STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

FAMILY MUTUAL INSURANCE COMPANY
CANDO, 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

Family Mutual Insurance Company

Cando, 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 10th day of June, 2016.

Adam Hamm
Commissioner of Insurance

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Cando, North Dakota
May 9, 2016

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

Dear Commissioner:

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

Family Mutual Insurance Company

Cando, North Dakota

as of December 31, 2014.

INTRODUCTION

Family Mutual Insurance Company, Cando, North Dakota, hereinafter referred to as the "Company", was last examined as of December 31, 2014, by representatives 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 statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2010, to and including 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 36 exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2005, to December 31, 2009. We determined that the Company had satisfactorily addressed all of these items, except the following:

Recommendation	Response
It is recommended that the policies written on commercial properties located within the platted limits of incorporated cities be nonrenewed at the end of their term and that the Company no longer write commercial properties inside the platted limits of an incorporated city in compliance with N.D.C.C. § 26.1-13-15.	The Company had 13 policies in violation of this statute in the prior examination. Only 4 of these 13 policies were nonrenewed and one additional policy was determined to be not in violation. In total the Company remains in violation on eight of these policies. **It is again recommended that the Company nonrenew policies insuring commercial risks within the platted limits of incorporated cities at the end of each policy's term and that the Company no longer write coverage on commercial properties inside the platted limits of an incorporated city in accordance with N.D.C.C. § 26.1-13-15.**

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.

At the 2015 annual meeting of the membership, Ken Bischoff was elected to the Board, Allen Halley did not stand for re-election and Gerald Peterson announced his retirement. As of the examination report date, the Company has one open seat on the Board.

HISTORY

The Company was formed on April 8, 1999, through the consolidation of Cavalier County Farmers Mutual Insurance Company of Osnabrock, North Dakota, and Farmers Mutual Fire, Lightning and Cyclone Insurance Company of Towner County, of Cando, North Dakota. The new insurance company was named Northeast Mutual Insurance Company.

The Company was organized to insure, make contracts of insurance, reinsure or accept reinsurance on any portion thereof, in all forms which are now authorized, or which may hereafter be authorized, under the laws of the State of North Dakota relating to county mutual companies as provided for in N.D.C.C. ch. 26.1-13. The Company has perpetual existence as provided under N.D.C.C. § 26.1-13-03.

Effective May 12, 1999, Pembina County Mutual Insurance Company, Cavalier, North Dakota, merged into the Company.

Effective June 27, 2001, LaMoure-Greenfield Mutual Insurance Company, LaMoure, North Dakota, merged into the Company.

Effective September 28, 2009, the Company changed its name to Family Mutual Insurance Company.

The Company's home office is located in Cando, North Dakota. It also has a second office in Bismarck, North Dakota.

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 appertaining thereto by insuring therein. 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. The number of directors shall be determined each year at the annual meeting of members and shall not be less than 5 nor more than 15, a majority of whom shall constitute a quorum to do business. The directors shall be elected at the annual meeting for a period of three years and until their successors are elected and qualified; one-third of the directors shall be elected at each annual meeting.

At the 2012 annual meeting of members, the number of directors was expanded to seven from six.

Directors duly elected and serving the Company at December 31, 2014, were as follows:

Name and Residence	Term Expires	Occupation
Gerald Peterson Fargo, ND	2016	Retired
Curt Jacobson Leeds, ND	2016	Retired
Allen Halley Cando, ND	2015	Retired
Dale Overton Cando, ND	2015	Farmer
David Kronebusch Marion, ND	2016	Retired
David Monson Osnabrock, ND	2017	Farmer
Susan Davis Mandan, ND	2015	Grant Writer

Officers

Officers are elected annually by the Board of Directors at the meeting of the Board of Directors held after the annual meeting of the policyholders. Officers serving at December 31, 2014, were as follows:

Name	Office
David Monson	President
Allen Halley	Vice President
Curt Jacobson	Secretary and Treasurer

Executive Committee

The Company's Bylaws create a standing Executive Committee composed of the President, Vice President and Secretary-Treasurer, which has the authority to act for the Company in emergency matters arising between meetings of the Board of Directors.

