STATE OF NORTH DAKOTA

BISMARCK, NORTH DAKOTA

REPORT OF EXAMINATION

OF

WALSH COUNTY MUTUAL INSURANCE COMPANY
MINTO, 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

Walsh County Mutual Insurance Company

Minto, 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.

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 26th day of May, 2016.

Adam Hamm
Commissioner of Insurance

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Minto, North Dakota
March 29, 2016

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

Dear Sir:

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

Walsh County Mutual Insurance Company

Minto, North Dakota

as of December 31, 2014.

Walsh County Mutual Insurance Company, Minto, North Dakota, hereinafter referred to as the "Company," was last examined as of December 31, 2009, 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 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 17 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 Company develop a Conflict of Interest policy and have its directors, officers and key employees complete a conflict of interest statement each year.	The Company partially complied. Conflict of interest disclosures are signed annually, but conflicts, such as the Manager not reporting he is also an independent agent and that he occasionally adjusts claims, were not disclosed. **It is again recommended that the directors and officers disclose all relevant conflicts and that the Board review any conflicts and document its determination as to how these conflicts are to be addressed in the Board minutes.**
It is recommended that the Company enter into formal contracts with each of its appointed agents and agencies.	The Company stated that they investigated contract wording options but were unable to decide on a specific format. **It is again recommended that the Company enter into formal contracts with each of its appointed agents and agencies.**
It is again recommended that the Company limit its deposits in any one banking institution to no more than the FDIC insured limits or obtain insurance protection covering the deposits exceeding the FDIC limits.	The Company's deposits in one banking institution exceeded federal NCUA limits. **It is again recommended that the Company limit its deposits in any one banking institution to no more than the FDIC or NCUA insured limits or obtain insurance protection covering the deposits exceeding the FDIC or NCUA limits.**
It is recommended that the Company execute a custodial agreement with its broker which complies with N.D. Admin. Code § 45-03-23-02.	The Company complied. However, subsequently, the Company's custodian unilaterally amended the agreement so that the agreement was no longer compliant. **It is again recommended that the Company execute a custodial agreement with its broker that complies with N.D. Admin Code § 45-03-23-02.**

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.

HISTORY

The Company was incorporated and commenced business June 27, 1885, as the "Walsh County Farmers Mutual Hail and Fire Insurance Company," with its home office and principal place of business at Minto, North Dakota.

At the annual meeting of the membership held June 21, 1968, the Articles of Incorporation and Bylaws were amended changing the name of the Company to read the "Walsh County Mutual Insurance Company," with its territory to include all of Walsh, Grand Forks, Nelson, Ramsey, Cavalier, and Pembina Counties.

The Company is 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 and as the same may be from time to time amended in the future. The Company's term of existence is on a perpetual basis in accordance with N.D.C.C. § 26.1-13-03.

MANAGEMENT AND CONTROL

Membership

The Company is controlled by its membership. Any person owning property within the limits of the territory within which the Company is authorized to transact business may become a member of the Company and be entitled to all the rights and privileges of membership. No person who does not reside within such territorial limits shall become a director of the Company.

Directors

According to the Bylaws the management of the Company's affairs, business, and property is to be vested in a Board of Directors composed of five members elected for staggered terms of three years each at the annual meeting of the membership. A majority of the entire Board of Directors constitutes a quorum for the transaction of business.

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

Name and Residence	Term Expires	Occupation
Cory Kouba Lankin, ND	2016	Farmer
William Suda Grafton, ND	2015	Farmer
Louis A Kadlec Pisek, ND	2017	Farmer
John Miller Fordville, ND	2016	Farmer
Don Barclay Minto, ND	2017	Farmer

Officers

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

Name	Office
William Suda	President
Cory Kouba	Vice President
Brad Schanilec	Secretary-Treasurer

Investment Committee

As appointed by the Board of Directors, the following individuals served on the Investment Committee at December 31, 2009:

Name	Title
William Suda	President
Louis Kadlec	Vice President
Brad Schanilec	Secretary-Treasurer

The Company has an investment account where its broker has discretionary authority over the trading within the account. The Company does not have an investment guidelines document that meets the requirements of N.D. Admin Code § 45-03-12-05(1).

It is recommended that the Board of Directors adopt a written plan for acquiring and holding investments and for engaging in investment practices that specifies guidelines

as to quality, maturity, liquidity and diversification of investments as required by N.D. Admin Code § 45-03-12-05(1).

