EXAMINATION REPORT OF

DMC MUTUAL INSURANCE ASSOCIATION

MEDIAPOLIS, IOWA

AS OF DECEMBER 31, 2016

Mediapolis, Iowa
December 5, 2017

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

DMC MUTUAL INSURANCE ASSOCIATION

MEDIAPOLIS, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 800 Wapello Road, Mediapolis, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2011 to December 31, 2016. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa and generally accepted insurance examination standards.

The examination was conducted in accordance with procedures recommended by the Financial Condition (E) Committee of the National Association of Insurance Commissioners, 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 the liabilities determined to present herein a statement of its financial condition as of December 31, 2016.

HISTORY

The Association was incorporated in 1867 for the purpose of insuring the property of its members against hazards and risks as permitted by Chapter 518A, Code of Iowa. The corporate existence was made perpetual in 1953.

The Association merged with Van Buren Mutual Insurance Association, Keosauqua, Iowa effective January 1, 2013. The Association was the survivor of the transaction.

MANAGEMENT AND CONTROL

MEMBERSHIP

The membership consists of those persons or organizations having insurance written by the Association which is in full force and effect.

The annual meeting of the members is held at Mediapolis, Iowa on the third Thursday in March at 2:00 p.m. Special meetings may be called by the Board of Directors or upon written request of one-fourth of the members of the Association as provided in the Articles of Incorporation. Due notice of the time and place of special meetings shall be given the membership. Each member present is entitled to one vote on any question to be decided. Voting by proxy is not permitted. One more member than the number of Directors constitutes a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than five, nor more than fifteen directors, each elected by a majority vote at the annual meeting of the members for terms of three years. Any vacancy on the Board may be filled for the unexpired term by a majority vote of the remaining directors.

Directors serving at December 31, 2016 were:

Name	Address	Occupation	Term Expires
David Baker	Morning Sun, Iowa	Farmer	2017
William Hillyard	Burlington, Iowa	Farmer	2017
Curtis Orr	Mediapolis, Iowa	Farmer	2017
LaVern Weilbrenner	Bloomfield, Iowa	Farmer	2017
Larry Cady	Danville, Iowa	Farmer	2018
Robert Kuntz	Mediapolis, Iowa	Farmer	2018
Dwayne Wright	New London, Iowa	Farmer	2018
Ronald Breuer	Burlington, Iowa	Farmer	2019
Daniel Schulte	Sperry, Iowa	Farmer/Salesperson	2019
Dacid Wagner	West Burlington, Iowa	Farmer	2019
Burton Eads	Milton, Iowa	Farmer	2019

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

Directors receive a fee of $125 for each meeting attended and reimbursement of travel expense. Directors receive a fee of $100 for each educational or committee meeting attended.

Salaries and remuneration of directors are shown in Exhibit A following this report.

OFFICERS

At its annual meeting, the Board of Directors elects for a term of one year a President, Chairman, Vice Chairman, Treasurer and Secretary, who, when so designated by the Board, may also serve as Treasurer and such additional officers as it deems necessary.

Officers serving at December 31, 2016 were:

Name	Office
Paul Maher	President/COO
Daniel Schulte	Chairman
William Hillyard	Vice Chairman
Nathan Conrad	Secretary
Dale Bartelt	Treasurer

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

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees. Greater care should be taken to ensure all proper interests and affiliations are disclosed.

CORPORATE RECORDS

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

Amended Bylaws were approved during the Board Meeting dated July 10, 2013. The Bylaws eliminated the following provision:

> Subsection A of Section V
> No director shall be nominated after he/she has reached his/her 75th birthday. Current board members over 75 will be exempt from this rule.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors reflected that the Examination Report as of December 31, 2011 was reviewed and accepted at the April 10, 2013 Board meeting.

NON-AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Eland Insurance Agency.

The agency is 100 percent owned by Danville Savings Bank. This agency produced approximately 25 percent of the Association's business during 2016. The agency was sold to Danville Savings Bank by Dale Bartlet on January 1, 2015.

