

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

**REPORT OF EXAMINATION**

**OF**

**NORTH DAKOTA  
INSURANCE GUARANTY ASSOCIATION**

**BISMARCK, 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

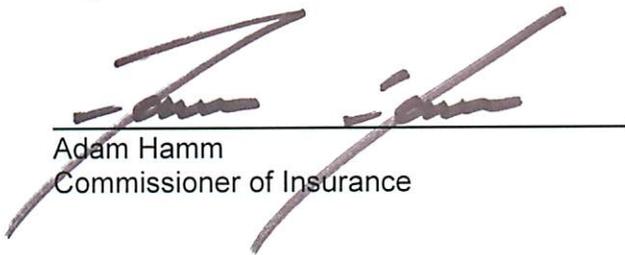
**North Dakota Insurance Guaranty Association**

**Bismarck, 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 27<sup>th</sup> day of July, 2016.

  
Adam Hamm  
Commissioner of Insurance



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Bismarck, North Dakota  
June 15, 2016

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

Dear Commissioner:

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

**North Dakota Insurance Guaranty Association**

**Bismarck, North Dakota**

The North Dakota Insurance Guaranty Association, hereinafter referred to as the Association, was last examined as of December 31, 2009, by the North Dakota Insurance Department.

**SCOPE OF EXAMINATION**

This 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. This examination was conducted in accordance with N.D.C.C. §§ 26.1-42.1-11 and 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook* with due regard to the practices, procedures, regulations, and statutes of the State of North Dakota.

**STATUS OF PRIOR EXAM FINDINGS**

The Association had no exam findings in the previous examination.

**HISTORY**

**General**

The Association was created on July 1, 1971, under the provisions of N.D.C.C. ch. 26.1-42, as a nonprofit, unincorporated legal entity. N.D.C.C. ch. 26.1-42 was repealed and reenacted as N.D.C.C. ch. 26.1-42.1 effective August 1, 1999. The purposes of the Association are to (1) provide a method of payment for certain claims against insolvent insurance companies, (2) avoid financial loss to claimants or to policyholders, (3) assist in the detection and prevention of insurer insolvency, and (4) provide an association to assess the cost of such protection among insurers.

All insurers, excluding county mutual insurance companies, licensed to transact in this state any kind of insurance for which coverage is provided under N.D.C.C. § 26.1-42.1-01 are members of the Association.

The Association is exempt from federal income taxes under the provisions of the Internal Revenue Code Section 501(c)(6).

### **Board of Directors**

The Plan of Operation provides that the Board shall consist of seven persons who shall be selected by member insurers, subject to the approval of the Commissioner.

The Plan of Operation specifies that the annual meeting of the Board of Directors is to be held on the fourth Tuesday in April of each year unless the Board shall designate some other date. At each annual meeting the Board shall review outstanding contracts with Servicing Facilities, review operating expenses and covered claim costs for the purpose of determining if an assessment or refund of a prior assessment would be appropriate, and review and consider any other matters it may deem appropriate.

Special meetings may be called by the Chairman of the Board and shall be called at the request of any two members of the Board of Directors upon five days written notice mailed to each Board member.

The Board of Directors held an Annual Meeting in compliance with the Plan of Operation in each of the years covered by this statutory examination. There were no special meetings held during the period under examination.

Directors duly elected and serving at December 31, 2014, together with their business affiliations are as follows:

<b>Name</b>	<b>Term Expires</b>	<b>Business Affiliation</b>
Rob Hovland	2015	Center Mutual
Tony Burbach	2015	Dakota Fire
Hank Prien	2016	American Family
Diane Blanchard	2016	State Farm
William Folendorf	2017	Tri-State LTD
Brad Nold	2017	Farmers Union Mutual
Dale Haake	2017	Nodak Mutual

## Officers

Pursuant to the Plan of Operation, the Board shall elect a Chairman and such other officers as may seem to be desirable from among its members. Each officer shall hold office for a period of one year.

