

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

REPORT OF EXAMINATION

OF

**GRIGGS NELSON MUTUAL
INSURANCE COMPANY**

MCVILLE, 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

Griggs Nelson Mutual Insurance Company

McVille, 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 20th day of

August, 2015.


Adam Hamm
Insurance Commissioner

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McVile, North Dakota
June 26, 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 in accordance with the North Dakota Insurance Code and resolutions adopted by the National Association of Insurance Commissioners, an examination was made of the books, records, and financial condition of

**Griggs Nelson Mutual Insurance Company
McVile, North Dakota**

as of December 31, 2014.

Griggs Nelson Mutual Insurance Company, hereinafter referred to as the "Company," was last examined as of December 31, 2009, by representatives of the State of North Dakota.

SCOPE OF STATUTORY EXAMINATION

This examination was a financial condition examination conducted in accordance with N.D.C.C. § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. This statutory examination covers the period from January 1, 2010, to December 31, 2014, including any material transactions and/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 13 exception conditions commented upon in our preceding Report on Examination which covered the period from January 1, 2005, to December 31, 2009. We determined that the Company had satisfactorily addressed all of these items.

SUBSEQUENT EVENTS

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

HISTORY

The Company was incorporated on June 1, 1998, as a successor to Griggs County Mutual Insurance Company, Cooperstown, North Dakota, and Nelson County Mutual Insurance Company, McVile, North Dakota. Those entities consolidated effective June 1, 1998, with its home office located in McVile, North Dakota. The Company operates a satellite office in Cooperstown, North Dakota.

Griggs County Mutual Insurance Company was incorporated June 10, 1916, and commenced business on May 15, 1917, at Cooperstown, North Dakota, under the name of "Griggs County Farmers Mutual Fire and Lightning Insurance Company." In 1968, its name was changed to "Griggs County Mutual Insurance Company."

Nelson County Mutual Insurance company was incorporated under the laws of the State of North Dakota on March 10, 1900, and commenced business January 1, 1905, as "The Farmers Mutual Fire and Lightning Insurance Company of Nelson County," with its home office and principal place of business at McVile, North Dakota. In 1967, its name was changed to "Nelson County Mutual Insurance Company."

The Company was organized pursuant to the provisions of N.D.C.C. ch. 26.1-13 to insure against all of the risks and to possess all of the powers and to be subject to all of the liabilities and duties of a county mutual insurance company as now provided in N.D.C.C ch. 26.1-13, as the same may be from time to time amended.

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

MANAGEMENT AND CONTROL

The membership of the Company is limited to those persons or organizations having insurance in force. Membership and insurance may be obtained only by written application signed by the applicant and shall commence only when approved by the secretary or authorized representative.

Directors

The Bylaws provide that the corporate powers of the Company shall be vested in a Board of Directors composed of not less than 5 and not more than 14 members elected by a majority vote at the annual meeting of the membership for terms of three years. 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:

Name and Residence	Term Expires	Occupation
Clifford Anderson Cooperstown, ND	2015	Retired Farmer
Dwight Haas Tolna, ND	2015	Farmer
Lanny Klefstad Pekin, ND	2016	Farmer
David Saxberg Cooperstown, ND	2017	Farmer
Lowell Skjolden Aneta, ND	2016	Retired Bank Loan Officer
Richard Trostad Aneta, ND	2017	Retired Farmer
Harlan Urness Coopersown, ND	2015	Retired Farmer

Officers

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

<u>Name</u>	<u>Office</u>
Lanny Klefstad	President
Harlan Urness	Vice President
Audrey Reinhart	Secretary-Treasurer

Committees

The Company has an Audit Committee, which meets annually at the McVile office to audit various operations of the Company. The committee members serving at December 31, 2014, were as follows:

Lanny Klefstad, President
 Lowell Skjolden, Director
 Sonya Syverson, Policyholder

The Company also has an Investment Committee which is made up of three Directors and the Secretary. The committee members serving at December 31, 2014, were as follows:

Clifford Anderson
Lowell Skjolden
Harlan Urness
Audrey Reinhart

That committee met 23 times in 2010, 8 times in 2011, 10 times in 2012, 5 times in 2013 and 4 times in 2014. Investment transactions were approved quarterly by the Investment Committee.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

No amendments were made to the Articles or Bylaws during the period under examination.

