc.

## Surplus Notes

Effective December 28, 2001, the Company issued a $6,000,000 surplus note to Employers Mutual Casualty in exchange for cash. The principal amount of the note and interest thereon shall be repaid only out of surplus earnings of the Company. Interest on the surplus note is payable annually on January 1 of each year.

The following interest rates were in effect during the period examination:

| | |
|---|---|
| February 1, 2008, through January 31, 2013 | 3.60% |
| February 1, 2013, through December 31, 2013 | 1.35% |

All principal and interest payments require the prior approval of the Commissioner.

## Dividends to Stockholders

During the period under examination, the following dividends were paid to the sole stockholder:

| | |
|---|---|
| 2009 | $1,500,000 |
| 2010 | $3,000,000 |
| 2011 | $1,500,000 |
| 2012 | $2,550,000 |
| 2013 | $1,950,000 |

# MANAGEMENT AND CONTROL

## Shareholders

The regular annual meeting of the shareholders shall be held within the first six months of each year, at such date and time as shall be fixed by the Chief Executive Officer or the Board of Directors, for the purpose of electing directors and for the transaction of such other business as may come before the meeting.

A majority of the outstanding shares of the Company entitled to vote, represented in person or by proxy, shall constitute a quorum at a meeting of the shareholders.

## Board of Directors

The Bylaws provide that the general control and management of the Company shall be vested in a Board of 10 directors. Each director shall hold office until the next annual meeting of the shareholders and until his or her successor shall have been elected and qualified.

A regular meeting of the Board of Directors shall be held without notice immediately after, and at the same place as, the annual meeting of shareholders.

A majority of the number of directors fixed by the Bylaws constitutes a quorum for the transaction of business at any meeting of the Board of Directors, but if less than such majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Duly elected members serving on the Board of Directors at December 31, 2013, were as follows:

| Name and Address | Business Affiliations |
|---|---|
| Bruce G. Kelley<br>Des Moines, Iowa | President and Chief Executive Officer<br>Employers Mutual Casualty Company |
| William A. Murray<br>Concord, North Carolina | Retired – Former Executive VP & Chief Operating Officer<br>Employers Mutual Casualty Company |
| Jason R. Bogart<br>Des Moines, Iowa | Senior Vice President – Branch Operations<br>Employers Mutual Casualty Company |
| Keith A. Burbach<br>Bismarck, North Dakota | Claims Manager<br>Dakota Fire Insurance Company |
| Merle L. Croy, Jr.<br>Bismarck, North Dakota | Retired - Former President, Treasurer, and COO<br>Dakota Fire Insurance Company |
| Kevin J. Hovick<br>Des Moines, Iowa | Executive Vice President and COO<br>Employers Mutual Casualty Company |
| Tamera S. Olson<br>Bismarck, North Dakota | Underwriting Manager<br>Dakota Fire Insurance Company |
| Mark E. Reese<br>Des Moines, Iowa | Senior Vice President & Chief Financial Officer<br>Employers Mutual Casualty Company |
| Lisa S. Stange<br>Des Moines, Iowa | Vice President, Chief Investment Officer, and Treasurer<br>Employers Mutual Casualty Company |
| Marilyn R. Ternes<br>Bismarck, North Dakota | President, Treasurer, and COO<br>Dakota Fire Insurance Company |

## Officers

The executive officers of the Company are a chairman, one or more vice chairmen, a president, one or more executive vice presidents, one or more senior vice presidents, one or more vice presidents, a secretary, a treasurer, and a general counsel, each of whom shall be elected annually by the Board of Directors at its regular annual meeting. The Board may also elect or appoint one or more resident vice presidents, an actuary, a controller, and any assistant officers it may deem necessary. Any executive office, except that of president, one vice president, treasurer, and secretary, may be left unfilled. Any two or more offices may be held by the same person except the offices of president and secretary.

