

EXAMINATION REPORT OF  
WHEATLAND MUTUAL INSURANCE ASSOCIATION  
CLINTON COUNTY, WHEATLAND, IOWA  
AS OF DECEMBER 31, 2019

Wheatland, Iowa  
April 27, 2021

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

WHEATLAND MUTUAL INSURANCE ASSOCIATION

CLINTON COUNTY, WHEATLAND, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 109 North Main, Wheatland, 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. 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 1873 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 1963.

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 Wheatland, Iowa on the Monday after the first 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. Fifteen 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 eight nor 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>
Bruce Petersen	Lost Nation, Iowa	2020
Tom Trentz	Maquoketa, Iowa	2021
Roger Dunn	Wheatland, Iowa	2021
Robert Cottrell	Wheatland, Iowa	2021
Gary Berner	Lost Nation, Iowa	2022
George Kastantin	Wheatland, Iowa	2022
Todd Westphal	Maquoketa, Iowa	2022
Michael Wiese	Wheatland, Iowa	2022
Dana Zeller	Lost Nation, Iowa	2022
Luke Berner	Lost Nation, Iowa	2022

Also in attendance and receiving meeting fees were:

Rebecca Benischek, Office  
Cristal Kastantin, Office

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

Directors receive a fee of \$45 for each meeting attended.

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

#### COMMITTEES

Committees designated for 2019 were:

Auditing: Robert Cottrell, Luke Berner, Roger Dunn, and Todd Westphal  
(backup)

Executive: Dana Zeller, Bruce Petersen, David Stevens, and Michael Wiese  
(backup)

Building: George Kastantin, Patrick Hanrahan, and Luke Berner

#### 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>
Michael Wiese	President
Dana Zeller	Vice President
Cristal Kastantin	Secretary
Robert Cottrell	Treasurer

Salaries and remuneration of officers 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. 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 reflected that the Examination Report as of December 31, 2016 was reviewed and accepted at the February 15, 2018 board meeting.

### FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a fidelity/dishonesty 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.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Building and contents
- General liability
- Insurance agents and brokers liability

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

The Association, upon Board of Directors approval, makes a yearly contribution to the Secretary's retirement. The contributions were \$1,600 in 2017, \$1,600 in 2018 and \$0 in 2019.

### 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 provision of Chapter 518, Code of Iowa. It is currently authorized to transact business in five counties in the State of Iowa. The permitted writing territory is composed of the following counties: Cedar, Clinton, Jackson, Jones, and Scott. 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 monthly, quarterly, semi-annually or annually. The Association underwrites these policies every three years.

At the present time, business is produced by seven 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	\$ 360,606	\$ 409,583	\$ 391,261	\$1,161,450
Incurred deductions:				
Losses	185,296	114,304	174,467	474,067
Loss adjustment expenses	9,369	74	4,925	14,368
Commissions	95,758	97,976	102,104	295,838
Salaries	76,461	83,226	60,704	220,391
Taxes, licenses and fees	13,430	13,935	11,110	38,475
Other underwriting expenses	82,603	62,925	82,521	228,049
Total deductions	\$ 462,917	\$ 372,440	\$ 435,831	\$1,271,188
Underwriting gain (loss)	\$ (102,311)	\$ 37,143	\$ (44,570)	\$ (109,738)

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	51.38%	27.91%	44.59%	40.82%
Loss adjustment expenses	2.60	0.02	1.26	1.24
Commissions	26.55	23.92	26.10	25.47
Salaries	21.20	20.32	15.51	18.98
Taxes, licenses and fees	3.72	3.40	2.84	3.31
Other underwriting expenses	22.92	15.36	21.09	19.63
Total deductions	128.37%	90.93%	111.39%	109.45%
Underwriting gain (loss)	(28.37%)	9.07%	(11.39%)	(9.45%)

## 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

First \$100,000 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 \$200,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by Association. 100% of ultimate net loss in excess of retention is covered by the reinsurer. Reinsurance coverage 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

While facultative reinsurance was available, no risks were identified which would warrant a facultative agreement.