Manager

The Company is managed by its Secretary-Treasurer. The Company's Board of Directors' involvement was found to provide adequate mitigation of the potential conflict of interest that exists when its manager is also the Secretary-Treasurer.

CORPORATE RECORDS

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

Amendments to Articles of Incorporation and Bylaws

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

March 23, 2011	"Article VII: The acting manager chosen by the Board of Directors of the company will be appointed as Registered Agent for the company in accordance with Century Code § 10-01.1-05."

Members

During the period under examination the annual meetings of the membership were held on the following dates: March 24, 2010; March 23, 2011; March 28, 2012; March 27, 2013; and April 9, 2014.

Directors

During the period under examination the Board of Directors held four meetings in each of the years 2010, 2011, 2013, and 2014. The Board met four times in 2012 and had one additional telephone meeting for a total of five meetings. The Investment Committee met once in 2010.

Conflict of Interest

The Company implemented a Conflict of Interest Policy during the exam period which requires directors to sign conflict of interest disclosures annually. The manager did not report within the disclosure that he was also an independent agent for the Company or that he occasionally adjusts claims, potentially on which he is the agent of record.

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

AFFILIATED COMPANIES

The manager owns and operates an insurance agency doing business as "Schanilec Insurance Agency" (SIA). The Agency is operated within the Walsh County Mutual office. There is no agreement outlining how SIA would reimburse the Company for shared office space and any services it renders or makes available for SIA.

It is recommended that the Company and Schanilec Insurance Agency enter into a formal written agreement which includes a list of services that the Company and Agency share, the method used to allocate the cost of those services, and the dates the cost of those services will be paid.

EMPLOYEES WELFARE AND PENSION PLANS

The Company does not offer any pension plans, profit sharing systems, or bonus plans for its employees. Health, vision, and dental insurance is also not offered to the Company's employees.

FIDELITY BOND AND OTHER INSURANCE

At December 31, 2014, there was a fidelity bond covering the Secretary-Treasurer for $100,000. The coverage meets the minimum amount of fidelity insurance suggested by the NAIC's *Financial Examiners Handbook;* however, no coverage was in place covering the office secretary who was added as an authorized signor on the Company's bank accounts during the exam period.

It is recommended that the Company add all employees to its fidelity bond who handle or have access to policyholder funds.

The Company also had in force a directors and officers liability insurance policy providing a limit of liability of $1,000,000 each policy year. Each claim is subject to a $5,000 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 $624,000 on the replacement cost of the office building in Minto and business personal property coverage of $8,000. The policy also provides liability coverage of $300,000 per occurrence and a $600,000 aggregate limit.

TERRITORY AND PLAN OF OPERATION

The Company added four counties to its authorized territory during the period under examination: LaMoure, Ransom, Sargent, and Richland. At December 31, 2014, the Company was authorized to transact business in the following counties:

Barnes	Benson	Cass	Cavalier
Eddy	Foster	Grand Forks	Griggs
Kidder	LaMoure	Nelson	Pembina
Ramsey	Ransom	Richland	Sargent
Sheridan	Steele	Stutsman	Towner
Traill	Walsh	Wells	

At December 31, 2014, the Company had 50 licensed agents and 10 licensed agencies. The Company does not have written contracts with any of its agents or agencies. A written contract would specify the terms and obligations of both parties and would benefit both parties by providing formal documentation of the relationship should any misunderstandings arise.

It is again recommended that the Company enter into formal contracts with each of its appointed agents and agencies.

There were an additional five agencies producing business for the Company without the appropriate appointment. "Insurance producer" as defined in N.D.C.C. § 26.1-26-02(5) means "a person required to be licensed under the laws of this state to sell, solicit, or negotiate insurance." "Person" as defined in N.D.C.C. § 26.1-26-02(9) means "an individual or a business entity."

It is recommended that the Company implement a procedure to ensure all of its producing agents and agencies are appropriately licensed and appointed.

SIGNIFICANT OPERATING RESULTS

Growth

The following exhibit reflects the growth of the Company over a 10-year period. Data with respect to the years 2005-2008 and 2010-2013 is as compiled from home office copies of the filed Annual Statements. Data for the years 2009 and 2014 reflects the results of statutory examinations.

