

EXAMINATION REPORT OF
HOWARD COUNTY MUTUAL INSURANCE ASSOCIATION
HOWARD COUNTY, CRESCO, IOWA
AS OF DECEMBER 31, 2020

Cresco, Iowa
December 28, 2021

HONORABLE DOUG OMMEN
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner Ommen:

In accordance with your instructions and pursuant to Iowa statutory provisions, an examination has been made of the

HOWARD COUNTY MUTUAL INSURANCE ASSOCIATION

HOWARD COUNTY, CRESCO, IOWA

AS OF DECEMBER 31, 2020

at its Home Office, 705 2nd Avenue Southeast, Cresco, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Howard County Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2017.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2018 to December 31, 2020. The examination was conducted in accordance with procedures established by the Iowa Insurance Division and generally accepted insurance examination standards. The Association's assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2020.

HISTORY

The Association was incorporated in 1890 for the purpose of insuring the property of its members against hazards and risks as permitted by Chapter 518, Code of Iowa. The corporate existence was made perpetual in 1953.

Effective December 31, 1999, the Association merged through an Assumption and Reinsurance Agreement with Bohemian Mutual Insurance Association, Protivin, Iowa with the Association being the surviving entity.

MANAGEMENT AND CONTROL

MEMBERSHIP

The membership consists of every individual, co-partnership, public or private corporation, board or association, trustee, administrator, executor, organization or other legal entity having insurance written by the Association which is in force and in effect.

The annual meeting of the members is held at Cresco, Iowa on the last Tuesday in March at 7:00 p.m. Special meetings shall be called by the President upon request of the majority of the Board of Directors or upon written request of one-fourth of the members of the Association. Due notice of the time and place of special meetings shall be given the membership. Each member present is entitled to one vote on each question voted on at any membership meeting regardless of the number of policies owned by the member. Voting by proxy is not permitted. A quorum shall be one more member than the number of Directors fixed by resolution of the Board of Directors.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than five nor more than fifteen, and within such limits, shall be fixed by a Resolution of the Board of Directors. At present, the Board of Directors has set the number of directors at eight. As the term of the office of each director expires, the members of the Association at the regular annual meeting shall elect for a term not to exceed three years, members to the Board of Directors. Any vacancy on the Board may be filled by a majority of the remaining directors for the balance of the unexpired term, or the office may be declared vacant.

Directors serving at December 31, 2020 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Michael Adams	Lime Springs, Iowa	2021
James Bouska	Protivin, Iowa	2021
William Seele	Cresco, Iowa	2021
David Koudelka	Cresco, Iowa	2022
Edward Runde	Riceville, Iowa	2022
James Truka	Lime Springs, Iowa	2022
Ronald Fitzgerald	Lime Springs, Iowa	2023
Dulcie Ollendieck	Cresco, Iowa	2023

The regular annual meeting of the Board is held immediately following the annual meeting of the members, and thereafter on the call of the President or Chairman of the Board. A majority present constitutes a quorum for the transaction of business.

Directors receive a fee of \$250 for each meeting attended and reimbursement of travel expense. Directors who serve on a committee receive the same fee and reimbursement for travel.

Remuneration of directors is shown on Exhibit A following this report.

COMMITTEES

The Board of Directors annually appoint an Executive Committee and a Property Committee.

Serving on the committees at December 31, 2020, were:

Executive Committee

Noah Schrage - President/Treasurer
James Truka - Chairman
Ronald Fitzgerald - Vice-Chairman
Michael Adams - Director

Property Committee

Dulcie Ollendieck - Director
William Steele - Director
Edward Runde - Director

There were two Executive Committee meetings held and no Property Committee meetings held during the exam period.

OFFICERS

At its annual meeting, the Board of Directors shall elect for a term of one year a Chairman, Vice-Chairman, President, Secretary, and Treasurer, and such other officers, including Vice-Presidents, as it may deem advisable. Any such offices may be combined, except those of President and Secretary. Officers shall be members of the Association.

Officers serving at December 31, 2020 were:

<u>Name</u>	<u>Office</u>
James Truka	Chairman
Noah Schrage	President/Treasurer
Ronald Fitzgerald	Vice-Chairman
Jolene Rosenbaum	Secretary

Salaries and remuneration of officers are shown on Exhibit A following this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors, and key employees.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended or substituted during the period covered by this examination.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors meeting reflected that the Examination Report as of December 31, 2017 was reviewed and accepted at the February 20, 2019 Board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$100,000 for any one loss occurrence. The bond is written for an annual period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Commercial property: building and personal property
- Commercial general liability
- Business automobile
- Commercial umbrella

It appears adequate insurance is placed with authorized insurers except professional liability and officers' and directors' liability which is written by a surplus lines insurer permitted to write in Iowa.

