

EXAMINATION REPORT OF
CASTLE GROVE MUTUAL INSURANCE ASSOCIATION
JONES COUNTY, MONTICELLO, IOWA
AS OF DECEMBER 31, 2019

Monticello, 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

CASTLE GROVE MUTUAL INSURANCE ASSOCIATION

JONES COUNTY, MONTICELLO, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 101 East Tenth Street, Monticello, 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 1908 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 1948.

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 Monticello, Iowa on the last Thursday in February of each year at 1:00 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. One more member than the number of directors authorized by the Articles of Incorporation or Bylaws 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 nor more than fifteen 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>
Trint Adams	Monticello, Iowa	2020
Leo Delay	Monticello, Iowa	2021
Matt Hein	Monticello, Iowa	2021
Robert Kehoe	Coggon, Iowa	2021
Bill Hunt	Hopkinton, 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 \$80 for each Board meeting attended. Directors also receive a \$25 fee for each Board meeting attended for the Castle Grove Insurance Agency, Inc.

Remuneration 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, 2019 were:

<u>Name</u>	<u>Office</u>
Trint Adams	President
Matt Hein	Vice President
Duff Coleman	Secretary/Treasurer

Remuneration of officers are reflected on Exhibit A following this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees.

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 read and accepted at the January 9, 2018 Board meeting.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$250,000 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
- Directors' and officers' liability
- General liability
- Commercial liability umbrella
- Business automobile

It appears adequate insurance is placed with authorized insurers except professional liability and directors' and officers' liability which is written by a surplus lines insurer permitted to write in Iowa.

EMPLOYEES' WELFARE

Full-time eligible employees are provided health, dental and vision insurance with premiums paid by the Association.

A SIMPLE IRA retirement pension plan was also provided to eligible employees whereby the Association will contribute to the selected employee plan equal to the employee's monthly contribution up to three percent of the employee's salary. Contributions were paid by the Association to the employee selected plan for 2017, 2018 and 2019 of \$2,503, \$3,255 and \$3,352 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 provision of Chapter 518, Code of Iowa. It is currently authorized to transact business in seven counties in the State of Iowa. The permitted writing territory is composed of the following counties: Cedar, Clinton, Delaware, Dubuque, Jackson, Jones, and Linn 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 reviews these policies every three years.

At the present time, business is produced by eighteen 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	\$ 735,017	\$ 752,393	\$ 806,089	\$2,293,499
Incurred deductions:				
Losses	\$ 277,845	\$ 491,740	\$ 258,780	\$1,028,365
Loss adjustment expenses	17,130	30,327	10,899	58,356
Commissions	159,672	154,702	160,820	475,194
Salaries	74,700	77,748	80,028	232,476
Taxes, licenses and fees	23,293	24,447	24,449	72,189
Other underwriting expenses	86,699	115,888	120,843	323,430
Total deductions	\$ 639,339	\$ 894,852	\$ 655,819	\$2,190,010
Underwriting gain (loss)	\$ 95,678	\$ (142,459)	\$ 150,270	\$ 103,489

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	37.80%	65.36%	32.10%	44.84%
Loss adjustment expenses	2.33	4.03	1.35	2.54
Commissions	21.72	20.56	19.95	20.72
Salaries	10.16	10.33	9.93	10.14
Taxes, licenses and fees	3.17	3.25	3.03	3.15
Other underwriting expenses	11.80	15.40	15.00	14.10
Total deductions	86.98%	118.93%	81.36%	95.49%
Underwriting gain (loss)	13.02%	(18.93%)	18.64%	4.51%

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 \$200,000 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

The first \$700,000 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 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 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 Coleman Insurance Agency, Inc, (CIA) and Castle Grove Insurance Agency, Inc., (CGIA). CIA is 100 percent owned by Duff Coleman who is also the Secretary/Treasurer of the Association. CIA produced approximately 11 percent of the Association's business during 2019. Commissions paid during 2019 to CIA by the Association totaled \$15,405. CIA pays the Association \$200 rent and \$25 toward telephone expense per month. CIA pays for its own office supplies and other expenses.

The Association formed and incorporated its own insurance agency, CGIA, as a wholly owned subsidiary with a contribution of \$25,000 in exchange for 25 shares of common stock with a par value of \$1,000 per share. The officers and Board of Directors of the Association hold the same position with CGIA. CGIA produced 14 percent of the Association's business during 2019. Commissions paid during 2019 to the subsidiary agency, CGIA, by the Association totaled \$21,005.

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 in compliance with the Commissioner's Bulletin 97-6 at December 31, 2019 relative to security 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, 2019, the gross risk in force for the Association was \$317,999,846. The Association's statutory minimum surplus level as of December 31, 2019 was \$318,000. It is noted the Association's surplus level to minimum surplus level ratio was 6.5/1. The reported surplus/statutory minimum ratio average for the 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	\$1,492,162	\$	\$	\$1,492,162
Stocks	778,332	224,049		1,002,381
Bank balances:				
Subject to check	148,669			148,669
On interest	9,862			9,862
Real estate	38,184			38,184
Cash in office	25			25
Unpaid premiums:				
Due after November 1		2,919		2,919
Reinsurance receivable		32,047		32,047
Accrued interest		9,680		9,680
Equipment and furniture	1,857		1,857	
Service fees receivable		9,551		9,551
	\$2,469,091	\$ 278,246	\$ 1,857	\$2,745,480
Total				

