

EXAMINATION REPORT OF
BUTLER COUNTY MUTUAL INSURANCE ASSOCIATION
BUTLER COUNTY, ALLISON, IOWA
AS OF DECEMBER 31, 2015

Allison, Iowa
October 7, 2016

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

Commissioner Gerhart:

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

BUTLER COUNTY MUTUAL INSURANCE ASSOCIATION

BUTLER COUNTY, ALLISON, IOWA

AS OF DECEMBER 31, 2015

at its Home Office, 101 Cherry Street, Allison, 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, 2015. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa and generally accepted insurance examination standards.

HISTORY

The Association was incorporated in 1876 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.

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 Allison, Iowa on the first Tuesday after the first Monday in April of each year at 1:00 p.m. Special meetings may be called by the Board of Directors 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. Ten members present constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than seven nor more than nine 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, 2015 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Deb McWhirter	Allison, Iowa	2016
Joe W. Wallbaum	Parkersburg, Iowa	2016
Rex Ackerman	Clarksville, Iowa	2017
Rhonda Allen	New Hartford, Iowa	2017
Duane Harms	Shell Rock, Iowa	2017
Gale L. Brinkman	Greene, Iowa	2018
Vernon Ingalls	Parkersburg, Iowa	2018
Paul Leerhoff	Clarksville, Iowa	2018

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

Directors receive a fee of \$175 for each meeting attended and reimbursement of travel expense of 57.5 cents per mile.

OFFICERS

At its annual meeting, the Board of Directors elects for a term of one year a President, Vice President, 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, 2015 were:

<u>Name</u>	<u>Office</u>
Rex Ackerman	President
Paul Leerhoff	Vice President
Brian Dix	Secretary-Treasurer

The salaries and other remunerations of officers and directors are shown in Exhibit A, found immediately after the signature page of 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 interest and affiliations are disclosed.

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 reflected that the Examination Report as of December 31, 2011 was reviewed and accepted at the June 4, 2013 Board meeting.

FIDELITY BONDS 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 for a three-year period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Building and contents
- Business liability
- Commercial liability umbrella

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 family hospital and medical insurance with premiums paid by the Association.

Beginning in 2015, the Association reimbursed the employee \$1,000 toward out of pocket medical expenses on an individual policy and \$2,000 toward out of pocket medical expenses on a family policy. The deductibles must be met by the employee before reimbursement is eligible.

Pension contributions to a SEP are made by the Association for eligible employees, based upon an annual contribution of five percent of salary. Contributions were paid by the Association of \$8,053, \$8,293, \$8,293, and \$8,543 for the years 2012, 2013, 2014, and 2015, respectively.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Butler, Floyd, Chickasaw, Bremer, Black Hawk, Grundy, Hardin, Cerro Gordo, and Franklin 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 three-year period with premiums payable quarterly, semi-annually, or annually. The Association underwrites these policies every three years.

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

UNDERWRITING EXPERIENCE

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2015

<u>Classification</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Premiums earned	<u>\$1,099,988</u>	<u>\$1,091,089</u>	<u>\$1,107,613</u>	<u>\$1,200,734</u>	<u>\$4,499,424</u>
Incurred deductions:					
Losses	263,527	800,390	786,942	417,658	2,268,517
Loss adjustment expense	68,485	80,720	67,131	55,271	271,607
Commissions	265,822	249,233	237,171	269,368	1,021,594
Salaries	115,616	76,320	92,256	95,366	379,558
Taxes, licenses and fees	16,360	40,163	40,376	42,037	138,936
Other underwriting expenses	<u>114,402</u>	<u>197,626</u>	<u>208,035</u>	<u>237,089</u>	<u>757,152</u>
Total deductions	<u>\$ 844,212</u>	<u>\$1,444,452</u>	<u>\$1,431,911</u>	<u>\$1,116,789</u>	<u>\$4,837,364</u>
Underwriting gain or (loss)	<u>\$ 255,776</u>	<u>\$ (353,363)</u>	<u>\$ (324,298)</u>	<u>\$ 83,945</u>	<u>\$ (337,940)</u>