EMPLOYEES' WELFARE

Full-time eligible employees are provided the following benefits:

Employees and members of the Board of Directors are provided with accidental death and dismemberment benefits up to a policy limit of \$15,000 on a non-contributory basis. Members have the option to purchase additional coverage with the extra premium reimbursed to the Association by the individual.

The Association contributes on a yearly basis to eligible employees' Simple Individual Retirement Accounts upon approval by the Board of Directors at their annual meeting in March. The Board approved a contribution of two percent of the employees' salary for 2018, 2019 and 2020 with total amounts contributed of \$3,226, \$3,964 and \$4,052, respectively.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in the State of Iowa as a county mutual insurance association under the provisions of Chapter 518, Code of Iowa. It is currently authorized to transact business in five counties in the State of Iowa. The permitted writing territory is composed of the following counties: Chickasaw, Floyd, Howard, Mitchell, and Winneshiek counties. It was noted, from a review of numerous applications of policies in force, that risks appeared to be located within the authorized territory.

Policies are written or renewed for a one-year period with premiums payable annually, semi-annually, quarterly, or monthly. The Association underwrites these policies every three years.

At the present time, business is produced by 53 licensed agents.

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2020

<u>Classification</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Premiums earned	<u>\$1,375,183</u>	<u>\$1,304,495</u>	<u>\$1,275,395</u>	<u>\$3,955,073</u>
Incurred deductions:				
Losses	\$ 741,693	\$ 608,703	\$ 463,182	\$1,813,578
Loss adjustment expenses	6,210	6,034	1,951	14,195
Commissions	269,476	257,921	241,443	768,840
Salaries	160,439	197,033	202,112	559,584
Taxes, licenses and fees	30,804	34,241	32,809	97,854
Other underwriting expenses	<u>136,601</u>	<u>127,608</u>	<u>137,729</u>	<u>401,938</u>
Total deductions	<u>\$1,345,223</u>	<u>\$1,231,540</u>	<u>\$1,079,226</u>	<u>\$3,655,989</u>
Underwriting gain (loss)	<u>\$ 29,960</u>	<u>\$ 72,955</u>	<u>\$ 196,169</u>	<u>\$ 299,084</u>

Expressed in ratios of expenses incurred to premiums earned, the percentages would be:

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Incurred deductions:				
Losses	53.9 %	46.7 %	36.3 %	45.9 %
Loss adjustment expenses	0.5	0.5	0.2	0.4
Commissions	19.6	19.8	18.9	19.4
Salaries	11.7	15.1	15.8	14.1
Taxes, licenses and fees	2.2	2.6	2.6	2.5
Other underwriting expenses	<u>9.9</u>	<u>9.7</u>	<u>10.8</u>	<u>10.1</u>
Total deductions	<u>97.8 %</u>	<u>94.4 %</u>	<u>84.6 %</u>	<u>92.4 %</u>
Underwriting gain (loss)	<u>2.2 %</u>	<u>5.6 %</u>	<u>15.4 %</u>	<u>7.6 %</u>

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2020 with an authorized insurer which provides the following:

CEDED

First Per Risk Excess of Loss

\$125,000 in excess of \$125,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall be limited to \$312,500 as respects any one loss occurrence, irrespective of the number of risks involved.

Each loss reduces the amount of indemnity provided, however, such amount shall be automatically reinstated without payment of additional premium. Such reinstatement shall be unlimited in number and shall apply to all losses occurring during any annual period.

Second Per Risk Excess of Loss

\$250,000 in excess of \$250,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall be limited to \$250,000 as respects any one loss occurrence, irrespective of the number of risks involved.

Each loss reduces the amount of indemnity provided, however, such amount shall be automatically reinstated without payment of additional premium. Such reinstatement shall be unlimited in number and shall apply to all losses occurring during any annual period.

Third Per Risk Excess of Loss

\$1,000,000 in excess of \$500,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall be limited to \$1,000,000 as respects any one loss occurrence, irrespective of the number of risks involved.

Each loss reduces the amount of indemnity provided, however, such amount shall be automatically reinstated without payment of additional premium. Such reinstatement shall be unlimited in number and shall apply to all losses occurring during any annual period.

First Aggregate Excess of Loss

The reinsurer shall indemnify the Association for 100 percent of the amount by which the ultimate net loss in the aggregate in any one annual period exceeds 82.5 percent of the Association's gross net written premium income in any one annual period. The reinsurer's liability shall not exceed 30 percent of the Association's gross net written premium income in any one annual period on losses occurring during the respective annual period.

The Association shall retain, in each annual period, net for its own account an amount of losses, including loss adjusting expenses, equal to not less than 82.5 percent of its gross net written premium income.

Second Aggregate Property Excess of Loss

The reinsurer shall indemnify the Association for 100 percent of the amount by which the ultimate net loss in the aggregate in any one annual period exceeds 112.50 percent of the Association's gross net written premium income in any one annual period. The reinsurer's liability shall not exceed 137.50 percent of the Association's gross net written premium income in any one annual period on losses occurring during the respective annual period.