### 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

Effective May 12, 2010, the Association contributed \$10,000 capital stock to establish Wheatland Insurance Agency for the purpose of producing auto insurance coverage only. Articles of Incorporation were approved and eight directors, all but one currently serving as directors of the Association, were elected. Wheatland Insurance Agency began operations in June 2016 and shares a portion of the Home Office building with the Association. The Association owns 100% of the home office building. At present, the agency does not have a formal expense allocation with the Association. In 2019, the agency purchased some advertising and office supplies that benefitted both the agency and Association. The agency paid back the \$10,000 initial capital stock contribution in December 2013.

The Agency is managed by Cristal Kastantin, who is also the Secretary/Manager of the Association. This Agency did not produce any of the Associations business in 2019.

## ACCOUNTS AND RECORDS

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, 2019 relative to security custodial requirements.

Cristal Kastantin took over as Secretary in March of 2019.

The Association was unable to produce bond ratings or a monthly custodial statement from their custodian. The Association only received an annual custodial statement. Therefore, proper cut off of investment transactions could not be verified.

Greater care should be taken to ensure proper reporting of CUSIPs, interest rates and maturity dates on investments.

The Association does not maintain a general ledger. Accounts are entered in and controlled through income and disbursement registers which were found to be reconcilable to the office copies of the filed annual statements for the years under review.

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 \$159,800,632. The Association's statutory minimum surplus level at December 31, 2019 was \$159,801. It is noted the Association's surplus level to minimum surplus level ratio was 5.1/1. 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	\$ 367,975	\$	\$	\$ 367,975
Stocks	11,500	17,877		29,377
Bank balances:				
Subject to check	79,661	1,223		80,884
On interest	574,741			574,741
Real estate	66,353			66,353
Unpaid premiums:				
Due after November 1		157		157
Reinsurance receivable		19,608		19,608
Accrued interest		6,035		6,035
Equipment and furniture	212		212	
EDP equipment	4,635		4,635	
Advertising reimbursement	1,542			1,542
	<u>\$1,106,619</u>	<u>\$ 44,900</u>	<u>\$ 4,847</u>	<u>\$1,146,672</u>
Total				

LIABILITIES AND SURPLUS

Unpaid adjusting expenses	\$ 313
Ceded reinsurance balances payable	24,197
Unpaid salaries and commissions	14,408
Taxes payable	8,294
Other unpaid expenses	3,930
Employee benefits payable	1,023
Premiums collected for other companies - not remitted	4,695
Premiums received in advance	758
Unearned premium reserve	268,000
Total liabilities	\$ 325,618
Surplus as regards policyholders	821,054
Total liabilities and surplus	\$1,146,672

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018 \$1,139,887

INCOME

Net premiums and fees		\$ 394,814
Net interest received on bonds		11,265
Increase (Decrease) by adjustment - bonds		(901)
Dividends received		803
Interest received on bank deposits		10,916
Rents received		10,525
Premiums collected for other companies		72,389
Miscellaneous income		413
Total income		<u>\$ 500,224</u>
Total assets and income		<u>\$1,640,111</u>