Duly elected or appointed officers serving at December 31, 2013, were as follows:

| Name | Office |
|---|---|
| Bruce G. Kelley | Chairman and Chief Executive Officer |
| William A. Murray | Vice Chairman of the Board |
| Marilyn R. Ternes | President, Treasurer and Chief Operating Officer |
| Kevin J. Hovick | Executive Vice President |
| Ronald W. Jean | Executive Vice President - Corporate Development |
| Robert L. Link | Senior Vice President and Secretary |
| Mark E. Reese | Senior Vice President, Chief Financial Officer & Assistant Treasurer |
| Jason R. Bogart | Vice President |
| Keith A. Burbach | Vice President |
| James D. Clough | Vice President |
| Richard W. Hoffmann | Vice President, General Counsel, and Assistant Secretary |
| Scott R. Jean | Vice President and Chief Actuary |
| Tamera S. Olson | Vice President |
| Kelvin B. Sederburg | Vice President and Appointed Actuary |
| Lisa A. Stange | Vice President and Chief Investment Officer |
| Daniel C. Crew | Assistant Vice President |
| Bradley J. Fredricks | Assistant Vice President |
| Michael R. Freel | Assistant Vice President |
| Carla A. Prather | Assistant Vice President and Controller |
| Linda S. Samson | Assistant Vice President - Assistant Secretary |
| Karey S. Anderson | Assistant Secretary |
| Benjamin P. Herman | Assistant Secretary |
| Jill M. Joss | Assistant Secretary |
| Jeffrey L. Lawler | Assistant Secretary |

## Committees

The Board of Directors at its regular annual meeting appoints an Executive Committee and may appoint such other committees as it may deem necessary. All committees shall consist of three or more directors. The chief executive officer of the Company shall be a member and chairman of the Executive Committee and may be a member of any other committee.

Appointed committees serving at December 31, 2013, were as follows:

| Executive Committee | Investment Committee |
|---|---|
| Kevin J. Hovick | Bruce G. Kelley |
| Bruce G. Kelley | Mark E. Reese |
| Marilyn R. Ternes | Lisa A. Stange |

# CORPORATE RECORDS

## Articles of Incorporation and Bylaws

The Company made no changes to its Articles or Bylaws during the period under examination.

## Stockholder and Board of Directors Meetings

The minutes of the Board of Directors, and shareholders meetings for the period under examination were read.

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

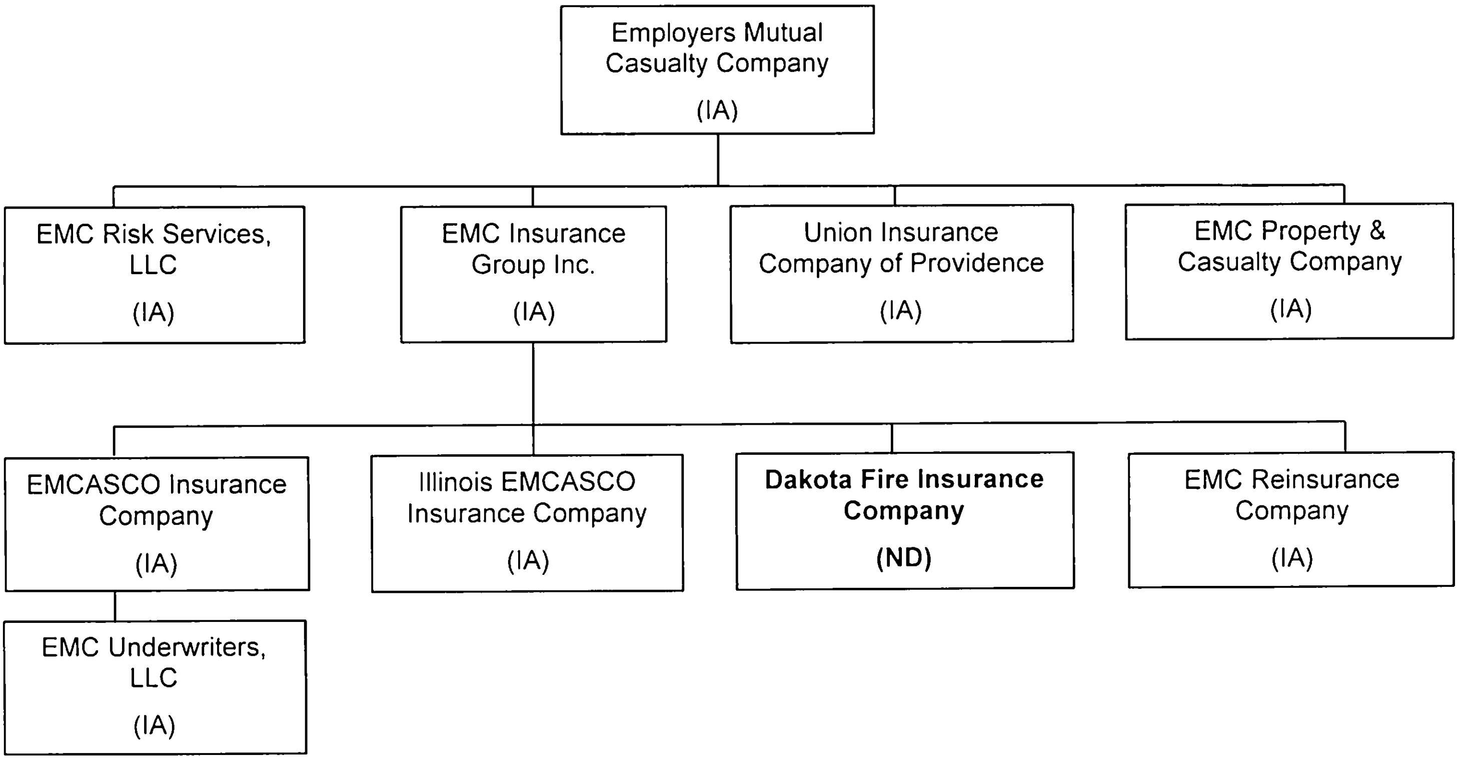
Investments made during the period covered by the examination were approved by the Company's Investment Committee and the full Board of Directors.