The Association shall retain, in each annual period, net for its own account an amount of losses, including loss adjusting expenses, equal to not less than 112.50 percent of its gross net written premium income.

Third Aggregate Excess of Loss

The reinsurer shall indemnify the Association for 100 percent of the amount by which the ultimate net loss in the aggregate in any one annual period exceeds 250 percent of the Association's gross net written premium income in any one annual period.

The Association shall retain, in each annual period, net for its own account an amount of losses, including loss adjusting expenses, equal to not less than 250 percent of its gross net written premium income.

Property Pro Rata Facultative

The Association may cede an amount of facultative reinsurance on any one risk, on a pro rata basis, up to but not exceeding the reinsurer's limit of liability as stated on the facultative certificate. As of December 31, 2020, there were two risks that warranted facultative coverage.

For all of the above reinsurance contacts, it is warranted the maximum limit of any one risk is \$1,500,000 and any amount greater than this maximum limit will be reinsured elsewhere on a pro rata basis or so deemed.

CLAIMS

From a review of numerous claims, it appeared that the Association made prompt and equitable settlements which were in keeping with the terms of the policy contracts. Of the claims reviewed, 93 percent were paid within fourteen days from the date sufficient information was received to pay the claim.

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Howard County Mutual Insurance Services, Inc.

The agency is 100 percent owned by the Association. This agency produced approximately 30 percent of the Association's business during 2020 and received \$40,469 in commissions from the Association on business written during 2020.

The agency paid \$300 monthly rent to the Association in 2020. In 2018, the Association started charging the Agency \$150 per month in addition to their \$300 monthly rent to share utility, copy, and supply expenses. In May of 2021, this utility, copy, and supplies charge will increase to \$300 per month.

ACCOUNTS AND RECORDS

Office copies of the filed annual statements for the years under review were found to be in agreement with or reconciled to the general ledger balances of assets, liabilities, income and disbursements.

Selected cash receipts recorded during the period were checked and traced to the Association's depository. Checks paid during selected months were compared to the disbursement records and were scrutinized as to payees, amounts, and authorized signatures. Cash receipts and disbursements for selected months were proven by comparison and reconciliation to the monthly bank statements.

The Association was in compliance with the Commissioner's Bulletin 97-6 at December 31, 2020 relative to security custodial requirements.

In accordance with Section 518.25, Code of Iowa, surplus must be maintained at a level of not less than fifty thousand dollars or one-tenth of one percent of the gross risk in force, whichever is greater. At December 31, 2020, the gross risk in force for the Association was \$423,584,959. The Association's statutory minimum surplus level at December 31, 2020 was \$423,585. It is noted the Association's surplus level to minimum surplus level ratio was 12.5/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2020 was 8.3/1.

F I N A N C I A L S T A T E M E N T S
A N D C O M M E N T S T H E R E O N

NOTE: Except as otherwise stated, the financial statements immediately following reflect only the transactions for the period ending December 31, 2020 and the assets and liabilities as of this date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Nonledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 3,155,487		\$ 1,629	\$ 3,153,858
Stocks	1,659,918	471,936		2,131,854
Bank balances:				
Subject to check	181,990			181,990
On interest	85,767			85,767
Real estate	78,525			78,525
Cash in office	100			100
Unpaid premiums:				
Due after November 1	339,559		332,054	7,505
Accrued interest		26,786		26,786
Other accounts receivable		2,850		2,850
Reinsurance premium refundable		33,559		33,559
IMT overwrite receivable		739		739
Prepaid insurance	12,160		12,160	
Prepaid reinsurance	200,000			200,000
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 5,713,506	\$ 535,870	\$ 345,843	\$ 5,903,533

LIABILITIES AND SURPLUS

Losses	\$	39,570
Unpaid adjusting expenses		400
Unpaid salaries and commissions		21,996
Amounts withheld for the account of others		5,998
Taxes payable		7,815
Other unpaid expenses		4,147
Premiums collected for other companies - not remitted		9,054
Premiums received in advance		21,786
Unearned premium reserve		518,998
		<hr/>
Total Liabilities	\$	629,764
Surplus as regards to policyholders		<hr/>
		\$ 5,273,769
		<hr/>
Total liabilities and surplus		\$ 5,903,533

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2019			<u>\$5,455,105</u>
	<u>INCOME</u>		
Net premiums and fees			\$1,262,720
Net interest received on bonds			107,581
Increase (decrease) by adjustment		-	bonds
(8,166)			
Dividends received			54,760
Interest received on bank deposits			1,482
Profit on sale of investments			81,712
Rents received			9,600
Underwriting expense reimbursement			8,464
Total income			<u>\$1,518,153</u>
Total assets and income			<u>\$6,973,258</u>