DISBURSEMENTS

Losses paid		\$ 202,575
<u>Operating Expense</u>		
Adjusting expense	\$ 4,812	
Commissions	98,330	
Advertising	4,318	
Boards, bureaus and associations	3,874	
Inspection and loss prevention	8,469	
Salaries of officers	41,267	
Expenses of officers	161	
Salaries of office employees	19,437	
Insurance	13,993	
Directors' compensation	4,790	
Directors' expenses	1,535	
Rent and rent items	9,000	
Equipment	10,553	
Printing, stationery and supplies	5,596	
Postage and telephone	5,695	
Legal and auditing	10,500	
State insurance taxes	404	
Insurance Division licenses and fees	100	
Payroll taxes	5,049	
Real estate expenses	7,795	
Real estate taxes	1,738	
Miscellaneous	1,089	
Annual and agent meeting expense	1,054	
Donations/contributions	200	
Travel and travel items	439	
Total operating expense	<u>439</u>	\$ 260,198
<u>Non-Operating Expense</u>		
Depreciation on real estate		2,525
Premium collections transmitted to other companies		57,646
Commission paid agents for other companies		10,548
Total disbursements		<u>\$ 533,492</u>
Balance - ledger assets, December 31, 2019		<u>\$1,106,619</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 391,261
<u>Deductions</u>		
Losses incurred	\$ 174,467	
Loss expenses incurred	4,925	
Other operating expenses incurred	256,439	
Total underwriting deductions		<u>435,831</u>
Net underwriting gain (loss)		\$ (44,570)
<u>Investment Income</u>		
Net investment income earned		20,453
<u>Other Income</u>		
Premiums collected for other companies (net)		3,156
Miscellaneous income		<u>1,636</u>
Net loss before Federal income tax		\$ (19,325)
Federal income tax incurred		<u>0</u>
Net loss		<u>\$ (19,325)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018		<u>\$ 840,593</u>
<u>Gains and (Losses) in Surplus</u>		
Net loss		\$ (19,325)
Change in not admitted assets		(4,212)
Change in net unrealized gains/losses		<u>3,998</u>
Change in surplus as regards policyholders for the year		<u>\$ (19,539)</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 821,054</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 1,161,450
<u>Deductions</u>		
Losses incurred	\$ 474,067	
Loss expenses incurred	14,368	
Other operating expenses incurred	782,753	
Total underwriting deductions		<u>1,271,188</u>
Net underwriting gain (loss)		\$ (109,738)
<u>Investment Income</u>		
Net investment income earned		91,918
<u>Other Income</u>		
Premiums collected for other companies (net)		21,252
Miscellaneous income		<u>1,964</u>
Net income before Federal income tax		\$ 5,396
Federal income tax incurred		<u>0</u>
Net income		<u>\$ 5,396</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$ 827,486</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 5,396	
Change in not admitted assets		(2,571)
Change in net unrealized gains/losses		<u>(9,257)</u>
Change in surplus as regards policyholders for the year		<u>\$ (6,432)</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 821,054</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>			
Bank balances subject to check	\$ 79,661	\$ 80,884	\$ 1,223
<u>Liabilities</u>			
Unpaid adjusting expenses	1,100	313	787
Unpaid salaries and commissions	10,364	14,408	(4,044)
Amounts withheld for the account of others	1,942	0	1,942
Taxes payable	9,908	8,294	1,614
Other unpaid expenses	419	3,930	(3,511)
Net change to surplus			\$ (1,989)
Surplus per Association			<u>\$ 823,043</u>
Surplus per examination			<u>\$ 821,054</u>

During the period under review, surplus funds decreased \$6,432 from the amount of \$827,486 as shown in the last previous examination report. An operating statement reflecting that decrease is contained in the financial section.

COMMENTS

Bank balances subject to check \$ 80,884

This asset was increased by \$1,223 to reflect the proper valuation of the cash account.

Unpaid adjusting expenses \$ 313

An analysis of paid adjusting expenses to paid losses decreased the liability \$787.

Unpaid salaries and commissions \$ 14,408

This liability was increased by \$4,044 to reflect the actual amount of commissions paid in 2020, but incurred in 2019.

Amounts withheld for the account of others \$ 0

This liability was decreased by \$1,942 to reflect the actual amount of payroll taxes paid in 2020 for 2019.

Taxes payable \$ 8,294

This liability decreased by \$1,614 to reflect the recalculation of real estate taxes and payroll taxes payable.

Other unpaid expenses \$ 3,930

This liability was increased by \$3,511 to reflect actual expenses paid in 2020 for 2019.

CONCLUSION

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

Respectfully submitted,

/s/ Abby De Zeeuw

ABBY DE ZEEUW, CPA

Cain Ellsworth & Co., LLP

Representing the State of Iowa