EXAMINATION REPORT OF

WEST SIDE MUTUAL INSURANCE ASSOCIATION

LINN COUNTY, PALO, IOWA

AS OF DECEMBER 31, 2016

Palo, Iowa
September 8, 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

WEST SIDE MUTUAL INSURANCE ASSOCIATION

LINN COUNTY, PALO, IOWA

AS OF DECEMBER 31, 2016

at its Home Office, 120 Vinton Street, Palo, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2012 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.

HISTORY

The Association was incorporated in 1874 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 1968.

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 Palo, Iowa on the second Tuesday in March at 10:00 a.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 five to 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, 2016 were:

Name	Address	Term Expires
Paul Bohlken	Marion, Iowa	2017
Danny Gardemann	Palo, Iowa	2017
Wayne L. Roush	Hiawatha, Iowa	2018
Terry L. Meyer	Palo, Iowa	2019
Ronald C. Schulte	Walker, Iowa	2019

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 $125 for each meeting attended and reimbursement of travel expense.

Salaries and remunerations of directors are shown on Exhibit A, following this report.

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, 2016 were:

Name	Office
Wayne L. Roush	President
Clayton Schulte	Vice President
Ronald C. Schulte	Secretary-Treasurer

The salaries and other remunerations of officers and directors 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. The President and Secretary-Treasurer disclosed their affiliation with the Agency producing most of the Association's business. The President also noted that he is a director of Grinnell Mutual Reinsurance Company, which provides all the ceded reinsurance coverage secured by the Association.

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, 2012 was read and accepted at the September 10, 2013 Board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a financial institution bond in the amount of $50,000 for any one loss occurrence. The bond is written for an annual period and the indemnity is noncumulative. The current bond amount of $50,000 does not provide adequate coverage for the Association according to guidelines established by the National Association of Insurance Commissioners (NAIC).

Policies for other coverages are as follows:

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

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 a profit sharing retirement plan with contributions based on a percentage of their base salary. Contributions of $38,208, $39,425, $36,638 and $36,951 were made for the years of 2013, 2014, 2015 and 2016, respectively. Insurance premiums are paid by the Association. Health, dental and disability coverages are provided to full-time employees. The Adjuster is provided a vehicle with expenses paid by the Association.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Linn, Benton, Johnson, Buchanan, Delaware, Jones, Iowa, and Cedar 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 quarterly, semi-annually or annually. The Association underwrites these policies every one to three years.

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

UNDERWRITING EXPERIENCE

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2016

Classification	2013	2014	2015	2016	Total
Premiums earned	$ 884,524	$ 926,661	$ 907,823	$ 930,196	$3,649,204
Incurred deductions:					
Losses	369,157	864,277	322,854	170,750	1,727,038
Loss adjustment expense	91,345	110,593	95,727	9,624	307,289
Commissions	132,077	168,915	213,766	210,041	724,799
Salaries	130,042	132,593	125,069	186,074	573,778
Taxes, licenses and fees	26,092	28,856	24,604	28,392	107,944
Other underwriting expenses	170,608	111,181	148,197	163,538	593,524
Total deductions	$ 919,321	$1,416,415	$ 930,217	$ 768,419	$4,034,372
Underwriting gain or (loss)	$ (34,797)	$ (489,754)	$ (22,394)	$ 161,777	$ (385,168)

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

	2013	2014	2015	2016	Total
Incurred deductions:					
Losses	41.74%	93.27%	35.56%	18.36%	47.33%
Loss adjustment expense	10.33	11.93	10.54	1.03	8.42
Commissions	14.93	18.23	23.55	22.58	19.86
Salaries	14.70	14.31	13.78	20.00	15.72
Taxes, licenses and fees	2.95	3.11	2.71	3.05	2.96
Other underwriting expenses	19.28	12.00	16.33	17.59	16.26
Total deductions	103.93%	152.85%	102.47%	82.61%	110.55%
Underwriting gain or (loss)	(3.93%)	(52.85%)	(2.47%)	17.39%	(10.55%)

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 $150,000 of ultimate net loss per risk is retained by Association. First layer is reinsurer, will pay 100% 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. Association is required to provide a timely notification to reinsurer of any risks exceeding $10,000,000.

Aggregate Excess of Loss

First $850,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by Association. One-hundred percent of ultimate net loss in excess of retention is covered by the reinsurer. Reinsurance recovery is unlimited. Applies to new and 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

Risks in excess of the Association's reinsurance contract limits may be ceded on a facultative basis. As of December 31, 2016, there was one risk identified which warranted a facultative agreement. The Association had a facultative agreement in place for the risk.

