

EXAMINATION REPORT OF  
SHERRILL MUTUAL FIRE INSURANCE ASSOCIATION  
DUBUQUE COUNTY, SHERRILL, IOWA  
AS OF DECEMBER 31, 2018

Sherrill, Iowa  
November 25, 2019

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

SHERRILL MUTUAL FIRE INSURANCE ASSOCIATION

DUBUQUE COUNTY, SHERRILL, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 4954 Sherrill Road, Sherrill, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2015 to December 31, 2018. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa 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, 2018.

HISTORY

The Association was incorporated in 1885 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 1945.

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 Sherrill, Iowa on the first Monday in March at 8:00 p.m. Special meetings may be called by the President 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. The 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 five 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, 2018 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Marvin Schueller	Sherrill, Iowa	2019
Carl Brehm	Durango, Iowa	2019
Jerry Hammerand	Sherrill, Iowa	2020
Joseph Specht	Sherrill, Iowa	2020
Loras Link	Sherrill, Iowa	2021

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 \$100 for each meeting attended.

Directors also receive a \$50 fee for each claim adjusted.

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

#### OFFICERS

At its annual meeting, the Board of Directors shall elect 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, 2018 were:

<u>Name</u>	<u>Title</u>
Marvin Schueller	President
Carl Brehm	Vice President
Joseph Specht	Treasurer/Secretary/Manager

Remuneration of the 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 during the exam period.

#### 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 the Examination Report as of December 31, 2015 was reviewed and accepted at the February 13, 2017 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
- Commercial general liability
- Business automobile

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

No health, dental, disability or life coverage is provided by the Association.

In 2003 a term life insurance policy was taken out on Joseph Specht with the Association named as beneficiary. The Association made annual premium payments of \$591 for 2016, 2017, and 2018.

Retirement benefit contributions were made to an SEP plan based on five percent of the eligible employee's salary. Contributions were paid by the Association of \$4,826 and \$5,546 for 2017 and 2018, respectively.

#### TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Dubuque, Jackson, Jones, Clayton, and Delaware 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 monthly, quarterly, semi-annually or annually. The Association underwrites these policies every three to five years.

At the present time, business is produced by thirty-three licensed agents.

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2018

<u>Classification</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Premiums earned	\$ 669,368	\$ 720,316	\$ 810,795	\$2,200,479
Incurred deductions:				
Losses	\$ 323,844	\$ 491,389	\$ 437,554	\$1,252,787
Loss adjustment expenses	12,225	13,450	10,880	36,555
Commissions	105,513	163,989	168,530	438,032
Salaries	60,161	71,620	77,382	209,163
Taxes, licenses and fees	19,376	22,860	24,875	67,111
Other underwriting expenses	81,754	\$ 107,566	\$ 115,703	305,023
Total deductions	\$ 602,873	\$ 870,874	\$ 834,924	\$2,308,671
Underwriting gain or (loss)	\$ 66,495	\$(150,558)	\$(24,129)	\$ (108,192)

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

<u>Classification</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Incurred deductions:				
Losses	48.38%	68.22%	53.97%	56.93%
Loss adjustment expenses	1.83	1.87	1.34	1.66
Commissions	15.76	22.77	20.79	19.91
Salaries	8.99	9.94	9.54	9.51
Taxes, licenses and fees	2.89	3.17	3.07	3.05
Other underwriting expenses	12.21	14.93	14.27	13.86
Total deductions	90.06%	120.90%	102.98%	104.92%
Underwriting gain or (loss)	9.94%	(20.90%)	(2.98%)	(4.92%)

## REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2018 with an authorized insurer which provide the following:

### Per Risk Excess of Loss

First \$135,000 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 \$705,000 of ultimate net loss 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 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

Risks in excess of the Association's reinsurance contract limits are ceded on a facultative basis. As of December 31, 2018, there were no risks identified which warranted facultative agreements.