The agency paid $12,500 rent for 2016 to the Association. The Association pays for most expenses, however, the Agency pays for its own phone lines, internet, half of cable television, copies, office supplies, and data backup.

The expense allocation between the agency and Association does not appear to be unreasonable.

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 indefinite period and the indemnity is noncumulative. The current bond amount of $100,000 does not provide adequate coverage for the Mutual according to guidelines established by the National Association of Insurance Commissioners.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers and directors' liability
- Building and contents
- General liability
- 401(k) Bond

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 health, long-term disability, dental, life and accidental death and vision insurance. Premiums are paid by the Association. Health insurance for family coverage results in a cost to the employee.

The Association also provides a 401(k) profit sharing plan. Employees are eligible after 6 months of service and fully vested after 4 years. The Association matches half of the employee's contribution up to 3 percent of their salary. The Association contributed $30,041 in 2012, $32,648 in 2013, $35,978 in 2014, $28,231 in 2015, and $24,033 in 2016.

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2016 with an authorized insurer which provide the following:

Per Risk Excess of Loss

First $200,000 of ultimate net loss per risk is retained by the Association. First layer is reinsurer will pay one-hundred percent, of net loss in excess of retention. The maximum recovery for first layer is $1,000,000. Second layer has a recovery of $4,000,000 in excess of $1,000,000 for each risk. Third layer has a maximum recovery of $15,000,000 in excess of $5,000,000. The Association is required to provide a timely notification to reinsurer of any risks exceeding $10,000,000.

Catastrophe Excess of Loss

First $1,000,000 of ultimate net loss per catastrophe, which is any period of 96 consecutive hours arising out of and directly occasioned by the same event, is retained by the Association. One-hundred percent of ultimate net loss in excess of retention is covered by the reinsurer.

Aggregate Excess of Loss

First $3,750,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by the Association. One-hundred percent of ultimate net loss in excess of retention is covered by the reinsurer. Reinsurance recovery is unlimited. Applies to new, renewal, and in-force policies of the Association, effective and becoming effective at and after the effective date of the contract until expiration of the contract.

Facultative

While facultative reinsurance was available, the Association does not have any facultative contracts in place.

Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

MARKET CONDUCT

TERRITORY AND PLAN OF OPERATION

The Association requested and received approval from the Iowa Insurance Division to expand territory to include Story, Marshall, Tama and Benton counties during this Examination Period.

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 authorized to be written in the following counties: Appanoose, Benton, Cedar, Davis, Des Moines, Henry, Iowa, Jasper, Jefferson, Johnson, Keokuk, Lee, Linn, Louisa, Lucas, Mahaska, Marshall, Marion, Monroe, Muscatine, Polk, Poweshiek, Scott, Story, Tama, Van Buren, Wapello, Warren, Washington and Wayne counties. It was noted from a review of numerous applications of policies in force, that risks appeared to be located within the authorized territory.

PRODUCER LICENSING

Business is written by 109 licensed and approved agents.

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.

ADVERTISING

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

RATING AND STATISTICAL REPORTING

The Association is neither a member of nor a subscriber to any rating bureau or statistical reporting agency.

TREATMENT OF POLICYHOLDERS

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.

Complaint Register

A review was made of all written complaints received by the Association during the period under examination, including two filed with the Insurance Division. The complaints were handled in a fair and timely manner.

GROWTH OF THE ASSOCIATION

The following historical data was taken from office copies of filed annual statements for the years indicated.

Year	Admitted Assets	Surplus To Policyholders	Premiums Earned	Losses Incurred	Investment Income Earned
2012	11,981,437	9,330,260	3,132,537	1,306,164	255,533
2013	12,489,234	9,727,228	3,389,865	2,025,157	287,442
2014	13,052,728	9,735,714	3,478,506	2,445,836	259,032
2015	14,019,610	10,451,941	3,903,216	1,938,557	311,485
2016	15,875,103	11,881,837	4,512,562	1,377,026	307,626

Historical data for 2012 represents both DMC Mutual Insurance Association and Van Buren Mutual Insurance Association.

