

EXAMINATION REPORT OF
EASTERN IOWA MUTUAL INSURANCE ASSOCIATION
MOUNT VERNON, IOWA
AS OF DECEMBER 31, 2015

Mount Vernon, Iowa
August 24, 2016

HONORABLE NICK GERHART
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner Gerhart:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of the

EASTERN IOWA MUTUAL INSURANCE ASSOCIATION

MOUNT VERNON, IOWA

AS OF DECEMBER 31, 2015

at its Home Office, 506 1st Avenue South, Mount Vernon, Iowa.

INTRODUCTION

The Eastern Iowa Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2010. The examination reported herein was conducted by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This examination covers the intervening period from December 31, 2010 to December 31, 2015, the date of the present examination.

The examination was conducted in accordance with the procedures recommended by the Financial Condition (E) Committee of the N.A.I.C., and other generally accepted insurance examination standards. A general review and survey was made of the Association's operations and business transactions conducted during the stated period. A detailed audit was not made of all transactions, but accounting procedures and records were examined and tested to the extent deemed essential. The Association's assets were verified and evaluated and liabilities determined to present herein a statement of its financial condition as of December 31, 2015.

HISTORY

The Association was incorporated in 1879 for the purpose of insuring the property of its members against hazards and risks as permitted by Chapter 518, Code of Iowa. The Association's corporate existence was made perpetual in 1959.

The Articles of Incorporation were amended and substituted, effective January 1, 1998, changing the Association to a state mutual assessment insurance association under Chapter 518A, Code of Iowa. This amendment was approved by the Iowa Insurance Division during 1997.

Effective January 1, 2001, the Association merged through an Assumption and Reinsurance Agreement with Linn Mutual Insurance Association, Mount Vernon, Iowa with the Association being the surviving entity.

MANAGEMENT AND CONTROL

MEMBERSHIP

The membership of the Association shall consist of every individual, co-partnership, public or private corporation, board or association, trustee, administrator, executor, organization, or other legal entity having insurance herein. Membership and insurance may be obtained only upon written application signed by the applicant and shall commence only when accepted by the Association and shall cease when such insurance is canceled or terminates for any cause.

The regular annual meeting of the members is held at the Linn County at 10:00 a.m. on the third Tuesday in March.

Special meetings of the members shall be called by the President upon request of the majority of the members 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 such special meetings shall be given to the membership as specified in the Bylaws.

Each member present at any meeting shall be entitled to one vote regardless of the number of policies owned by the member. No voting shall be permitted by proxy. A quorum shall be one more member than the number of Board of Directors authorized by the Bylaws.

The Articles of Incorporation may be amended by two-thirds majority affirmative vote of the members present at any membership meeting, provided twenty days written notice of the meeting.

BOARD OF DIRECTORS

The Articles of Incorporation provide the general supervision and management of the Association shall be vested in a Board of not less than seven nor more than ten directors, and within such limits, shall be fixed by resolution of the Board of Directors.

Directors are elected by the members at their regular annual meeting for a term not to exceed three years. Nominations for membership on the Board of Directors must be filed in writing with the Secretary of the Association at least thirty days prior to the date of the annual meeting at which they are to be voted. Any vacancy occurring on the Board of Directors may be filled for the unexpired term by a majority vote of the remaining directors or the office declared vacant.

Directors serving as of December 31, 2015 were:

<u>Name</u>	<u>City</u>	<u>Term Expires</u>
Willard Horak	Center Point, Iowa	2016
Richard Strother	Mount Vernon, Iowa	2016
Tracy Pearson	Mechanicsville, Iowa	2016
*Benjamin Holub	Central City, Iowa	2017
John Sauer	Mechanicsville, Iowa	2017
Tony Serbousek	Iowa City, Iowa	2017
Jason Russell	Monticello, Iowa	2017
*Richard Barta	Solon, Iowa	2018
George Chadima	Fairfax, Iowa	2018
Ronald Holubar	Solon, Iowa	2018

The regular annual meeting of the Board shall be held immediately following the adjournment of the regular annual meeting of the members, and thereafter on the call of the President or Secretary. A majority of the number of directors shall constitute a quorum for the transaction of business at any meeting of the Board.

Directors receive a fee of \$150 per meeting attended and reimbursement of mileage at the current IRS mileage allowance rate.

