

EXAMINATION REPORT OF
DICKINSON COUNTY MUTUAL INSURANCE ASSOCIATION
DICKINSON COUNTY, SPIRIT LAKE, IOWA
AS OF DECEMBER 31, 2019

Spirit Lake, Iowa
December 21, 2020

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

DICKINSON COUNTY MUTUAL INSURANCE ASSOCIATION

DICKINSON COUNTY, SPIRIT LAKE, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 613 Lake Street, Spirit Lake, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2016 to December 31, 2019. The examination was conducted in accordance with procedures established by the Iowa Insurance Division 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, 2019.

HISTORY

The Association was incorporated in 1890 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 1961.

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 Spirit Lake, Iowa on the first Wednesday in April at 1:30 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. Two more members than the number of directors 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 but no more than twelve 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, 2019 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Greg Kaiser	Milford, Iowa	2020
Ryne Paterson	Milford, Iowa	2020
Todd Gonnerman	Milford, Iowa	2020
John Boettcher	Spirit Lake, Iowa	2021
Bruce Keenan	Spirit Lake, Iowa	2021
Todd Hummel	Spirit Lake, Iowa	2022
Duane Dodge	Terril, Iowa	2022
Jim Warburton	Milford, Iowa	2022

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 \$200 for each meeting attended and are reimbursed of travel expense.

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

Committees

The President, Vice President, and Secretary shall constitute an Executive Committee with powers specified by the Bylaws or as the Board of Directors may delegate to it. The committees shall meet on the call of the Secretary. A majority present constitutes a quorum. No meetings of any committees were held during the examination period. Serving on each committee at December 31, 2019 were:

Executive

John Boettcher - President
Todd Hummel - Vice President
Beth Sander - Secretary/Treasurer/Manager

Investment

Bruce Keenan - Director/Chairman
John Boettcher - President
Beth Sander - Secretary/Treasurer/Manager

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, 2019 were:

<u>Name</u>	<u>Office</u>
John Boettcher	President
Todd Hummel	Vice President
Beth Sander	Secretary/Treasurer/Manager
Bruce Keenan	Investment Committee Chairman

Remuneration of officers is shown on 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 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 were silent as to the Examination Report as of December 31, 2016.

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
- Employment practices liability
- Officers' and directors' liability
- Building and contents
- Business and cyber liability
- Commercial umbrella

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

Regular full-time eligible employees are provided life insurance of \$50,000 with premiums paid by the Association. The full-time eligible employees purchase their own individual health insurance policies, and the Association reimburses the employees for the cost of the premium.

Retirement benefit contributions were made by the Association to the SEP plan based on five percent of the full-time eligible employee's salary. Contributions made for the SEP by the Association were \$4,712, \$4,806 and \$4,938 for 2017, 2018 and 2019, respectively.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in the State of Iowa as a county mutual insurance association under the provisions of Chapter 518, Code of Iowa. It is currently authorized to transact business in six counties in the State of Iowa. The permitted writing territory is composed of the following counties: Clay, Dickinson, Emmet, O'Brien, Osceola, and Palo Alto. 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 annually, semi-annually, quarterly, or monthly. Monthly is by electronic transfer only. The Association underwrites policies every year.

At the present time, business is produced by 24 licensed agents.

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

<u>Classification</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Premiums earned	<u>\$1,112,959</u>	<u>\$1,201,626</u>	<u>\$1,264,237</u>	<u>\$3,578,822</u>
Incurred deductions:				
Losses	\$ 703,156	\$1,022,757	\$ 479,109	\$2,205,022
Loss adjustment expenses	72,809	78,488	69,980	221,277
Commissions	219,353	235,013	252,268	706,634
Salaries	118,056	114,779	118,573	351,408
Taxes, licenses and fees	29,252	31,287	32,742	93,281
Other underwriting expenses	<u>154,703</u>	<u>151,659</u>	<u>175,299</u>	<u>481,661</u>
Total deductions	<u>\$1,297,329</u>	<u>\$1,633,983</u>	<u>\$1,127,971</u>	<u>\$4,059,283</u>
Underwriting gain (loss)	<u>\$ (184,370)</u>	<u>\$ (432,357)</u>	<u>\$ 136,266</u>	<u>\$ (480,461)</u>

