

EXAMINATION REPORT OF  
GLIDDEN MUTUAL INSURANCE ASSOCIATION  
CARROLL COUNTY, GLIDDEN, IOWA  
AS OF DECEMBER 31, 2017

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

Glidden, Iowa  
September 27, 2018

Commissioner Ommen:

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

GLIDDEN MUTUAL INSURANCE ASSOCIATION

CARROLL COUNTY, GLIDDEN, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 135 Idaho Street, Glidden, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Glidden Mutual Insurance Association, hereinafter referred to as the "Association", was last examined as of December 31, 2014. The examination reported herein was conducted 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.

SCOPE OF EXAMINATION

This examination covers the intervening period from January 1, 2015 to December 31, 2017. The examination was conducted in accordance with procedures established by the Iowa Insurance Division.

HISTORY

The Association was incorporated in 1890 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 every individual, co-partnership, public or private corporation, board or association, trustee, administrator, executor, organization or other legal entity having insurance written by the Association which is in force and effect.

The annual meeting of the members is held at Glidden, Iowa on the last Tuesday in January at a time and location to be specified in the notice given for that meeting. Special meetings may be called by the President and shall be called by him upon written request of the majority of the members of the Board of Directors or upon written request of one-fourth of the members of the Association. Due notice of time and place of such special meetings shall be given to the members. Each member present at any meeting shall be entitled to one vote on each question to be decided. Voting by proxy is not permitted. One more member than there are members of the Board of Directors, shall constitute a quorum for the transaction of any business at any membership meeting.

BOARD OF DIRECTORS

The Articles of Incorporation provide for a Board of six to nine directors. The Bylaws set the actual number of directors. As the term of the office of each director expires, the members of the Association at the regular annual meeting shall elect another director for a term not to exceed three years. Any vacancy on the Board may be filled by a majority of the remaining directors until a successor director has been duly elected at the next annual meeting and qualified, or the office may be declared vacant.

Directors serving at December 31, 2017 were:

| <u>Name</u>       | <u>Address</u>       | <u>Term Expires</u> |
|-------------------|----------------------|---------------------|
| Donald Schon      | Glidden, Iowa        | 2018                |
| Jim Calvert       | Guthrie Center, Iowa | 2018                |
| Douglas Hawn      | Scranton, Iowa       | 2019                |
| Harry Reeve       | Glidden, Iowa        | 2019                |
| Richard Schroeder | Churdan, Iowa        | 2020                |
| Bret Hodges       | Coon Rapids, Iowa    | 2020                |

The annual meeting of the Board shall be held within ten days after the adjournment of the annual meeting of the members, and thereafter on the call of the Secretary. A majority of the number of directors fixed by the Bylaws shall constitute a quorum for the transaction of business.

Directors receive a fee of \$50 for each meeting attended and reimbursement of travel expense. The President receives \$595 annually instead of meetings fees and travel reimbursement.

COMMITTEES

The Board of Directors at its annual January organizational meeting appoints an Investment Committee plus other committees as deemed necessary. No other committees were appointed during the examination period.

Members of the Investment Committee appointed in 2017 were:

- Donald Schon
- Bret Hodges
- Harry Reeve

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 shall be members of the Association.

Officers serving at December 31, 2017 were:

| <u>Name</u>  | <u>Office</u>       |
|--------------|---------------------|
| Douglas Hawn | President           |
| Donald Schon | Vice President      |
| David Lake   | Secretary-Treasurer |

Remuneration of the officers is shown in Exhibit A immediately following the signature page of this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by the directors, officers, and employees.

CORPORATE RECORDS

The Articles of Incorporation were not amended during the Examination period. The Bylaws were amended with significant changes to governance, the descriptions of duties for directors and officers, and guidelines were established for members meetings. The Bylaws were approved by the Board. The Iowa Insurance Division was notified of the changes.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors meeting dated December 2, 2015 reflected that the Iowa Insurance Division examination report as of December 31, 2014 was reviewed and approved by the Board.