Board of Director, Policyholder, and Committee Minutes

The minutes of the meetings held by the membership and directors during the years under examination were reviewed for compliance with the Articles of Incorporation, Bylaws, and statutory requirements.

Members

The Bylaws provide that the annual meeting of the Company shall be held between March 1 and June 30 of each year. During the period under examination the annual meetings of the policyholders were held on the following dates: June 9, 2010; June 14, 2011; June 5, 2012; June 6, 2013; June 11, 2014.

Directors

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

Conflict of Interest

The Company has a conflict of interest policy for directors, officers, and key employees and conflict of interest statements are completed annually. The conflict of interest statements for the years under examination were reviewed and all conflicts were noted and accepted.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2014, there was in force a policyholder's protection plus bond insuring against loss sustained by the Company as a result of dishonest or fraudulent acts committed by an employee. The bond provides for a \$250,000 single loss limit of liability for loss caused by any

employee. The coverage meets the minimum amount of fidelity insurance recommended in the NAIC's *Financial Examiners Handbook*.

The Company also had in force a directors and officers liability insurance policy providing a \$1,000,000 limit of liability each policy year. Each claim is subject to a \$15,000 deductible. The policy provides coverage for errors or omissions in the performance of professional services and wrongful acts of a director or officer while acting solely in their individual or collective capacities as directors and officers.

A commercial lines policy provides property coverage of \$95,053 for the office building in Cooperstown and business personal property coverage of \$5,000 at the Cooperstown and McVile offices. The policy also provides liability coverage of \$1,000,000 per occurrence and a \$2,000,000 aggregate limit.

TERRITORY AND PLAN OF OPERATION

At December 31, 2014, the Company had 55 licensed agents and was authorized to transact business in the following counties:

Barnes	Benson	Cass	Cavalier
Dickey	Eddy	Emmons	Foster
Grand Forks	Griggs	Kidder	LaMoure
Logan	McHenry	McIntosh	Nelson
Pembina	Pierce	Ramsey	Ransom
Richland	Rollette	Sargent	Sheridan
Steele	Stutsman	Towner	Trill
Walsh	Wells		

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over the 10-year period ending December 31, 2014. Data with respect to the years 2005-2008 and 2010-2013 is compiled from home office copies of the filed Annual Statements. Data for the years 2009 and 2014 reflects the results of the statutory examination. The operational results are presented on a cash basis.

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policyholders	Net Premiums Written	Underwriting Deductions	Investment And Other Income	Net Income (Loss)
2005	1,067,831	330,338	737,493	428,220	323,473	46,039	150,786
2006	1,388,306	336,567	1,051,739	501,457	286,377	51,900	266,980
2007	1,481,768	361,191	1,120,577	543,507	545,390	66,700	64,818
2008	1,385,193	355,299	1,029,894	567,050	595,190	71,829	43,689
2009	1,625,632	413,185	1,212,447	588,800	471,567	59,280	176,512
2010	1,701,025	385,549	1,315,476	587,293	602,978	95,062	79,377
2011	1,646,111	390,996	1,255,115	612,288	709,959	52,724	(44,947)
2012	2,005,705	434,299	1,571,406	649,092	387,132	49,614	311,574
2013	2,135,097	504,852	1,630,244	652,692	672,729	65,816	45,779
2014	2,407,814	524,210	1,883,604	684,850	529,394	75,515	230,971

Operating Ratios

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Premiums	100%	100%	100%	100%	100%
Deductions:					
Losses and Loss Adjustment	36.7	61.6	22.9	75.6	59.8
Underwriting Expenses	40.6	41.4	36.8	40.4	42.8
Total Deductions	77.3	103.1	59.6	116.0	102.7
Net Underwriting Gain (Loss)	22.7	(3.1)	40.4	16.0	2.7

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

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

Advertising The Company's advertising consists primarily of newspaper, directory advertising, and miscellaneous ads (i.e., county fair). The advertising material was reviewed and no violations of N.D.C.C. § 26.1-04-03(2) were noted.