DISBURSEMENTS

Losses paid			\$ 521,344
<u>Operating Expense</u>			
Loss adjusting expenses	\$ 4,451		
Commissions	252,907		
Advertising	3,183		
Boards, bureaus and associations	8,032		
Inspection and loss prevention	6,676		
Salaries of officers	121,849		
Expenses of officers	1,376		
Salaries of office employees	80,263		
Employee welfare	10,737		
Insurance	15,913		
Directors' compensation	8,250		
Directors' expenses	2,643		
Rent and rent items	6,000		
Equipment	8,583		
Printing, stationery and supplies	2,564		
Postage and telephone	7,137		
Legal and auditing	19,225		
Premium taxes	16,285		
Insurance Division licenses and fees	594		
Payroll taxes	15,676		
Real estate expenses	9,935		
Real estate taxes	3,913		
Miscellaneous	3		
Donations	2,275		
Data processing	12,236		
Travel expenses	148		
Investment fees and bank charges	14,815		
Agency expense reimbursement	(1,800)		
Total operating expense			<u>\$ 633,869</u>

<u>Non-Operating Expense</u>	
Depreciation on real estate	3,291
Loss on sale of investments	28,829
Federal income tax	67,866
Decrease in ledger liabilities	4,553
Total disbursements	<u>\$1,259,752</u>
Balance - ledger assets, December 31, 2020	<u>\$5,713,506</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>			
Premiums earned		\$1,275,395	
<u>Deductions</u>			
Losses incurred	\$ 463,182		
Loss expenses incurred	1,951		
Other operating expenses incurred	<u>614,093</u>		
Total underwriting deductions		<u>1,079,226</u>	
Net underwriting gain (loss)		\$ 196,169	
<u>Investment Income</u>			
Net investment income earned		200,769	
<u>Other Income</u>			
Premiums collected for other companies (net)		319	
Miscellaneous income		<u>2,816</u>	
Net income before Federal income tax		\$ 400,073	
Federal	income	tax	incurred
<u>63,566</u>			
Net income			<u>\$ 336,507</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019	<u>\$4,865,336</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 336,507
Change in net unrealized gains/losses	<u>71,926</u>
Change in surplus as regards policyholders for the year	<u>\$ 408,433</u>
Surplus as regards policyholders, December 31, 2020	<u>\$5,273,769</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$3,955,073
<u>Deductions</u>		
Losses incurred	\$1,813,578	
Loss expenses incurred	14,195	
Other operating expenses incurred	<u>1,828,216</u>	
Total underwriting deductions		<u>3,655,989</u>
Net underwriting gain (loss)		\$ 299,084
<u>Investment Income</u>		
Net investment income earned		579,928
<u>Other Income</u>		
Premiums collected for other companies (net)		(1,013)
Miscellaneous income		<u>2,927</u>
Net income before Federal income tax		\$ 880,926
Federal income tax incurred		<u>96,439</u>
Net income		<u>\$ 784,487</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017		<u>\$4,319,187</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 784,487
Change in not admitted assets		802
Change in net unrealized gains/losses		<u>169,293</u>
Change in surplus as regards policyholders for the period		<u>\$ 954,582</u>
Surplus as regards policyholders, December 31, 2020		<u>\$5,273,769</u>

SURPLUS AS REGARDS POLICYHOLDERS

The changes which resulted in the net increase are shown in the following statement of differences:

<u>Classification</u>	<u>Association Annual Statement</u>	<u>Examination Financial Statement</u>	<u>Surplus Increase (Decrease)</u>
<u>Liabilities</u>			
Losses	\$ 61,431	\$ 39,570	\$ (21,861)
Amounts withheld for the account of others	6,865	5,998	(867)
Other unpaid expenses	3,480	4,147	<u>667</u>
Net change to surplus			\$ 22,061
Surplus per Association			<u>\$5,251,708</u>
Surplus per examination			<u>\$5,273,769</u>

During the period under review, surplus funds increased \$954,582 from the amount of \$4,319,187 as shown in the last previous examination report. An operating statement reflecting that increase is contained in the financial section.

COMMENTS

The major changes in the Association's financial statement were due to the following:

Losses \$ 39,570

Losses decreased by \$21,861 to reflect actual loss development.

Amounts withheld for the account of others \$ 5,998

This liability was decreased by \$867 to reflect the actual amount of payroll taxes paid in 2021 for 2020.

Other unpaid expenses \$ 4,147

This liability was increased by \$667 to reflect actual expenses paid in 2021 for 2020.

CONCLUSION

The cooperation and assistance extended by the officers and personnel of the Association is hereby acknowledged.

Respectfully submitted,

/s/ Jessica Jensen
JESSICA JENSEN
Cain Ellsworth & Company, LLP
Representing the State of Iowa