

EXAMINATION REPORT OF  
EDEN MUTUAL INSURANCE ASSOCIATION  
BENTON COUNTY, VINTON, IOWA  
AS OF DECEMBER 31, 2019

Vinton, Iowa  
June 22, 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

EDEN MUTUAL INSURANCE ASSOCIATION

BENTON COUNTY, VINTON, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 301 North K Avenue, Vinton, 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 1872 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 1949.

On March 16, 2017, the Membership approved a conversion from a Chapter 518 corporation to a Chapter 518A corporation.

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 Vinton, Iowa on the third Thursday in March at 7:00 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 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>
Paul Herger	Vinton, Iowa	2020
Doug Sutton	Vinton, Iowa	2020
Gary McKenna	Vinton, Iowa	2020
Doug Wilson	Mt. Auburn, Iowa	2021
Rick Poldberg	Vinton, Iowa	2021
Rick Happel	Vinton, Iowa	2021
Bryan Geater	Vinton, Iowa	2022
David Inman	Vinton, Iowa	2022
Dennis Zieser	Center Point, 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 \$300 for each meeting attended and reimbursement of travel expense.

Remuneration of directors is shown on Schedule A following this report.

Committees

The Board of Directors appointed to the following committees as of December 31, 2019:

Executive Committee:

Paul Herger  
Gary McKenna  
Dennis Zieser

Building Committee:

Paul Herger  
Doug Wilson  
Bryon Geater  
Rick Poldberg

Wage Committee:

Doug Sutton  
David Inman  
Bryon Geater  
Rick Happel

Rate Committee:

Doug Wilson  
Dennis Zieser  
Doug Sutton  
Dave Inman

Minutes are not kept for any of the Committee meetings.

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>
Paul Herger	President
Dennis Zieser	Vice President
Gary McKenna	Secretary-Treasurer
Joshua McGowan	Assistant Secretary-Assistant Treasurer

Remuneration of officers is shown on Schedule A following this report.

#### CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors, and key employees. Conflict of interest forms were not signed for one year for three directors of the Association.

#### CORPORATE RECORDS

Effective May 1, 2017, the Articles of Incorporation were amended and substituted to become a state mutual insurance. The membership approved the amended and substituted Articles during their March 16, 2017 membership meeting. The amended and substituted Articles were approved by Iowa Insurance Division.

The following major changes were made to the Articles of Incorporation:

- Article III expanded on the corporate powers and reorganized the Association under Iowa Code section 518A.
- Article V clarified the definition of a member.
- Article VI Section 4 changed a quorum for any membership meeting from ten members to one more member than the number of Directors fixed by Resolution of the Board of Directors.
- Article VIII added a section describing the duties of a Director.
- Article VIII Section 3 changed the number of directors from not less than five nor more than nine to not less than five nor more than fifteen.
- Article IX Section 2 establishes that at its regular annual meeting each year, the Board of Directors shall elect for a term of one year, a President, a Secretary, and a Treasurer, and may elect such other officers as specified in the By-Laws or as it may deem advisable. Any such offices may be combined, except that of President and Secretary.
- Article X was added to define a conflict of interest.
- Article XIII was added for Director indemnification.

The following major changes were made to the By-Laws:

- Article I Section 4, changes the quorum for a membership meeting from ten members to the number of directors plus one.
- Article II Section 1 changed the number of directors from not less than five nor more than nine to not less than five nor more than fifteen.
- Article IV Section 1 eliminates the position of Vice President from the list of officers required to be elected at the Annual Meeting of the Board of Directors. Section 5 states the duties of the Vice President if one is elected.
- Article V formalizes the requirement that the funds of the Association shall be deposited in the name of the Association in such depositories as the Board of Directors shall designate.

- Article VI describes the ability of the Board to appoint such committees as may be necessary to the business. The remainder of the Article defines the role of the committees.
- Article VIII requires a Director who has a conflict of interest shall advise the Board prior to consideration of the transaction by the Board.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The Board acknowledged receipt of the December 31, 2016 financial examination report.

#### FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a financial institution bond in the amount of \$100,000 for any one loss occurrence. The NAIC suggested minimum amount of fidelity insurance is \$125,000. The bond is written for a three-year period and the indemnity is noncumulative.

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

Full-time eligible employees are provided health insurance with premiums paid 100 percent for a single plan. All employees with health insurance are on single plan.

Also, retirement benefit contributions were made to employees earning at least \$5,000 based on three percent of the full-time eligible employee's salary. Contributions paid by the Association were \$7,796, \$8,167, and \$8,653 for 2017, 2018, and 2019, respectively.

#### TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Benton, Blackhawk, Tama, Iowa, Johnson, Linn, Buchanan, Poweshiek, Butler, Bremer, Fayette, Clayton, Grundy, Delaware, Story, Marshall, Jasper, Mahaska, Keokuk, Washington, Louis, Muscatine, Cedar and Jones 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 on a continuous basis with premiums payable monthly, quarterly, annually or semi-annually. The Association underwrites these policies every five years.

At the present time, business is produced by 55 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	<u>\$2,478,921</u>	<u>\$2,709,534</u>	<u>\$2,986,561</u>	<u>\$8,175,016</u>
Incurred deductions:				
Losses	\$ 778,315	\$ 175,903	\$ 702,331	\$1,656,549
Loss adjustment expense	199,851	213,718	237,838	651,407
Commissions	405,438	311,124	343,512	1,060,074
Salaries	129,480	124,680	119,284	373,444
Taxes, licenses and fees	18,713	23,622	23,388	65,723
Other underwriting expenses	<u>373,032</u>	<u>546,487</u>	<u>661,344</u>	<u>1,580,863</u>
Total deductions	<u>\$1,904,829</u>	<u>\$1,395,534</u>	<u>\$2,087,697</u>	<u>\$5,388,060</u>
Underwriting gain or (loss)	<u>\$ 674,092</u>	<u>\$1,314,000</u>	<u>\$ 898,864</u>	<u>\$2,786,956</u>

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	31.4%	6.5%	23.5%	20.3%
Loss adjustment expense	8.1	7.9	8.0	8.0
Commissions	16.4	11.5	11.5	13.0
Salaries	5.2	4.6	4.0	4.6
Taxes, licenses and fees	0.8	0.9	0.8	0.8
Other underwriting expenses	<u>15.0</u>	<u>20.2</u>	<u>22.1</u>	<u>19.3</u>
Total deductions	<u>76.8%</u>	<u>51.5%</u>	<u>69.9%</u>	<u>65.9%</u>
Underwriting gain or (loss)	<u>23.2%</u>	<u>48.5%</u>	<u>30.1%</u>	<u>34.1%</u>

## REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2019 with an authorized insurer which provide the following:

### Property Per Risk Excess of Loss

The first \$250,000 of ultimate net loss per risk is retained by the Association. The reinsurer will pay 100% of a net loss in excess of retention of the first layer. The maximum recovery for the first layer is \$1,000,000. The 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 Catastrophe Excess of Loss

The first \$1,000,000 of the ultimate net loss per loss occurrence is retained by the Association. 100% of the ultimate net loss in excess of retention is covered by the reinsurer.

### Property Aggregate Excess of Loss

The first \$2,500,000 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 coverage is unlimited.

### Facultative Quota Share

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 Van Eschen-Strong Insurance Agency.

The agency is owned by Gary McKenna, who is also the Secretary-Treasurer of the Association. This agency produced twenty-three percent of the Association's business during 2019.

The agency paid \$200 monthly rent to the Association and provides personnel for the upkeep of the building and grounds.

The telephone, office supplies and other expenses appeared to be allocated appropriately.

## COMPLAINTS

The Association did not have any complaints during the exam period.

## ACCOUNTS AND RECORDS

Trial balances were prepared for all years of the examination period. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the filed annual statements for assets, liabilities, income or 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.

Eighty-eight checks written by the Association were outstanding for more than a year as of the Examination date. Sixty-one of the eighty-eight were outstanding for over three years totaling \$14,156. It is recommended that the Association follow state escheat regulations.

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 518A.25, Code of Iowa, surplus must be maintained at a level of not less than \$100,000 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 \$1,260,420,873. The Association's statutory minimum surplus level as of December 31, 2013 was \$1,260,421. It is noted the Association's surplus level to minimum surplus level ratio was 7.3/1.

