

EXAMINATION REPORT OF
ADAIR COUNTY MUTUAL INSURANCE ASSOCIATION
ADAIR COUNTY, GREENFIELD, IOWA
AS OF DECEMBER 31, 2020

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

Greenfield, Iowa
February 10, 2022

Commissioner Ommen:

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

ADAIR COUNTY MUTUAL INSURANCE ASSOCIATION

ADAIR COUNTY, GREENFIELD, IOWA

AS OF DECEMBER 31, 2020

at its Home Office, 168 Public Square, Greenfield, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Adair County Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2017. The examination reported herein was conducted by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This examination covers the period from January 1, 2018 to December 31, 2020. 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, 2020.

HISTORY

The Association was incorporated in 1888 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 1948.

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 Greenfield, Iowa on the first Tuesday in February at 1:00 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. One more member than the number of Directors present constitute a quorum for any membership meeting.

BOARD OF DIRECTORS

Directors shall be members of the Association. The number of directors shall be not less than five, nor more than fifteen, and within such limits, shall be fixed by Resolution of the Board of Directors. No person shall be eligible for election upon reaching the age of seventy-two. The current resolution from the Board is five directors. Directors shall be elected as provided in the By-laws, by the members of the Association at the regular annual meeting of the members for a term not to exceed 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, 2020 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
Greg Lilly	Greenfield, Iowa	2021
Timothy Jensen	Fontanelle, Iowa	2022
Sherol Brown	Greenfield, Iowa	2022
John Baudler	Fontanelle, Iowa	2023
Allen Tanner	Creston, Iowa	2023

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 set per-diem fee of \$100 for each meeting attended and reimbursement of travel expense, except the Chairman who receives \$150 per meeting.

OFFICERS

At the annual meeting of the Board of Directors, officers shall be elected by a majority vote of those directors present in person including a Chairman, a Vice Chairman, a President, a Secretary, and a Treasurer and any other officers deemed necessary, for a term of one year, or until their successors in office shall be duly elected and qualifies. The President and Secretary may not be the same person but other officers may be held by the same person if so designated by the Board. The Chairman, the Vice Chairman and the President shall constitute an Executive Committee, if there be one, which shall have such powers as the Board may delegate. Officers may be directors of the Association.

Officers serving at December 31, 2020 were:

<u>Name</u>	<u>Office</u>
Greg Lilly	Chairman
Allen Tanner	Vice-Chairman
Marcia Kralik	President/Treasurer
Sherol Brown	Secretary

The salaries of the officers are shown in Exhibit A immediately following the signature page of the report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees. Disclosures were indicated on the statements. One of the directors is an insurance producer

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were amended and substituted on February 4, 2020. The following major changes were made to the Articles and Bylaws:

- A quorum for the Annual Meeting of the Members changed from ten members present to one more member than the number of Directors as fixed by Resolution of the Directors.
- The number of directors was changed from five directors to not less than five nor more than fifteen.
- Article X added the definition of a conflict of interest.
- The Bylaws establishes an age limit for directors of seventy-two.
- The Bylaws add two officers, a Chairman and a Vice Chairman.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors meeting as of March 19, 2019 reflected that the Examination Report as of December 31, 2017 was reviewed and approved.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$500,000 for any one loss occurrence. 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
Commercial property
Employment practices liability
General liability
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

Full-time eligible employees are provided individual dental, health and vision insurance with premiums being paid by the Association. The employee may elect family coverage with the difference between individual and family coverage premiums being reimbursed to the Association. A health savings account was offered in 2019 and 2020.

Full-time eligible employees are provided access to a Simplified Employee Pension (SEP) retirement plan. Contributions are determined annually by the Board with a range of eight to ten percent of the employee's salary. Contributions of \$14,765 (8%), \$14,220 (8%) and \$14,445 (8%) were paid by the Association to the retirement benefit fund for 2018, 2019 and 2020, respectively.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Adair County and the contiguous counties. It was noted, from a review 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 annually, semi-annually or monthly. The Association underwrites these policies every three years.

At year end 12/31/2020, business is produced by seventy-one licensed agents.

