

EXAMINATION REPORT OF
FLOYD COUNTY MUTUAL INSURANCE ASSOCIATION
FLOYD COUNTY, CHARLES CITY, IOWA
AS OF DECEMBER 31, 2018

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

Charles City, Iowa
August 28, 2019

Commissioner Ommen:

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

FLOYD COUNTY MUTUAL INSURANCE ASSOCIATION

FLOYD COUNTY, CHARLES CITY, IOWA

AS OF DECEMBER 31, 2018

at its Home Office, 215 North Jackson Street, Charles City, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

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

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2014 to December 31, 2018. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa. 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, 2018.

HISTORY

The Association was incorporated in 1880 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 1950.

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 Charles City, Iowa on the first Thursday in April at 1:00 p.m. Special meetings may be called by the President upon the request of the majority of 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 than the number of directors serving on the Board shall constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not greater than fifteen nor less than six directors, each elected by a majority vote at the annual meeting of the members for terms of three years. Number of directors are set in the Bylaws. 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, 2018 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Danny Zimmer	Floyd, Iowa	2019
Dan Staudt	Marble Rock, Iowa	2020
Paul Mehmen	Charles City, Iowa	2020
Raymond Stonecypher	Floyd, Iowa	2020
Scott McGregor	Nashua, Iowa	2021
Brian Bierschenk	Nashua, Iowa	2021

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 \$60 for each meeting attended and reimbursement of travel expense.

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, 2018 were:

<u>Name</u>	<u>Office</u>
Dan Staudt	Vice President
Brian Bierschenk	President
Angela M. Baldwin	Secretary-Treasurer

Salaries are reflected in Schedule A immediately following this report.

CONFLICT OF INTEREST

The Association requires its officers, directors, and key employees to complete conflict-of-interest statements and disclose any known or potential conflict of interest annually. The Association did not provide completed statements for several directors in 2015 and 2016.

CORPORATE RECORDS

The Articles of Incorporation were not amended or substituted during the period covered by this examination.

The Bylaws were amended by the Board to change the number of Directors to seven on August 27, 2015. Bylaws were amended again to change the number of directors to

eight on August 9, 2017. Bylaws were amended a third time to change the number of directors to six on August 21, 2018. Bylaws that were signed and revised for each change were not filed with the Iowa Insurance Division.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors noted that during the February 27, 2015 meeting the Examination Report as of December 31, 2013 was discussed. The minutes did not document approval of the report.

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. It was noted that the coverage exceeds the \$75,000 National Association of Insurance Commissioners suggested amount of fidelity insurance for the Association.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Building and contents
- General 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.

EMPLOYEES' WELFARE

An SAR-SEP retirement plan is provided to all eligible employees with a percent of their salaries contributed by the Association. The percent contributed by the Association was 9 percent in 2014 and 10 percent for the remainder of the examination period. The eligible employees may contribute additional amounts if employees choose to do so.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Floyd, Mitchell, Howard, Chickasaw, Bremer, Butler, Franklin, and Cerro Gordo 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 continuous basis with premiums payable quarterly, annually or semi-annually. The Association underwrites these policies every 5 years.

The Association offers equipment breakdown coverage which is written by another insurer.

At the present time, business is produced by seventeen licensed agents.

UNDERWRITING EXPERIENCE

FIVE-YEAR PERIOD ENDED DECEMBER 31, 2018

<u>Classification</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Total</u>
Premiums earned	\$698,006	\$721,107	\$748,591	\$ 785,965	\$ 837,357	\$3,791,026
<u>Incurred deductions:</u>						
Losses	\$406,064	\$316,675	\$329,522	\$ 578,868	\$ 596,720	\$2,227,849
Loss adjustment expense	38,700	24,500	29,182	31,217	31,561	155,160
Commissions	118,511	122,504	108,160	137,457	145,325	631,957
Salaries	91,427	91,907	115,102	88,675	88,253	475,364
Taxes, licenses and fees	15,557	15,925	17,056	18,266	19,509	86,313
Other underwriting expenses	<u>110,224</u>	<u>111,762</u>	<u>110,210</u>	<u>119,631</u>	<u>114,882</u>	<u>566,709</u>
Total deductions	<u>\$780,483</u>	<u>\$683,273</u>	<u>\$709,232</u>	<u>\$ 974,114</u>	<u>\$ 996,250</u>	<u>\$4,143,352</u>
Underwriting gain or (loss)	\$(82,477)	\$ 37,834	\$ 39,359	\$(188,149)	\$(158,893)	\$ (352,326)