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.

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with West Side Agency, Inc.

The agency is fifty percent owned by Wayne L. Roush, President of the Association and fifty percent owned by Ronald C. Schulte, Secretary-Treasurer of the Association. This agency produced seventy-four percent of the Association's business during 2016.

The agency paid $300 monthly rent. The rent does not appear unreasonable.

The telephone, office supplies, insurance and other expenses appeared to be allocated appropriately.

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.

An officer that is not on the Board is paid Board fees. The Association reported that the Board had approved of this practice. Board minutes were silent regarding this payment.

The Association was not able to produce an accounts receivable report as of December 31, 2016, due to the change in accounting systems.

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 518.25, Code of Iowa, surplus must be maintained at a level of not less than $50,000 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 $368,113,892. The Association's statutory minimum surplus level as December 31, 2016 was $368,114. It is noted the Association's surplus level to minimum surplus level ratio was 11.2/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2016 was 9.2/1.

Details of debt and equity investment securities according to their proper values, interest rates, and CUSIPS were not accurately recorded.

SUBSEQUENT EVENTS

(1) Effective July 1, 2017, West Side Mutual Insurance Association converted to a state mutual insurance association. West Side Mutual Insurance Association expanded its territory, adding six counties: Fayette, Clayton, Blackhawk, Dubuque, Tama, and Poweshiek.

(2) The Association agreed to a merger with Johnson County Mutual Insurance Association. The Johnson County Mutual Insurance Association Board approved the merger and Johnson County Mutual Insurance Association policyholders approved on March 9, 2017. The West Side Mutual Insurance Association Board of Directors approved September 13, 2016. The merger became effective July 1, 2017.

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	Nonledger	Not Admitted	Admitted
Bonds	$ 3,757,447	$	$ 3,402	$ 3,754,045
Stocks	430,723	195,127		625,850
Bank balances:				
Subject to check	42,389			42,389
On interest	190,324			190,324
Real estate	48,520			48,520
Unpaid premiums:				
Due after November 1		12,845		12,845
Accrued interest		40,222		40,222
Equipment and furniture	7,865		7,865	
Automobiles	23,445		23,445	
Federal income tax recoverable		4,994	4,994	
Premium tax credit receivable		353		353
Prepaid reinsurance		66,000		66,000
Total	$ 4,500,713	$ 319,541	$ 39,706	$ 4,780,548

LIABILITIES AND SURPLUS

Losses	$ 28,234
Unpaid adjusting expenses	2,077
Ceded reinsurance balances payable	23,523
Unpaid salaries and commissions	49,903
Taxes payable	2,577
Other unpaid expenses	6,236
Employee benefits payable	36,951
Premiums collected for other companies – not remitted	7,652
Premiums received in advance	23,357
Unearned premium reserve	487,477
Total liabilities	$ 667,987
Surplus as regards policyholders	4,112,561
Total liabilities and surplus	$ 4,780,548

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2015		$ 4,378,661

INCOME

Net premiums and fees		$ 832,673
Net interest received on bonds		156,849
Decrease by adjustment – bonds		(3,135)
Dividends received		22,427
Interest received on bank deposits		469
Other interest		18
Profit on sale of investments		2,562
Rents received		3,600
Premiums collected for other companies		155,628
Federal income tax refund		4,481
Liability and equip br commission		27,558
Total income		$ 1,203,130
Total assets and income		$ 5,581,791

DISBURSEMENTS

Losses paid		$ 224,516
Operating Expense		
Adjusting expense	$ 24,881	
Commissions	184,195	
Advertising	3,148	
Boards, bureaus and associations	7,125	
Salaries of officers	130,506	
Officers' expenses	11,857	
Salaries of office employees	55,568	
Employee welfare	41,888	
Insurance	29,768	
Directors' compensation	3,875	
Directors' expenses	271	
Equipment	17,394	
Printing, stationery and supplies	1,635	
Postage, telephone, telegraph and exchange	6,936	
Legal and auditing	6,730	
State insurance taxes	12,810	
Insurance Division licenses and fees	100	
Payroll taxes	14,004	
Real estate expenses	8,886	
Real estate taxes	2,434	
Miscellaneous	2,711	
Account service fees	2,074	
Computer expenses	6,274	
Contingency commission	24,057	
Total operating expense		$ 599,127
Non-Operating Expense		
Depreciation on real estate		1,370
Loss on sale of investments		18,327
Federal income tax		84,060
Premium collections transmitted to other companies		137,787
Commissions paid agents for other companies		15,891
Total disbursements		$ 1,081,078
Balance – ledger assets, December 31, 2016		$ 4,500,713