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>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$ 4,715,915	\$ 0	\$ 4,715,915
Preferred Stocks	288,750	6,910	281,840
Common Stocks	4,453,637		4,453,637
Cash:			
Cash equivalents	295,014		295,014
Short-term investments	228,690		228,690
Properties occupied by the Company	103,329	3,000	100,329
Investment income due and accrued	52,234		52,234
Uncollected Premiums	56,819	15,118	41,701
Other amounts receivable under reinsurance contracts	21,944		21,944
Federal income tax recoverable	75,000	75,000	
Electronic data processing equipment	3,324		3,324
Furniture and equip	12,651	12,651	
Automobile	41,218	41,218	
Prepaid reinsurance	<u>790,702</u>	<u>          </u>	<u>790,702</u>
 Total	 <u>\$11,139,227</u>	 <u>\$ 153,897</u>	 <u>\$10,985,330</u>

LIABILITIES  
AND SURPLUS

Losses	\$ 124,777
Commissions payable	52,597
Other expenses	14,177
Tax, License and Fees	12,938
Unearned Premiums	1,527,631
Advance premiums	51,852
Amounts Withheld or retained by Company	20,610
 Total liabilities	 <u>\$1,804,582</u>
 Unassigned funds (surplus)	 9,180,748
 Total liabilities and surplus	 <u>\$10,985,330</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$2,986,561

Deductions

Losses incurred \$ 697,286

Loss expenses incurred 237,838

Other operating expenses incurred 1,139,590

Total underwriting deductions 2,074,714

Net underwriting gain (loss) \$ 911,847

Investment Income

Net investment income earned 260,843

Net realized capital gain 5,785

Miscellaneous Income 73,709

Net income before Federal income tax \$1,252,184

Federal income tax incurred 219,626

Net income \$1,032,558

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018 \$7,502,159

Gains and (Losses) in Surplus

Net income \$1,032,558

Change in not admitted assets (116,110)

Unrealized capital change 762,141

Change in surplus as regards policyholders for the year \$1,678,589

Surplus as regards policyholders, December 31, 2019 \$9,180,748

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$8,175,016

Deductions

Losses incurred \$1,651,504

Loss expenses incurred 651,407

Other operating expenses incurred 3,108,041

Total underwriting deductions 5,410,952

Net underwriting gain (loss) \$2,764,064

Investment Income

Net investment income earned 728,615

Net realized capital gain 15,815

Other Income

Miscellaneous income 194,416

Net income before Federal income tax \$3,702,910

Federal income tax incurred 724,753

Net income \$2,978,157

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016 \$5,733,618

Gains and (Losses) in Surplus

Net income \$2,978,157

Change in not admitted assets (123,839)

Unrealized capital change 592,812

Change in surplus as regards policyholders for the period \$3,447,130

Surplus as regards policyholders, December 31, 2019 \$9,180,748

CASH FLOW STATEMENT

<u>Cash from Operations</u>	<u>Current Year</u>
Premiums collected net of reinsurance	\$3,165,409
Net investment income	274,921
Miscellaneous income	<u>51,765</u>
Total	<u>\$3,492,095</u>
Benefit and loss related payments	\$653,534
Commissions, expenses paid and aggregate write-ins	1,359,041
Federal income taxes paid (recovered) net	<u>416,626</u>
Total	<u>\$2,429,201</u>
Net cash from operations	<u>\$1,062,894</u>
<u>Cash from Investments</u>	
Proceeds from investments sold, matured and repaid:	
Bonds	\$330,000
Stocks	1,921,052
Total investment proceeds	<u>\$2,398,453</u>
Cost of investments acquired (long-term) only	
Bonds	\$1,416,516
Stocks	\$2,269,380
Real Estate	<u>0</u>
Total investments acquired	<u>\$3,685,896</u>
Net cash from investments	<u>(\$1,287,443)</u>
<u>Cash from Financing and Miscellaneous Sources</u>	
Borrowed funds	\$0
Other cash provided (applied)	<u>(95,516)</u>
Net cash from financing	<u>(\$95,516)</u>
<u>Reconciliation of Cash and Short-Term Investments</u>	
Net change in cash and short-term investments	(\$320,065)
Cash and short-term investments:	
Beginning of year	<u>\$843,769</u>
End of year	<u>\$523,704</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>			
<u>Liabilities</u>			
Losses	129,822	124,777	5,045
Commissions payable	60,535	52,597	7,938
Net change in surplus			\$ 12,983
Surplus per Association			<u>\$9,167,765</u>
Surplus per examination			<u>\$9,180,748</u>

During the period under review, surplus funds increased \$3,447,130 from the amount of \$5,733,618 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:

Losses \$ 124,777

The actual claims paid for claims with loss dates prior to January 1, 2020 plus the reserve for reported and not yet paid claims.

Commissions payable \$ 52,597

This liability was decreased \$7,938 due to properly report commissions due as of December 31, 2019.

CONCLUSION

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

Respectfully submitted,

/s/ Jeffrey S. Payne  
Jeffrey S. Payne, CFE  
Examiner Specialist  
Insurance Division  
State of Iowa