LIABILITIES AND SURPLUS

Losses		\$ 76,839
Unpaid adjusting expenses		1,146
Ceded reinsurance balances payable		39,803
Unpaid salaries and commissions		15,319
Taxes payable		1,762
Other unpaid expenses		2,664
Employee benefits payable		9,112
Premiums collected for other companies - not remitted		5,377
Premiums received in advance		28,395
Unearned premium reserve		500,000
Total liabilities		\$ 680,417
Surplus as regards policyholders		2,065,063
Total liabilities and surplus		\$2,745,480

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018		\$ 2,485,393
	<u>INCOME</u>	
Net premiums and fees		\$ 808,427
Net interest received on bonds		57,603
Increase (Decrease) by adjustment - bonds		(4,367)
Dividends received		8,580
Interest received on bank deposits		1
Profit on sale of investments		26,972
Rents received		6,000
Premiums collected for other companies		82,216
Increase in ledger liabilities		1,465
Total income		<u>\$ 986,897</u>
Total assets and income		<u>\$ 3,472,290</u>
	<u>DISBURSEMENTS</u>	
Losses paid		\$ 492,901
<u>Operating Expense</u>		
Adjusting expense	\$ 21,353	
Commissions	158,855	
Advertising	3,438	
Boards, bureaus and associations	7,764	
Inspection and loss prevention	27,112	
Salaries of officers	48,300	
Salaries of office employees	31,728	
Employee welfare	14,422	
Insurance	13,057	
Directors' compensation	2,640	
Directors' expenses	848	
Rent and rent items	3,600	
Equipment	8,763	
Printing, stationery and supplies	3,585	
Postage and telephone	5,832	
Legal and auditing	9,500	
State insurance taxes	12,342	
Insurance Division licenses and fees	210	
Payroll taxes	12,123	
All other taxes	848	
Real estate expenses	8,415	
Real estate taxes	2,836	
Miscellaneous	10,230	
Annual meeting expense	1,129	
Donations/contributions	980	
Travel and travel items	348	
Over and short	4	
Total operating expense	<u>410,262</u>	\$ 410,262
<u>Non-Operating Expense</u>		
Depreciation on real estate		3,363
Loss on sale of investments		689
Federal income tax		18,052
Premium collections transmitted to other companies		65,772
Commission paid agents for other companies		12,160
Total disbursements		<u>\$ 1,003,199</u>
Balance - ledger assets, December 31, 2019		<u>\$ 2,469,091</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 806,089
<u>Deductions</u>		
Losses incurred	\$ 258,780	
Loss expenses incurred	10,899	
Other operating expenses incurred	386,140	
Total underwriting deductions		<u>655,819</u>
Net underwriting gain (loss)		\$ 150,270
<u>Investment Income</u>		
Net investment income earned		78,915
<u>Other Income</u>		
Premiums collected for other companies (net)		<u>4,193</u>
Net income before Federal income tax		\$ 233,378
Federal income tax incurred		<u>11,052</u>
Net income		<u>\$ 222,326</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018		<u>\$ 1,769,632</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 222,326	
Change in not admitted assets	1,237	
Change in net unrealized gains/losses	71,868	
Change in surplus as regards policyholders for the year		<u>\$ 295,431</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 2,065,063</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 2,293,499
<u>Deductions</u>		
Losses incurred	\$ 1,028,365	
Loss expenses incurred	58,356	
Other operating expenses incurred	1,103,289	
Total underwriting deductions	<u>2,190,010</u>	<u>2,190,010</u>
Net underwriting gain (loss)		\$ 103,489
<u>Investment Income</u>		
Net investment income earned		256,291
<u>Other Income</u>		
Premiums collected for other companies (net)		<u>7,943</u>
Net income before Federal income tax		\$ 367,723
Federal income tax incurred		<u>25,986</u>
Net income		<u>\$ 341,737</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$ 1,620,344</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 341,737	
Change in not admitted assets	4,927	
Change in net unrealized gains/losses	98,055	
Change in surplus as regards policyholders for the three-year period		<u>\$ 444,719</u>
Surplus as regards policyholders, December 31, 2019		<u>\$ 2,065,063</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>			
Unpaid premiums	\$ 1,078	\$ 2,919	\$ 1,841
<u>Liabilities</u>			
Losses	89,160	76,839	12,321
Unpaid adjusting expenses	4,200	1,146	3,054
Taxes payable	3,180	1,762	1,418
Other unpaid expenses	2,143	2,664	(521)
Employee benefits payable	1,652	9,112	(7,460)
Net change to surplus			\$ 10,653
Surplus per Association			\$ 2,054,410
Surplus per examination			\$ 2,065,063

During the period under review, surplus funds increased \$444,719 from the amount of \$1,620,344 as shown in the last previous examination report. An operating statement reflecting that increase is contained in the financial section.

COMMENTS

Unpaid premiums \$ 2,919

This asset was increased by \$1,841 to reflect the actual amount of premiums received in 2020.

Losses \$ 76,839

Losses decreased by \$12,321 to reflect actual loss development.

Unpaid adjusting expense \$ 1,146

An analysis of paid adjusting expenses to paid losses decreased this liability by \$3,054.

Taxes payable \$ 1,762

This liability decreased by \$1,418 to reflect the recalculation of real estate taxes payable.

Other unpaid expenses \$ 2,664

This liability was increased by \$521 to reflect actual expenses paid in 2020 for 2019.

Employee benefits payable

\$ 9,112

This liability was increased by \$7,460 to reflect unused vacation and sick pay carried over to 2020.

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