

EXAMINATION REPORT OF  
LINCOLN MUTUAL INSURANCE ASSOCIATION  
JOHNSON COUNTY, LONE TREE, IOWA  
AS OF DECEMBER 31, 2017

Lone Tree, Iowa  
October 5, 2018

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

LINCOLN MUTUAL INSURANCE ASSOCIATION

JOHNSON COUNTY, LONE TREE, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 105 N. Devoe Street, Lone Tree, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

The Lincoln 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 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 1873 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 1952.

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 Lone Tree, Iowa on the second Saturday in February at 9:00 a.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 to the members. 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, 2017 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Ben Slaughter	Lone Tree, Iowa	2018
Neil Forbes	Lone Tree, Iowa	2018
Larry Wieland	Riverside, Iowa	2018
John Pechman	Hills, Iowa	2019
Jerry Hotz	Lone Tree, Iowa	2019
Joe Wright	Keota, Iowa	2019
Gerald Burr	Lone Tree, Iowa	2020
Phyllis Peterson	Lone Tree, Iowa	2020
Josh Zaruba	Lone Tree, 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. A majority present constitutes a quorum for the transaction of business.

Directors receive a fee of \$130 for each meeting attended.

Salaries and 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 and such additional officers as it may deem advisable. Any such offices may be combined, except that of President and Secretary.

Officers serving at December 31, 2017 were:

<u>Name</u>	<u>Office</u>
Gerald Burr	President
Larry Wieland	Vice President
Phyllis Peterson	Secretary/Treasurer/Manager

Salaries and 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. Disclosures were indicated on the statements. Conflicts were properly disclosed of individuals that act as agents for the Association.

#### CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended or substituted during the period covered by this examination. Subsequent to year end, the Association amended the Articles of Incorporation and Bylaws, which were approved by the Insurance Division.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors were silent as to the discussion and approval of the Examination Report as of December 31, 2013.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$50,000 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
- Building and contents
- Commercial property and business personal property
- Commercial 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

Employees are not provided any benefits. However, the Board of Directors at their annual organizational meeting has approved yearly payments to employees. Contributions were paid by the Association of \$16,000, \$10,000, \$10,000 and \$10,000 for 2014, 2015, 2016, and 2017 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 provisions of Chapter 518, Code of Iowa. It is currently authorized to transact business in eight counties in the State of Iowa. The permitted writing territory is composed of the following counties: Johnson, Louisa, Muscatine, Iowa, Washington, Cedar, Linn, and Benton. 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 monthly, quarterly, semi-annually or annually. The Association underwrites these policies every year.

The Association did not have adequate documentation that its underwriting guidelines were being consistently followed.

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

UNDERWRITING EXPERIENCE

FOUR-YEAR PERIOD ENDED DECEMBER 31, 2017

Classification	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Premiums earned	\$ 366,095	\$ 378,247	\$ 334,422	\$ 304,193	\$1,382,957
Incurred deductions:					
Losses	95,693	200,824	129,103	224,723	650,343
Loss adjustment expense	8,216	8,615	9,496	14,187	40,514
Commissions	73,211	63,792	66,129	64,267	267,399
Salaries	49,639	55,845	58,759	55,454	219,697
Taxes, license and fees	7,583	9,645	8,798	9,875	35,901
Other underwriting expenses	74,204	76,307	67,429	63,126	281,066
Total deductions	\$ 308,546	\$ 415,028	\$ 339,714	\$ 431,632	\$1,494,920
Underwriting gain or (loss)	\$ 57,549	\$ (36,781)	\$ (5,292)	\$ (127,439)	\$ (111,963)

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

Incurred deductions:	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
Losses	26.14%	53.09%	38.60%	73.88%	47.03%
Loss adjustment expense	2.24	2.28	2.84	4.66	2.93
Commissions	20.00	16.87	19.77	21.13	19.34
Salaries	13.56	14.76	17.57	18.23	15.89
Taxes, licenses and fees	2.07	2.55	2.63	3.25	2.60
Other underwriting expenses	20.27	20.17	20.17	20.74	20.31
Total deductions	84.28%	109.72%	101.58%	141.89%	108.10%
Underwriting gain or (loss)	15.72%	(9.72%)	(1.58%)	(41.89%)	(8.10%)

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 \$100,000 of ultimate net loss per risk is retained by Association. First layer is 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 recovery of \$4,000,000 in excess of \$1,000,000 for each risk. Third layer has 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 \$275,000 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 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

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

### Reinsurance - General

Reinsurance attachments appear to be in compliance with Iowa statutes.