OPERATING AGREEMENTS

Universal Adjustment Services, Inc.

In March 2004, the Company along with four other North Dakota domestic county mutual insurance companies entered into a contract with Universal Insurance Services, Inc. (Universal) to obtain claims adjusting and risk review services on an extended basis. In January 2009, the contract was amended to reflect Universal's services would be shared by the Company and Steele Traill County Mutual Insurance Company.

For services provided in 2014, Universal received \$93,953 of which \$46,980 was paid by the Company. As part of the contract, Universal performs claims adjusting and risk review services. Per the contract, there is no fixed amount of claims adjusting or risk review services to be performed.

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

OPERATIONS REVIEW

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

- General Operations
- Underwriting and Loss Control
- Claims

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

REINSURANCE

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

Nonaffiliated Ceding Contract:

Type:	Excess										
Reinsurer:	Grinnell Mutual Reinsurance Company										
Scope:	All policy forms and endorsements issued by the Company: (A) Individual Occurrence of Loss Excess - covers all risks written by the Company in excess of \$125,000 retention subject to the following limits: <table><tr><td>Dwellings</td><td>\$1,000,000</td></tr><tr><td>Farm Outbuildings</td><td>1,000,000</td></tr><tr><td>Livestock/Poultry/Horse Operations</td><td>1,000,000</td></tr><tr><td>Commercial and Public Property</td><td>1,000,000</td></tr><tr><td>Farm Machinery and Equipment Storage</td><td>2,000,000</td></tr></table> (B) Aggregate Excess - provides coverage for 100 percent of the Company's aggregate net loss in excess of a defined retention limit. The retention limit for 2014 was \$497,577.	Dwellings	\$1,000,000	Farm Outbuildings	1,000,000	Livestock/Poultry/Horse Operations	1,000,000	Commercial and Public Property	1,000,000	Farm Machinery and Equipment Storage	2,000,000
Dwellings	\$1,000,000										
Farm Outbuildings	1,000,000										
Livestock/Poultry/Horse Operations	1,000,000										
Commercial and Public Property	1,000,000										
Farm Machinery and Equipment Storage	2,000,000										
Premium:	(A) Individual Occurrence of Loss Excess - The 2014 annual premium and monthly premium was \$0.0366 per \$1,000 adjusted gross fire risks in force. (B) Aggregate Excess - The 2014 annual premium was \$0.0415 per \$1,000 of adjusted gross fire risks in force.										
Commissions:	Sliding scale contingent commission from zero percent to five percent based on the five year loss ratio.										
Termination Date:	The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days notice in writing.										

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

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the course of the examination and a trial balance as of December 31, 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.

Custodial Agreements

The Company has a custodial agreement with broker-dealer, Edward D. Jones & Co., L.P. (Edward Jones) dated August 8, 2012, under which Edward Jones provides safekeeping of the Company's invested assets.

The Company's custodial agreement with Edward Jones was granted an exemption by the Department for compliance with N.D. Admin. Code § 45-03-23-02(2p) effective August 8, 2012. The agreement was subsequently amended in July 2014 to remove certain protections required by N.D. Admin. Code § 45-03-23-02(2). Therefore, this exemption is no longer applicable due to the amendments to agreement. The amended agreement does not contain the following language as specified in N.D. Admin. Code § 45-03-23-02(2):

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

- a. Securities certificates held by the custodian must be held separate from the securities of the custodian and of all of its other customers.
- b. Securities held indirectly by the custodian and securities in a clearing corporation must be separately identified on the custodian's official records as being owned by the insurance company. The records must identify which securities are held by the custodian or by its agent and which securities are in a clearing corporation. If the securities are in a clearing corporation, the records must also identify where the securities are and, if in a clearing corporation, the name of the clearing corporation and, if through an agent, the name of the agent.
- c. All custodied securities that are registered must be registered in the name of the company or in the name of a nominee of the company or in the name of the custodian or its nominee or, if in a clearing corporation, in the name of the clearing corporation or its nominee.

