

EXAMINATION REPORT OF
MAPLE VALLEY MUTUAL INSURANCE ASSOCIATION
CHEROKEE COUNTY, AURELIA, IOWA
AS OF DECEMBER 31, 2019

Aurelia, Iowa
December 14, 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

MAPLE VALLEY MUTUAL INSURANCE ASSOCIATION

CHEROKEE COUNTY, AURELIA, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 156 Main Street, Aurelia, 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 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, 2019.

HISTORY

The Association was incorporated in 1883 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 1953.

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 Aurelia, Iowa on the third Thursday in January at 2:00 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. 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 nine 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>
Myron Pingel	Cherokee, Iowa	2020
James Mohn	Cherokee, Iowa	2020
Bill Swanson	Aurelia, Iowa	2020
Bill Luetkeman	Aurelia, Iowa	2021
Dave Hinkeldey	Aurelia, Iowa	2021
Dana Sleezer	Aurelia, Iowa	2021
Mark Radke	Aurelia, Iowa	2022
Guy Fishman	Aurelia, Iowa	2022
Larry Reilly	Aurelia, 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 \$100 for each meeting attended.

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

COMMITTEES

The Board of Directors annually appoints an Executive Committee consisting of the Secretary/Treasurer, Assistant Secretary/Treasurer and one Director. Serving on the committee at December 31, 2019 were:

Secretary/Treasurer	Brian Lockin
Assistant Secretary/Treasurer	Denise Nicodemus
Director	Mark Radke

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>
Myron Pingel	President
Larry Reilly	Vice President
Brian Lockin	Secretary-Treasurer
Denise Nicodemus	Assistant Secretary-Treasurer

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 disclosures 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 the Examination Report as of December 31, 2016 was presented and accepted at the December 19, 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 indefinite period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Business/personal property
- Business liability

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.

EMPLOYEE WELFARE

The Association provides no benefits for employees other than their salaries.

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 nine counties in the State of Iowa. The permitting writing territory is composed of the following counties: Cherokee, Ida, Sac, Woodbury, Sioux, Plymouth, O'Brien, Clay, and Buena Vista 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 on a continual renewal basis with premiums payable annually, semi-annually, or quarterly. The Association underwrites these policies every three years for Homeguard and every five years for Farmate.

At the present time, business is produced by two 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	\$ 532,437	\$ 575,091	\$ 620,522	\$1,728,050
Incurred deductions:				
Losses	268,233	280,767	343,762	892,762
Loss adjustment expenses	18,419	16,397	16,311	51,127
Commissions	105,430	112,897	112,609	330,936
Salaries	35,294	35,564	37,084	107,942
Taxes, licenses and fees	11,956	12,159	12,313	36,428
Other underwriting expenses	54,842	45,640	47,316	147,798
Total deductions	\$ 494,174	\$ 503,424	\$ 569,395	\$1,566,993
Underwriting gain (loss)	\$ 38,263	\$ 71,667	\$ 51,127	\$ 161,057

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	50.38 %	48.82 %	55.40 %	51.66 %
Loss adjustment expenses	3.46	2.85	2.63	2.96
Commissions	19.80	19.63	18.15	19.15
Salaries	6.63	6.18	5.98	6.25
Taxes, licenses and fees	2.25	2.11	1.98	2.11
Other underwriting expenses	10.29	7.95	7.62	8.55
Total deductions	92.81 %	87.54 %	91.76 %	90.68 %
Underwriting gain (loss)	7.19 %	12.46 %	8.24 %	9.32 %

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 the 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 \$450,000 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

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

Reinsurance - General

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

CLAIMS

Adjustment of property claims has been handled by a third party vendor through an annual fixed fee contract up to a set limit of claims with an additional charge for coverage. The Association's manager adjusts some claims. Home office personnel prepare the proof of loss and issue the claim proceeds. The third party adjuster signs the proof of loss for those claims that he adjusts. The Association's manager receives \$300 per month for adjusting services.

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 rents its Home Office building and shares a portion of the space with the Lockin Insurance Agency. The building and the agency are 100 percent owned by Brian Lockin, who is also the manager and Secretary/Treasurer of the Association. The Association currently pays \$175 monthly rent and all of its own expenses. Utilities are included in the Association's rent.

The expense allocation between the agency and the Association does not appear to be unreasonable.

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 and disbursements during each year under exam.

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.