The Executive Committee did not meet during the examination period.

Investment Committee

As appointed by the Board of Directors, the following individuals served on the Investment Committee at December 31, 2014:

Name	Title
Curt Jacobson	Secretary and treasurer
Dale Overton	Director
David Kronebusch	Director

On a quarterly basis, the Investment Committee reviews and approves investment transactions in compliance with N.D. Admin Code § 45-03-12-05(4).

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.

Articles of Incorporation and Bylaws

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

June 27, 2012	The membership voted to amend the Articles of Incorporation to reflect the Company's current home office address.

No changes were made to the Company's Bylaws during the period under examination.

Members

During the period under examination the annual meetings of the policyholders were held on the following dates: June 26, 2010; June 29, 2011; June 27, 2012; June 26, 2013; June 25, 2014; and June 24, 2015.

Directors

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

CONFLICT OF INTEREST

The Company implemented a Conflict of Interest policy in response to a prior examination comment. Directors and key employees are required to annually disclose any conflicts of interest with the Company. There were no material conflicts noted at December 31, 2014.

AFFILIATES

Risk Management Services (RMS)

RMS was formed in 2000 to provide on-site property risk reviews and claim adjustment services to other insurance companies. RMS was not a separate legal entity but was controlled by the Company by virtue of common management. The Company's employees performed various administrative services for RMS and the Company's facilities and office equipment were also used by RMS.

The Company's Board of Directors held a special meeting on October 20, 2010, and approved the dissolution of RMS and to discontinue providing any outside services by the end of 2010.

FINO Management, LLC (FINO)

The Towner County Development Committee approached the Company to take over the lease and management of the Durum House Restaurant and Lounge located in the city of Cando, North Dakota. The Board approved a motion on April 20, 2004, to form a limited liability company, FINO, LLC, for the purpose of managing the restaurant for no more than one year and to providing funding of no more than $50,000.

At the October 22, 2004, Board of Directors meeting, a report was given on the performance of FINO. After it was shown that the management of the Durum House had proven to be unprofitable and the costs had nearly exceeded the amount approved by the Board in April 2004, the Board authorized an additional $10,000 investment in FINO.

At the February 23, 2005, Board of Directors meeting, a motion was approved to develop an exit strategy for FINO to discontinue operating the Durum House. In June 2005 FINO ceased its operations of the Durum House. The Company invested a total of $72,194 into FINO while it was operating the Durum House from May 2004 to June 2005.

At the special meeting of the Board of Directors held on October 20, 2010, it was approved unanimously to close FINO due to its inactivity.

Greenfields Energy, LLC (Energy)

At the June 25, 2004, Board of Directors meeting, employee Mike Williams proposed the creation of a limited liability company called Greenfields Energy, LLC which would be used for a startup venture to build a renewable energy industrial park. The Board passed a motion to purchase a track or two of land and secure an option on as much as a section which could be used to assist

Energy in the development of an industrial park. The paperwork was never filed with the North Dakota Secretary of State's office to set up Energy as an LLC.

At the special meeting of the Board of Directors held on October 20, 2010, it was approved unanimously to close Energy due to its inactivity.

Greenfield, LLC (Greenfield)

Greenfield was established as a general insurance agency limited liability company domiciled in North Dakota under N.D.C.C. ch. 10-32 on April 30, 2004. Greenfield's Articles of Organization specify the Company's Office Manager as the LLC's organizer and the Company's Assistant Manager as its registered agent.

On December 28, 2005, approximately two years after the agency was established, Greenfield entered into six separate leases with the Company, transferring the Company's real estate, furniture and fixtures, office equipment and autos to Greenfield.

In return for transferring the title of the assets to Greenfield, the Company was paid $151,779, the December 28, 2005, book value of the transferred assets according to the Company's records. The proceeds for the purchase were obtained from a $200,000 loan made to Greenfield by the First Bank of Cando. This loan was guaranteed by the Company.

