

EXAMINATION REPORT OF  
POWESHIEK MUTUAL INSURANCE ASSOCIATION  
POWESHIEK COUNTY, GRINNELL, IOWA  
AS OF DECEMBER 31, 2017

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

Grinnell, Iowa  
December 12, 2018

Commissioner Ommen:

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

POWESHIEK MUTUAL INSURANCE ASSOCIATION

POWESHIEK COUNTY, GRINNELL, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 224 West Street, Grinnell, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Poweshiek Mutual Insurance Association, 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. 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 1875 for the purpose of insuring the property of its members against hazards and risks as permitted by Chapter 518A, Code of Iowa. The corporate existence was made perpetual in 1946. Effective April 1, 2011, the corporate structure changed from a county mutual to a state mutual insurance association subject to the provisions of Chapter 518A of the Code of Iowa.

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 Grinnell, Iowa on the third Tuesday in July at 10:00 am. Special meetings may be called by the President upon request of the majority of the members of the Board of Directors or upon petition of one-fourth of the members of the Association. Five days 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. A quorum shall be one more member than the actual number of directors of the Association.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than seven or more than thirteen directors, each elected by a majority vote at the annual meeting of the members for terms of three years. The number of directors fixed by a resolution of the Board. 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, 2017 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Susan Beukema	Newton, Iowa	2018
Terry Lowry	Searsboro, Iowa	2018
John Parker	Gilman, Iowa	2018
Marvin Keller	Brooklyn, Iowa	2019
Mark J. Kennett	Grinnell, Iowa	2019
Kevin Rempp	Montezuma, Iowa	2019
Lori A. Schafbuch	Brooklyn, Iowa	2020
Mark E. Hendrickson	Grinnell, Iowa	2020
Jodie Ryan	Malcom, 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 or President. A majority present constitutes a quorum for the transaction of business.

Directors were paid \$125 for each meeting attended in 2017. Directors were also reimbursed travel expense.

COMMITTEES

The Board of Directors shall be empowered to constitute and appoint such committees as they deem to be in the best interests of the Association. As of December 31, 2017, Executive, Scholarship and Advertising Committees consisted of the following:

<u>Name</u>	<u>Office</u>
Mark Hendrickson	Chairman
Mark J. Kennett	
Mary Stepanek	

OFFICERS

At its annual meeting, the Board of Directors elects for a term of one year a Chairman, Vice Chairman, President, Treasurer and Secretary, and may elect such additional officers as it deems necessary. Any of such offices may be combined, except that of President and Secretary.

Officers serving at December 31, 2017 were:

<u>Name</u>	<u>Office</u>
Mark E. Hendrickson	Chairman
Mark J. Kennett	Vice Chairman/Secretary
Mary S. Stepanek	President/Treasurer

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees. All apparent conflicts were disclosed by officers, directors or key employees.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended 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, 2013 was presented and accepted at the December 10, 2014 Board meeting.

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Poweshiek Agency, Inc (the Agency). The Agency is 100 percent owned by the Association. As of January 1, 2013, Association owed \$120,000 to Gary L. McKay for purchase of the Agency. The Association paid down the loan approximately \$30,000 annually from 2013 to 2016. As of December 31, 2016, loan was entirely paid off. The Agency produced 24 percent of the Association's business during 2017. The Agency paid \$1,340 for rent for 2017. The Agency has secured workers compensation and employers liability and errors and omissions coverage per contractual agreement with the Association. Officers of the Agency are listed as follows:

<u>Name</u>	<u>Title</u>
Mark Hendrickson	President
Mary Stepanek	Secretary
Eric Bru	Treasurer

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a financial institution bond in the amount of \$500,000 for any one loss occurrence. The bond is written for an annual period and the indemnity is non-cumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers'
- Professional liability
- Officers' and directors' liability
- Building and contents
- General liability
- Umbrella liability
- Employers liability
- Cyber liability
- Employment practices, employee benefits liabilities

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

EMPLOYEES' WELFARE

Full-time eligible employees are provided health and dental insurance. For health insurance, 70 percent of a single plan premiums are paid by Association. Family plan premiums are paid at 50 percent. For dental, 50 percent of employees' premiums are paid by the Association and no dependents' premiums are paid.