Year	Admitted Assets	Total Liabilities	Surplus as Regards Policyholders	Net Premiums Written	Under-writing Deductions	Investment and Other Income	Net Income (Loss)
2005	1,629,792	725,686	904,106	869,415	606,838	82,477	345,053
2006	2,198,454	739,485	1,458,969	1,024,276	910,847	102,739	216,169
2007	2,326,782	867,710	1,459,072	1,123,515	1,112,629	291,379	302,265
2008	2,939,628	1,115,529	1,824,098	1,274,136	678,946	124,533	719,723
2009	3,145,145	1,135,070	2,010,075	1,392,033	1,542,788	130,207	(20,550)
2010	3,079,682	1,056,545	2,023,137	1,488,706	1,826,892	238,536	(99,651)
2011	3,648,060	1,558,403	2,089,658	1,651,395	1,134,539	205,215	722,070
2012	4,037,810	1,420,334	2,617,475	1,825,078	1,599,251	119,050	344,876
2013	4,250,351	1,850,916	2,399,435	1,964,360	2,179,718	130,428	(84,931)
2014	4,586,622	1,577,448	3,009,174	2,116,654	1,889,845	382,547	609,356

Operating Ratios

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

	2014	2013	2012	2011	2010
Premiums	100.0%	100.0%	100.0%	100.0%	100.0%
Deductions:					
Losses and Loss Adjustment	43.3%	66.9%	43.8%	35.2%	88.5%
Underwriting Expenses	46.0%	44.1%	43.8%	33.5%	34.2%
Total Deductions	89.3%	111.0%	87.6%	68.7%	122.7%
Net Underwriting Gain (Loss)	10.7%	(11.0%)	12.4%	31.3%	(22.7%)

MARKET CONDUCT ACTIVITY

Treatment of Policyholders

Advertising: The majority of the Company's advertising expenses relate to the use of its logo in a sports arena and on give-away items.

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.

OPERATING AGREEMENTS

Dakota Adjusting

Effective August 8, 2008, the Company contracted with Dakota Adjusting for claims adjusting and risk review services on an extended basis. The Company renewed this agreement with Dakota Adjusting on August 4, 2014.

The Contract states that the Board of Directors approves the compensation rate paid to the adjustor annually. In 2014, Dakota Adjusting received $56,900 from the Company for services provided under the contract.

The agreement terminates on August 4, 2017, or earlier if Dakota Adjusting fails to perform its contractual obligations. The contract may be renewed on the same terms or upon renegotiated terms prior to the termination date.

OPERATIONS REVIEW

In July 2012, representatives of Grinnell Mutual Reinsurance Company (Grinnell) performed an operations review of the Company, covering the following areas:

- General Operations
- Underwriting and Loss Control
- Claims

This was the fourth review performed by Grinnell and it contained 14 recommendations. Of the recommendations and comments made by Grinnell, only one was considered material by this examination. Grinnell recommended that the Company use an agent contract signed by the agent.

It is again recommended that the Company enter into formal contracts with each of its appointed agents and agencies.

REINSURANCE

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

Nonaffiliated Ceding Contract:

Type:	Excess
Reinsurer:	Grinnell Mutual Reinsurance Company

Scope:	Fire, Lightning, Windstorm, Hail, and Extended Coverages:

(A) Individual Occurrence of Loss Excess - Covers all risks written by the Company in excess of $250,000 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 $1,821,307.

(C) Second Aggregate Excess – Provides 100 percent coverage layer between aggregate annual net losses of $1,521,307 and $1,821,307, effectively lowering the Company's aggregate attachment point by $300,000.

Premium:

(A) Individual Occurrence of Loss Excess - The 2014 monthly premium rate per $1,000 of adjusted gross fire risks in force was $0.0074.

(B) Aggregate Excess - The 2014 monthly premium rate per $1,000 of adjusted gross fire risks in force was $0.0506.

(C) Second Aggregate Excess – The 2014 annual premium rate for the $300,000 annual aggregate excess buy-down was $15,000.

Commissions:	None
Termination Date:	The agreement may be terminated only as of the last day of any calendar year by either party upon 90 days' notice in writing.

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

ACCOUNTS AND RECORDS

The Company's accounting procedures, internal controls and transactions cycles were reviewed during the course of the examination and all balances in the Annual Statement were test checked to the extent deemed necessary.

In 2014, the Company transitioned from the Oasis GL to the IMT APPS GL. Because the Company used two different general ledgers during 2014, the Company did not have one complete GL that could generate an accurate trial balance.

It is recommended that the Company maintain one complete GL to ensure that the trial balance ties to the Annual Statement.