Over the lease term, which extended to November 30, 2018, the Company would have paid a cumulative total of $211,750 for the three real estate properties sold by the Company to Greenfield for $58,949 on December 28, 2005, excluding property taxes, insurance and maintenance. Although this sale-leaseback did provide tax savings for the Company as intended, it was determined to not be in the best interests of the policyholders, due in part to the lease expenses exceeding the actual costs of the assets.

After the previous examination raised concerns about the conflicts of interest involving the asset transfers from the Company to Greenfield, the Company began to wind down Greenfield. At the November 14, 2011, Board meeting, the Company approved the buyout of leases for computer and office equipment. At the December 16, 2011, Board meeting, the last lease with Greenfield for three autos was bought out. The Company is no longer involved with Greenfield.

EMPLOYEES WELFARE AND PENSION PLANS

The Company discontinued health insurance coverage in 2011 as a cost saving measure. Key employees' salaries were increased to compensate for this change.

The Company may offer a profit sharing of one percent of salary for every $100,000 added to surplus after taxes, subject to Board approval.

The Company also offers a 401(k) with a four percent match.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2014, the Company had a $150,000 fidelity bond in force, covering loss of money or property due to actions taken by any of the Company's employees. The coverage meets the minimum amount of fidelity insurance suggested by the NAIC's *Financial Examiners Handbook.*

The Company also had in force a directors and officers liability insurance policy providing a $1,000,000 limit of liability each policy year. Each claim is subject to a $10,000 deductible. The policy provides coverage for errors or omissions in the performance of professional services and wrongful acts of a director or officer while acting solely in their individual or collective capacities as directors and officers.

The Company has a commercial lines policy for its Cando office and the office space it leases in Bismarck. This policy provides property and business personal property coverage for these two locations as follows:

Location	Property Coverage	Business Personal Property Coverage
Cando-Main Office	$174,417	$30,000
Bismarck-Office	Not Applicable – Leased space	$50,000

The policy also provides general commercial liability coverage of $1,000,000 per occurrence and a $2,000,000 aggregate limit.

A business auto policy provides coverage for the Company's six vehicles. The policy provides comprehensive and collision coverage and liability coverage of $1,000,000 on each of the Company's vehicles.

The Company also has a commercial liability umbrella policy which provides liability coverage of $2,000,000 per occurrence with a $10,000 self-insured retention limit.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company had 274 licensed agents and was authorized to transact business within the following counties:

Barnes	Benson	Burleigh	Cass	Cavalier
Dickey	Emmons	Grand Forks	LaMoure	Logan
McHenry	McIntosh	McKenzie	McLean	Mercer
Morton	Mountrail	Pembina	Pierce	Ramsey
Ransom	Richland	Rolette	Sargent	Stark
Stutsman	Towner	Walsh	Ward	Williams

The Company writes in the maximum number of counties as allowed by statute. In 2012, the Company revised its authorized territory to cease writing in Dunn County in exchange for being able to write in McLean County which had a more promising market.

The Company paid commissions to 51 agencies during the exam period, none of which were appointed as producers by the Company. N.D.C.C. § 26.1-26-06 states that an insurance producer may not act as an agent of an insurer unless the insurance producer is appointed by that insurer. When an agency collects commissions from the insurer on behalf of its agents, it is acting as an agent and requires an appointment by that insurer.

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

The Company does not require its agents to sign formal contracts with the Company. While the Company does have signed agreements with 28 agents, the remaining 246 agents do not have written contracts.

It is recommended that the Company require its agents to sign contracts with the Company.

The Company did have signed agreements in place with 28 agents or agencies. Most of these agreements were signed in either 2008 or 2009 and quoted a flat commission rate of 15 percent. The Company has since updated its commission structure to a two-tiered model where agents producing over $40,000 in annual premiums or those who grew their book of business with the Company by 15 percent or more year over year qualify for a 15 percent commission rate. Those agents producing under $40,000 in annual premiums who do not grow their business with the Company by 15 percent or more only receive a 12 percent commission rate, which is not in compliance with the terms of the signed contracts. The Company is effectively paying its small, slow growth agencies with signed contracts three percent less than stated in the agents' contracts.

It is recommended that the Company update its agent agreements to reflect the Company's current commission structure.