## Conflict of Interest

The Board of Directors adopted a policy statement to ensure prompt disclosure of any possible conflict of interest on the part of its directors, officers, and employees. Conflict of interest statements executed during the period under examination were reviewed with no material conflicts noted.

## HOLDING COMPANIES, SUBSIDIARIES, AND AFFILIATES

Employers Mutual Casualty Company (EMCC) is comprised of eight property and casualty insurance companies and ranks among the 75 largest non-life insurance organizations in the U.S. based on net premiums written. The group, led by EMCC, is a multi-regional, multiple lines property and casualty insurer. The organization chart for the EMCC Group is as follows:




EMCC owns approximately 59 percent of the voting stock of EMC Insurance Group, Inc. and the remainder is publicly owned. Although not pictured above, EMCC controls the Board of Directors of Hamilton Mutual Insurance Company. In addition, EMCC owns 49 percent of the voting stock of EMC National Life Company, which wholly owns EMC National Life Marketing Services, LLC. EMC National Life Company's voting stock is 51 percent owned by EMC National Life Mutual Holding Company.

## INTERCOMPANY AGREEMENTS

Effective December 31, 2007, EMC Insurance Group, Inc. (Group, Inc.), EMCASCO, Illinois EMCASCO, Dakota Fire, Union, EMC Property & Casualty, Hamilton Mutual, EMC Re, Risk Services and EMC Underwriters, LLC, entered into an Investment Management Agreement with EMCC. EMCC provides investment management services to the Company, including by not limited to, serving as a centralized point for handling invested assets, establishing and overseeing the activities of external investment managers, and preparing reports for various internal committees. The Company reimburses EMCC for the cost of its investment management services which includes actual expenses incurred plus an allocation of other investment expenses incurred by EMCC, which is based on a weighted-average of total invested assets and number of investment transactions of the Company. Reimbursements are due to EMCC no later than 45 days after the end of the applicable quarter.

Effective December 31, 2007, Group Inc., EMCASCO, Illinois EMCASCO, Dakota Fire, EMC Re, and EMC Underwriters, LLC entered into an agreement for Payment of Taxes with EMCC. EMCC pays the federal and state tax liabilities on the Company's behalf and the Company agrees to reimburse EMCC for those payments. EMCC provides the Company with a quarterly accounting of the funds advanced on behalf of the Company. The Company reimburses EMCC for any advanced funds, with reimbursement being due to EMCC no later than forty-five (45) days after the end of the applicable quarter.

Effective December 31, 2010, Group Inc., EMCASCO, Illinois EMCASCO, Dakota Fire, EMC Re and EMC Underwriters, LLC entered into a Tax Allocation Agreement wherein federal taxes are allocated among the parties on the basis of the percentage of the total tax which the tax of an individual party if computed on a separate return would bare to the total amount of the taxes for all members of the group so computed.