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

Underwriting Income		
Premiums earned		$ 930,196
Deductions		
Losses incurred	$ 170,750	
Loss expenses incurred	9,624	
Other operating expenses incurred	588,045	
Total underwriting deductions		768,419
Net underwriting gain (loss)		$ 161,777
Investment Income		
Net investment income earned		149,453
Other Income		
Premiums collected for other companies (net)		2,563
Miscellaneous income		27,558
Net income before Federal income tax		$ 341,351
Federal income tax incurred		42,800
Net income		$ 298,551

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2015	$ 3,769,101
Gains and (Losses) in Surplus	
Net income	$ 298,551
Change in not admitted assets	10,701
Change in net unrealized gains/losses	34,208
Change in surplus as regards policyholders for the year	$ 343,460
Surplus as regards policyholders, December 31, 2016	$ 4,112,561

UNDERWRITING AND INVESTMENT EXHIBIT

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2016

STATEMENT OF INCOME

Underwriting Income		
Premiums earned		$ 3,649,204
Deductions		
Losses incurred	$ 1,727,038	
Loss expenses incurred	307,289	
Other operating expenses incurred	2,000,045	
Total underwriting deductions		4,034,372
Net underwriting gain (loss)		$ (385,168)
Investment Income		
Net investment income earned		784,435
Other Income		
Premiums collected for other companies (net)		1,109
Miscellaneous income		103,196
Net income before Federal income tax		$ 503,572
Federal income tax incurred		93,662
Net income		$ 409,910

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2012	$ 3,645,870
Gains and (Losses) in Surplus	
Net income	$ 409,910
Change in not admitted assets	(18,209)
Change in net unrealized gains/losses	74,990
Change in surplus as regards policyholders for the year	$ 466,691
Surplus as regards policyholders, December 31, 2016	$ 4,112,561

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	$ 3,750,008	$ 3,754,045	$ 4,037
Unpaid premiums due after November 1		12,845	12,845
Federal income tax recoverable	4,994		(4,994)
Liabilities			
Losses	13,000	28,234	(15,234)
Unpaid adjusting expenses	4,203	2,077	2,126
Unpaid salaries and commissions	47,976	49,903	(1,927)
Taxes payable		2,577	(2,577)
Other unpaid expenses	44,845	6,236	38,609
SEP contribution		36,951	(36,951)
Premiums received in advance	25,556	23,357	2,199
Unearned premium reserve	481,460	487,477	(6,017)
Net change to surplus			$ (7,884)
Surplus per Association			4,120,445
Surplus per examination			$ 4,112,561

During the period under review, surplus funds increased $466,691 from the amount of $3,645,870 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:

Bonds $3,754,045

The asset was increased by $4,037 to adjust for the improper write down of bonds below investment grade.

Unpaid premiums due after November 1 $ 12,845

The asset was increased by $12,845 to reflect the actual amount of premiums received in 2017 for 2016.

Federal income tax recoverable $ 0

This asset was decreased by $4,994 to reflect the income tax refund not received but instead credited to 2017 tax.

Losses $ 28,234

Losses increased by $15,234 to reflect actual loss development.

Unpaid adjusting expenses	$ 2,077

This liability was decreased by $2,126 to reflect actual expenses paid in 2017 for 2016.

Unpaid salaries and commissions	$ 49,903

This liability was increased by $1,927 to reflect the actual commissions paid on premiums receivable.

Taxes payable	$ 2,577

Taxes paid during 2017 but incurred in 2016 were compared to the year-end accrual amount increasing the liability by $2,577.

Other unpaid expenses	$ 6,236

The liability was decreased by $38,609 to reflect the reclassification of SEP contributions and to reflect actual expenses paid in 2017 for 2016.

SEP contribution	$ 36,951

The liability was established to reflect the reclassification of the SEP contributions from other unpaid expenses.

Premiums received in advance	$ 23,357

The liability was decreased by $2,199 to remove liability premiums and service charges previously included in the calculation.

Unearned premium reserve	$ 487,477

A recalculation of unearned premium reserve using examination adjustments increased the liability by $6,017.

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