UNDERWRITING EXPERIENCE

Underwriting experience as reflected by the Association's annual statements for the five-year period ended December 31, 2016 was as follows:

	2012	2013	2014	2015	2016	Total
Premiums earned	$2,849,441	$3,389,865	$3,478,506	$3,903,216	$4,437,478	$18,058,506
Deductions						
Losses	1,215,823	2,025,157	2,445,836	1,938,557	1,365,981	8,991,354
Loss adjustment expenses	147,260	182,966	201,892	152,386	161,581	846,085
Commissions	620,628	713,374	792,281	780,502	1,013,343	3,920,128
Salaries	331,482	423,656	428,713	384,750	395,455	1,964,056
Taxes, licenses and fees	38,420	47,757	53,850	61,349	65,732	267,108
Other underwriting expenses	160,543	139,217	137,697	137,403	161,542	736,402
Total underwriting deductions	$2,514,156	$3,532,127	$4,060,269	$3,454,947	$3,163,634	$16,725,133
Net underwriting gain (loss)	$ 335,285	$ (142,262)	$ (581,763)	$ 448,269	$1,273,844	$ 1,333,373

Expressed in percentages of incurred deductions to premiums earned the ratios are as follows:

	2012	2013	2014	2015	2016	Total
Deductions						
Losses	42.7%	59.7%	70.3%	49.7%	30.8%	49.8%
Loss adjustment expenses	5.2	5.4	5.8	3.9	3.6	4.7
Commissions	21.8	21.0	22.8	20.0	22.8	21.7
Salaries	11.6	12.5	12.3	9.9	8.9	10.9
Taxes, licenses and fees	1.3	1.4	1.5	1.6	1.5	1.5
Other underwriting expenses	5.6	4.2	4.0	3.4	3.7	4.0
Total underwriting deductions	88.2%	104.2%	116.7%	88.5%	71.3%	92.6%
Net underwriting gain (loss)	11.8%	(4.2%)	(16.7%)	11.5%	28.7%	7.4%

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 did not pay their agent appointment fees and had some of their agents dropped. Subsequent to year end the agents have been re-appointed.

The Association was in compliance with the Commissioner's Bulletin 97-6 at December 31, 2016 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, 2016, the gross risk in force for the Association was $1,735,729,961. The Association's statutory minimum surplus level as December 31, 2016 was $1,735,730. It is noted the Association's surplus level to minimum surplus level ratio was 6.8/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2016 was 8.5/1.

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, 2016 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

	Ledger	Not Admitted	Admitted
Bonds	$ 9,819,723	$ 15,750	$ 9,803,973
Stocks			
Preferred stocks	917,308		917,308
Common stocks	1,967,777		1,967,777
Real estate	143,870		143,870
Cash and short-term investments	2,264,755		2,264,755
Investment income due and accrued	94,217	(853)	95,070
Premiums and considerations			
Uncollected premiums	24,764	12,844	11,920
Deferred premiums	608,023	14,711	593,312
Other amounts receivable	44,854		44,854
EDP equipment	6,264	1,746	4,518
Equipment and furniture	22,149	22,149	
Total	$15,913,704	$ 66,347	$15,847,357

LIABILITIES AND SURPLUS

Losses	$ 307,797
Unpaid adjusting expenses	2,360
Commissions payable	267,453
Other unpaid expenses	5,787
Taxes, licenses and fees	10,798
Current Federal income taxes	359,000
Unearned premium reserve	2,878,981
Advance premiums	145,524
Ceded reinsurance premiums payable	93,674
Amounts withheld for account of others	32,719
Suspense	629
Profit share	6,661
Accrued paid time off	6,098
Total liabilities	$ 4,117,481
Surplus as regards policyholders	11,729,876
Total liabilities and surplus	$15,847,357

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

Underwriting Income		
Premiums earned		$ 4,437,478
Deductions		
Losses incurred	$1,365,981	
Loss expenses incurred	161,581	
Other operating expenses incurred	1,636,072	
Total underwriting deductions		3,163,634
Net underwriting gain (loss)		$ 1,273,844
Investment Income		
Net investment income earned	308,479	
Net realized capital gain	164,445	
Total investment income		$ 472,924
Other Income		
Premiums collected for other companies (net)	16,334	
Miscellaneous income	6,819	
Total other income		$ 23,153
Net income before Federal income tax		$ 1,769,921
Federal income tax incurred		627,541
Net income		$ 1,142,380

