

EXAMINATION REPORT OF  
BOHEMIAN MUTUAL INSURANCE ASSOCIATION  
TAMA COUNTY, TOLEDO, IOWA  
AS OF DECEMBER 31, 2019

Toledo, Iowa  
February 22, 2021

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

BOHEMIAN MUTUAL INSURANCE ASSOCIATION

TAMA COUNTY, TOLEDO, IOWA

AS OF DECEMBER 31, 2019

at its Home Office, 1309 South County Road, Toledo, 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 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 Toledo, Iowa on the first Monday following the 4<sup>th</sup> of July in each year at 6:00pm for 2017 & 2018. The date was changed to the second Tuesday in April at 10:00am for 2019. 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. Twenty-five members present constitute a quorum for any membership meeting before 2019. A quorum was changed to not less than two members in addition to the Board after 2018.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than five nor more than 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>Time Expires</u>
Marvin Dostal	Clutier, Iowa	2020
Brian Sokol	Toledo, Iowa	2020
Laurence Svoboda	Clutier, Iowa	2021
Tony Upah	Chelsea, Iowa	2021
Doug Dvorak	Clutier, Iowa	2022
Dale Kasal	Chelsea, Iowa	2022
Eric Lyon	Toledo, Iowa	2022

The annual meeting of the Board is held immediately following the annual meeting of the members, and thereafter on a bi-monthly basis or 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.

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.

An Executive Board Meeting is held on a monthly basis. Members of the Executive Board include all current officers of the Association. Each officer/director receives a fee of \$100 for each meeting attended.

Officers serving at December 31, 2019 were:

<u>Name</u>	<u>Office</u>
Tony Upah	President
Marvin Dostal	Vice President
Laurence Svoboda	Treasurer
Joanne Wacha	Secretary/Manager

Salaries and remunerations of officers and directors are shown on Schedule A following this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees. No conflicts with the Association were disclosed.

CORPORATE RECORDS

The Articles of Incorporation were amended and substituted to change two items related to the annual membership meeting, effective August 22, 2018. The meeting was changed to the second Tuesday in April of each year at 10:00am. A quorum was changed to less than two (2) members in addition to the Board of Directors.

The Bylaws were amended for the Treasurer or Secretary to "...report the finances of the Association at each (board) meeting". Revised Bylaws were not filed with the Iowa Insurance Division as of the Examination date.

The recorded minutes of the membership, Board of Directors meetings and Executive Board meetings were read and noted. The minutes of the Board of Directors were silent regarding the approval of the Examination Report as of December 31, 2016.

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 a three year period.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Building and contents
- General liability
- Equipment breakdown
- Cyber 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

No benefits are provided to staff, officers or directors by the Association or the Association's affiliated agency, Insurance Agency of Bohemian Mutual, Inc.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Tama County and contiguous counties. It was noted, from a review of numerous applications of policies in force, that risks were located within the authorized territory.

Policies are written or renewed for a continuous basis with premiums payable monthly, quarterly, annually or semi-annually. The Association underwrites these policies every three years.

At the present time, business is produced by ten 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>\$686,282</u>	<u>\$ 710,436</u>	<u>\$742,790</u>	<u>\$2,139,508</u>
<u>Incurred deductions:</u>				
Losses	\$337,501	\$ 482,602	\$133,064	\$ 953,167
Loss adjustment expense	22,353	35,494	31,606	89,453
Commissions	137,530	135,783	142,874	416,187
Salaries	65,263	54,965	52,093	172,321
Taxes, licenses and fees	25,116	18,320	18,545	61,981
Other underwriting expenses	<u>140,070</u>	<u>117,807</u>	<u>115,629</u>	<u>373,506</u>
Total deductions	<u>\$727,833</u>	<u>\$ 844,971</u>	<u>\$493,811</u>	<u>\$2,066,615</u>
Underwriting gain or (loss)	<u>\$(41,551)</u>	<u>\$(134,535)</u>	<u>\$248,979</u>	<u>\$ 72,893</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>
<u>Incurred deductions:</u>				
Losses	49.2%	67.9%	17.9%	44.6%
Loss adjustment expense	3.3	5.0	4.3	4.2
Commissions	20.0	19.1	19.2	19.5
Salaries	9.5	7.7	7.0	8.1
Taxes, licenses and fees	3.7	2.6	2.5	2.9
Other underwriting expenses	<u>20.4</u>	<u>16.6</u>	<u>15.6</u>	<u>17.5</u>
Total deductions	<u>106.1%</u>	<u>118.9%</u>	<u>66.5%</u>	<u>96.6%</u>
Underwriting gain or (loss)	<u>(6.1)%</u>	<u>(18.9)%</u>	<u>33.5%</u>	<u>3.4%</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

First \$125,000 of ultimate net loss per risk is retained by 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. Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

### Property Aggregate Excess of Loss

First \$650,000 of ultimate net loss, net of all other reinsurance recoveries, is retained by Association. Reinsurance covers 100 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.

### 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, there were no risks identified which warranted a facultative agreement.

### Reinsurance - General

The Association's reinsurance coverage 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 Insurance Agency of Bohemian Mutual, Inc. (the Agency). The Agency is 100 percent owned by the Association. 100 shares with a par value of \$100 have been issued of the 10,000 authorized. The Agency Annual Meeting is to be held on the first Monday of February per Agency Bylaws, yet was held on first Monday of May in 2017 and 2019.

The Agency is managed by Joanne Wacha, who is also the Secretary/Manager of the Association. The Manager, who spends 30% of her time on the Agency, receives no commissions on business written for the Association, but is paid an additional salary for management of the Agency. The Agency produced approximately forty-two percent of the Association's business and received \$60,230 in commissions during 2019. The Agency paid \$8,400 in annual rent to the Association for 2019.