UNDERWRITING EXPERIENCE

THREE-YEAR PERIOD ENDED DECEMBER 31, 2020

<u>Classification</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Premiums earned	<u>\$1,167,130</u>	<u>\$1,108,734</u>	<u>\$1,085,396</u>	<u>\$3,361,260</u>
Incurred deductions:				
Losses	\$ 974,431	\$ 495,529	\$ 352,903	\$1,822,863
Loss adjustment expense	41,147	40,964	42,170	124,281
Commissions	271,007	256,500	255,137	782,644
Salaries	155,131	165,997	163,710	484,838
Taxes, licenses and fees	43,238	33,057	33,834	110,129
Other underwriting expenses	<u>125,870</u>	<u>137,047</u>	<u>142,991</u>	<u>405,908</u>
Total deductions	<u>\$1,610,824</u>	<u>\$1,129,094</u>	<u>\$ 990,745</u>	<u>\$3,724,266</u>
Underwriting gain or (loss)	<u>\$ (443,694)</u>	<u>\$ (20,360)</u>	<u>\$ 94,651</u>	<u>\$ (369,403)</u>

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

	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Incurred deductions:				
Losses	83.5%	44.7%	32.5%	54.2%
Loss adjustment expense	3.5	3.7	3.9	3.7
Commissions	23.2	23.1	23.5	23.3
Salaries	13.3	15.0	15.1	14.4
Taxes, licenses and fees	3.7	3.0	3.1	3.3
Other underwriting expenses	<u>10.8</u>	<u>12.4</u>	<u>13.2</u>	<u>12.1</u>
Total deductions	<u>138.0%</u>	<u>101.8%</u>	<u>91.3%</u>	<u>111.0%</u>
Underwriting gain or (loss)	<u>(38.0)%</u>	<u>(1.8)%</u>	<u>8.7%</u>	<u>(11.0)%</u>

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2020 with an authorized insurer which provides the following:

Property Per Risk Excess of Loss

First \$150,000 of ultimate net loss per risk is retained by the 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. The Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

Property Aggregate Excess of Loss

First \$950,000 of ultimate net losses in aggregate, net of all other reinsurance recoveries is retained by the Association. 100 percent of ultimate net loss in excess of retention is covered by the reinsurer. Reinsurance recovery is unlimited. This 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.

Property Catastrophe Excess of Loss

First \$500,000 of ultimate net losses incurred, per loss occurrence, net of all other reinsurance recoveries is retained by the Association. 100 percent of the ultimate net loss, per loss occurrence in excess of the Company retention is covered by the reinsurer. This reinsurance applies to new and renewal and in-force policies of the Company 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 equitable and timely 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 Adair County Insurance Agency, Inc. (the Agency). The Agency is 100 percent owned by the Association. It produced approximately 22 percent of the Association's business during 2017. The Agency paid monthly rent of \$500 and an annual management fee of \$66,000 to the Association in 2020.

NON AFFILIATED AGENCY

An unaffiliated agency uses 120 square feet of the Association home office. Six-hundred dollars of rent was paid to the Association, annually. The unaffiliated agency pays for copies, postage, and a phone line.

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, 2020 relative to security custodial requirements.

Six checks written by the Association were outstanding for more than three years as of the Examination date. It is recommended that the Association follow state escheat regulations.

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, 2020, the gross risk in force for the Association was \$377,609,935. The Association's statutory minimum surplus level at December 31, 2020 was \$377,610. It is noted the Association's surplus level to minimum surplus level ratio was 8.5/1. The reported surplus/statutory minimum ratio average for the Chapter 518 licensed industry at December 31, 2020 was 8.3/1.

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, 2020 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>	Not <u>Admitted</u>	<u>Admitted</u>
Bonds	\$1,729,458	\$	\$	\$1,729,458
Stocks	648,238	1,226,112	20,000	1,854,350
Bank balances:				
Subject to check	252,949			252,949
Real estate	33,561			33,561
Cash in office	200			200
Unpaid premiums:				
Due before November 1	(274)		(274)	
Due after November 1	247,846		246,858	989
Accrued interest		14,590		14,590
Contingency receivable		<u>15,441</u>		<u>15,441</u>
Total	<u>\$2,911,979</u>	<u>\$1,256,143</u>	<u>\$266,584</u>	<u>\$3,901,538</u>

LIABILITIES AND SURPLUS

Unpaid claims	\$	51,846
Unpaid adjusting expenses		3,292
Ceded reinsurance balances payable		42,890
Unpaid salaries and commissions		52,413
Amounts withheld for others		5,002
Taxes payable		1,112
Other unpaid expenses		4,988
Premiums collected for other companies - not remitted		10,809
Premiums received in advance		20,549
Unearned premium reserve		<u>504,386</u>
Total liabilities	\$	697,287
Surplus as regards policyholders		<u>\$3,204,251</u>
Total liabilities and surplus		<u>\$3,901,538</u>