Effective January 1, 2012, EMCASCO, Illinois EMCASCO, Dakota Fire, Union, EMC Re, EMC Property & Casualty, Hamilton Mutual and EMCC entered into an Inter-Company Loan Agreement whereby the parties to the agreement can borrow from each other on a short-term basis when one or more of the companies has a short-term need for general working capital while one or more of the other companies has funds available for short-term investment purposes. The maximum term of a loan shall be 180 days. Each borrowing Company may, from time to time, prepay all, or any part, of any outstanding unpaid principal amount without penalty or premium. All loan payments shall be applied to accrued and outstanding interest first, with the balance, if any, applied to principal. Interest shall accrue on each loan at the rate of 125 basis points over the one month LIBOR Ask Rate. Interest shall be calculated on the basis of a 365-day year from the actual number of days elapsed. The borrowing Company shall repay to the lending Company, within 10 business days of the lending Company's demand or at the end of the 180-day maximum lending term, whichever comes first, the outstanding principal of any loan amount, together with any interest accumulated thereon.

Effective December 31, 2010, EMCASCO, Illinois EMCASCO, Dakota Fire, Union, EMC Property & Casualty and Hamilton Mutual (collectively "the Affiliates") entered into a Services Agreement with EMCC. EMCC provides to the Affiliates the systems and employees necessary to conduct business, as the Affiliates do not have any systems or employees of their own. EMCC provides data processing, claims handling, financial services, legal services, actuarial services, audit services, marketing services, underwriting services and risk management services to the Company. Under the terms of the agreement, all expenses incurred by EMCC for the provision of employees and services set forth in the agreement that are not allocated to parties that do not participate in the reinsurance pooling agreement shall be allocated to the pool, and each pool participant shall share in the total costs in accordance with its participation percentage as established under the terms of the reinsurance pooling agreement.

## FIDELITY BONDS AND OTHER INSURANCE

At December 31, 2013, the Company was a named insured along with Employers Mutual Casualty Company and its other affiliated entities on a Financial Institution Bond with a basic limit of $10,000,000. The aggregate indemnity provided under the bond exceeds the minimum amount of fidelity insurance suggested by the NAIC.

The Company has other types of insurance coverage including Directors and Officers Liability, Automobile, Property, Workers' Compensation, and Commercial General Liability which were considered adequate.

## PENSION AND INSURANCE PLANS

The Company has no employees; all employees are classified as employees of Employers Mutual Casualty Company (EMCC).

Employees of EMCC receive retirement benefits, group health and dental insurance, group life insurance, group long-term disability income, and group accidental death and dismemberment indemnity for qualified employees. The cost of retirement benefits, life insurance, and long-term disability income for the employees is borne by EMCC. The employees may participate in a stock purchase plan utilizing EMC Insurance Group, Inc. stock and voluntarily contribute to a 401(k) savings plan wherein EMCC will match a portion of the employee's contribution. EMCC will match 50 percent of the first 6 percent of an employee's contribution. A nonqualified defined contribution plan provides deferred compensation benefits for highly-compensated employees who are limited by IRS regulations in their qualified defined contribution plan deferral percentage.

## STATUTORY DEPOSITS

The statement value of securities held in a custodial account and vested in the North Dakota Insurance Commissioner for the benefits of all policyholders totaled $1,026,213 at December 31, 2013.

## TERRITORY AND PLAN OF OPERATION

The Company is a multiple-line property and casualty insurance writer that is licensed to transact business at December 31, 2013, in the following states:

| | |
|---|---|
| Idaho | Montana |
| North Dakota | Minnesota |
| South Dakota | |

At December 31, 2013, the Company was operating on an excess and surplus lines basis in the following four states:

| | |
|---|---|
| Illinois | Nebraska |
| Iowa | Rhode Island |

The majority of direct business is written in homeowners, auto physical damage, private passenger auto liability, and other liability lines of coverage. The Company does have written contracts with its agencies. At December 31, 2013, the Company's business was produced by approximately 500 independent agencies who are appointed by the Company.

Beginning in 2014, the Company's personal lines business is renewing on EMCC's paper. This change is being instituted groupwide so that the subsidiary companies can focus on commercial lines business which accounts for 90 percent of the group's net premiums written.