Officers serving at December 31, 2014, were as follows:

<u>Name</u>	<u>Title</u>
Rob Hovland	Chairman
William Folendorf	Treasurer
Brad Nold	Secretary

## Committees

An Investment Committee held 66 meetings during the period under review. Members of the Investment Committee as of December 31, 2014, were as follows:

Rob Hovland  
William Folendorf  
Jeff Cahill

The minutes disclose that the Investment Committee gave prior approval for all investments acquired during the period under review.

## Corporate Records

### Plan of Operation

There were no amendments made to the Plan of Operation during the period under review.

Per N.D.C.C. § 26.1-42.1-06-3(b), "The Plan of Operation must establish procedures for handling of assets of the association." At December 31, 2014, the Association's Plan of Operation only discussed the handling of assets in that the Board is authorized to open one or more bank accounts and delegate deposit and withdrawal authority appropriately. Subsequent to the examination period, the Association amended its Plan of Operation to incorporate its Investment Policy statement as Exhibit 1 to the Plan of Operation. The Plan now meets the requirements of this code.

### Board of Directors and Committee Minutes

The minutes of the Board of Directors and Investment Committee for the period under examination were read.

The minutes of the various meetings indicate that meetings were well attended and held in accordance with the Plan of Operation.

## ASSESSMENTS

N.D.C.C. § 26.1-42.1-05 provides the Association with authority to assess member insurers amounts necessary to pay covered claims of insolvent insurers, the expenses of handling covered claims subsequent to insolvency and other expenses authorized by N.D.C.C. ch. 26.1-42.1. Each member insurer assessment must be in the proportion that the net direct written premiums of the member insurer for the preceding calendar year bears to the net direct written premiums of all member insurers for the preceding calendar year. A member insurer may not be assessed in any one year an amount greater than two percent of that member insurer's net direct written premiums for the calendar year preceding the assessment.

The Association did not make any assessments during the period under examination. The Association used funds from its operating expense account for the payments of claims and expenses for insurers determined to be insolvent during the period under examination.

## ESTATE DISTRIBUTIONS

The Association has a priority claim over general creditors of an insolvent insurer. The amount of the priority claims is equal to the claims paid by the Association pursuant to the Act. Net distributions received from liquidators totaled \$291,278 during the period under review.

## CLAIMS

N.D.C.C. § 26.1-42.1-02(5) defines a covered claim to mean an unpaid claim, including one for unearned premiums, within the coverage of an insurance policy issued by an insurer if the insurer becomes insolvent after August 1, 1999. The claimant or insured must be a resident of this state at the time of the insured event or the insured property must be permanently located in this state. Under N.D.C.C. § 26.1-42.1-05(1) the Association is obligated to pay as follows:

1. An amount not exceeding \$10,000 per policy for a covered claim for the return of unearned premium.
2. An amount not exceeding \$300,000 per claim for all other covered claims.

Claim settlement proposals of \$50,000 or more are required to have Board of Director approval.

The following is a schedule of loss and loss adjustment expense payments and unearned premium payments by insolvency for the period under examination:

<b>Insolvency</b>	<b>Claims</b>	<b>Adjusting</b>	<b>Unearned Premiums</b>	<b>Total</b>
Lumberman's Insurance Company	\$ 0	\$ 122.50	\$ 0	\$ 122.50
Total	\$ 0	\$ 122.50	\$ 0	\$ 122.50

The following schedule discloses the estimated reserves established by the Association at December 31, 2014, for all pending claims:

<b>Insolvency</b>	<b>Loss Reserve</b>	<b>LAE Reserve</b>	<b>Total</b>
Home Insurance Company	\$63,384	\$21,000	\$84,384
Lumberman's Insurance Company	0	10,000	10,000
Totals	\$63,384	\$31,000	\$94,384

## **MANAGING SECRETARY**

The Plan of Operation provides that the Association may engage a Managing Secretary to carry out directives established by the Board of Directors.

The minutes show that the Board entered into a contract with a Managing Secretary, Jeff Cahill, during each of the years under review. All of the contracts had a term of one year. The agreement in effect at December 31, 2014, took effect on June 1, 2014, and was renewed at the May 22, 2014, annual meeting.