### Reinsurance - General

The Association's reinsurance coverage complies with current statutory standards relative to surplus exposure and reinsurance coverage.

## CLAIMS

Adjustment of claims is primarily handled through the FarMutual Adjusting Program (Mutual Claims Service). Joseph Specht also adjusts claims for the Association. 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 own Home Office building and shares a portion of the space with Specht Insurance Agency.

The agency is 100 percent owned by Joseph L. Specht, who is also the Treasurer/Manager/Secretary of the Association. This agency produced 62 percent of the Association's business during 2018.

A rental agreement was put into place effective January 1, 2017. The agency paid monthly rent of \$100 to the Association. The agency also provides maintenance on the building and grounds, copier and two computers, refrigerator and microwave, and long distance telephone service and internet access.

## 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 not in compliance with the Commissioner's Bulletin 97-6 at December 31, 2018 relative to security custodial requirements. The Association was not able to produce current custodial agreements.

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, 2018, the gross risk in force for the Association was \$372,334,275. The Association's statutory minimum surplus level at December 31, 2018 was \$372,334. It is noted the Association's surplus level to minimum surplus level ratio was 5.85/1. The reported surplus/statutory minimum ratio average for Chapter 518 licensed industry at December 31, 2018 was 7.90/1.

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, 2018 and the assets and liabilities as of this date. Schedules may not add or tied precisely due to rounding.



STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Nonledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$2,484,607	\$	\$ 88,176	\$2,396,431
Stocks	4,773	14,541		19,314
Bank balances:				
Subject to check	83,564			83,564
On interest	334,442			334,442
Real estate	8,577			8,577
Cash in office	374			374
Unpaid premiums:				
Due after November 1		5,958		5,958
Accrued interest		19,901		19,901
Equipment and furniture	3,853		3,853	0
Contingent commissions		12,456		12,456
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$2,920,190	\$ 52,856	\$ 92,029	\$2,881,017

LIABILITIES AND SURPLUS

Losses	\$ 167,222
Unpaid adjusting expenses	1,040
Ceded reinsurance balances payable	26,151
Unpaid salaries and commissions	17,313
Amounts withheld for the account of others	2,557
Taxes payable	5,102
Other unpaid expenses	1,808
Employee benefits payable	141
Premiums collected for other companies - not remitted	7,569
Premiums received in advance	22,887
Unearned premium reserve	451,000
	<hr/>
Total liabilities	\$ 702,790
Surplus as regards policyholders	2,178,227
	<hr/>
Total liabilities and surplus	\$ 2,881,017

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2017			\$ 2,741,824
	<u>INCOME</u>		
Net premiums and fees			830,230
Net interest received on bonds			86,204
Increase (Decrease) by adjustment - bonds			(5,133)
Dividends received			1
Interest received on bank deposits			7,076
Rents received			4,800
Premiums collected for other companies			115,323
Increase in ledger liabilities			709
Miscellaneous income			150
Total income			\$ 1,039,360
Total assets and income			\$ 3,781,184
	<u>DISBURSEMENTS</u>		
Losses paid			\$ 350,887
<u>Operating Expense</u>			
Adjusting expense	\$	12,440	
Commissions		169,839	
Advertising		1,122	
Boards, bureaus and associations		7,022	
Inspection and loss prevention		41,781	
Salaries of officers		26,000	
Expenses of officers		5,041	
Salaries of office employees		48,409	
Employee welfare		5,670	
Insurance		11,703	
Directors' compensation		2,350	
Directors' expenses		40	
Rent and rent items		3,000	
Equipment		14,635	
Printing and stationary and supplies		1,885	
Postage and telephone		5,873	
Legal and auditing		11,065	
State insurance taxes		10,758	
Insurance Division licenses and fees		340	
Payroll taxes		12,764	
Real estate expenses		3,623	
Real estate taxes		690	
Miscellaneous		1,146	
Donations		1,720	
Annual meeting and conventions		570	
Travel and travel items		1,575	
Total operating expense		1,575	\$ 401,061
<u>Non-Operating Expense</u>			
Depreciation on real estate			630
Federal income tax			1,302
Premium collections transmitted to other companies			89,859
Commissions paid agents for other companies			17,255
Total disbursements			\$ 860,994
Balance - ledger assets, December 31, 2018			\$ 2,920,190