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

<u>Classification</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>Total</u>
Incurred deductions:					
Losses	23.96%	73.36%	71.05%	34.78%	50.42%
Loss adjustment expense	6.23	7.41	6.06	4.60	6.04
Commissions	24.17	22.84	21.41	22.43	22.70
Salaries	10.50	6.99	8.33	7.95	8.43
Taxes, licenses and fees	1.49	3.68	3.65	3.50	3.09
Other underwriting expenses	<u>10.40</u>	<u>18.11</u>	<u>18.78</u>	<u>19.75</u>	<u>16.83</u>
Total deductions	<u>76.75%</u>	<u>132.39%</u>	<u>129.28%</u>	<u>93.01%</u>	<u>107.51%</u>
Underwriting gain or (loss)	<u>23.25%</u>	<u>(32.39%)</u>	<u>(29.28%)</u>	<u>6.99%</u>	<u>(7.51%)</u>

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2015 with an authorized insurer which provide the following:

Individual Occurrence of Loss Excess

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

One hundred percent in excess of \$125,000 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 \$125,000 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 \$1,402,111 for the net aggregate loss occurring during the 2015 contract year subject to the following limitations:

Livestock/Poultry/Horse Operations: including swine and poultry confinements, dairy, beef and veal operations, and horse training and boarding facilities. \$1,000,000

Commercial and Public Property: including community halls, schools, churches, agribusiness risks and other commercial type risks. \$1,000,000

Farm Product Storage Structure: including farm storage buildings and grain storage operations. \$1,000,000

Farm Machinery and Equipment Storage Buildings: including farm storage outbuildings, grain storage operations, and other farm related buildings. This class does not include livestock, poultry, horse operations, or farm product storage structures. \$2,000,000

Dwelling: including dwelling, contents, additional living expense, other structures, and scheduled personal property coverages. \$1,000,000

Earthquake

The reinsurer will reinsure 100 percent of each loss.

Pollution Clean Up and Removal

The reinsurer will reinsure 100 percent of the liability.

Facultative

Risks in excess of the Association's reinsurance contract limits are ceded on a facultative basis. As of December 31, 2015, there were no risks identified which warranted facultative agreements.

Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

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.

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, 2015 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, 2015, the gross risk in force for the Association was \$558,844,588. The Association's statutory minimum surplus level as of December 31, 2015 was \$558,845. It is noted the Association's surplus level to minimum surplus level ratio was 21.0/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2015 was 8.13/1.

It is suggested that greater care be exercised to ensure proper reporting of investment holdings, particularly CUSIP numbers and interest rates.

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. 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	\$5,785,019	\$	\$ 1,604	\$ 5,783,415
Stocks	2,622,205	3,539,418		6,161,623
Bank balances:				
Subject to check	176,040			176,040
On interest	289,412			289,412
Real estate	122,534			122,534
Unpaid premiums:				
Due after November 1		7,107		7,107
Agents' balances	42,110			42,110
Reinsurance receivable		5,352		5,352
Accrued interest		60,035		60,035
Equipment and furniture	2,160		2,160	
Service fees receivable	<u> </u>	<u>10,095</u>	<u>2,160</u>	<u>10,095</u>
Total	<u>\$9,039,480</u>	<u>\$3,622,007</u>	<u>\$3,764</u>	<u>\$12,657,723</u>

LIABILITIES AND SURPLUS

Losses			\$ 49,708
Unpaid adjusting expenses			4,198
Ceded reinsurance balances payable			43,366
Unpaid salaries and commissions			1,123
Taxes payable			6,390
Other unpaid expenses			9,532
Premiums collected for other companies - not remitted			10,823
Premiums received in advance			19,651
Service fees and employee benefits payable			46,107
Unearned premium reserve			<u>714,000</u>
Total liabilities			\$ 904,898
Surplus as regards policyholders			<u>11,752,825</u>
Total liabilities and surplus			<u>\$12,657,723</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2014		\$	8,356,372
	<u>INCOME</u>		
Net premiums and fees		\$	1,284,276
Net interest received on bonds			243,370
Increase (Decrease) by adjustment - bonds			(15,262)
Dividends received			155,597
Interest received on bank deposits			2,297
Profit on sale of investments			157,669
Rents received			17,156
Premiums collected for other companies			187,583
Increase in ledger liabilities			321
Federal income tax refund			108,900
Total income		\$	2,141,907
Total assets and income		\$	10,498,279
	<u>DISBURSEMENTS</u>		
Losses paid		\$	485,522
<u>Operating Expense</u>			
Adjusting expense	\$		69,673
Commissions	269,368		
Advertising	16,986		
Boards, bureaus and associations	6,313		
Inspection and loss prevention	10,638		
Salaries of officers	61,474		
Salaries of office employees	32,769		
Employee welfare	83,776		
Insurance	12,202		
Directors' expenses	1,599		
Rent and rent items	15,000		
Equipment	1,370		
Printing, stationary and supplies	16,575		
Postage, telephone, telegraph and exchange	6,636		
Legal and auditing	9,802		
State insurance taxes	16,871		
Insurance Division licenses and fees	205		
Payroll taxes	26,287		
All other taxes	480		
Real estate expenses	4,912		
Real estate taxes	3,124		
Miscellaneous	196		
Annual meeting expense	5,664		
Over and short	(106)		
Total operating expense		\$	671,814
<u>Non-Operating Expense</u>			
Depreciation on real estate			5,118
Loss on sale of investments			4
Federal income tax			130,300
Premium collections transmitted to other companies			139,824
Commissions paid agents for other companies			26,217
Total disbursements		\$	1,458,799
Balance - ledger assets, December 31, 2015		\$	9,039,480