*Also serves as an agent appointed by the Association.

COMMITTEES

The Board of Directors at their annual meeting may appoint committees as may be necessary to the business of the Association. The Association appointed a finance and an underwriting committee in 2015. Investment committee meets at least twice a year. Manager calls the meetings. Underwriting meets only annually. Agent Relations Committee was not appointed in 2015.

Directors serving on the committees at December 31, 2015 were as follows:

Finance

Benjamin Holub
Richard Strother
Ronald Holubar
George Chadima
Jason Russell
Tracy Pearson

Underwriting

Richard Barta
Tony Serbousek
Ronald Holubar
George Chadima

OFFICERS

At its regular annual meeting the Board of Directors shall elect for a term of one year a President, Vice President, Treasurer and Secretary and may appoint such other officers as deemed necessary. At the discretion of the Board, it may leave unfilled any of such offices except for the President, Treasurer and Secretary. Any of the offices may be combined and held by one person except the President and Secretary offices.

Duly elected officers serving the Association as of December 31, 2015 were as follows:

Name

George Chadima
Ronald Holubar
Robert J. Connor
Kevin Knapp

Title

President
Vice President
Secretary/Treasurer
Assistant Secretary/Treasurer

CONFLICT OF INTEREST

The Association has an established procedure for disclosure to its Board of Directors of any material interest or affiliation on the part of any of its officers or directors which is in or likely to be in conflict with the official duties of such person. Statements are circulated and signed annually by members of the Board, officers and responsible employees.

CORPORATE RECORDS

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

The Bylaws were amended and substituted at the April 14, 2015 Board of Directors meeting. The date and time of the annual members meeting was changed from 1:00pm on third Saturday to 10:00am on the third Tuesday. Association notified Iowa Insurance Division via electronic mail on April 22, 2015.

The recorded minutes of the membership and Board of Directors meetings were read and noted. They appeared to be complete and were properly attested. The Board of Directors meeting minutes reflected that the Examination Report as of December 31, 2010 was reviewed and accepted at the February 15, 2012 board meeting.

FIDELITY BOND AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$250,000 for any one loss occurrence. The bond is written with an authorized insurer for a three-year renewal period, the indemnity is non-cumulative and it meets the minimum requirements recommended by the N.A.I.C.

Policies for other coverages, placed with authorized insurers, were as follows:

- Workers' compensation and employers' liability
- Commercial property
- Personal property
- Inland marine
- General liability
- Umbrella
- Business automobile liability

In addition, the Association has a directors' and officers' liability and professional liability policy in force and insurance agents' errors and omissions policy in force with a non-admitted insurer qualified to write excess and surplus lines coverage in Iowa.

EMPLOYEES' WELFARE

A retirement benefit contribution to a Simplified Employee Pension/Individual Retirement Account (SEP/IRA) fund was made for full-time eligible employees. The Association contributed three percent of the employee's gross salary or wage to the employee selected retirement fund. Contributions were paid by the Association of \$6,973, \$7,313, \$7,976, \$7,526 and \$9,032 for 2011 through 2015, respectively.

Association provides a profit share of 5% of the addition of surplus up to a maximum of \$20,000. Profit share is divided equally between all employees. \$20,000 in total was paid to four employees in each year 2011, 2012 and 2013, respectively.

A health insurance savings account payments in total of \$10,680 and \$10,557 occurred in 2014 and 2015, respectively. Three employees received payments.

REINSURANCE

Reinsurance treaties in force as of December 31, 2015 with an authorized insurer providing coverage for fire and allied lines risk were as follows:

Individual Occurrence of Loss

Fire, Lightning and Extended Coverage (Other Than Windstorm and Hail)

One hundred percent in excess of \$200,000 at one location, arising out of one event, insured on one or more policies, up to the limit stated in the coverage schedule.

Windstorm and Hail (Excluding Hail on Growing Crops)

One hundred percent in excess of \$200,000 at one location, arising out of one windstorm or hailstorm, insured on one or more policies; and/or the total of losses occurring on items insured on one policy at multiple locations arising out of one windstorm or hailstorm.