Eligible employees are covered by a Profit Share/401k plan paid by Association. The Association pays 8 percent of salary and then will match 25 percent of employee's contribution up to 2 percent of salary. Annual contributions were \$24,333, \$33,225, \$33,849 and \$31,828 for 2014 to 2017, respectively.

Bonuses paid to employees are approved annually by the Board. The bonus amount is based on service, position, years of service and results of operations of the Association. Bonuses paid annually by the Association were \$10,550, \$15,000, \$14,500 and \$14,600 for 2014 through 2017, respectively.

REINSURANCE

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

#### Per Risk Excess of Loss

First \$250,000 of ultimate net loss per risk is retained by 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 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 \$2,070,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by Association. 100 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 Quota Share

Facultative reinsurance was purchased on four policies.

#### Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

#### MARKET CONDUCT

#### TERRITORY AND PLAN OF OPERATIONS

The Association is authorized to transact business in the State of Iowa as a state mutual insurance association under the provisions of Chapter 518A, Code of Iowa. The Association is authorized to transact business in State of Iowa in the following twenty-two counties: Poweshiek, Jasper, Marshall, Tama, Benton, Iowa, Keokuk, Mahaska, Marion, Warren, Polk, Story, Hardin, Grundy, Black Hawk, Buchanan, Linn, Johnson, Washington, Jefferson, Wapello and Monroe.

#### PRODUCER LICENSING

Operations are conducted by approximately thirty-one independent licensed and approved agents from eleven insurance agencies who solicit the Association's business. Policies are underwritten every three years with premiums payable monthly, quarterly, annually or semi-annually.

#### ADVERTISING

The Association's advertising material was reviewed during the examination period with no violations noted under the provisions of the Iowa Administrative Code.

#### RATING AND STATISTICAL REPORTING

The Association has policies in force on farm personal property, homeowners and country homeowners classes in insurance covering fire, wind, allied lines and inland marine.

Policy and endorsement forms have been filed and approved. The policies and endorsements utilized by the Association are approved by the Board of Directors prior to usage.

#### TREATMENT OF POLICYHOLDERS

#### Claims

Adjustment of claims is handled primarily by the Association's salaried Home

Office personnel. Numerous claim files were reviewed, including closed by payment, closed without payment and open files to determine adequacy of loss reserves and the treatment of policyholders. Of the claims reviewed, 100 percent were paid within twenty days from the date sufficient information was received to pay the claim.

Complaint Register

The Association is aware of the complaint register as promulgated by rules set forth in Chapter 15, Iowa Insurance Regulations. The Association did not have any complaints during the examination period.

GROWTH OF THE ASSOCIATION

The following historical financial data, taken from annual statements for the years indicated, reflects the growth of the Association:

<u>Year</u>	<u>Admitted Assets</u>	<u>Surplus to Policyholders</u>	<u>Net Premiums Earned</u>	<u>Net Losses Incurred</u>	<u>Investment Income Earned</u>
2014	17,491,866	16,328,204	1,489,655	551,584	586,552
2015	17,880,842	16,594,027	1,594,992	644,171	593,845
2016	19,018,042	17,676,828	1,572,882	378,241	570,317
2017	19,625,949	18,435,163	1,645,334	458,497	607,600

UNDERWRITING EXPERIENCE

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2017

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Premiums earned	\$1,500,680	\$1,625,352	\$1,594,073	\$1,716,792	\$6,436,897
<u>Incurred Deductions</u>					
Losses	\$ 576,551	\$ 644,171	\$ 378,241	\$ 420,588	\$2,019,551
Loss adjustment expenses	152,012	158,582	153,991	185,857	650,442
Commissions	304,702	303,069	317,262	328,021	1,253,054
Salaries	233,716	222,733	221,095	224,782	902,326
Taxes, licenses and fees	20,126	68,993	21,497	13,817	124,433
Other underwriting expenses	<u>277,076</u>	<u>254,104</u>	<u>294,465</u>	<u>318,963</u>	<u>1,144,608</u>
Total deductions	<u>\$1,564,183</u>	<u>\$1,651,652</u>	<u>\$1,386,551</u>	<u>\$1,492,028</u>	<u>\$6,094,414</u>
Net underwriting gain (loss)	<u>\$ (63,503)</u>	<u>\$ (26,300)</u>	<u>\$ 207,522</u>	<u>\$ 224,764</u>	<u>\$ 342,483</u>