At December 31, 2014, the Company's deposits at North Star Community Credit Union exceeded the NCUA insured limits of $250,000 and the Company did not have additional protection for those amounts.

It is again recommended that the Company limit its deposits in any one banking institution to no more than the FDIC or NCUA insured limits or obtain insurance protection covering the deposits exceeding the FDIC or NCUA limits.

Custodial Agreements

During the exam period, the Company entered into a custodial agreement with broker-dealer Edward D. Jones & Co., L.P. (Edward Jones), under which Edward Jones provides safekeeping of the Company's invested assets. This agreement was executed as a result of a prior examination finding that stated the Company did not have a compliant custodial agreement.

The Company's custodial agreement with Edward Jones was granted an exemption by the Department for N.D. Admin Code § 45-03-23-02(2)(p) effective August 3, 2012. Subsequent to the approval of this exemption, the agreement was replaced by Edward Jones with a new agreement which does not contain the nonexempted language required by N.D. Admin. Code § 45-03-23-02(2). Therefore, the exemption granted for the original agreement is no longer applicable. The revised agreement does not contain the following language as specified in N.D. Admin. Code § 45-03-23-02(2):

a. Securities certificates held by the custodian must be held separate from the securities of the custodian and of all of its other customers.

b. Securities held indirectly by the custodian and securities in a clearing corporation must be separately identified on the custodian's official records as being owned by the insurance company. The records must identify which securities are held by the custodian or by its agent and which securities are in a clearing corporation. If the securities are in a clearing corporation, the records must also identify where the securities are and, if in a clearing corporation, the name of the clearing corporation and, if through an agent, the name of the agent.

c. All custodied securities that are registered must be registered in the name of the company or in the name of a nominee of the company or in the name of the custodian or its nominee or, if in a clearing corporation, in the name of the clearing corporation or its nominee.

d. Custodied securities shall be held subject to the instructions of the insurance company and shall be withdrawable upon the demand of the insurance company, except that custodied securities used to meet the deposit requirements set forth in North Dakota Century Code section 26.1-05-23 must, to the extent required by that section, be under the control of the insurance commissioner and must not be withdrawn by the insurance company without the commissioner's approval.

. . .

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

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

(1) All reports which they receive from a clearing corporation on their respective systems of internal accounting control; and

(2) Any reports prepared by outside auditors on the custodians or its agent's internal accounting control of custodied securities that the insurance company may reasonably request.

h. The custodian shall maintain records sufficient to determine and verify information relating to custodied securities that may be reported in the insurance company's annual statement and supporting schedules and information required in any audit of the financial statement of the insurance company.

i. The custodian shall provide, upon written request from an appropriate officer of the insurance company, the appropriate affidavits, substantially in the form described in the appendices to this chapter, with respect to custodied securities.

j. A national bank, state bank, or trust company shall secure and maintain insurance protection in an adequate amount covering the bank's or trust company's duties and activities as custodian for the insurer's assets and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator. A broker-dealer shall secure and maintain insurance protection for each insurance company's custodied securities in excess of that provided by the securities investor protection corporation in an amount equal to or greater than the market value of each respective insurance company's custodied securities. The commissioner may determine whether the type of insurance is appropriate and the amount of coverage is adequate.

k. The custodian shall be obligated to indemnify the insurance company for any loss of custodied securities, except that the custodian shall not be so obligated to the extent that the loss was caused by other than the negligence or dishonesty of the custodian.

l. The custodian shall be obligated to indemnify the insurance company for any loss of custodied securities occasioned by the negligence or dishonesty of the custodian's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.

m. In the event that there is a loss of custodied securities for which the custodian shall be obligated to indemnify the insurance company, the custodian shall promptly replace the securities or their value thereof and the value of any loss of rights or privileges resulting from the loss of securities.

. . .

o. In the event that the custodian gains entry in a clearing corporation through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian; provided, however, that if the agent shall be subject to regulation under the laws of a jurisdiction which is different from the jurisdiction the laws of which regulate the custodian, the insurance commissioner of the state of domicile of the insurance company may accept a standard of liability applicable to the agent which is different from the standard of liability applicable to the custodian.

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

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

Claim Complaints

N.D.C.C. § 26.1-01-03(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. 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 or grievances that are reported to the Company.

Furniture and Fixtures 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).

Subsequent to the exam period, the Company also purchased Board chairs and depreciated them at a rate less than the 10 percent per year as prescribed in the County Mutual Annual Statement Instructions.