## **TREASURER**

The Plan of Operation, Section 3, provides that the Board may employ such person, firms or corporations to perform such administrative functions as are necessary for the Board's performance of the duties imposed on the Association.

The minutes show that the Board entered into a contract with the Treasurer, William Folendorf, during each of the years under review. All of the contracts had a term of one year. The agreement in effect at December 31, 2014, took effect on June 1, 2014, and was renewed at the May 22, 2014, annual meeting.

## **ACCOUNTS AND RECORDS**

The Association prepares its financial statements on the basis of cash receipts and disbursements; consequently, revenue and related assets are recognized when received and expenses are recognized when paid rather than when the obligation is incurred.

The records of the Association consist of a general ledger, corporate records, and subsidiary records necessary for the preparation of the financial statements and supplementary data. Certain accounting records are manually maintained; however, the Association purchased the Insolvency Processing System (IPS) software in 2002 to manage claims and generate accounting reports.

## **FINANCIAL STATEMENTS**

The financial statements section includes the following:

Statement of Assets, Liabilities and Fund Balance, December 31, 2014

Statement of Activities and Changes in Fund Balance for Year 2014

Statement of Activities and Changes in Fund Balance - Inception through December 31, 2014, Broken Down by Insolvency

**North Dakota Insurance Guaranty Association  
Statement of Assets, Liabilities, and Fund Balance  
December 31, 2014**

<b>Assets:</b>	
Cash and Cash Equivalents	\$ 58,655
Long Term Certificates	<u>6,378,204</u>
<b>Total Assets</b>	<u>\$ 6,436,859</u>
<b>Liabilities and Fund Balance:</b>	
Fund Balance	<u>\$ 6,436,859</u>
<b>Total Liabilities and Capital</b>	<u>\$ 6,436,859</u>

**North Dakota Insurance Guaranty Association  
Statement of Activities and Changes in Fund Balance  
for the Year Ended December 31, 2014**

**Revenue:**

Liquidation refunds	\$ 65,713
Interest Income	\$ 133,466
Unrealized loss on investments	(69,823)
	<hr/>
Total Revenue	\$ 129,356

**Expense:**

Administrative expense	\$ 39,600
Membership fees	32,387
Accounting service	21,300
Outside services	13,611
Insurance	6,087
Professional fees	5,500
Travel	2,979
Telephone, internet	2,929
Loss adjustment expenses	0
Postage	417
Rent	1,019
Supplies	3,543
	<hr/>
Total Expense	\$ 129,372

Fund Balance, Beginning of the Year	6,436,875
Net Income	(16)
	<hr/>
Fund Balance, End of the Year	<u>\$ 6,436,859</u>

**North Dakota Insurance Guaranty Association  
Statement of Activities and Changes in Fund Balance  
Inception through December 31, 2014**

	Manchester Ins. Co.	Reserve Ins. Co.	Proprietors Ins. Co.	Security Casualty Ins.	Excalibur Ins. Co.	Aspen Ins. Co.	S&H Ins. Co.	Ideal Ins. Co.	Early American Ins.	Union Indemnity
<b>Revenue</b>										
Assessments	\$1,792	\$11,508			\$17,800	\$28,576	\$13,151	\$483,857	\$309,730	\$24,727
Interest Income					371	1,360	4,520	35,570	27,832	1,577
Liquidation Refunds	1,003	7,833	\$833	\$5,090	11,311	16,182	4,400	258,005	259,668	2,006
<b>Total Revenue</b>	<b>\$2,795</b>	<b>\$19,341</b>	<b>\$833</b>	<b>\$5,090</b>	<b>\$29,482</b>	<b>\$46,118</b>	<b>\$22,071</b>	<b>\$777,432</b>	<b>\$597,230</b>	<b>\$28,310</b>
<b>Expense</b>										
Claims		\$ 2,616		\$3,735	\$13,407	\$ 6,640	\$ 3,204	\$412,183	\$184,430	\$ 757
Adjusting Paid		5,921	\$171	1,006	2,141	1,978	19	176,348	68,962	105
Unearned Premiums	\$2,728		599			6,866	972	4,340		5,192
Operating Expenses	201	631	63	350	253	698	205	15,233	5,455	116
Refund of Assessments										
<b>Total Expense</b>	<b>\$2,929</b>	<b>\$ 9,168</b>	<b>\$833</b>	<b>\$5,091</b>	<b>\$15,801</b>	<b>\$16,182</b>	<b>\$ 4,400</b>	<b>\$608,104</b>	<b>\$258,847</b>	<b>\$ 6,170</b>
<b>Fund Balance</b>	<b>\$ (134)</b>	<b>\$10,173</b>	<b>\$ 0</b>	<b>\$ (1)</b>	<b>\$13,681</b>	<b>\$29,936</b>	<b>\$17,671</b>	<b>\$169,328</b>	<b>\$338,383</b>	<b>\$22,140</b>