Aggregate Excess of Loss

Fire, Windstorm and Extended Coverages:

One hundred percent of the amount in excess of \$2,330,329 for the net aggregate loss occurring during the 2015 contract year subject to the following limitations:

<u>Livestock confinements:</u> including swine, poultry, dairy, beef and veal operations	\$1,000,000
<u>Commercial and public property:</u> including community halls, schools and churches	\$1,000,000
<u>Farm product storage structures:</u> excluding livestock operations	\$1,000,000
<u>Farm machinery and equipment storage buildings:</u> Excluding livestock operations and used to store mobile farm machinery.	\$2,000,000
<u>Dwellings and contents:</u> including additional living Expense, other structures and scheduled personal property coverages	\$1,000,000

Facultative

Risks in excess of the Association's reinsurance contract limits may be ceded on a facultative basis. As of December 31, 2015, there were seven risks identified which warranted facultative agreements, and the mutual had facultative agreements in place for these risks.

Reinsurance - General

The Association appears to comply with current statutory standards relative to surplus exposure and reinsurance coverage.

MARKET CONDUCT

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in the State of Iowa as a state mutual insurance association under the provisions of Chapter 518A, Code of Iowa. Business is written in the 21 county area as approved by the Iowa Insurance Division. A listing of authorized counties follows:

Benton	Delaware	Iowa	Jones	Muscatine
Buchanan	Des Moines	Jackson	Keokuk	Poweshiek
Cedar	Dubuque	Jefferson	Linn	Scott
Clinton	Henry	Johnson	Louisa	Tama
Washington				

PRODUCER LICENSING

Business is written by 87 licensed and approved agents from 21 insurance agencies.

POLICY FORMS AND UNDERWRITING PRACTICES

The Association has policies in force on farm personal property and suburban security classes in insurance covering fire, allied lines and inland marine.

Policy and endorsement forms were filed through a former reinsurer. The policies and endorsements utilized by the Association are approved by the Board of Directors prior to usage.

ADVERTISING

The Association's advertising was reviewed and found to be in compliance with statutory requirements.

TREATMENT OF POLICYHOLDERS

Claims

Adjustment of claims is handled primarily by the Association's salaried Home Office personnel.

Numerous claim files were reviewed, including closed by payment, closed without payment and open files to determine adequacy of loss reserves and the treatment of policyholders. Of the claims reviewed, 100 percent were paid within fourteen days from the date sufficient information was received to pay the claim.

Complaint Register

A review was made of all written complaints received by the Association during the period under examination. Complaints properly handled and resolved.

GROWTH OF ASSOCIATION

The following historical data was taken from annual statements:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Premiums Earned</u>	<u>Losses Incurred</u>	<u>Investment Income Earned</u>
2006	\$ 8,826,934	\$ 7,898,494	\$1,027,930	\$ 432,878	\$274,082
2007	9,358,395	8,325,014	1,107,855	641,140	293,509
2008	8,430,973	7,532,828	1,165,184	468,921	291,820
2009	9,223,876	8,285,474	1,309,013	611,306	283,258
2010	10,396,754	9,330,380	1,420,148	468,921	294,930
2011	10,342,016	9,282,301	1,523,948	1,073,536	300,086
2012	11,833,457	10,543,337	1,722,964	364,533	291,856
2013	13,172,395	11,604,403	1,861,023	1,008,619	268,797
2014	13,535,367	11,829,027	2,106,834	1,645,953	292,833
2015	14,099,705	11,960,027	2,310,463	1,289,788	365,200

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's annual statements for the five-year period ended December 31, 2015 was as follows:

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Premiums earned	\$1,524,082	\$1,722,964	\$1,861,023	\$2,106,834	\$2,310,463	\$9,525,366
Deductions:						
Losses incurred	1,079,441	364,534	1,008,619	1,645,953	1,233,268	5,331,815
Loss adjustment expenses	72,467	74,800	120,235	95,659	103,912	467,073
Commissions	285,366	379,164	412,154	418,841	493,938	1,989,463
Salaries	148,705	175,465	192,011	189,357	219,440	924,978
Taxes, licenses and fees	30,387	33,289	37,429	42,842	44,779	188,726
Other underwriting expenses	97,065	104,262	119,259	113,785	111,413	545,784
Total deductions	\$1,713,431	\$1,131,514	\$1,889,707	\$2,506,437	\$2,206,750	\$9,447,839
Net underwriting gain (loss)	\$ (189,349)	\$ 591,450	\$ (28,684)	\$ (399,603)	\$ 103,713	\$ 77,527