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

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>TOTAL</u>
<u>Incurred Deductions</u>					
Losses	38.42%	39.63%	23.73%	24.50%	31.37%
Loss adjustment expenses	10.13	9.76	9.66	10.83	10.10
Commissions	20.30	18.65	19.90	19.11	19.47
Salaries	15.57	13.70	13.87	13.09	14.02
Taxes, licenses and fees	1.35	4.25	1.35	.80	1.94
Other underwriting expenses	<u>18.46</u>	<u>15.63</u>	<u>18.47</u>	<u>18.58</u>	<u>17.78</u>
Total deductions	<u>104.23%</u>	<u>101.62%</u>	<u>86.98%</u>	<u>86.91%</u>	<u>94.68%</u>
Net underwriting gain (loss)	<u>(4.23)%</u>	<u>(1.62)%</u>	<u>13.02%</u>	<u>13.09%</u>	<u>5.32%</u>

## 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.

Three checks are outstanding over three years. It is recommended that the Association escheat this property to the Iowa Treasurer.

In accordance with Section 518A.37, 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 \$856,760,423. The Association's statutory minimum/surplus level as December 31, 2017 was \$856,760. It is noted the Association's surplus level to minimum surplus level ratio was 21.5/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2017 was 8.2/1.



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.



CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$1,650,401
Net investment income	630,080
Miscellaneous income	<u>33,073</u>

Total	<u>\$2,313,554</u>
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Benefit and loss related payments	\$ 495,536
Commissions, expenses paid and aggregate write-ins	1,054,746
Federal income taxes paid (recovered) net	<u>160,013</u>

Total	<u>\$1,710,295</u>
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Net cash from operations	<u>\$ 603,259</u>
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Cash from Investments

Proceeds from investments sold, matured and repaid:	
Bonds	\$1,955,000
Certificates of Deposit	(25,000)
Stocks	<u>127,716</u>
Total	<u>\$2,057,716</u>

Cost of investments acquired (long-term) only:	
Bonds	\$2,455,579
Stocks	<u>42,821</u>
Total investments acquired	<u>\$2,498,400</u>

Net cash from investments	<u>\$ (440,684)</u>
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Cash from Financing and Miscellaneous Sources:

Borrowed funds	\$ (30,005)
Other cash provided (applied)	<u>\$ 5,359</u>

Net cash from financing and miscellaneous sources	<u>\$ (24,646)</u>
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Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments	\$ 137,929
Cash and short-term investments:	
Beginning of year	<u>\$ 408,311</u>
End of year	<u>\$ 546,240</u>

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

Underwriting Income

Premiums earned \$ 1,716,792

Deductions

Losses incurred	\$ 420,588	
Loss expenses incurred	185,857	
Commissions	328,021	
Salaries	224,782	
Taxes, licenses and fees	13,817	
Other underwriting expenses incurred	<u>318,963</u>	

Total underwriting deductions \$ 1,492,028

Net underwriting gain (loss) 224,764

Investment Income

Net investment income earned	616,470	
Net realized capital gain (loss)	<u>(12,123)</u>	