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>2018</u>	<u>Total</u>
<u>Incurred deductions:</u>						
Losses	58.17%	43.92%	44.02%	73.65%	71.26%	58.77%
Loss adjustment expense	5.54	3.40	3.90	3.97	3.77	4.09
Commissions	16.98	16.99	14.45	17.49	17.36	16.67
Salaries	13.10	12.75	15.38	11.28	10.54	12.54
Taxes, licenses and fees	2.24	2.19	2.27	2.33	2.33	2.27
Other underwriting expenses	<u>15.79</u>	<u>15.50</u>	<u>14.72</u>	<u>15.22</u>	<u>13.72</u>	<u>14.95</u>
Total deductions	<u>111.82%</u>	<u>94.75%</u>	<u>94.74%</u>	<u>123.94%</u>	<u>118.98%</u>	<u>109.29%</u>
Underwriting gain or (loss)	<u>(11.82)%</u>	<u>5.25%</u>	<u>5.26%</u>	<u>(23.94)%</u>	<u>(18.98)%</u>	<u>(9.29)%</u>

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2018 with an authorized insurer which provide the following:

Property Per Risk Excess of Loss

First \$150,000 of ultimate net loss per risk is retained by the Association. For the first layer, the reinsurer will pay 100 percent of net loss up to \$1,000,000 in excess of retention. Second layer has a maximum 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. The Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

Property Aggregate Excess of Loss

First \$600,000 of ultimate net loss, 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 coverage is unlimited. 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.

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.

Of ten claims reviewed, all proof of losses associated with the claims were not signed by the adjuster. Four of the ten claims, while properly denied or cancelled, did not have proof of losses that were signed by the policyholder.

AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the office with Baldwin Insurance Agency (Agency). The Agency paid \$50 monthly rent to the Association.

The Agency is 100 percent owned by Angela Baldwin, who is also the Secretary-Treasurer-Manager of the Association. Commissions of \$19,000 were paid to the Agency in 2018. The Agency produced approximately eleven percent of the Association's business for 2018.

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, 2018 relative to security custodial requirements.

A reconciling item for \$500 on bank reconciliation has been outstanding since October 19, 1999. One check is outstanding for greater than three years and two outstanding for greater than two as of December 31, 2018. It is recommended that these items be resolved, possibly including escheatment to the State Treasurer.

Several investments on Schedule A of the Annual Statement for December 31, 2018 had amounts reporting cost that differed from the custodial statement for the same date.

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, 2018, the gross risk in force for the Association was \$334,904,662. The Association's statutory minimum surplus level as December 31, 2018 was \$334,905. It is noted the Association's surplus level to minimum surplus level ratio was 9.7/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2018 was 7.9/1.

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, 2018 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	\$2,594,676	\$	\$	\$2,594,676
Stocks	1,045,537	(168,114)		877,423
Bank balances:				
Subject to check	40,196	197,989		238,185
Real estate	19,503			19,503
Cash in office	50			50
Unpaid premiums: Due after				
November 1		231	231	
Accrued interest		20,388		20,388
Accrued rent		50		50
Federal income tax rec		2,503		2,503
EDP equipment	<u>623</u>	<u> </u>	<u> </u>	<u>623</u>
 Total	 <u>\$3,700,585</u>	 <u>\$ 53,047</u>	 <u>\$ 231</u>	 <u>\$3,753,401</u>

LIABILITIES AND SURPLUS

Unpaid adjusting expenses		\$ 3,665
Ceded reinsurance balances payable		17,339
Unpaid salaries and commissions		12,462
Taxes payable		3,155
Other unpaid expenses		1,635
Premiums collected for other companies - not remitted		6,946
Premiums received in advance		24,596
Unearned premium reserve		424,000
Investment payable		<u>5,180</u>
 Total liabilities		 \$ 498,978
 Surplus as regards policyholders		 <u>3,254,423</u>
 Total liabilities and surplus		 <u>\$3,753,401</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2017		\$3,742,098
	<u>INCOME</u>	
Net premiums and fees		\$ 865,483
Net interest received on bonds		78,105
Increase (Decrease) by adjustment - bonds		(20,204)
Dividends received		29,673
Profit on sale of investments		51,398
Rents received		4,200
Premiums collected for other companies		107,398
Increase in ledger liabilities		275
Total income		<u>\$1,116,328</u>
Total assets and income		<u>\$4,858,426</u>
	<u>DISBURSEMENTS</u>	
Losses paid		\$ 601,720
<u>Operating Expenses</u>		
Loss adjustment expenses	\$ 33,296	
Commissions	132,863	
Advertising	4,824	
Boards, bureaus and associations	7,227	
Inspection and loss prevention	11,278	
Salaries of officers	64,363	
Expenses of officers	7,300	
Salaries of office employees	36,037	
Employee welfare	14,576	
Insurance	6,801	
Directors' compensation	1,350	
Directors' expenses	341	
Rent and rent items	3,670	
Equipment	15,973	
Printing, stationery and supplies	1,910	
Postage, telephone, and exchange	26,126	
Legal and auditing	12,500	
State insurance taxes	10,831	
Insurance Division licenses and fees	215	
Payroll taxes	7,976	
Real estate expenses	5,763	
Real estate taxes	973	
Miscellaneous	163	
Annual and agent meeting expense	42	
Donations/Contributions	870	
Over and short	<u>(23)</u>	
Total operating expense		407,245
<u>Non-Operating Expense</u>		
Depreciation on real estate		1,340
Loss on sale of investment		19,191
Federal income tax		25,170
Premium collections transmitted to other companies		85,426
Commissions paid agents for other companies		17,749
Total disbursements		<u>\$1,157,841</u>
Balance - ledger assets, December 31, 2018		<u>\$3,700,585</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$ 837,357