- d. Custodied securities shall be held subject to the instructions of the insurance company and shall be withdrawable upon the demand of the insurance company, except that custodied securities used to meet the deposit requirements set forth in North Dakota Century Code section 26.1-05-23 must, to the extent required by that section, be under the control of the insurance commissioner and must not be withdrawn by the insurance company without the commissioner's approval.
- e. The custodian shall be required to send or cause to be sent to the insurance company a confirmation of all transfers of custodied securities to or from the account of the insurance company. In addition, the custodian shall be required to furnish no less than monthly the insurance company with reports of holdings of custodied securities at such times and containing information as may be reasonably requested by the insurance company. The custodian's trust committee's annual reports of its review of the insurer's trust accounts shall also be provided to the insurer. Reports and verifications may be transmitted in electronic or paper form.
- f. During the course of the custodian's regular business hours, any officer or employee of the insurance company, any independent accountant selected by the insurance company, and any representative of an appropriate regulatory body shall be entitled to examine, on the premises of the custodian, the custodian's records relating to custodied securities, but only upon furnishing the custodian with written instructions to that effect from an appropriate officer of the insurance company.
- g. The custodian and its agents shall be required to send to the insurance company:
 - (1) All reports which they receive from a clearing corporation on their respective systems of internal accounting control; and
 - (2) Any reports prepared by outside auditors on the custodians or its agent's internal accounting control of custodied securities that the insurance company may reasonably request.
- h. The custodian shall maintain records sufficient to determine and verify information relating to custodied securities that may be reported in the insurance company's annual statement and supporting schedules and information required in any audit of the financial statements of the insurance company.

- i. The custodian shall provide, upon written request from an appropriate officer of the insurance company, the appropriate affidavits, substantially in the form described in the appendices to this chapter, with respect to custodied securities.
- j. A national bank, state bank, or trust company shall secure and maintain insurance protection in an adequate amount covering the bank's or trust company's duties and activities as custodian for the insurer's assets and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator. A broker-dealer shall secure and maintain insurance protection for each insurance company's custodied securities in excess of that provided by the securities investor protection corporation in an amount equal to or greater than the market value of each respective insurance company's custodied securities. The commissioner may determine whether the type of insurance is appropriate and the amount of coverage is adequate.
- k. The custodian shall be obligated to indemnify the insurance company for any loss of custodied securities, except that the custodian shall not be so obligated to the extent that the loss was caused by other than the negligence or dishonesty of the custodian.
- l. The custodian shall be obligated to indemnify the insurance company for any loss of custodied securities occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.
- m. In the event that there is a loss of custodied securities for which the custodian shall be obligated to indemnify the insurance company, the custodian shall promptly replace the securities or their value thereof and the value of any loss of rights or privileges resulting from the loss of securities.
- o. In the event that the custodian gains entry in a clearing corporation through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian; provided, however, that if the agent shall be subject to regulation under the laws of a jurisdiction which is different from the jurisdiction the laws of which regulate the custodian, the insurance commissioner of the state of domicile of the insurance company may accept a standard of liability applicable to

the agent which is different from the standard of liability applicable to the custodian.

- p. The custodian shall provide written notification to the insurer's domiciliary commissioner if the custodial agreement with the insurer has been terminated or if one hundred percent of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the insurance commissioner within three business days of the receipt by the custodian of the insurer's written notice of termination or within three business days of the withdrawal of one hundred percent of the account assets.

It is recommended that the Company enter into a custodial agreement that meets the requirements of N.D. Admin. Code § 45-03-23-02 and that the agreement be approved by the Board of Directors.

Claim Complaints

N.D.C.C. § 26.1-04-03(10) requires that the Company adopt and implement reasonable standards for the prompt handling of written communications, primarily expressing grievances received by the Company from insureds or claimants. Currently, if the Company receives complaints, they are noted in the claim file itself. The Company does not have or maintain an internal complaints log that records all grievances received by the Company as required by N.D.C.C. § 26.1-04-03(10).

It is recommended that the Company establish and maintain an internal complaints log that meets the requirements of N.D.C.C. § 26.1-04-03(10) for any complaints that are reported to the Company.