During the exam period, the Company wrote coverage for eight commercial properties that were within the platted limits of an incorporated city. Per N.D.C.C. § 26.1-13-15 commercial risks can only be written on properties located outside the platted limits of an incorporated city.

It is again recommended that the commercial policies written by the Company on commercial properties inside the platted limits of an incorporated city be nonrenewed at the end of their term and the Company no longer write commercial properties inside the platted limits of an incorporated city.

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 was taken from Annual Statements prepared by the Company. Data for the years 2009 and 2014 reflects the results of the examination:

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policyholders	Net Premiums Written	Under-Writing Deductions	Invest-ment and Other Income	Net Income (Loss)
2005	3,323,014	1,002,109	2,320,905	1,586,640	1,535,909	167,915	218,646
2006	3,652,625	1,155,427	2,497,198	1,532,353	1,468,193	164,805	228,964
2007	3,901,593	1,021,464	2,880,128	1,545,861	1,514,852	197,970	228,979
2008	3,593,439	993,660	2,599,779	1,365,884	1,613,046	164,039	(83,122)
2009	3,473,472	1,001,300	2,472,172	1,273,224	1,450,877	228,177	50,524
2010	3,483,572	795,846	2,687,726	1,121,176	1,661,615	161,072	(379,367)
2011	3,693,345	733,717	2,959,628	1,362,359	1,309,602	171,073	223,830
2012	4,222,288	871,468	3,350,820	1,606,161	1,361,326	122,435	367,270
2013	5,283,215	1,258,723	4,024,492	2,147,906	1,346,978	98,866	899,794
2014	5,818,134	1,275,848	4,542,286	2,238,832	1,986,031	156,560	409,361

Operating Ratios

The underwriting ratios presented below encompass the five-year period ending December 31, 2014:

	2014	2013	2012	2011	2010
Premiums	100%	100%	100%	100%	100%
Deductions:					
Losses and Loss Adjustment	24.6	16.9	23.8	35.3	50.2
Administrative Expenses	64.1	45.8	60.9	60.8	98.0
Total Deductions	88.7	62.7	84.7	96.1	148.2
Net Underwriting Gain (Loss)	11.3	37.3	15.3	3.9	(48.2)

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

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

Advertising — The Company's advertising consists primarily of newspaper, sports booklets and give-away items. The advertising material was reviewed and no violations of N.D.C.C. § 26.1-04-03(2) were noted.

OPERATING AGREEMENTS

Grinnell Advisory Company

On February 4 2011, the Company entered into a contract with Grinnell Advisory Company, a subsidiary of Grinnell Mutual Reinsurance Company, to perform claims adjusting services.

For services provided in 2014, Grinnell Advisory Company was paid $15,800. The fee charged is a flat rate for up to 50 claims and 60 inspections. Any additional claims would be billed at $400 per claim and additional inspections would be billed at $30 per inspection. Unused services cannot be carried over or refunded.

Other Independent Claims Adjustors

The Company also conducted business with three additional independent claims adjustors in 2014—Central Claims, Great Plains Claims, and Heinrich & Company. The Company did not have formal written agreements with any of these adjusting firms.

It is recommended that the Company enter into written agreements with the independent claims adjustors with which it conducts business.

Office Rental Agreement

The Company leases its Bismarck office space from Gate City Bank. The Company's lease expired on May 31, 2015, and was renewed for two years at $1,229 per month. The Company has the option to renew the agreement for up to two one-year extensions immediately following the initial term of the lease. If the Company exercises these renewal options, its monthly rental fee will increase to $1,291 per month in the first year and $1,352 per month in the second year.

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 review performed by Grinnell contained five recommendations, none of which were considered significant for this examination.

REINSURANCE

The Company's reinsurance treaties in force at December 31, 2014, are summarized below:

Grinnell Mutual Reinsurance Company

Nonaffiliated Ceding Contract:

Type: Excess

Reinsurer: Grinnell Mutual Reinsurance Company

Scope:

(A) Individual Occurrence of Loss Excess – Covers all risks written by the Company in excess of a $175,000 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 $1,180,471.