Expressed in percentages of incurred deductions to earned premiums:

Deductions:						
Losses	70.83%	21.16%	54.20%	78.12%	53.38%	55.97%
Loss adjustment expenses	4.75%	4.34%	6.46%	4.54%	4.50%	4.90%
Commissions	18.72%	22.01%	22.15%	19.88%	21.38%	20.89%
Salaries	9.76%	10.18%	10.32%	8.99%	9.50%	9.71%
Taxes, licenses and fees	1.99%	1.93%	2.00%	2.03%	1.93%	1.98%
Other underwriting expenses	6.37%	6.05%	6.41%	5.40%	4.82%	5.74%
Total deductions	112.42%	65.67%	101.54%	118.97%	91.51%	99.19%
Net underwriting gain (loss)	(12.42)%	34.33%	(1.54)%	(18.97)%	4.49%	0.81%

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 balance of assets, liabilities, income or disbursements.

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 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, 2015 relative to security custodial requirements.

In accordance with Section 518A.37, Code of Iowa, surplus must be maintained at a level of not less than one hundred thousand dollars or one-tenth of one percent of the gross risk in force, whichever is greater. At December 31, 2015, the gross risk in force for the Association was \$877,508,229. The Association's statutory minimum surplus level as of December 31, 2015 was \$877,508. It is noted the Association's surplus level to minimum surplus level ratio was 13.8. The reported surplus/statutory minimum ratio average for the chapter 518A licensed industry at December 31, 2015 was 9.6.

The Association has a lease with an unaffiliated tenant at an annual rent amount of \$10,896. Tenant responsible for care and maintenance of the premises. Tenant is responsible for electrical and natural gas.

Association was over the \$250,000 Federal Deposit Insurance Corporation limit on Certificates of Deposit. Certificate of Deposit purchased and accrued in value should consider this limit.

Three checks were outstanding in for over two years since 12.31.15. Consider following escheating regulations for these outstanding checks.

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, 2015 and the assets and liabilities as of this date.

ASSETS

	<u>Ledger</u>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 5,435,307	\$	\$ 5,435,307
Stocks:			
Preferred stocks	51,220		51,220
Common stocks	6,204,040		6,204,040
Real estate:			
Properties occupied by the association	203,242	32,510	170,732
Cash			
Cash	1,117,184		1,117,184
Short-term investments	696,991		696,991
Mortgage loan receivable			
Investment income due and accrued	53,555		53,555
Premiums and considerations:			
Uncollected premiums and agents' balances in the course of collection	19,704		19,704
Deferred premiums, agents' balances and Installments booked but deferred and not yet due	306,688		306,688
Reinsurance:			
Amounts recoverable from reinsurers	26,033		26,033
Electronic data processing equipment and Software	706		706
Furniture and equipment	446	446	
Overwrite fees	822		822
Reins contingent commission receivable	<u>16,723</u>	<u> </u>	<u>16,723</u>
 Total Assets	 <u>\$14,132,661</u>	 <u>\$32,956</u>	 <u>\$14,099,705</u>

LIABILITIES AND SURPLUS

Losses		\$ 495,238
Loss adjusting expenses		33,646
Commissions payable, contingent commissions and other similar charges		148,643
Other expenses (excluding taxes, licenses and fees)		15,778
Taxes, licenses and fees (excluding federal and foreign income taxes)		14,359
Federal and foreign income taxes		80,177
Unearned premiums		1,175,747
Advance premiums		80,961
Ceded reinsurance premiums payable		35,477
Amounts withheld or retained by Association for account of others		<u>14,473</u>
 Total liabilities		 \$ 2,094,499
 Surplus as regards policyholders		 <u>12,005,206</u>
 Total Liabilities and Surplus		 <u>\$14,099,705</u>

