

EXAMINATION REPORT OF  
FARMERS MUTUAL FIRE INSURANCE ASSOCIATION OF GUTHRIE COUNTY  
GUTHRIE COUNTY, STUART, IOWA  
AS OF DECEMBER 31, 2017

HONORABLE DOUG OMMEN  
Commissioner of Insurance  
State of Iowa  
Des Moines, Iowa

Stuart, Iowa  
October 23, 2018

Commissioner Ommen:

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

FARMERS MUTUAL FIRE INSURANCE ASSOCIATION OF GUTHRIE COUNTY

GUTHRIE COUNTY, STUART, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 116 North Division, Stuart, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Farmers Mutual Fire Insurance Association of Guthrie County, hereinafter referred to as the "Association", was last examined as of December 31, 2013. The examination reported herein was conducted by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This examination covers the intervening period from January 1, 2014 to December 31, 2017. The examination was conducted in accordance with procedures established by the Iowa Insurance Division as recommended by the Financial Condition (E) Committee of the National Association of Insurance Commissioners, and other generally accepted insurance examination standards. A general review and survey was made of the Association's operations and business transactions conducted during the stated period. Accounting methods, internal control procedures, records and other supporting evidences were examined or tested by appropriate methods to the extent deemed adequate. 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, 2017.

HISTORY

The Association was incorporated in 1882 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 1956.

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 Stuart, Iowa on the second Thursday in March at 1:00 p.m. Special meetings may be called by the Board of Directors or upon written request by the members as provided in the Articles of Incorporation. Due notice of the time and place of special meetings shall be given to 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 seven 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; but in no event shall the Board of Directors at any time consist of less than five members.

Directors serving at December 31, 2017 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Mark Earhart	Stuart, Iowa	2018
Dennis Menefee	Guthrie Center, Iowa	2018
Roy L. Pittman	Yale, Iowa	2019
David Don Carlos	Greenfield, Iowa	2020
Scott McClellan	Bayard, Iowa	2020
Forrest Schnobrich	Casey, Iowa	2020

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 \$250 for each meeting attended and reimbursement of travel expense at 56.5 cents per mile. Salaries and remunerations of directors are shown in 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, Secretary and Treasurer, and such additional officers as it deems necessary. The secretary of the Association may also serve as Treasurer if the Board of Directors so designates. In its discretion, it may leave unfilled for any such period as it may fix by resolution, any office except that of President, Treasurer, and Secretary.

Officers serving at December 31, 2017 were:

<u>Name</u>	<u>Office</u>
David Don Carlos	President
Dennis Menefee	Vice President
Alan Mahaffey	Secretary-Treasurer

Salaries and remunerations of 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. One Director did not disclose that they were an agent for 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 November 13, 2014 Board of Directors meeting reflected the presentation of the Examination Report as of December 31, 2013. The Examination Report was accepted as written.

#### FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$120,000 for any one loss occurrence. The bond is written for an annual period and the indemnity is non-cumulative.

Policies for other coverage are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Employment practices liability
- Officers' and directors' liability
- Building and contents
- General liability
- Equipment breakdown
- Business auto

Adequate insurance is placed with authorized insurers except the following liability coverages: professional, officers' and directors' and employment practices, which is written by a surplus lines insurer permitted to write in Iowa.

#### EMPLOYEES' WELFARE

Full-time eligible employees are provided health, life, disability, vision, and dental insurance with premiums paid by the Association. Employees pay any premiums for dependents or spouses.

The Association has a Simplified Employee Pension (SEP) plan based on full-time and part-time employee's salary. Contributions of \$0, \$33,893, \$29,463 and \$18,963 were paid by the Association for 2014, 2015, 2016 and 2017, respectively. Contribution as a percentage of pay was 0 percent for 2014, 25 percent for 2015 and 2016, and 15 percent for 2017.

#### TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Guthrie County and contiguous 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 monthly, quarterly, semi-annually or annually. Quarterly and monthly billings were offered starting in 2017. The Association underwrites these policies every three years.

Adjusting is done by Grinnell Mutual Reinsurance Company and the Secretary/Treasurer. The Association pays a flat rate of \$12,500 for 50 claims adjusted. Two directors act as agents and write fifty-seven percent of the Association's business. As of the Examination report date, business is produced by thirty-seven licensed agents.