(C) Liability – The reinsurer assumes 100% of the liability for Farmers Comprehensive Personal Liability, Home-Guard Comprehensive Personal Liability, Comprehensive Personal Liability and Rented Dwelling Liability coverages.

Premium:

(A) Individual Occurrence of Loss Excess – The 2014 monthly premium rate per $1,000 adjusted gross fire risks in force was $0.0131.

(B) Aggregate Excess – The 2014 monthly premium rate per $1,000 of adjusted gross fire risks in force was $0.0311.

(C) Personal Liability – The reinsured shall cede 100% of the premium to the reinsurer.

Commissions: 20% commission on liability premiums ceded.

Termination Date: The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days' notice.

The contract contained the insolvency clause required by N.D.C.C. § 26.1-02-21 and all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual.*

Hartford Steam Boiler

Nonaffiliated Ceding Contract:

Type: 100% Excess of $0 Loss

Scope: All policy forms and endorsements issued by the Company:

(A) Business Equipment Breakdown*	$5 million limit
(B) Employment Practices Liability*	$50,000 limit
(C) Farmowners Equipment Breakdown	$5 million limit
(D) Home Systems Protection	$50,000 limit
(E) Identity Recovery*	$15,000 annual per insured
(F) Service Line	$10,000 per Service line failure

*The Company does not currently write coverage for these lines.

Premium:

(C) Farmowners Equipment Breakdown	$35 per policy
(D) Home Systems Protection	$10 per policy
(F) Service Line	$15 per policy

Termination Date: The agreement may be terminated only as of the last day of any calendar year by either party upon 180 days' notice in writing.

Retention: The Company has a net $0 retention on these lines of business. All claims are paid by the Company and reimbursed 100% by Hartford Steam Boiler.

The contract contained the insolvency clause required by NDCC § 26.1-02-21 and all of the clauses required by the NAIC's *Accounting Practices and Procedures Manual.*

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 2014, was extracted from the general ledger and traced to the appropriate schedules of the Company's 2014 Annual Statement. Revenues and expenses were test checked to the extent deemed necessary.

The following differences with respect to the Company's accounts, records and operations were noted:

1. Depreciation on Real Estate: The Company is recording depreciation based on the total real estate cost which includes the land. Land should not be included in the total for depreciation. Also, the Company is depreciating the new roof at 1.28 percent. Per N.D.C.C. § 26.1-05-19(27)(c), depreciation must not be less than two percent per year based on the original cost.

It is recommended that the Company exclude the cost of the land from the depreciation calculation and that the roof be depreciated at a rate of no less than two percent per year as required by N.D.C.C. § 26.1-05-19(27)(c).

2. Furniture and Fixture Depreciation: The Company depreciates some of its electronic data processing equipment over a period greater than that allowed by N.D.C.C. § 26.1-05-19(28).

   It is recommended that the Company depreciate its electronic data processing equipment at a rate which is in compliance with N.D.C.C. § 26.1-05-19(28) and the County Mutual Annual Statement Instructions.

3. Premium Refunds: The Company's Agent Guidelines document directs its agents to return the unearned premium for a policy period after deducting any claim payment made in that period. N.D.C.C. § 26.1-24-03(3), as cited by the Company, does allow for this treatment of premium refunds "except as provided for in a policy form filed with and approved by the commissioner."

   The Company uses Grinnell Mutual's Standard ISO forms which specify that the Company will return "no more than the prorated unused share of your premium" for all policies except the FarmMate policy which states "no more than the short rating unused share of your premium."

   The Company's policy of not refunding "Hay, Grain, Wool, Chemicals" and only offering refunds if the total is over $100 on "Leased, Rented, or Seasonal Machinery" does not appear to comply with the Company's policy forms which do not specify any refund stipulations other than prorating and short rating as discussed above.

   It is recommended that the Company amend its Agent Guidelines and procedures regarding premium refunds in order to comply with its approved policy language.

Custodial Agreements

During the exam period, the Company entered into a custodial agreement with Fidelity Brokerage Services LLC and National Financial Services LLC (collectively, "Fidelity"), under which Fidelity provides safekeeping of the Company's invested assets. This agreement is in compliance 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.