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

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Total</u>
Incurred deductions:				
Losses	63.18%	85.11%	37.90%	61.61%
Loss adjustment expenses	6.54	6.53	5.54	6.18
Commissions	19.71	19.56	19.95	19.74
Salaries	10.61	9.55	9.38	9.82
Taxes, licenses and fees	2.63	2.60	2.59	2.61
Other underwriting expenses	<u>13.90</u>	<u>12.63</u>	<u>13.86</u>	<u>13.47</u>
Total deductions	<u>116.57%</u>	<u>135.98%</u>	<u>89.22%</u>	<u>113.43%</u>
Underwriting gain (loss)	<u>(16.57%)</u>	<u>(35.98%)</u>	<u>10.78%</u>	<u>(13.43%)</u>

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2019 with an authorized insurer which provide the following:

Per Risk Excess of Loss

The first \$150,000 of ultimate net loss per risk is retained by the Association. First layer reinsurer will pay 100 percent of net loss in excess of retention. The maximum recovery for first layer is \$1,000,000. Second layer has recovery of \$4,000,000 in excess of \$1,000,000 for each risk. Third layer has 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

The first \$500,000 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

The first \$1,000,000 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 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, 2019, no facultative agreements were in place.

Reinsurance - General

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

CLAIMS

From a review of numerous claims, it appeared that the Association made prompt settlements which were in keeping with the terms of the policy contracts.

ACCOUNTS AND RECORDS

Trial balances were prepared for all years of the examination period. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the filed annual statements for 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 and proper endorsements. 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, 2019 relative to security custodial requirements.

It was noted that seven claims were outstanding for more than a year from the report date.

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, 2019, the gross risk in force for the Association was \$523,905,443. The Association's statutory minimum surplus level at December 31, 2019 was \$523,905. It is noted the Association's surplus level to minimum surplus level ratio was 5.3/1. The reported surplus/statutory minimum ratio average for Chapter 518 licensed industry at December 31, 2019 was 8.1/1.

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, 2019 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	\$2,538,330	\$	\$ 51,572	\$2,486,758
Stocks	473,481	253,722		727,203
Bank balances:				
Subject to check	410,052			410,052
On interest	13,504			13,504
Real estate	94,304			94,304
Unpaid premiums:				
Due before November 1		1,799	1,799	
Due after November 1		14,201		14,201
Accrued interest		26,064		26,064
Service fees receivable		22,909		22,909
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	\$3,529,671	\$ 318,695	\$ 53,371	\$3,794,995

LIABILITIES AND SURPLUS

Losses	\$ 138,559
Unpaid adjusting expenses	6,083
Ceded reinsurance balances payable	51,683
Unpaid salaries and commissions	57,195
Amounts withheld for the account of others	2,463
Taxes payable	7,357
Other unpaid expenses	4,559
Premiums collected for other companies - not remitted	11,443
Unearned premium reserve	<u>732,000</u>
Total liabilities	\$1,011,342
Surplus as regards policyholders	<u>2,783,653</u>
Total liabilities and surplus	<u>\$3,794,995</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018 \$3,310,496

INCOME

Net premiums and fees		\$1,278,270
Net interest received on bonds		112,130
Increase (Decrease) by adjustment - bonds		(3,304)
Dividends received		33,884
Interest received on bank deposits		52
Profit on sale of investments		3,121
Rents received		11,100
Premiums collected for other companies		138,426
Total income		<u>\$1,573,679</u>
Total assets and income		<u>\$4,884,175</u>