**North Dakota Insurance Guaranty Association  
Statement of Activities and Changes in Fund Balance  
Inception through December 31, 2014**

	American Fidelity	Iowa National	Great Global	Glacier Ins. Co.	Carriers Ins. Co.	Transit Casualty	Midland Ins. Co.	Allied Fidelity	Integrity Ins. Co.	Mission National
<b>Revenue</b>										
Assessments	\$237,377	\$ 842,479	\$1,086,195	\$723,724	\$198,937	\$125,932	\$ 12,980	\$ 79,880	\$61,907	\$ 99,861
Interest Income	9,310	279,397	26,588	30,945	4,816	5,962	661	204	1,858	4,559
Liquidation Refunds	65,686	1,453,551	1,145,707	252,844	250,264	297,255	8,965	79,335	70,779	34,526
<b>Total Revenue</b>	<b>\$312,373</b>	<b>\$2,575,427</b>	<b>\$2,258,490</b>	<b>\$1,007,513</b>	<b>\$454,017</b>	<b>\$429,149</b>	<b>\$ 22,606</b>	<b>\$159,419</b>	<b>\$134,544</b>	<b>\$138,946</b>
<b>Expense</b>										
Claims Paid	\$ 84,588	\$ 469,123	\$1,000,607	\$358,824	\$151,088	\$ 220,808	\$ 31,733	\$ 92,650	\$39,116	\$ 4,145
Adjusting Paid	7,655	314,503	370,273	131,496	50,738	128,200	3,305	4,513	34,381	18,898
Unearned Premiums	53,215	322,564			69,682				251	
Operating Expenses	1,796	97,360	41,903	9,796	8,292	14,410	5,169	2,915	5,947	691
Refund of Assessments										
<b>Total Expense</b>	<b>\$147,254</b>	<b>\$1,203,550</b>	<b>\$1,412,783</b>	<b>\$500,116</b>	<b>\$279,800</b>	<b>\$ 363,418</b>	<b>\$ 40,207</b>	<b>\$100,078</b>	<b>\$79,695</b>	<b>\$ 23,734</b>
<b>Fund Balance</b>	<b>\$165,119</b>	<b>\$1,371,877</b>	<b>\$ 845,707</b>	<b>\$507,397</b>	<b>\$174,217</b>	<b>\$65,731</b>	<b>\$(17,601)</b>	<b>\$59,341</b>	<b>\$54,849</b>	<b>\$115,212</b>

**North Dakota Insurance Guaranty Association  
Statement of Activities and Changes in Fund Balance  
Inception through December 31, 2014**