UNDERWRITING EXPERIENCE

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2017

<u>Classification</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Premiums earned	\$ <u>601,138</u>	\$ <u>603,486</u>	\$ <u>633,955</u>	\$ <u>718,452</u>	\$ <u>2,557,031</u>
<u>Incurred deductions:</u>					
Losses	\$ 373,741	\$ 143,945	\$ 55,294	\$ 258,817	\$ 831,797
Loss adjustment expense	15,519	17,188	18,041	19,188	69,936
Commissions	102,503	116,840	116,874	121,935	458,152
Salaries	169,114	133,813	116,000	124,420	543,347
Taxes, licenses and Fees	27,979	19,931	17,199	16,325	81,434
Other underwriting expenses	<u>124,283</u>	<u>144,355</u>	<u>129,849</u>	<u>145,453</u>	<u>543,940</u>
Total deductions	\$ <u>813,139</u>	\$ <u>576,072</u>	\$ <u>453,257</u>	\$ <u>686,138</u>	\$ <u>2,528,606</u>
Underwriting gain or (loss)	\$ <u>(212,001)</u>	\$ <u>27,414</u>	\$ <u>180,698</u>	\$ <u>32,314</u>	\$ <u>28,425</u>

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
<u>Incurred deductions:</u>					
Losses	62.17%	23.85%	8.72%	36.02%	32.53%
Loss adjustment expense	2.58	2.85	2.85	2.67	2.74
Commissions	17.05	19.36	18.44	16.97	17.92
Salaries	28.13	22.17	18.30	17.32	21.25
Taxes, licenses and fees	4.67	3.31	2.71	2.27	3.18
Other underwriting expenses	<u>20.67</u>	<u>23.92</u>	<u>20.48</u>	<u>20.25</u>	<u>21.27</u>
Total deductions	<u>135.27%</u>	<u>95.46%</u>	<u>71.50%</u>	<u>95.50%</u>	<u>98.89%</u>
Underwriting gain or (loss)	<u>(35.27)%</u>	<u>4.54%</u>	<u>28.50%</u>	<u>4.50%</u>	<u>1.11%</u>

## REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2017 with an authorized insurer which provide the following:

### Property Per Risk Excess of Loss

First \$125,000 of ultimate net loss per risk is retained by the Association. First layer is 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 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.

### Property Aggregate Excess of Loss

First \$423,500 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. This reinsurance 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.

### Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

## CLAIMS

From a review of 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.

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, 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, 2017 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, 2017, the gross risk in force for the Association was \$143,301,517. The Association's statutory minimum surplus level as December 31, 2017 was \$143,302. It is noted the Association's surplus level to minimum surplus level ratio was 18.0/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2017 was 8.4/1.

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, 2017 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	\$ 971,738	\$	\$	\$ 971,738
Stocks	414,526	479,190		893,716
Bank balances:				
Subject to check	430,554			430,554
On interest	719,150			719,150
Real estate	17,100			17,100
Cash in office	100			100
Unpaid premiums:				
Due after November 1		1,833		1,833
Accrued interest		12,419		12,419
Equipment and furniture	575		575	
Automobile	18,664		18,664	
Federal income tax recoverable	_____	25,031	_____	25,031
Total	<u>\$2,572,407</u>	<u>\$ 518,473</u>	<u>\$ 19,239</u>	<u>\$3,071,641</u>

LIABILITIES AND SURPLUS

Unpaid losses	\$ 133,014
Unpaid adjusting expenses	6,220
Ceded reinsurance balances payable	12,111
Unpaid salaries and commissions	8,103
Amounts withheld for others	10,812
Taxes payable	2,521
Other unpaid expenses	2,500
Premiums collected for other companies - not remitted	1,950
Premiums received in advance	10,228
Unearned premium reserve	<u>326,065</u>
Total liabilities	\$ 513,524
Surplus as regards policyholders	<u>\$2,558,117</u>
Total liabilities and surplus	<u>\$3,071,641</u>



INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016		\$2,373,692
	<u>INCOME</u>	
Net premiums and fees		\$ 671,894
Net interest received on bonds		38,818
Increase (Decrease) by adjustment - bonds		(545)
Dividends received		20,455
Interest received on bank deposits		10,532
Other interest		1,474
Profit on sale of investments		9,632
Rents received		3,000
Premiums collected for other companies		75,019
Underwriting expense reimbursement		5,387
Service charge and policy fees		11,166
Total income		<u>\$ 846,832</u>
Total assets and income		<u>\$3,220,524</u>
	<u>DISBURSEMENTS</u>	
Net losses paid		\$ 130,803
<u>Operating Expense</u>		
Loss adjustment expenses	\$ 12,968	
Commissions	123,792	
Advertising	7,731	
Boards, bureaus and associations	5,099	
Inspection and loss prevention	716	
Salaries and expenses of officers	57,229	
Salaries of office employees	73,070	
Employee welfare	35,071	
Insurance	11,411	
Directors' compensation & expenses	11,339	
Rent and rent items	3,000	
Equipment	18,053	
Printing, stationery and supplies	1,528	
Postage, telephone	5,696	
Legal and auditing	14,500	
State insurance taxes	8,024	
Insurance Division licenses and fees	320	
Payroll taxes	9,754	
Real estate expenses & taxes	8,095	
Miscellaneous	9,473	
Travel	8,617	
Total operating expense		425,486
<u>Non-Operating Expense</u>		
Depreciation on real estate		442
Loss on sale of investment		812
Federal income tax		8,000
Premium collections transmitted to other companies		80,659
Decrease in ledger liabilities		1,915
Total disbursements		<u>\$ 648,117</u>
Balance - ledger assets, December 31, 2017		<u>\$2,572,407</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
ONE YEAR PERIOD ENDED DECEMBER 31, 2017  
STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 718,452
<u>Deductions</u>		
Losses incurred	\$258,817	
Loss expenses incurred	19,188	
Other operating expenses incurred	<u>408,133</u>	
Total underwriting deductions		<u>686,138</u>
Net underwriting gain (loss)		\$ 32,314
<u>Investment Income</u>		
Net investment income earned		72,348
<u>Other Income</u>		
Premiums collected for other companies		<u>(4)</u>
Net income before Federal income tax		\$ 104,658
Federal income tax incurred		<u>(17,031)</u>
Net income		<u>\$ 121,689</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$2,341,456</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 121,689
Change in not admitted assets		6,632
Unrealized capital change		<u>88,340</u>
Change in surplus as regards policyholders for the year		<u>\$ 216,661</u>
Surplus as regards policyholders, December 31, 2017		<u>\$2,558,117</u>

UNDERWRITING AND INVESTMENT EXHIBIT  
FOUR-YEAR PERIOD ENDED DECEMBER 31, 2017  
STATEMENT OF INCOME

Underwriting Income

Premiums earned \$2,557,031

Deductions

Losses incurred \$ 831,797

Loss expenses incurred 69,936

Other operating expenses incurred 1,626,873

Total underwriting deductions 2,528,606

Net underwriting gain (loss) \$ 28,425

Investment Income

Net investment income earned 280,500

Other Income

Premiums collected for other companies 12

Miscellaneous 3,217

Net income before Federal income tax \$ 312,154

Federal income tax incurred 15,277

Net income \$ 296,877

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013 \$2,069,543

Gains and (Losses) in Surplus

Net income \$ 296,877

Change in not admitted assets 885

Unrealized capital change 190,812

Change in surplus as regards policyholders for the period \$ 488,574

Surplus as regards policyholders, December 31, 2017 \$2,558,117

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>			
Unpaid premiums - due after Nov. 1		1,833	1,833
Accrued interest	14,583	12,419	(2,164)
Federal income tax recoverable		25,031	25,031
<u>Liabilities</u>			
Net unpaid claims	105,000	133,014	(28,014)
Unpaid adjusting expenses	1,042	6,220	(5,178)
Unpaid salaries and commissions	7,829	8,103	(274)
Amounts withheld for the account of			
Others		10,812	(10,812)
Taxes payable	5,433	2,521	<u>2,912</u>
Net change in surplus			(16,666)
Surplus per Association			<u>\$2,574,783</u>
Surplus per examination			<u>\$2,558,117</u>

During the period under review, surplus funds increased \$488,574 from the amount of \$2,069,543 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 - due after Nov. 1 \$ 1,833

This asset increased \$1,833 to report the premiums due from policyholders as of December 31, 2017.

Accrued interest \$ 12,419

This asset was decreased by \$2,164 to account for the actual amount of bond interest accrued.

Federal income tax recoverable \$ 25,031

This asset was increased by \$25,031 to account for the federal income tax refund received in 2018.

Net unpaid claims \$ 133,014

This liability was increased by \$28,014 due to actual loss development of losses incurred prior to 2018.

Unpaid adjusting expenses \$ 6,220

An analysis of paid adjusting expenses to paid losses applied to the unpaid claim reserve resulted in an increase of \$5,178 in this liability.

Amounts withheld for the account of others \$ 10,812

This liability was increased \$10,812 to account for taxes that were withheld to be paid to state or federal government.

Taxes payable \$ 2,521

This liability was decreased \$2,912 primarily due to other taxes being reclassified to Amounts withheld for the account of others.

CONCLUSION

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

Respectfully submitted,

/s/ Jerry P. Cihota  
JERRY P. CIHOTA, CFE, CPA  
Insurance Company Examiner Specialist  
Insurance Division  
State of Iowa