Dividends to policyholders are paid on an annual basis. A resolution adopted by the Board of Directors in each of the five years under review authorized the payment of reasonable dividends in those states where the Company issued policies at standard board or bureau rates. In other states, it is generally the practice to deviate from standard board rates on the basis of loss experience.

The Company only pays dividends on its workers' compensation policies. The Company paid the following dividends on these polices during the exam period:

| | |
|---|---|
| 2012 | $45,358 |
| 2013 | $34,516 |

Dividends paid to policyholders reported in the Company's filed annual statements reflect the dividends allocated to the Company based on its pooling percentage under the reinsurance pooling agreement. The total dividends allocated to the Company during the exam period, is as follows:

| | |
|---|---|
| 2009 | $1,644,686 |
| 2010 | $1,650,297 |
| 2011 | $1,843,868 |
| 2012 | $1,654,603 |
| 2013 | $1,826,016 |

## GROWTH OF THE COMPANY

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

| | Premiums Written | | | | |
|---|---|---|---|---|---|
| | **2013** | **2012** | **2011** | **2010** | **2009** |
| Direct | $35,500,472 | $35,772,868 | $34,422,955 | $31,796,469 | $29,296,104 |
| Assumed | 87,760,585 | 80,434,350 | 72,213,732 | 67,338,750 | 67,776,570 |
| Ceded | 35,500,472 | 35,772,868 | 34,422,955 | 31,796,469 | 29,296,104 |
| Net Written Premiums | $87,760,585 | $80,434,350 | $72,213,732 | $67,338,750 | $67,776,570 |
| Surplus | 54,032,459 | 47,129,684 | 44,804,419 | 48,778,777 | 47,953,188 |
| Premium-to-Surplus Ratio | 162% | 171% | 161% | 138% | 141% |

The Company's net premium written has grown 29 percent over the exam period while the premium to surplus ratio has increased due to increased premiums written. The Company cedes 100 percent of business written to EMCC. EMCC then retrocedes six and one-half percent of the net premiums back to the Company per the reinsurance pooling agreement.

## LOSS EXPERIENCE

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

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Loss reserves | $68,083,352 | $65,353,453 | $66,674,846 | $64,509,215 | $65,621 ,371 |
| LAE reserves | 19,782,346 | 19,066,637 | 18,250,740 | 18,006,757 | 17,784,768 |
| Total Reserves | $87,865,698 | $84,420,090 | $84,925,586 | $82,515,972 | $83,406,139 |
| Losses and LAE Incurred | $57,141,128 | $51,214,337 | $54,849,986 | $45,596,133 | $43,783,056 |
| Losses and Loss expenses incurred to premiums earned | 67.2% | 66.2% | 78.7% | 68.9% | 65.6% |

The Company's loss reserves have developed redundant over the exam period. Losses and loss expenses incurred as a percentage of premiums earned have remained fairly constant except for 2011 when the group experienced larger than normal losses relating to the Midwest storm losses experienced by the pool.

## REINSURANCE

Effective January 1, 1987, the Company entered a reinsurance pooling agreement with EMCC whereby it cedes all of its gross insurance business, with the exception of the voluntary reinsurance business assumed by Hamilton Mutual from nonaffiliated insurance companies, to EMCC and assume from EMCC an amount equal to their participation in the pool. In addition, the Company cedes all liabilities under all policies of insurance in force. Such liabilities include reserves for unearned premiums, outstanding losses and loss adjustment expenses, and all the outstanding administrative expenses, not including intercompany balances, liabilities for corporate taxes including federal or state income taxes, or liabilities incurred in connection with investment transactions. The Company transfers to EMCC amounts equal to the prepaid expenses. EMCC retrocedes back to each pool participant based on its pooling percentage.

Each company's participation in the pool as of December 31, 2013, is as follows:

| | |
|---|---|
| Employers Mutual Casualty Company | 62.0% |
| EMCASCO Insurance Company | 13.5% |
| Illinois EMCASCO Insurance Company | 10.0% |
| Dakota Fire Insurance Company | 6.5% |
| EMC Property & Casualty Company | 3.5% |
| Union Insurance Company of Providence | 2.5% |
| Hamilton Mutual Insurance Company | 2.0% |

The term of the agreement is continuous and unlimited as to duration but may be terminated as of the end of any calendar year by agreement of the parties. The agreement also contains a insolvency clause as required by N.D. Cent. Code § 26.1-02-21.