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

ASSETS:

LEDGER ASSETS:			
Bonds	$3,118,230		
Stocks	1,310,294		
Real Estate	15,976		
Cash on Hand and Checking Account	483,393		
Cash on Deposit	276,551		
Uncollected Premiums Under 90 days old	21,882		
Uncollected Premiums Over 90 days old	409		
Furniture, Fixtures, Automobiles	84,365		
TOTAL LEDGER ASSETS		$5,311,100	
NONLEDGER ASSETS:			
Interest Due and Accrued on Bonds	36,013		
Market Value of Stocks over Book Value	516,769		
Federal Income Tax Recoverable	39,026		
TOTAL NONLEDGER ASSETS		591,808	
DEDUCT: ASSETS NOT ADMITTED			
Premiums Over 90 Days Due	409		
Furniture, Fixtures, Automobiles	84,365		
TOTAL NONADMITTED ASSETS		84,774	
TOTAL NET ADMITTED ASSETS			$5,818,134

LIABILITIES:

Unpaid Losses	$35,782		
Unpaid Loss Adjustment Expenses	6,317		
Advance Premiums	38,673		
Unearned Premium Reserve	1,068,194		
Commissions Due and Payable to Agents	53,234		
Unpaid Taxes	21,056		
Unpaid General Expenses	10,360		
Reinsurance Premiums Due and Payable	42,232		
TOTAL LIABILITIES		1,275,848	
SURPLUS TO POLICYHOLDERS			4,542,286
TOTAL LIABILITIES AND SURPLUS			$5,818,134

Family Mutual Insurance Company
Statement of Cash Receipts and Cash Disbursements
For Year Ended December 31, 2014

INCOME:			
Gross Premium Income	$2,622,772		
Less: Return Premiums	-		
Premiums for Reinsurance Ceded	383,940		
NET PREMIUM INCOME		$2,238,832	
Interest on Bonds		58,868	
Dividends on Stocks		29,145	
Gross Rent from Company's Occupancy		4,200	
Interest on Cash on Deposit		2,168	
Profit on Sale or Maturity of Ledger Assets		46,351	
Commissions and Service Fees Received		14,025	
Miscellaneous Income		1,803	
TOTAL INCOME RECEIPTS			2,395,392
DISBURSEMENTS:			
Gross Losses Paid and Incurred in 2014	$443,851		
Gross Losses Pd. in 2014 But Incurred in Prior	18,597		
NET LOSSES PAID		462,448	
Claim Adjustment Expenses		87,480	
Commissions Paid to Agents		415,433	
Directors Fees and Expenses		14,780	
Salaries to Employees		264,282	
Printing, Stationary, and Office Supplies		7,577	
Rent and Rent Items		17,484	
Real Estate Expenses (other than taxes)		6,883	
Taxes on Real Estate		589	
State and Local Insurance Taxes		44,196	
Insurance Dept. Licenses and Fees		3,117	
Payroll Taxes		30,903	
Federal Income Taxes		371,744	
Legal Fees and Auditing		18,211	
Travel and Travel Items		23,710	
Advertising		16,392	
Dues and Donations		1,785	
Equipment Purchased		17,563	
Insurance and Bonds		15,939	
Postage, Telephone and Bank Charges		26,436	
Employee Relations and Welfare		21,884	
Data Processing Expenses		11,382	
Loss Prevention and Inspection Expense		84,021	
Investment Expenses		20,140	
Miscellaneous Expenses		1,653	
TOTAL FUNDS DISBURSED			1,986,032
NET INCOME			$409,360

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 Hand

The Company used a transaction report's running balance to determine its December 31, 2014, operating account balance, rather than using the balance as determined by the Company's December bank reconciliation. The Company also deducted three payroll tax amounts totaling $1,486.24 from the year-end balance that were not actually paid until 2015.

The amount as determined by the reconciliation was $14,489.51 more than the $218,379.10 reported by the Company. The exam balance for the First State Bank of Cando at December 31, 2014, was $232,868.61.

It is recommended that the Company use its bank reconciliation to determine bank account balances at year-end when completing the Annual Statement.