Net income before federal income taxes \$ 829,111

Federal and foreign income taxes incurred 95,494

Net income \$ 733,617

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016 \$17,676,830

Gains and (Losses) in Surplus

Net income	\$ 733,617	
Net unrealized capital gains (losses)	<u>60,012</u>	

Change in surplus as regards policyholders for the year \$ 793,629

Surplus as regards policyholders, December 31, 2017 \$18,470,459

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

<u>Underwriting income</u>	\$ 6,436,897
Premiums earned	
 <u>Deductions</u>	
Losses incurred	\$2,019,551
Loss expenses incurred	650,442
Commissions	1,253,054
Salaries	902,326
Taxes, licenses and fees	124,433
Other underwriting expenses incurred	<u>1,144,608</u>
Total underwriting deductions	<u>6,094,414</u>
 Net underwriting gain (loss)	 \$ 342,483
 <u>Investment income</u>	
Net investment income earned	2,415,425
Net realized capital gain (loss)	<u>(12,123)</u>
 Net income before federal income taxes	 \$ 2,745,785
 Federal income taxes incurred	 <u>106,754</u>
 Net income	 <u>\$ 2,639,031</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	\$ <u>15,747,237</u>
 <u>Gains and (losses) in surplus</u>	
Net income	\$ 2,639,031
Net unrealized capital gains (losses)	84,125
Change in non-admitted assets	36
Cumulative effect of changes in accounting principle	<u>30</u>
 Change in surplus as regards policyholders for the period	 <u>\$ 2,723,222</u>
 Surplus as regards policyholders, December 31, 2017	 <u>\$18,470,459</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>			
Bonds	\$15,149,068	\$15,141,858	\$ (7,210)
Cash	542,324	546,240	\$ 3,916
Common stock	3,536,732	3,514,412	(22,320)
Premiums and considerations:			
Uncollected premiums	113,617	84,591	(29,026)
Deferred premiums		99,108	99,108
Real estate	163,869	153,909	(9,960)
<u>Liabilities</u>			
Losses	114,644	76,735	37,909
Loss adjusting expenses	1,227	24,991	(23,764)
Commissions payable	39,271	44,206	(4,935)
Other expenses	6,948	5,394	1,554
Taxes, licenses and fees	7,010		7,010
Advance premiums		14,546	(14,546)
Amounts withheld for others	9,194	11,634	<u>(2,440)</u>
Net change in surplus			\$ 35,296
Surplus per Association			<u>\$18,435,163</u>
Surplus per examination			<u>\$18,470,459</u>

During the period under review, surplus funds increased \$2,723,222 from the amount of \$15,747,237 as shown in the last previous examination report.

COMMENTS

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

Bonds \$15,141,858

This asset was decreased by \$7,210 to reduce the valuation of a bond from amortized cost to market value.

Cash \$ 546,240

This asset increased by \$3,916 to primarily due to net effect of a reclassification a money market fund from Common stock and overstatement of a Certificate of Deposit.

Common stock \$ 3,514,412

This asset was decreased by \$22,320 primarily due to reclassification a money market fund to cash.

Premium considerations: Uncollected premiums \$ 84,591

This asset was decreased by \$29,026 to reclassify Unpaid premiums to Deferred premiums.

Premium considerations: Deferred premiums \$ 99,108

This asset was increased by \$99,108 to account for unpaid premiums that were deferred.

Real estate \$ 153,909

This asset was decreased by \$9,960 to account for cost of real estate less accumulated depreciation.

Losses \$ 76,735

This liability was increased by \$37,909 to account for actual loss development of unpaid losses incurred as of December 31, 2017.

Loss adjusting expenses \$ 24,991

As analysis of paid loss adjusting expenses to paid losses relative to loss reserves resulted in an increase of this liability by \$23,764.

Commissions payable \$ 44,206

This liability was increased by \$4,935 to account for the actual commissions due to agents as of December 31, 2017.

Other expenses \$ 5,394

This liability was decreased by \$1,554 to account for expenses incurred in year ended 2017 and paid in 2018.

Taxes, licenses and fees payable \$ 0

This liability was decreased by \$7,010 due to actual taxes incurred in 2017 and not paid until 2018.

Advance premiums \$ 14,546

This liability was increased by \$14,546 to account for premiums paid by policyholders prior to being earned.

Amounts withheld for others \$ 11,634

This liability was increased by \$2,440 to for premiums that were held by the Association that are due to another entity.

CONCLUSION

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

Respectfully submitted,

/s/ Jerry Cihota\_\_\_\_\_

JERRY CIHOTA, CPA, CFE  
Insurance Company Examiner Specialist  
Insurance Division  
State of Iowa