It is recommended that the Company depreciate its assets at rates which comply with N.D.C.C § 26.1-05-19(28) and the County Mutual Annual Statement Instructions.

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.

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

ASSETS			
LEDGER ASSETS:			
Bonds	$ 155,501		
Stocks	1,029,646		
Real Estate	642,209		
Cash on Hand and Checking Account	88,738		
Cash on Deposit	2,405,684		
Premiums in Course of Collection	132,578		
Furniture, Fixtures & Automobiles	20,844		
TOTAL LEDGER ASSETS		$4,475,200	
NONLEDGER ASSETS:			
Interest Due and Accrued on Bonds	$ 1,754		
Interest Due and Accrued on Cash on Deposit	2,641		
Market Value of Stocks over Book Value	127,870		
TOTAL NONLEDGER ASSETS		132,265	
DEDUCT: ASSETS NOT ADMITTED			
Furniture, Fixtures & Automobiles	$ 20,844		
TOTAL NONADMITTED ASSETS		20,844	
TOTAL NET ADMITTED ASSETS			$4,586,622
LIABILITIES			
Unpaid Losses	$ 75,062		
Advance Premiums	22,634		
Unearned Premium Reserve	1,289,344		
Unpaid Taxes	17,069		
Unpaid General Expenses	9,344		
Reinsurance Premiums Due and Payable	39,404		
Premiums Written for Others	17,517		
Federal Income Tax Payable	107,074		
TOTAL LIABILITIES		$1,577,448	
SURPLUS TO POLICYHOLDERS		3,009,174	
TOTAL LIABILITIES AND SURPLUS			$4,586,622

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

INCOME:			
Gross Premium Income	$2,563,751		
Less: Reinsurance Ceded	447,097		
NET PREMIUM INCOME		$2,116,654	
Interest on Bonds		11,889	
Dividends on Stocks		44,639	
Gross Rent from Company's Property		6,000	
Interest on Cash on Deposit		7,326	
Profit on Sale or Maturity of Ledger Assets		7,888	
Commissions and Service Fees Received		51,376	
Federal Income Tax Refund		250,822	
Other Income		2,607	
TOTAL INCOME RECEIPTS			$2,499,200
DISBURSEMENTS:			
Gross Losses Paid and Incurred in 2014	$653,588		
Gross Losses Paid in 2014 But Incurred in Prior Years	386,593		
Deduct: Salvage	17,150		
Reinsurance Recovered	165,590		
NET LOSSES PAID		$857,441	
Claim Adjustment Expenses		58,356	
Commissions Paid to Agents		425,903	
Directors' Fees and Expenses		2,400	
Salaries to Employees		165,447	
Printing, Stationery and Office Supplies		16,843	
Rent and Rent Items		11,426	
Real Estate Expenses (other than taxes)		22,931	
Taxes on Real Estate		1,397	
State and Local Insurance Taxes (include Premium Taxes)		38,995	
Insurance Department Licenses & Fees		706	
Payroll Taxes		5,880	
Federal Income Taxes		200,000	
Legal Fees and Auditing		6,900	
Travel and Travel Items		2,417	
Advertising		3,861	
Dues and Donations		8,897	
Equipment Purchased (or Depreciation on Same)		2,537	
Insurance and Bonds		9,609	
Postage, Telephone and Bank Charges		5,087	
Employee Relations and Welfare		330	
Data Processing Expenses		23,314	
Premium Written for Others		7,155	
Broker Fees		6,066	
Miscellaneous Expenses		5,946	
TOTAL FUNDS DISBURSED			$1,889,845
NET INCOME			$ 609,355

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

Premiums in Course of Collection

The Company reported $160,148 of premiums in course of collection at December 31, 2014. Premiums in course of collection as reported in the APPS receivable report was $132,578 or $27,569 less than reported by the Company.

It is recommended that the Company determine its premiums and assessments in course of collection per the APPs receivables report, net of premiums written for others.

Stocks

The Company reported the book value of stock investments at December 31, 2014, of $1,018,356. The book value determined by the examination was $1,029,646 or $11,290 more than reported by the Company. The Company overstated the UBS account by $729 and did not include the RMA Money Market account which had a $12,020 balance at December 31, 2014, for a net understatement of $11,290.