UNDERWRITING AND INVESTMENT EXHIBIT
FOR THE ONE YEAR PERIOD DECEMBER 31, 2015
STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$ 2,310,463
<u>Deductions</u>	
Losses incurred	\$1,233,268
Loss expenses incurred	103,912
Commissions and brokerage	493,938
Salaries	219,440
Taxes, licenses and fees	44,779
Other underwriting expenses incurred	<u>111,413</u>
Total underwriting deductions	<u>2,206,750</u>
Net underwriting gain (loss)	103,713
<u>Investment Income</u>	
Net investment income earned	365,200
Net realized capital gain (loss)	<u>25,702</u>
Net investment gain (loss)	390,902
<u>Other Income</u>	
Aggregate write-ins for miscellaneous income:	
Overwrite fees	9,221
Premiums collected for others	<u>42,702</u>
Other income	<u>51,923</u>
Net income before dividends to policyholders and before federal and foreign income taxes	\$ 546,538
Dividends to policyholders	<u>0</u>
Net income after dividends to policyholders but before federal and foreign income taxes	\$ 546,538
Federal and foreign income taxes incurred	<u>102,685</u>
Net income	<u>\$ 443,853</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014	<u>\$11,829,027</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 443,853
Net unrealized capital gains (losses)	(267,849)
Change in non-admitted assets	<u>175</u>
Change in surplus as regards policyholders for the period	<u>\$ 176,179</u>
Surplus as regards policyholders, December 31, 2015	<u>\$12,005,206</u>

UNDERWRITING AND INVESTMENT EXHIBIT
FOR THE FIVE-YEAR PERIOD DECEMBER 31, 2015
STATEMENT OF INCOME

<u>Underwriting income</u>	
Premiums earned	\$ 9,525,366
<u>Deductions</u>	
Losses incurred	\$ 5,331,815
Loss expenses incurred	467,073
Commissions	1,989,463
Salaries	924,978
Taxes, licenses and fees	188,726
Other underwriting expenses incurred	545,784
Total underwriting deductions	<u>9,447,839</u>
Net underwriting gain (loss)	77,527
<u>Investment Income</u>	
Net investment income earned	1,513,839
Net realized capital gain (loss)	<u>377,854</u>
Net investment gain (loss)	1,891,693
<u>Other Income</u>	
Aggregate write-ins for miscellaneous income	
Overwrite fees	44,924
Premiums collected for others	36,353
Cash over/under	<u>(7)</u>
Other income	81,270
Net income before dividends to policyholders and before Federal and foreign income taxes	\$ 2,050,490
Dividends to policyholders	<u>0</u>
Net income after dividends to policyholders but before Federal and foreign income taxes	\$ 2,050,490
Federal and foreign income taxes incurred	<u>310,114</u>
Net income	<u>\$ 1,740,376</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2010	\$ 9,343,179
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 1,740,376
Change in net unrealized capital gains (losses)	867,208
Change in non-admitted assets	<u>54,443</u>
Change in surplus as regards policyholders for the period	<u>\$ 2,662,027</u>
Surplus as regards policyholders, December 31, 2015	<u>\$12,005,206</u>

SURPLUS AS REGARDS POLICYHOLDERS

Examination changes which resulted in a net increase to surplus 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	\$551,758	\$495,238	\$ 56,520
Loss adjusting expenses	12,482	33,646	(21,164)
Federal and foreign income taxes	90,000	80,177	<u>9,823</u>
Net increase in surplus			\$ 45,179
Surplus per Association			<u>\$11,960,027</u>
Surplus per examination			<u>\$12,005,206</u>

During the period under review, surplus funds increased \$2,662,027 from the amount of \$9,343,179 as shown in the last previous examination report. An operating statement reflecting that increase is contained in the financial section.

COMMENTS

<u>Losses</u>		<u>\$ 495,238</u>
Based on a review of all claims incurred prior to January 1, 2016 paid or outstanding in 2016, the liability was decreased by \$56,520.		
<u>Loss adjustment expenses</u>		<u>\$ 33,646</u>
This liability increased by \$21,164 based on a five year ratio of paid loss adjustment expenses to paid losses multiplied by losses.		
<u>Federal and foreign income taxes</u>		<u>\$ 80,177</u>
This liability was decreased \$9,823 to reflect actual federal income tax incurred in 2015 and paid in 2016.		

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Association during this examination.

Respectfully submitted,

/s/ Jerry P Cihota _____
JERRY P CIHOTA, CPA, CFE
Insurance Company Examiner Specialist
Iowa Insurance Division