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2015

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 1,200,734
<u>Deductions</u>		
Losses incurred	\$ 417,658	
Loss expenses incurred	55,271	
Other operating expenses incurred	643,860	
Total underwriting deductions		<u>1,116,789</u>
Net underwriting gain (loss)		\$ 83,945
<u>Investment Income</u>		
Net investment income earned		549,007
<u>Other Income</u>		
Premiums collected for other companies (net)		21,499
Miscellaneous income		<u>10,095</u>
Net income before Federal income tax		\$ 664,546
Federal income tax incurred		<u>133,089</u>
Net income		<u>\$ 531,457</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014		<u>\$ 11,573,114</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 531,457
Change in not admitted assets		686
Change in net unrealized gains/losses		<u>(352,432)</u>
Change in surplus as regards policyholders for the year		<u>\$ 179,711</u>
Surplus as regards policyholders, December 31, 2015		<u>\$ 11,752,825</u>

UNDERWRITING AND INVESTMENT EXHIBIT

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2015

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 4,499,424
<u>Deductions</u>		
Losses incurred	\$ 2,268,517	
Loss expenses incurred	271,607	
Other operating expenses incurred	<u>2,297,240</u>	
Total underwriting deductions		<u>4,837,364</u>
Net underwriting gain (loss)		\$ (337,940)
<u>Investment Income</u>		
Net investment income earned		1,653,053
<u>Other Income</u>		
Premiums collected for other companies (net)		35,098
Miscellaneous income		<u>10,112</u>
Net income before Federal income tax		\$ 1,360,323
Federal income tax incurred		<u>134,616</u>
Net income		<u>\$ 1,225,707</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2011		<u>\$ 9,079,836</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 1,225,707
Change in not admitted assets		(461)
Change in net unrealized gains/losses		<u>1,447,743</u>
Change in surplus as regards policyholders for the period		<u>\$ 2,672,989</u>
Surplus as regards policyholders, December 31, 2015		<u>\$ 11,752,825</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>Assets</u>			
Unpaid premiums due after November 1	\$ 5,519	\$ 7,107	\$ 1,588
<u>Liabilities</u>			
Losses	76,509	49,708	26,801
Unpaid adjusting expenses	1,530	4,198	(2,668)
Unpaid salaries and commissions		1,123	(1,123)
Taxes payable	30,781	6,390	24,391
Other unpaid expenses	18,749	9,532	9,217
Net change to surplus			\$ 58,206
Surplus per Association			<u>11,694,619</u>
Surplus per examination			<u>\$ 11,752,825</u>

During the period under review, surplus funds increased \$2,672,989 from the amount of \$9,079,836 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:

Unpaid premiums \$ 7,107

The asset was increased by \$1,588 to reflect the actual amount of premium received in 2016.

Losses \$49,708

Losses decreased by \$26,801 to reflect actual loss development.

Unpaid adjusting expense \$ 4,198

Using a three year ratio of paid losses to paid adjusting expenses applied to the exam outstanding losses, this liability was increased by \$2,668.

Unpaid salaries and commissions \$ 1,123

Salaries and commissions paid during 2016 but incurred in 2015 were compared to the year-end accrual amount increasing the liability by \$1,123.