Effective December 31, 2003, the pooling agreement was amended to provide that if the amounts produced by Employers Mutual Casualty's systems and/or computational processes, and relied upon by both EMCC and its affiliated companies in implementing the pooling agreement, subsequently prove to be inaccurate or overstated to the extent that a restatement of the financial statements of one or more of the affiliated companies would otherwise be required. EMCC guarantees to make up the shortfall or difference resulting from such error(s) in its systems and/or computational processes so that no such restatement of the financial statements of any affiliated company is required.

Pooled net written premiums for 2013 totaled $1,350,162,830. EMCC and pooling affiliates ceded written premiums to the pool of $837,100,955 and $512,961,875, respectively.

## ACCOUNTS AND RECORDS

The Company's general ledger and its annual statement are prepared at Employers Mutual Casualty Company offices.

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination. Trial balances were extracted from the general ledger for the years 2009 through 2013 and traced to the appropriate schedules of the Company's filed Annual Statements. The Company's ledgers are maintained electronically. Revenues and expenses were test checked to the extent deemed necessary.

As noted in the Reinsurance section of this report, underwriting and claims expenses exclusive of corporate income taxes are combined, subject to terms of the intercompany pooling agreement. The year-end expense accruals are determined on a group basis and the liabilities reported in the Company's annual statement represent its pro rata share, that being six and one-half percent of the group's combined total.

The Company is audited annually by Ernst & Young, L.L.P. (E&Y), an outside firm of independent certified public accountants. E&Y's work papers were made available to the Examiners and were used to extent deemed appropriate for this examination.

## FINANCIAL STATEMENTS

The financial statements of the Company are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2013
Statement of Income, Year Ended December 31, 2013
Reconciliation of Capital and Surplus, January 1, 2009 through December 31, 2013

**Dakota Fire Insurance Company**
**Statement of Assets**
**December 31, 2013**

| | Assets | Nonadmitted Assets | Net Admitted Assets |
|---|---|---|---|
| Bonds | $153,871,323 | | $153,871,323 |
| Preferred Stocks | 2,734,900 | | 2,734,900 |
| Common Stocks | 22,663,640 | | 22,663,640 |
| Short-Term Investments | 5,023,941 | | 5,023,941 |
| Other Invested Assets | 456,428 | | 456,428 |
| Investment Income Due and Accrued | 1,461,969 | | 1,461,969 |
| Premiums and Considerations: | | | |
| Uncollected Premiums and Agents' Balances in the Course of Collection | 5,104,492 | | 5,104,492 |
| Deferred Premiums, Agents' Balances and Installments Booked but Deferred and Not Yet Due | 32,560 | $3,256 | 29,304 |
| Net Deferred Tax Asset | 2,907,017 | | 2,907,017 |
| Guaranty Funds Receivable or on Deposit | 193,760 | | 193,760 |
| Other Prepaid Expenses | 836,666 | 836,666 | 0 |
| Postretirement Benefit Plans Prepaid Expenses | 1,034,294 | 1,034,294 | 0 |
| Qualified Pension Plan Prepaid Expenses | 3,888,583 | 3,888,583 | 0 |
| Totals | $200,209,572 | $5,762,799 | $194,446,773 |

## Dakota Fire Insurance Company
## Liabilities, Surplus, and Other Funds
## December 31, 2013

| | | |
|---|---|---|
| Losses | | $ 68,083,352 |
| Reinsurance Payable on Paid Loss and Loss Adjustment Expenses | | 4,266,056 |
| Loss Adjustment Expenses | | 19,782,346 |
| Commissions Payable, Contingent Commissions and Other Similar Charges | | 1,913,743 |
| Other Expenses | | 4,092,866 |
| Taxes, Licenses, and Fees | | 951,943 |
| Current Federal and Foreign Income Taxes | | 315,493 |
| Borrowed Money | | 92,250 |
| Unearned Premiums | | 40,535,347 |
| Payable to Parent, Subsidiaries, and Affiliates | | 2,611,976 |
| Payable for Securities | | 35,055 |
| Postretirement Benefit Plans Liability Not Recognized in Income | | (2,490,576) |
| Nonqualified Pension Plan Liability Not Recognized in Income | | 224,463 |
| Total Liabilities | | $140,414,314 |
| Common Capital Stock | $ 1,500,000 | |
| Surplus Notes | 6,000,000 | |
| Gross Paid in and Contributed Surplus | 14,902,887 | |
| Unassigned Funds (Surplus) | 31,629,572 | |
| Surplus as Regards Policyholders | | 54,032,459 |
| Totals | | $194,446,773 |