Real Estate

The Company reported the net carrying value of its home office at $659,948. The balance determined by this examination is $642,209 or $17,739 less than reported by the Company. The Company included already invoiced balances of $11,121 from 2013 into the 2014 additions. Also, the Company did not take depreciation on the 2014 construction. The additional depreciation should have been $6,618 resulting in a combined overstatement of $17,739.

Liabilities

Advance Premiums

The advance premium reported by the Company was $14,425. The advance premiums per the APPs receivable report was $22,634 or $8,209 more than reported by the Company.

It is recommended that the Company report its advance premium liability per the amounts shown on the APPs receivables report.

Unpaid Premium Taxes

The Company reported an unpaid premium tax liability of $14,775 at December 31, 2014. The actual liability was $17,069 or $2,294 more than accrued by the Company.

Commissions Payable

The Company reported a commissions payable balance of $5,330 as of December 31, 2014. Testing of commission payments showed that no amounts were due as of the annual statement date.

Unpaid General Expenses

The amount accrued by the Company for unpaid general expenses at December 31, 2014 was $2,844. The amount of unpaid general expenses as determined by the examination was $9,344 or $6,500 more than reported by the Company. The Company did not establish a liability for Drees, Riskey & Vallager, Ltd.'s Annual Statement and Federal and State Corporate Income Tax preparation. This resulted in an understatement of unpaid general expenses of $6,500.

Income

Salvage Recovered and *Reinsurance Recovered*

The Company reclassified a $3,650 reinsurance recoverable as a salvage recoverable. This caused an overstatement of salvage recovered and an understatement of reinsurance recovered.

Surplus to Policyholders

Surplus to Policyholders was determined by this examination to be $3,009,174 or $45,691 less than what was reported by the Company. Adjustments to surplus are shown in the following schedule:

Description	Company	Examination	Increase or (Decrease)
Ledger Assets			
Premiums in Course of Collection	$160,148	$132,578	$ (27,569)
Stocks	1,018,356	1,029,646	11,290
Real Estate	659,948	642,209	(17,739)
Liabilities			
Advance Premiums	14,425	22,634	(8,209)
Unpaid Premium Taxes	14,775	17,069	(2,294)
Commissions Payable	5,330	0	5,330
Unpaid General Expenses	2,844	9,344	(6,500)
Net Change			**$(45,691)**

Surplus to Policyholders per Company	$3,054,865
Exam Adjustments	(45,691)
Surplus to Policyholders per Examination	$3,009,174

CONCLUSION

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

TOTAL ADMITTED ASSETS		$4,586,622
Total Liabilities	$1,577,448	
Surplus to Policyholders	3,009,174	
TOTAL LIABILITIES AND SURPLUS		$4,586,622

Since the last examination conducted as of December 31, 2009, the Company's admitted assets have increased $1,441,477, its total liabilities have increased $442,378 and its surplus as regards policyholders has increased by $999,099.

In addition to the undersigned, Supervising Examiner Edward Moody, CFE, CPA participated in this examination.

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

Respectfully submitted,

Colton Schulz, CFE
Examiner
N.D. Insurance Department

COMMENTS AND RECOMMENDATIONS

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

It is again recommended that the Company enter into formal contracts with each of its appointed agents and agencies.

It is again recommended that the Company limit its deposits in any one banking institution to no more than the FDIC or NCUA insured limits or obtain insurance protection covering the deposits exceeding the FDIC or NCUA limits.

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

It is recommended that the Board of Directors adopt a written plan for acquiring and holding investments and for engaging in investment practices that specifies guidelines as to quality, maturity, liquidity and diversification of investments as required by N.D. Admin Code § 45-03-12-05(1).

It is recommended that the Company and Schanilec Insurance Agency enter into a formal written agreement which includes a list of services that the Company and Agency share, the method used to allocate the cost of those services, and the dates the cost of those services will be paid.

It is recommended that the Company add all employees to its fidelity bond who handle or have access to policyholder funds.

It is recommended that the Company implement a procedure to ensure all of its producing agents and agencies are appropriately licensed and appointed.

It is recommended that the Company maintain one complete GL to ensure that the trial balance ties to the Annual Statement.

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 or grievances that are reported to the Company.

It is recommended that the Company depreciate its assets at rates which comply with N.D.C.C § 26.1-05-19(28) and the County Mutual Annual Statement Instructions.

It is recommended that the Company determine its premiums and assessments in course of collection per the APPs receivables report, net of premiums written for others.

It is recommended that the Company report its advance premium liability per the amounts shown on the APPs receivables report.