DISBURSEMENTS

Losses paid \$ 209,258

Operating Expense

Loss adjusting expense	\$ 74,497	
Commissions	230,451	
Advertising	11,395	
Boards, bureaus and associations	8,536	
Inspection and loss prevention	11,582	
Salaries of officers	73,607	
Expenses of officers	2,375	
Salaries of office employees	44,966	
Employee welfare	37,000	
Insurance	11,425	
Directors' compensation	8,201	
Directors' expenses	457	
Rent and rent items	11,100	
Equipment	23,621	
Printing, stationery and supplies	5,761	
Postage and telephone	19,176	
Legal and auditing	12,000	
State insurance taxes	19,540	
Insurance Division licenses and fees	130	
Payroll taxes	12,018	
All other taxes	1,082	
Real estate expenses	11,101	
Real estate taxes	3,896	
Interest on borrowed money	15,262	
Miscellaneous	2	
Donations/contributions	3,218	
Travel and travel items	133	
Total operating expense	<u>652,532</u>	\$ 652,532

Non-Operating Expense

Borrowed money repaid		325,000
Depreciation on real estate		6,377
Loss on sale of investments		198
Federal income tax		31,967
Premium collections transmitted to other companies		110,722
Commission paid agents for other companies		16,611
Decrease in ledger liabilities		1,839
Total disbursements		<u>\$1,354,504</u>

Balance - ledger assets, December 31, 2019	<u>\$3,529,671</u>
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UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$1,264,237
<u>Deductions</u>		
Losses incurred	\$479,109	
Loss expenses incurred	69,980	
Other operating expenses incurred	578,882	
Total underwriting deductions	<u>1,127,971</u>	
Net underwriting gain (loss)		\$ 136,266
<u>Investment Income</u>		
Net investment income earned		461,112
<u>Other Income</u>		
Premiums collected for other companies (net)		11,009
Borrowed money repaid		(325,000)
Miscellaneous income		<u>3,921</u>
Net income before Federal income tax		\$ 287,308
Federal income tax incurred		<u>16,967</u>
Net income		<u>\$ 270,341</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018	<u>\$2,428,529</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 270,341
Change in net unrealized gains/losses	<u>84,783</u>
Change in surplus as regards policyholders for the year	<u>\$ 355,124</u>
Surplus as regards policyholders, December 31, 2019	<u>\$2,783,653</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$3,578,822
<u>Deductions</u>	
Losses incurred	\$2,205,022
Loss expenses incurred	221,277
Other operating expenses incurred	1,632,984
Total underwriting deductions	<u>4,059,283</u>
Net underwriting gain (loss)	\$ (480,461)
<u>Investment Income</u>	
Net investment income earned	506,498
<u>Other Income</u>	
Premiums collected for other companies (net)	31,601
Miscellaneous income	<u>11,275</u>
Net income before Federal income tax	\$ 68,913
Federal income tax incurred	<u>31,967</u>
Net income	<u>\$ 36,946</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016	<u>\$2,789,177</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 36,946
Change in not admitted assets	2,294
Change in net unrealized gains/losses	<u>(44,764)</u>
Change in surplus as regards policyholders for the year	<u>\$ (5,524)</u>
Surplus as regards policyholders, December 31, 2019	<u>\$2,783,653</u>

SURPLUS AS REGARDS POLICYHOLDERS

The changes which resulted in the net decrease 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	\$ 2,488,691	\$ 2,486,758	\$ (1,933)
<u>Liabilities</u>			
Losses	66,050	138,559	(72,509)
Unpaid adjusting expense	7,700	6,083	1,617
Unpaid salaries and commissions	60,269	57,195	<u>3,074</u>
Net change to surplus			\$ (69,751)
Surplus per Association			<u>\$2,853,404</u>
Surplus per examination			<u>\$2,783,653</u>

During the period under review, surplus funds decreased \$5,524 from the amount of \$2,789,177 as shown in the last examination report. An operating statement reflecting that decrease is contained in the financial section.

COMMENTS

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

Bonds \$2,486,758

This asset was decreased by \$1,933 due to the recalculation of amortization.

Losses \$ 138,559

Losses increased by \$72,509 to reflect actual loss development.

Unpaid adjusting expense \$ 6,083

This liability was decreased by \$1,617 to reflect the actual amount paid in 2020.

Unpaid salaries and commissions \$ 57,195

This liability was decreased by \$3,074 to reflect the actual employee bonus paid in 2020, but incurred 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 & Co., LLP
Representing the State of Iowa