FINANCIAL STATEMENTS

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

Griggs Nelson Mutual Insurance Company
Statement of Assets, Liabilities, and Surplus
as of December 31, 2014

ASSETS

LEDGER ASSETS:

Bonds	\$ 230,693
Stocks	509,782
Real Estate	2,517
Checking Accounts	184,770
Cash on Deposit	1,239,166
Cash Balance at Edward Jones	<u>53,395</u>

TOTAL LEDGER ASSETS \$2,220,323

NONLEDGER ASSETS:

Interest Due and Accrued on Bonds	\$ 1,714
Interest Due and Accrued on certificates of deposit and passbook savings	
Assessments or premiums in course of collection	8,875
Market Value of Stocks over Book Value	34,390
	<u>142,512</u>

TOTAL NONLEDGER ASSETS \$ 187,491

TOTAL NET ADMITTED ASSETS \$2,407,814

LIABILITIES

Unpaid Losses	\$ 10,000
Advanced Premium	8,484
Unearned Premium Reserve	460,066
Commission Due and Payable to Agents	10,506
Unpaid Taxes	6,524
Unpaid General Expenses	760
Reinsurance Premiums Due and Payable	15,969
Federal Income Tax Due	6,022
Liability and Equipment Breakdown Premiums Payable to Grinnell	<u>5,879</u>

TOTAL LIABILITIES \$ 524,210

SURPLUS TO POLICYHOLDERS \$1,883,604

TOTAL LIABILITIES AND SURPLUS \$2,407,814

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

INCOME:

Gross Premium Income	\$884,077	
Less: Return Premiums	13,135	
Premiums for Reinsurance Ceded	186,092	
NET PREMIUM INCOME		\$684,850
Interest on Bonds		8,485
Dividends on Stocks		33,173
Gross Rent from Company's Property		2,025
Interest on Cash on Deposit		20,022
Commissions and Fees Received on Liability Premiums		11,797
Suspense Account		13
TOTAL INCOME RECEIPTS		\$760,365

DISBURSEMENTS:

Gross Losses Paid and Incurred in 2014	\$173,320	
Gross Losses Paid in 2014 But Incurred in Prior Years	32,857	
Deduct: Salvage & Subrogation	1,600	
Reinsurance Recovered	0	
NET LOSSES PAID		\$204,577
Claim Adjustment and Risk Review Expenses		46,980
Commissions Paid to Agents		123,666
Directors Fees and Expenses		5,220
Salaries to Employees		69,000
Printing, Stationary, and Office Supplies		2,882
Rent and Rent Items		4,200
Real Estate Expenses		3,430
Taxes on Real Estate		416
State and Local Insurance Taxes		14,629
Insurance Department Licenses and Fees		695
Payroll Taxes		5,126
Federal Income Taxes		7,253
Legal Fees and Auditing		375
Travel and Travel Items		931
Advertising		2,221
Dues and Donations		5,310
Equipment Purchased		288
Insurance and Bonds		5,080
Postage, Telephone, and Bank Charges		4,812
Employee Relations and Welfare		250
Data Processing Expenses		14,555
Miscellaneous Expenses		3,704
Annual Meeting and Convention		3,794
TOTAL FUNDS DISBURSED		529,394
 Net Gain		 \$230,971

COMMENTS TO THE FINANCIAL STATEMENTS

Assets

Stocks

The Company exceeded the limits of N.D.C.C. § 26.1-05-19(21)(a) which limits investments in preferred, guaranteed, and common stocks issued or guaranteed by a single issuer to three percent of the insurance company's admitted assets. At December 31, 2014, the following stock investments exceeded the three percent limitation:

<u>Description</u>	<u>Market Value</u>	<u>3% Limit</u>	<u>Excess</u>
Income Fund of America	\$151,235	\$ 71,203	\$ 80,033
Capital Income Builder Fund	91,453	71,203	20,250
Total	<u>\$242,688</u>		<u>\$100,283</u>

However, N.D.C.C. § 26.1-05-19(33), commonly known as the basket clause, allows insurers to hold investments not specifically authorized elsewhere in an amount that does not exceed either seven percent of the Company's admitted assets, or the amount equal to the Company's capital and surplus in excess of the minimum capital and surplus required by law, whichever is less. Based on the basket clause, the market value of Income Fund of America, and Capital Income Builder Fund in excess of the three percent limit are admitted. The basket clause provided an additional investment authority of \$166,140 at December 31, 2014.