Deductions

Losses incurred \$ 596,720

Loss expenses incurred 31,561

Other operating expenses incurred 367,969

Total underwriting deductions 996,250

Net underwriting gain (loss) \$ (158,893)

Investment Income

Net investment income earned 118,735

Other Income

Premiums collected for other companies 4,184

Net income before Federal income tax \$ (35,974)

Federal income tax incurred 17,667

Net income \$ (53,641)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017 \$3,428,458

Gains and (Losses) in Surplus

Net income \$ (53,641)

Unrealized capital change (120,394)

Change in surplus as regards policyholders for the year \$ (174,035)

Surplus as regards policyholders, December 31, 2018 \$3,254,423

UNDERWRITING AND INVESTMENT EXHIBIT

FIVE-YEAR PERIOD ENDED DECEMBER 31, 2018

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$3,791,026

Deductions

Losses incurred \$2,227,849

Loss expenses incurred 155,160

Other operating expenses incurred 1,760,343

Total underwriting deductions 4,143,352

Net underwriting gain (loss) \$ (352,326)

Investment Income

Net investment income earned 586,047

Other Income

Premiums collected for other companies 21,124

Loss on sale of equipment (2,438)

Net income before Federal income tax \$ 252,407

Federal income tax incurred 58,779

Net income \$ 193,628

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013 \$3,036,468

Gains and (Losses) in Surplus

Net income \$ 193,628

Unrealized capital change 24,327

Change in surplus as regards policyholders for the period \$ 217,951

Surplus as regards policyholders, December 31, 2018 \$3,254,423

SURPLUS AS REGARDS POLICYHOLDERS

The changes which resulted in the net increase in surplus 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>			
Stocks	\$1,069,991	\$877,423	\$ (192,568)
Cash	40,196	238,185	197,989
Unpaid premiums > 11.1	231		(231)
Federal income tax receivable		2,503	2,503
<u>Liabilities</u>			
Unpaid adjusting expenses	4,500	3,665	835
Other unpaid expenses	6,815	1,635	5,180
Investment payable	<u> </u>	<u>5,180</u>	<u>(5,180)</u>
Net change in surplus			\$ 8,528
Surplus per Association			<u>\$3,245,895</u>
Surplus per examination			<u>\$3,254,423</u>

During the period under review, surplus funds increased \$217,955 from the amount of \$3,036,468 as shown in the last previous examination report. An operating statement reflecting that decrease is contained in the financial section.

COMMENTS

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

Stocks \$ 877,423

The asset was decreased \$192,568 to reclassify money market fund to cash from stocks.

Bank balances: subject to check \$ 238,185

The asset was increased \$197,989 to reclassify money market from stocks for \$192,568 and include cash from custodial account for \$5,421.

Unpaid premiums: due after November 1 \$ ______0

The asset was decreased by \$231 to properly report premiums due after November 1, 2018

Current federal income tax recoverable \$ 2,503

This asset was increased by \$2,503 for income tax refund in 2018 that was received in 2019.

Unpaid adjusting expenses \$ 3,665

An analysis of paid adjusting expenses to paid losses applied to the loss reserve increased this liability by \$835.

Other expenses \$ 1,636

The liability was decreased \$5,180 to reclassify investment purchased prior to 2019 to investment payable.

Investment payable \$ 5,180

The liability was increased \$5,180 to reclassify investment purchase from other expenses.

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, CPA, CFE
Examiner Specialist
Iowa Insurance Division