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 \$229,758,550. The Association's statutory minimum surplus level as of December 31, 2019 was \$229,759. It is noted the Association's surplus level to minimum surplus level ratio was 13.3/1. 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	\$1,506,957	\$	\$	\$1,506,957
Stocks	959,751	332,017		1,291,768
Bank balances:				
Subject to check	95,654			95,654
On interest	614,659			614,659
Unpaid premiums:				
Due before November 1		486	486	
Due after November 1		11,931		11,931
Accrued interest		13,391		13,391
Supplies		500	500	
Electronic data processing equipment	1,149			1,149
Contingency receivable		11,895		11,895
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$3,178,170	\$370,220	\$ 986	\$3,547,404

LIABILITIES AND SURPLUS

Losses		\$ 102,061
Unpaid adjusting expenses		1,050
Ceded reinsurance balances payable		24,773
Unpaid salaries and commissions		11,590
Amounts withheld for the account of others		2,224
Taxes payable		3,525
Other unpaid expenses		547
Premiums collected for other companies - not remitted		596
Unearned premium reserve		342,776
		<hr/>
Total liabilities		\$ 489,142
Surplus as regards policyholders		<hr/>
		3,058,262
Total liabilities and surplus		<hr/>
		\$3,547,404

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018 \$2,975,975

INCOME

Net premiums and fees		\$ 607,891
Net interest received on bank deposits		51,234
Increase (Decrease) by adjustment - bonds		(8,470)
Dividends received		39,769
Interest received on bank deposits		4,882
Profit on sale of investments		23,305
Underwriting expense reimbursement		1,463
Total income		<u>\$ 720,074</u>
Total assets and income		<u>\$3,696,049</u>

DISBURSEMENTS

Losses paid		\$ 279,701
<u>Operating Expense</u>		
Adjusting expense	\$ 16,302	
Commissions	113,102	
Advertising	1,148	
Boards, bureaus and associations	6,099	
Salaries of officers	16,300	
Salaries of office employees	20,784	
Insurance	7,038	
Directors' compensation	1,400	
Rent and rent items	2,100	
Equipment	142	
Printing, stationery and supplies	942	
Postage, telephone, telegraph and exchange	1,948	
Legal and auditing	7,720	
State insurance taxes	9,042	
Insurance Division licenses and fees	115	
Payroll taxes	3,167	
All other taxes	245	
Meals and entertainment	115	
Data processing	4,273	
Investment expenses	11,942	
Miscellaneous	643	
Donations and contributions	800	
Total operating expense	<u>800</u>	\$ 225,367

Non-Operating Expense

Loss on sale of investments		1,032
Federal income tax		10,346
Commission paid agents for other companies		965
Decrease in ledger liabilities		468
Total disbursements		<u>\$ 517,879</u>

Balance - ledger assets, December 31, 2019 \$3,178,170

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 620,522
<u>Deductions</u>		
Losses incurred	\$343,762	
Loss expenses incurred	16,311	
Other operating expenses incurred	<u>209,322</u>	
Total underwriting deductions		<u>569,395</u>
Net underwriting gain (loss)		\$ 51,127
<u>Investment Income</u>		
Net investment income earned		109,696
<u>Other Income</u>		
Premiums collected for other companies (net)		(1,087)
Miscellaneous income		<u>215</u>
Net income before Federal income tax		\$ 159,951
Federal income tax incurred		<u>11,946</u>
Net income		<u>\$ 148,005</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018		<u>\$2,690,758</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 148,005
Change in net unrealized gains/losses		<u>219,499</u>
Change in surplus as regards policyholders for the year		<u>\$ 367,504</u>
Surplus as regards policyholders, December 31, 2019		<u>\$3,058,262</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$1,728,050
<u>Deductions</u>		
Losses incurred	\$892,762	
Loss expenses incurred	51,127	
Other operating expenses incurred	<u>623,104</u>	
Total underwriting deductions		<u>1,566,993</u>
Net underwriting gain (loss)		\$ 161,057
<u>Investment Income</u>		
Net investment income earned		295,078
<u>Other Income</u>		
Premiums collected for other companies (net)		(5,776)
Miscellaneous income		<u>1,545</u>
Net income before Federal income tax		\$ 451,904
Federal income tax incurred		<u>25,253</u>
Net income		<u>\$ 426,651</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$2,408,809</u>
<u>Gains and (Losses) in Surplus</u>		
Net income		\$ 426,651
Change in net unrealized gains/losses		<u>222,802</u>
Change in surplus as regards policyholders for the period		<u>\$ 649,453</u>
Surplus as regards policyholders, December 31, 2019		<u>\$3,058,262</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>Liabilities</u>			
Losses	\$71,500	\$102,061	\$ (30,561)
Net change to surplus			\$ (30,561)
Surplus per Association			<u>3,088,823</u>
Surplus per examination			<u>\$3,058,262</u>

During the period under review, surplus funds increased \$649,453 from the amount of \$2,408,809 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:

<u>Losses</u>	<u>\$ 102,061</u>
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Losses were increased by \$30,561 to reflect actual loss development.

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