**Dakota Fire Insurance Company**
**Statement of Income**
**December 31, 2013**

| | | |
|---|---|---|
| **Underwriting Income** | | |
| Premiums earned | | $85,089,084 |
| Deductions: | | |
| Losses Incurred | $46,703,597 | |
| Loss Expenses Incurred | 10,437,531 | |
| Other Underwriting Expenses Incurred | 28,878,821 | |
| Total Underwriting Deductions | | 86,019,949 |
| Net Underwriting Gain (Loss) | | $(930,865) |
| **Investment Income** | | |
| Net Investment Income Earned | $ 6,212,194 | |
| Net Realized Capital Gains (Losses) | 1,694,972 | |
| Net Investment Gain (Loss) | | 7,907,166 |
| **Other Income** | | |
| Net Gain (Loss) from Agents' or Premium Balances Charged Off | $ (81,671) | |
| Finance and Service Charges not Included in Premiums | 56,553 | |
| Aggregate Write-ins for Miscellaneous Income | 41,053 | |
| Total other income | | 15,935 |
| Net Income Before Dividends to Policyholders and Before Federal Income Taxes | | $ 6,992,236 |
| Dividends to Policyholders | | 1,826,016 |
| Net Income Before Federal Income Taxes | | $ 5,166,221 |
| Federal Income Taxes Incurred | | 755,880 |
| Net Income | | $ 4,410,341 |

## Dakota Fire Insurance Company
## Reconciliation of Capital and Surplus Accounts
## January 1, 2009, Through December 31, 2013

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Capital and Surplus, December 31, Previous Year | $47,129,684 | $44,804,419 | $48,778,777 | $47,953,188 | $42,530,483 |
| Net Income | 4,410,341 | 4,423,144 | (996,754) | 3,646,084 | 6,634,122 |
| Change in Net Unrealized Capital Gains or Losses | 2,235,876 | 756,956 | (646,317) | 930,879 | (147,380) |
| Change in Net Deferred Income Tax | 342,979 | 86,432 | 8,069 | (269,844) | (86,259) |
| Change in Nonadmitted Assets | 314,581 | (402,211) | (825,972) | (309,436) | (3,806,803) |
| Dividends to Stockholders | (1,950,000) | (2,550,000) | (1,500,000) | (3,000,000) | (1,500,000) |
| Aggregate Write-ins for Gains and Losses in Surplus | 1,548,998 | 10,944 | (13,384) | (172,094) | 4,329,025 |
| Net Change in Capital and Surplus for the Year | $6,902,775 | $2,325,265 | $(3,974,358) | $825,589 | $5,422,705 |
| Capital and Surplus, December 31, Current Year | $54,032,459 | $47,129,684 | $44,804,419 | $48,778,777 | $47,953,188 |

## COMMENTS ON FINANCIAL STATEMENTS

Financial statement balances at December 31, 2013, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

## CONCLUSION

The financial condition of the Company, as of December 31, 2013, as determined by this examination is summarized as follows:

| | | |
|---|---|---|
| Admitted Assets | | $194,446,773 |
| Total Liabilities | $140,414,314 | |
| Surplus as Regards Policyholders | 54,032,459 | |
| Liabilities, Surplus, and Other Funds | | $194,446,773 |

No adjustments were made to the balance sheet or income statement amounts reported by the Company in its 2013 Annual Statement.

Since the last examination conducted as of December 31, 2008, the Company's admitted assets have increased $24,535,921, its total liabilities have increased $13,033,945, and its surplus as regards policyholders has increased $11,501,976.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Mary Raps, AFE, of the North Dakota Insurance Department, participated in this examination.

Respectfully submitted,

Edward J. Moody

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Chief Examiner
North Dakota Insurance Department