Premiums in Course of Collection

The Company included premiums 60 to 90 days past due in the 90 days and over line. This caused the Company to non-admit $1,455 in premiums that should have been admitted.

Market Value of Stocks Over Book Value

The Company reported a market value for its IRET holdings of $7.66 per share. The actual December 31, 2014, closing price of IRET was $8.17 per share or $0.51 higher than the per share price reported by the Company. As the Company owned 13,337.848 shares at December 31, 2014, the $0.51 difference per share represents an increase in the Company's book value in IRET of $6,802.

Federal Income Tax Recoverable

The Company had a tax refund of $39,026 per its federal tax return but did not report the amount as a recoverable asset.

Liabilities

Commissions Due and Payable to Agents

The Company's liability for commissions due and payable to agents was determined by this examination to be $53,234. The Company did not report a liability for contingent commissions, but paid $53,234 of 2014 contingent commissions in the first quarter of 2015.

Unearned Premium Reserve (UPR)

The Company included 100% reinsured Farm Liability premiums, fully earned policy fees, and fully earned billing fees in its estimate for unearned premium reserves. The UPR as determined by the examination was $1,068,195 or $26,523 less than the amount reported by the Company.

It is recommended that the Company exclude fully earned and fully reinsured premiums from its calculation of the unearned premium reserve.

Unpaid General Expenses

The Company excluded $6,144 of expenses incurred in 2014 but paid in 2015 from its estimate of unpaid general expenses as of December 31, 2014.

Unpaid Taxes

The Company deducted 2014 payroll taxes that were paid in 2015 from its reconciled December 31, 2014, bank balance. As these expenses were outstanding at year end, the Company should have included an additional $1,486 in its estimate for unpaid taxes.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be $4,542,283 or $27,430 more than the amount reported by the Company. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase (Decrease) to Surplus
Ledger Assets:			
Cash on hand	$468,903	$483,393	$14,490
Premiums in Course of Collection	20,427	21,882	1,455
Market value of stocks over book value	509,967	516,769	6,802
Federal Income Tax Recoverable	0	39,026	39,026
Liabilities:			
Unearned Premium Reserve	1,094,717	1,068,194	26,523
Contingent Commissions Payable	0	53,234	(53,234)
Unpaid General Expenses	4,216	10,360	(6,144)
Unpaid Taxes	19,570	21,056	(1,486)
Net Increase			$27,432

Surplus to Policyholders per Company	$4,514,853
Exam Adjustments	27,432
Surplus to Policyholders per Examination	$4,542,286

CONCLUSION

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

TOTAL ADMITTED ASSETS		$5,818,134
Total Liabilities	$1,275,848	
Surplus to Policyholders	4,542,286	
TOTAL LIABILITIES AND SURPLUS		$5,818,134

Since the last examination conducted as of December 31, 2009, the Company's admitted assets have increased $2,344,662, its total liabilities have increased $274,548 and its surplus as regards policyholders has increased by $2,070,114.

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, Chief Examiner Ed Moody, CFE, CPA and Matt Fischer, CFE participated in this exam.

Respectfully submitted,

Colton Schulz, CFE
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

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

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

It is recommended that the Company require its agents to sign contracts with the Company.

It is recommended that the Company update its agent agreements to reflect the Company's current commission structure.

It is recommended that the Company enter into written agreements with the independent claims adjustors with which it conducts business.

It is recommended that the Company exclude the cost of the land from the depreciation calculation and that the roof be depreciated at a rate of no less than two percent per year as required by N.D.C.C. § 26.1-05-19(27)(c).

It is recommended that the Company depreciate its electronic data processing equipment at a rate which is in compliance with N.D.C.C. § 26.1-05-19(28) and the County Mutual Annual Statement Instructions.

It is recommended that the Company amend its Agent Guidelines and procedures regarding premium refunds in order to comply with its approved policy language.

It is recommended that the Company use its bank reconciliation to determine bank account balances at year-end when completing the Annual Statement.

It is recommended that the Company exclude fully earned and fully reinsured premiums from its calculation of the unearned premium reserve.