### CLAIMS

Adjustment of property claims is primarily handled by a third party vendor through an annual fixed fee contract up to a set limit of claims with an additional charge for overage. Home office personnel complete the proof of loss and issue the claim proceeds. Additionally, a director also adjusts claims

From a review of numerous claims, it appeared that the Association made 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 Peterson Insurance, LLC.

The agency is 100 percent owned by Ms. Phyllis Peterson who is also the Secretary/Treasurer/Manager of the Association. This agency produced approximately 71 percent of the Association's business during 2017. Ms. Peterson received \$45,995 in commissions on business written for the Association during 2017 and service fees of \$14,795. The agency pays \$200 monthly rent to the Association. It was discovered upon examination that the Association received \$2,600 from the agency in 2017. The additional \$200 will be corrected in 2018. It does not appear from review of company records that any reimbursement to the Association is made for shared expenses.

### 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, 2017 relative to security custodial requirements.

During a review of COOP advertising arrangements, it was noted that the Association was not represented on the majority of the advertisements submitted for reimbursement.

The Association does not retain any of the commission on the liability policies. It is recommended the Association retain a portion to offset the costs of processing these policies.

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, 2017, the gross risk in force for the Association was \$125,572,151. The Association's statutory minimum surplus level at December 31, 2017 was \$125,572. It is noted the Association's surplus level to minimum surplus level ratio was 9.9/1. The reported surplus/statutory minimum ratio average for Chapter 518 licensed industry at December 31, 2017 was 8.4/1.

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 state, 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.



STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Nonledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$ 790,873	\$	\$	\$ 790,873
Stocks	28,039	7,496		35,535
Bank balances:				
Subject to check	235,697			235,697
On interest	377,376			377,376
Real estate	57,594			57,594
Unpaid premiums				
Due after November 1		1,699		1,699
Accrued interest		5,561		5,561
Equipment and furniture	2,506		2,506	
EDP equipment	1,210			1,210
Service fees receivable		5,187		5,187
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$1,493,295	\$ 19,943	\$ 2,506	\$1,510,732

LIABILITIES AND SURPLUS

Losses	\$ 44,689
Unpaid adjusting expenses	676
Ceded reinsurance balances payable	10,775
Unpaid salaries and commissions	8,928
Amounts withheld for the account of others	1,338
Taxes payable	749
Other unpaid expenses	145
Service fee payable	7,398
Premiums collected for other companies - not remitted	1,036
Premiums received in advance	26,640
Unearned premium reserve	<hr/> 170,000
Total liabilities	\$ 272,374
Surplus as regards policyholders	<hr/> 1,238,358
Total liabilities and surplus	<hr/> \$1,510,732

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016 \$1,551,234

INCOME

Net premiums and fees		\$ 298,442
Net interest received on bonds		21,484
Increase (decrease) by adjustment - bonds		(2,001)
Dividends received		166
Interest received on bank deposits		9,823
Rents received		3,800
Premiums collected for other companies		23,914
Miscellaneous income		161
Total income		<u>\$ 355,789</u>
Total assets and income		<u>\$1,907,023</u>

DISBURSEMENTS

Losses paid		\$ 180,073
<u>Operating Expense</u>		
Loss adjusting expense	\$14,211	
Commissions	63,021	
Advertising	5,235	
Boards, bureaus and association	3,633	
Inspection and loss prevention	7,440	
Salaries of officers	45,124	
Salaries of office employees	10,330	
Employee welfare	6,200	
Insurance	6,446	
Directors' compensation	5,720	
Directors' expenses	1,970	
Rent and rent items	1,220	
Equipment	2,156	
Printing and stationery	11,101	
Postage and telephone	866	
Legal and auditing	10,620	
State insurance taxes	3,811	
Insurance Division licenses and fees	70	
Payroll taxes	6,448	
Real estate expenses	232	
Real estate taxes	808	
Miscellaneous	<u>24</u>	
Total operating expense		\$ 206,686