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>		\$ 810,795
Premiums earned		
<u>Deductions</u>		
Losses incurred	\$ 437,554	
Loss expenses incurred	10,880	
Other operating expenses incurred	386,490	
Total underwriting deductions	<u>834,924</u>	
Net underwriting gain (loss)		\$ (24,129)
<u>Investment Income</u>		
Net investment income earned		87,936
<u>Other Income</u>		
Premiums collected for other companies (net)		7,679
Miscellaneous income		<u>150</u>
Net income before Federal income tax		\$ 71,636
Federal income tax incurred		<u>2,715</u>
Net income		<u>\$ 68,921</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017		<u>\$ 2,093,456</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 68,921	
Change in not admitted assets	(2,059)	
Change in net unrealized gains/losses	<u>17,909</u>	
Change in surplus as regards policyholders for the year		<u>\$ 84,771</u>
Surplus as regards policyholders, December 31, 2018		<u>\$ 2,178,227</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

<u>Underwriting Income</u>		\$ 2,200,479
Premiums earned		
<u>Deductions</u>		
Losses incurred	\$1,252,787	
Loss expenses incurred	36,555	
Other operating expenses incurred	1,019,329	
Total underwriting deductions	<u>2,308,671</u>	<u>2,308,671</u>
Net underwriting gain (loss)		\$ (108,192)
<u>Investment Income</u>		
Net investment income earned		237,208
<u>Other Income</u>		
Premiums collected for other companies (net)		16,553
Miscellaneous income		<u>(575)</u>
Net income before Federal income tax		\$ 144,994
Federal income tax incurred		<u>9,779</u>
Net income		<u>\$ 135,215</u>
	<u>CAPITAL AND SURPLUS ACCOUNT</u>	
Surplus as regards policyholders, December 31, 2015		<u>\$ 2,133,162</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 135,215
Change in not admitted assets		(3,728)
Change in net unrealized gains/losses		<u>(86,422)</u>
Change in surplus as regards policyholders for the year		<u>\$ 45,065</u>
Surplus as regards policyholders, December 31, 2018		<u>\$ 2,178,227</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>			
Bonds	\$2,354,180	\$2,396,431	\$ 42,251
Unpaid premiums	4,302	5,958	1,656
<u>Liabilities</u>			
Losses	151,640	167,222	(15,582)
Unpaid adjusting expenses	4,900	1,040	3,860
Taxes payable	5,689	5,102	587
Other unpaid expenses	646	1,808	(1,162)
Premiums collected for other companies	6,975	7,569	(594)
Net change to surplus			\$ 31,016
Surplus per Association			<u>\$2,147,211</u>
Surplus per examination			<u>\$2,178,227</u>

During the period under review, surplus funds increased \$45,065 from the amount of \$2,133,162 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 \$2,396,431

This asset was increased by \$42,241 to adjust for the proper valuation of bonds below investment grade.

Unpaid premiums \$ 5,958

This asset was increased by \$1,656 to reflect the actual amount of premiums received in 2019.

Losses \$ 167,222

Losses increased by \$15,582 to reflect actual loss development.

Unpaid adjusting expenses \$ 1,040

This liability was decreased by \$3,860 to reflect the actual amount paid in 2019.

Taxes payable \$ 5,102

This liability was decreased by \$587 to reflect federal income taxes owed at year-end.

Other unpaid expenses \$ 1,808

The liability was increased by \$1,162 to reflect actual expenses paid in 2019 for 2018.

Premiums collected for other companies \$ 7,569

This liability was increased by \$594 to reflect the actual amount paid in 2019.

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 & Company, LLP  
Representing the State of Iowa