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	$10,451,941
Gains and (Losses) in Surplus	
Net income	$ 1,142,380
Change in not admitted assets	13,305
Change in net unrealized gains/losses	122,250
Change in surplus as regards policyholders for the year	$ 1,277,935
Surplus as regards policyholders, December 31, 2016	$11,729,876

UNDERWRITING AND INVESTMENT EXHIBIT

FIVE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

Underwriting Income		$18,058,506
Premiums earned		
Deductions		
Losses incurred	$8,991,354	
Loss expenses incurred	846,085	
Other operating expenses incurred	6,887,694	
Total underwriting deductions		16,725,133
Net underwriting gain (loss)		$ 1,333,373
Investment Income		
Net investment income earned	1,397,857	
Net realized capital gain	486,344	
Total investment income		$ 1,884,201
Other Income		
Premiums collected for other companies (net)	93,158	
Miscellaneous income	33,959	
Total other income		$ 133,117
Net income before Federal income tax		$ 3,350,692
Federal income tax incurred		998,609
Net income		$ 2,352,083

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2011	$ 7,992,197
Gains and (Losses) in Surplus	
Net income	$ 2,352,083
Change in not admitted assets	30,343
Change in net unrealized gains/losses	563,393
Surplus from merger with Van Buren	791,860
Change in surplus as regards policyholders for the period	$ 3,737,679
Surplus as regards policyholders, December 31, 2016	$11,729,876

SURPLUS AS REGARDS POLICYHOLDERS

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

Classification	Association Annual Statement	Examination Financial Statement	Surplus Increase (Decrease)
Assets			
Bonds	$ 9,805,017	$ 9,803,973	$ (1,044)
Investment income due and accrued	94,217	95,070	853
Uncollected premiums	24,764	11,920	(12,844)
Deferred premiums	608,023	593,312	(14,711)
Liabilities			
Losses	318,842	307,797	11,045
Unpaid adjusting expenses	10,396	2,360	8,036
Commissions payable	185,569	267,453	(81,884)
Other expenses	4,663	5,787	(1,124)
Advance premiums	97,995	145,524	(47,529)
Profit share		6,661	(6,661)
Accrued paid time off		6,098	(6,098)
Net change to surplus			$ (151,961)
Surplus per Association			11,881,837
Surplus per examination			$ 11,729,876

During the period under review, surplus funds increased $3,737,679 from the amount of $7,992,197, as stated in the last examination report. An operating statement reflecting the increase is shown in the financial section.

COMMENTS

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

Bonds $ 9,803,973

The asset was decreased by $1,044 due to the recalculation of amortization.

Investment income due and accrued $ 95,070

The asset was increased by $853 due to the recalculation of accrued interest.

Uncollected premiums $ 11,920

The asset was decreased by $12,844 to reflect the actual amount of premiums received in 2017.

Deferred premiums $ 593,312

The asset was decreased by $14,711 to reflect the actual amount of premiums received in 2017.

Losses $ 307,797

Losses decreased by $11,045 to reflect actual loss development.

Unpaid adjusting expenses $ 2,360

An analysis of paid adjusting expenses to paid losses decreased the liability by $8,036.

Commissions payable $ 267,453

The liability was increased by $81,884 to reflect the actual commissions paid on premiums receivable.

Other expenses $ 5,787

The liability was increased by $1,124 to reflect actual expenses paid in 2017 for 2016.

Advance premiums $ 145,524

The liability was increased by $47,529 to reflect actual premiums paid in advance.

Profit share $ 6,661

The liability of $6,661 was established to reflect profit share paid in 2017, but incurred in 2016.

Accrued paid time off $ 6,098

The liability of $6,098 was established to accrue for unused paid time off carried over to 2017.

CONCLUSION

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

Respectfully submitted,

_/s/ Abby Kramer____________________

ABBY KRAMER
Cain Ellsworth & Co., LLP
Representing the State of Iowa