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

Premiums in Course of Collection

Premiums in course of collection as determined by this examination consisted of the following items and amounts:

<u>Description</u>	<u>Company</u>	<u>Examination</u>
Assessments or premiums in course of collection	\$ 0	\$ 34,390
Total	<u>\$ 0</u>	<u>\$ 34,390</u>

The Company did not report its net deferred premiums at December 31, 2014. Per the County Mutual Annual Statement Instructions, the Company is required to record premiums in course of collection as a nonledger asset.

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

Liabilities

Advanced Premiums

Advanced Premiums as determined by this examination consisted of the following items and amounts:

Description	Company	Examination
Advanced Premiums	\$ 0	\$ 8,484
Total	<u>\$ 0</u>	<u>\$ 8,484</u>

The Company did not report its net advanced premiums at December 31, 2014. Per the County Mutual Annual Statement Instructions, the Company is required to record premiums received prior to the effective date of the policy net of applicable commission.

It is recommended that the Company report premiums received prior to the policy effective date as a liability in accordance with the County Mutual Annual Statement Instructions.

Federal Income Tax Payable

Federal Income Tax Payable as determined by this examination consisted of the following items and amounts:

Description	Company	Examination
Federal Income Tax Payable	\$ 1,500	\$ 6,022
Total	<u>\$ 1,500</u>	<u>\$ 6,022</u>

The liability for Federal Income Tax Payable was determined by this examination to be \$6,022 or \$4,522 more than what was reported by the Company as of December 31, 2014. The Company did not book a liability for its final payment of \$4,522 due with the Company's 2014 Federal Income Tax Return.

It is recommended that the Company book its estimate of the final payment due for its Federal Income Tax liability in accordance with the County Mutual Annual Statement Instructions.

Surplus to Policyholders

Surplus to policyholders was determined by this examination to be \$1,859,412 or \$2,808 less than the amount reported by the Company in its 2014 Annual Statement. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase or (Decrease) to Surplus
<u>Assets:</u>			
Assessments or premiums in course of collection	\$ 0	\$34,390	\$ 34,390
<u>Liabilities:</u>			
Advanced Premium	0	8,484	(8,484)
Federal Income Tax Payable	1,500	6,022	(4,522)
Net Increase			<u>\$ 21,384</u>
Surplus to Policyholders as reported by Company	\$1,862,220		
Increase (Decrease) to Surplus from above	<u>21,384</u>		
Surplus to Policyholders per Examination	\$1,883,604		

CONCLUSION

The financial condition of Griggs Nelson Mutual Insurance Company, McVille, North Dakota, as determined by this examination is summarized as follows:

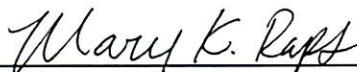
TOTAL ADMITTED ASSETS		<u>\$2,407,814</u>
Liabilities	\$ 524,210	
Surplus to Policyholders	<u>1,883,604</u>	
TOTAL LIABILITIES AND SURPLUS		<u>\$2,407,814</u>

During the five-year period under examination, admitted assets increased by \$782,182, liabilities increased by \$111,025, and surplus to policyholders increased by \$671,157.

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

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

Respectfully submitted,



Mary Raps, AFE
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

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

It is recommended that the Company enter into a custodial agreement that meets the requirements of N.D. Admin. Code § 45-03-23-02 and that the agreement be approved by the Board of Directors.

It is recommended that the Company establish and maintain an internal complaints log that meets the requirements of N.D.C.C. § 26.1-04-03(10) for any complaints that are reported to the Company.

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

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

It is recommended that the Company report premiums received prior to the policy effective date as a liability in accordance with the County Mutual Annual Statement Instructions.

It is recommended that the Company book its estimate of the final payment due for its Federal Income Tax liability in accordance with the County Mutual Annual Statement Instructions.