Non-Operating Expense

Depreciation on real estate		1,794
Premium collections transmitted to other companies		20,593
Commissions paid agents for other companies		4,582
Total disbursements		<u>\$ 413,728</u>
Balance - ledger assets, December 31, 2017		<u>\$1,493,295</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 304,193
<u>Deductions</u>		
Losses incurred	\$224,723	
Loss expenses incurred	14,187	
Other operating expenses incurred	192,722	
Total underwriting deductions		<u>431,632</u>
Net underwriting gain (loss)		\$ (127,439)
<u>Investment Income</u>		
Net investment income earned		29,721
<u>Other Income</u>		
Premiums collected for other companies (net)		(926)
Miscellaneous Income		<u>5,348</u>
Net income before Federal income tax		\$ (93,296)
Federal income tax incurred		<u>0</u>
Net income (loss)		<u>\$ (93,296)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$1,331,733</u>
<u>Gains and (Losses) in Surplus</u>		
Net income (loss)		\$ (93,296)
Change in nonadmitted assets		(459)
Change in net unrealized gains/losses		<u>380</u>
Change in surplus as regards policyholders for the year		<u>\$ (93,375)</u>
Surplus as regards policyholders, December 31, 2017		<u>\$1,238,358</u>

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

<u>Underwriting Income</u>		
Premiums earned		\$1,382,957
<u>Deductions</u>		
Losses incurred	\$650,343	
Loss expenses incurred	40,514	
Other operating expenses incurred	804,063	
Total underwriting deductions		<u>1,494,920</u>
Net underwriting gain (loss)		\$ (111,963)
<u>Investment Income</u>		
Net investment income earned		96,690
<u>Other Income</u>		
Premiums collected for other companies (net)		(2,917)
Miscellaneous income		<u>(2,378)</u>
Net income before Federal income tax		\$ (20,568)
Federal income tax incurred		<u>0</u>
Net income (loss)		<u>\$ (20,568)</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013		<u>\$1,258,892</u>
<u>Gains and (Losses) in Surplus</u>		
Net income (loss)		\$ (20,568)
Change in nonadmitted assets		(1,711)
Change in net unrealized gains/losses		<u>1,745</u>
Change in surplus as regards policyholders for the period		<u>\$ (20,534)</u>
Surplus as regards policyholders, December 31, 2017		<u>\$1,238,358</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>Assets</u>			
Unpaid premiums	\$ 2,725	\$ 1,699	\$ (1,026)
<u>Liabilities</u>			
Losses	41,739	44,689	(2,950)
Unpaid adjusting expenses	1,500	676	824
Unpaid salaries and commissions	9,720	8,928	792
Amounts withheld for the account of others	1,338	1,036	302
Taxes payable	1,153	749	404
Premiums collected for other companies - not remitted	1,036	1,338	<u>(302)</u>
Net change to surplus			\$ (1,956)
Surplus per Association			<u>\$1,240,314</u>
Surplus per examination			<u>\$1,238,358</u>

During the period under review, surplus funds decreased \$20,534 from the amount of \$1,258,892 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:

Unpaid premiums \$ 1,699

This asset was decreased by \$1,026 to reflect the actual amount of premiums received in 2018.

Losses \$ 44,689

This liability was increased by \$2,950 to reflect actual loss development.

Unpaid adjusting expenses \$ 676

This liability was decreased by \$824 to reflect the actual amount paid in 2018.

Unpaid salaries and commissions \$ 8,928

This liability was decreased by \$792 to reflect the actual amount of salaries and commissions paid in 2018, but incurred in 2017.

Amounts withheld for the account of others \$ 1,036

This liability was decreased by \$302 to correct presentation of this liability.

Taxes payable \$ 749

This liability decreased by \$404 to reflect the recalculation of real estate taxes.

Premiums collected for other companies - not remitted \$ 1,338

This liability was increased by \$302 to correct presentation of this liability.

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