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, 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 \$325,764,028. The Association's statutory minimum surplus level as of December 31, 2019 was \$325,764. It is noted the Association's surplus level to minimum surplus level ratio was 10.2/1. 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.



STATEMENTS OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Nonledger</u>	<u>Admitted</u>	<u>Admitted</u>
Bonds	\$1,981,694	\$	\$	\$1,981,694
Stocks	868,228	755,868	96,059	1,528,037
Bank balances:				
Subject to check	232,264			232,264
Real estate	37,555			37,555
Cash in office	150			150
Unpaid premiums:				
Due before November 1		(1,219)	(1,219)	
Due after November 1		(177)		(177)
Accrued interest		14,684		14,684
Contingency receivable	<u>                    </u>	<u>7,377</u>	<u>                    </u>	<u>7,377</u>
 Total	 <u>\$3,119,891</u>	 <u>\$776,533</u>	 <u>\$94,840</u>	 <u>\$3,801,584</u>

LIABILITIES AND SURPLUS

Losses		\$ 14,649
Unpaid adjusting expenses		581
Ceded reinsurance balances payable		30,726
Unpaid salaries and commissions		(1,197)
Amounts withheld for others		126
Taxes payable		5,058
Other unpaid expenses		1,793
Premiums collected for other companies - not remitted		4,127
Premiums received in advance		32,682
Unearned premium reserve		<u>435,968</u>
 Total liabilities		 <u>524,513</u>
 Surplus as regards policyholders		 <u>\$3,277,071</u>
 Total liabilities and surplus		 <u>\$3,801,584</u>

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2018		\$2,765,584
	<u>INCOME</u>	
Net premiums and fees		\$ 770,926
Net interest received on bonds		73,758
Increase (Decrease) by adjustment - bonds		(7,450)
Dividends received		45,072
Profit on sale of investments		8,975
Rents received		14,520
Premiums collected for other companies		84,492
Total income		<u>\$ 990,293</u>
Total assets and income		<u>\$3,755,877</u>
	<u>DISBURSEMENTS</u>	
Net losses paid		\$ 168,983
<u>Operating Expense</u>		
Loss adjustment expenses	\$ 31,598	
Commissions	144,071	
Advertising	13,746	
Boards, bureaus and associations	8,631	
Inspection and loss prevention	16,485	
Salaries of officers	34,896	
Expenses of officers	1,719	
Salaries of office employees	16,138	
Employee welfare	1,544	
Insurance	10,560	
Directors' compensation	8,400	
Directors' expenses	1,203	
Rent and rent items	6,000	
Equipment	19,991	
Printing, stationery and supplies	4,246	
Postage, telephone, telegraph and exchange	9,482	
Legal and auditing	13,800	
State insurance taxes	10,562	
Insurance Division licenses and fees	155	
Payroll taxes	6,913	
All other taxes	153	
Real estate expenses	5,114	
Real estate taxes	3,388	
Miscellaneous	10,394	
Donations	<u>125</u>	
Total operating expenses		\$ 379,314
<u>Non-Operating Expense</u>		
Depreciation on real estate		2,480
Federal income tax		6,087
Premium collections transmitted to other companies		62,148
Commissions paid agents for other companies		16,916
Decrease in ledger liabilities		58
Total disbursements		<u>\$ 635,986</u>
Balance - ledger assets, December 31, 2019		<u>\$3,119,891</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$ 742,790

Deductions

Losses incurred \$133,064

Loss expenses incurred 31,606

Other operating expenses incurred 329,141

Total underwriting deductions 493,811

Net underwriting gain (loss) \$ 248,979

Investment Income

Net investment income earned 110,531

Other Income

Premiums collected for other companies 6,594

Net income before Federal income tax \$ 366,104

Federal income tax incurred 6,087

Net income \$ 360,017

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2018 \$2,835,332

Gains and (Losses) in Surplus

Net income \$ 360,017

Change in not admitted assets 81,722

Change in surplus as regards policyholders for the year \$ 441,739

Surplus as regards policyholders, December 31, 2019 \$3,277,071

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2019

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$2,139,508

Deductions

Losses incurred \$ 953,167

Loss expenses incurred 89,453

Other operating expenses incurred 1,023,995

Total underwriting deductions 2,066,615

Net underwriting gain (loss) \$ 72,893

Investment Income

Net investment income earned 349,042

Other Income

Premiums collected for other companies 22,013

Miscellaneous income 876

Net income before Federal income tax \$ 444,824

Federal income tax incurred 24,971

Net income \$ 419,853

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016 \$2,774,645

Gains and (Losses) in Surplus

Net income \$ 412,476

Change in not admitted assets 82,573

Change in surplus as regards policyholders for the year \$ 502,426

Surplus as regards policyholders, December 31, 2019 \$3,277,071

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>			
Stocks	\$1,624,096	\$1,528,037	\$ (96,059)
<u>Liabilities</u>			
Losses	60,500	14,649	45,851
Premiums collected for other companies - not remitted	5,161	4,127	<u>1,034</u>
Net increase in surplus			<u>(49,174)</u>
Surplus per Association			<u>\$3,326,245</u>
Surplus per examination			<u>\$3,277,071</u>

During the period under review, surplus funds increased \$502,426 from the amount of \$2,774,645 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:

Stocks \$1,474,816

This asset decreased \$150,545 to properly state the value of the Association's subsidiary agency.

Losses \$ 14,649

An analysis of unpaid claims decreased this liability \$45,851.

Premiums collected for other companies - not remitted \$ 4,127

This liability decreased \$1,034 due to properly reporting premiums due to the reinsurer.

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  
Insurance Company Examiner Specialist  
Insurance Division  
State of Iowa