	Mission Ins. Co.	Edison Ins. Co.	American Mutual	Reliance Ins. Co.	Phico Ins. Co.	United Community	Legion Insurance	Lutheran Benevolent	Home Insurance	American Eagle	Lumber- man's Ins. Co.
<b>Revenue</b>											
Assessments											
Interest Income											
Liquidation Refunds	\$ 1,562	\$ 23,225		\$ 148,604	\$ 596,351	\$ 1,908	\$ 383,705			\$ 6,558	
<b>Total Revenue</b>	<b>\$ 1,562</b>	<b>\$ 23,225</b>		<b>\$ 148,604</b>	<b>\$ 596,351</b>	<b>\$ 1,908</b>	<b>\$ 383,705</b>			<b>\$ 6,558</b>	
<b>Expense</b>											
Claims Paid		\$ 47,321		\$ 47,500	\$ 398,482	\$ 469	\$ 283,711			\$ 18,245	
Adjusting Paid		7,636		198,477	253,853		133,264			2,086	\$ 123
Unearned Premium		29,589			20,678	4,982	11,524	\$ 1,787			
Operating Expenses	\$ 838	3,985	15,116	64,036	85,528		84,757	22	\$ 3,705	11	
Refund of Assessments											
<b>Total Expense</b>	<b>\$ 838</b>	<b>\$ 88,531</b>	<b>\$ 15,116</b>	<b>\$ 310,013</b>	<b>\$ 758,541</b>	<b>\$ 5,451</b>	<b>\$ 513,257</b>	<b>\$ 1,809</b>	<b>\$ 3,705</b>	<b>\$ 20,342</b>	<b>\$ 123</b>
<b>Fund Balance</b>	<b>\$ 724</b>	<b>\$(65,306)</b>	<b>\$(15,116)</b>	<b>\$(161,409)</b>	<b>\$(162,190)</b>	<b>\$(3,543)</b>	<b>\$(129,552)</b>	<b>\$(1,809)</b>	<b>\$(3,705)</b>	<b>\$(13,784)</b>	<b>\$(123)</b>

**North Dakota Insurance Guaranty Association  
Statement of Activities and Changes in Fund Balance  
Inception through December 31, 2014**

	<b>Operating Expenses</b>	<b>Totals</b>
<b>Revenue</b>		
Assessments	\$ 70,636	\$4,431,049
Interest Income	4,558,308	4,993,839
Liquidation Refunds	25,000	5,412,153
Total Revenue	\$4,653,944	\$14,837,041
 <b>Expense</b>		
Claims Paid		\$3,875,381
Adjusting Paid		1,916,052
Unearned Premium		534,969
Operating Expenses	\$1,626,503	2,095,985
Refund of Assessments		
Total Expense	\$1,626,503	\$8,422,387
Fund Balance	\$3,027,441	\$6,414,655

## COMMENTS TO THE FINANCIAL STATEMENTS

### Cash and Cash Equivalents

Cash and money market deposit account balances on deposit at December 31, 2014, consisted of the following items and amounts:

Wells Fargo Bank, Bismarck, ND	\$ 37,665
Wells Fargo Investment Advisors Bismarck, ND	<u>20,990</u>
Total	<u>\$ 58,655</u>

### Long Term Certificates

The foregoing amount is the same as the amount reported by the Association in its financial statements for the period ended December 31, 2014. The following schedule discloses Certificates of Deposit owned by cost and market value as of December 31, 2014:

<u>Description</u>	<u>Actual Cost</u>	<u>Market Value</u>
Certificates of Deposit	<u>6,356,000</u>	<u>6,378,204</u>
Total	<u>\$6,356,000</u>	<u>\$6,378,204</u>

The Association generally invests in bonds of the U.S. government or its agencies, or in negotiable certificates of deposit. All of the bonds and long-term certificates were investment grade at December 31, 2014.

The Association values its long-term certificates at market value. At December 31, 2014, all of the long-term certificates were held in an account with the brokerage firm of Wells Fargo Investment Advisors

## FUND BALANCE

Members' equity at December 31, 2014, was determined by this examination to be in the amount of \$6,436,859 or the same amount reported by the Association in its financial statement as of December 31, 2014.

## CONCLUSION

The financial condition of the North Dakota Insurance Guaranty Association, Bismarck, North Dakota, as of December 31, 2014, as determined by this examination is summarized as follows:

Total Assets	<u>\$6,436,859</u>
Total Fund Balance	<u>\$6,436,859</u>

In addition to the undersigned, Chief Examiner Ed Moody, CFE, CPA participated in this examination.

The examiners express their appreciation for the courteous cooperation and assistance given them by the Managing Secretary and the Treasurer of the Association during the course of this examination.

Respectfully submitted,



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Colton Schulz, CFE  
Examiner  
N.D. Insurance Department