INCOME AND DISBURSEMENTS
AND
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2019		\$2,696,692
	<u>INCOME</u>	
Net premiums and fees		\$1,049,842
Net interest received on bonds		58,068
Increase (Decrease) by adjustment - bonds		(4,170)
Dividends received		14,795
Profit on sale of investments		70,511
Rents received		7,800
Premiums collected for other companies		174,317
Increase in ledger liabilities		1,724
Miscellaneous income		3
Total income		<u>\$1,372,890</u>
Total assets and income		<u>\$4,069,582</u>
	<u>DISBURSEMENTS</u>	
Net losses paid		\$ 317,162
<u>Operation Expense</u>		
Loss adjustment expenses	\$ 42,170	
Commissions	248,604	
Advertising	10,765	
Boards, bureaus and associations	8,651	
Inspection and loss prevention	21,699	
Salaries of officers	65,000	
Expenses of officers	972	
Salaries of office employees	98,710	
Employee welfare	37,100	
Insurance	16,480	
Directors' compensation	6,050	
Directors' expenses	1,144	
Rent and rent items	1,200	
Equipment	40,559	
Printing, stationery and supplies	7,151	
Postage and telephone	8,346	
Legal and auditing	23,280	
State insurance taxes	16,136	
Insurance Division licenses and fees	552	
Payroll taxes	17,453	
All other taxes	183	
Real estate expenses	7,567	
Real estate taxes	1,861	
Miscellaneous	18,440	
Annual meeting expense	5,094	
Donations/contributions	1,538	
Data processing	734	
Interest on borrowed money	5,020	
Travel and Travel Items	38	
Agency Expense Reimbursement	<u>(66,000)</u>	
Total operating expense		646,497
<u>Non-Operating Expense</u>		
Borrowed money repaid		33,500
Depreciation on real estate		4,544
Loss on sale of investment		12,243
Premium collections transmitted to other companies		143,657
Total disbursements		<u>\$1,157,603</u>
Balance - ledger assets, December 31, 2020		<u>\$2,911,979</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$1,085,396
 <u>Deductions</u>	
Losses incurred	\$352,903
Loss expenses incurred	42,170
Other operating expenses incurred	<u>595,672</u>
 Total underwriting deductions	 <u>990,745</u>
 Net underwriting gain (loss)	 \$ 94,651
 <u>Investment Income</u>	
Net investment income earned	120,574
 <u>Other Income</u>	
Premiums collected for other companies	29,804
Borrowed money	(352)
Miscellaneous income	<u>3</u>
 Net income before Federal income tax	 \$ 244,680
 Federal income tax incurred	 <u>0</u>
 Net income	 <u>\$ 244,680</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2019	<u>\$2,934,628</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ 244,680
Change in not admitted assets	0
Unrealized capital change	<u>24,943</u>
 Change in surplus as regards policyholders for the year	 <u>\$ 269,623</u>
 Surplus as regards policyholders, December 31, 2020	 <u>\$3,204,251</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2020

STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$3,361,260
 <u>Deductions</u>	
Losses incurred	\$1,822,863
Loss expenses incurred	124,281
Other operating expenses incurred	<u>1,783,519</u>
 Total underwriting deductions	 <u>3,730,663</u>
 Net underwriting gain (loss)	 \$ (369,403)
 <u>Investment Income</u>	
Net investment income earned	323,062
 <u>Other Income</u>	
Borrowed money	(14,326)
Premiums collected for other companies	85,416
Miscellaneous income	<u>323</u>
 Net income before Federal income tax	 \$ 25,072
 Federal income tax incurred	 <u>0</u>
 Net income	 <u>\$ 25,072</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2017	<u>\$3,076,123</u>
 <u>Gains and (Losses) in Surplus</u>	
Net income	\$ 25,072
Change in not admitted assets	618
Unrealized capital change	<u>102,438</u>
 Change in surplus as regards policyholders for the period	 <u>\$ 128,128</u>
 Surplus as regards policyholders, December 31, 2017	 <u>\$3,204,251</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>Liabilities</u>			
Unpaid claims	46,760	51,846	(5,086)
Net change to surplus			\$ (5,086)
Surplus to Association			<u>\$3,209,337</u>
Surplus to Examination			<u>\$3,204,251</u>

During the period under review, surplus funds increased \$128,128 from the amount of \$3,076,123 as shown in the last previous examination report. An operating statement reflecting that change is contained in the financial section.

COMMENTS

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

<u>Unpaid claims</u>	<u>\$ 51,846</u>
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The liability was increased by \$5,086 to account actual unpaid losses as of December 31, 2020.

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