The Articles of Incorporation establish a range of six to nine directors and state that the Bylaws shall set the number of directors within the range. The Bylaws do not set a specific number of directors and instead establish a range of five to seven directors.

FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a fidelity bond in the amount of \$50,000 for any one loss. The bond is written for an annual period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation
- Employers' liability
- Employment practices liability
- Professional liability
- Officers' and directors' liability
- Personal property
- Commercial general liability
- Business automobile 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.

TERRITORY AND PLAN OF OPERATION

The Association is authorized to transact business in Carroll County and contiguous 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 for a one year period with premiums payable quarterly, semi-annually, or annually. At the present time, business is produced by forty-four licensed agents.

The Association has two Services Sharing Agreements whereby other companies will provide adjusting and inspection services for a fee. Approximately 100 inspections are done each year. The Association retains complete control and makes the final determination on all recommendations regarding inspections. The Association provides business cards, stationary, and office assistance for the inspector.

UNDERWRITING EXPERIENCE  
THREE-YEAR PERIOD ENDED DECEMBER 31, 2017

| <u>Classification</u>          | <u>2015</u>      | <u>2016</u>      | <u>2017</u>      | <u>Total</u>       |
|--------------------------------|------------------|------------------|------------------|--------------------|
| Premiums earned                | <u>\$593,107</u> | <u>\$621,040</u> | <u>\$631,934</u> | <u>\$1,846,081</u> |
| Incurred deductions:           |                  |                  |                  |                    |
| Losses                         | \$215,537        | \$201,648        | \$279,439        | \$ 696,624         |
| Loss adjustment<br>expense     | 23,811           | 17,357           | 31,374           | 72,542             |
| Commissions                    | 111,412          | 117,142          | 122,298          | 350,852            |
| Salaries                       | 54,915           | 56,310           | 58,606           | 169,831            |
| Taxes, licenses and<br>fees    | 16,381           | 17,088           | 16,005           | 49,474             |
| Other underwriting<br>expenses | <u>70,557</u>    | <u>64,714</u>    | <u>65,807</u>    | <u>201,078</u>     |
| Total deductions               | <u>\$492,613</u> | <u>\$474,259</u> | <u>\$573,529</u> | <u>\$1,540,401</u> |
| Underwriting gain or<br>(loss) | <u>\$100,494</u> | <u>\$146,781</u> | <u>\$ 58,405</u> | <u>\$ 305,680</u>  |

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

|                                | <u>2015</u>   | <u>2016</u>   | <u>2017</u>   | <u>Total</u>  |
|--------------------------------|---------------|---------------|---------------|---------------|
| <u>Incurred deductions:</u>    |               |               |               |               |
| Losses                         | 36.34%        | 32.47%        | 44.22%        | 37.74%        |
| Loss adjustment expense        | 4.01          | 2.79          | 4.96          | 3.93          |
| Commissions                    | 18.78         | 18.86         | 19.35         | 19.01         |
| Salaries                       | 9.27          | 9.08          | 9.29          | 9.19          |
| Taxes, licenses and fees       | 2.76          | 2.75          | 2.53          | 2.68          |
| Other underwriting<br>expenses | <u>11.90</u>  | <u>10.42</u>  | <u>10.41</u>  | <u>10.89</u>  |
| Total deductions               | <u>83.06%</u> | <u>76.37%</u> | <u>90.76%</u> | <u>83.44%</u> |
| Underwriting gain or<br>(loss) | <u>16.94%</u> | <u>23.63%</u> | <u>9.24%</u>  | <u>16.56%</u> |

## REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2017 with an authorized insurer which provides the following:

### Property Per Risk Excess of Loss

First \$125,000 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 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 Aggregate Excess of Loss

First \$500,000 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 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.

### Earthquake Coverage

If Association's insurance policies provide earthquake insurance, reinsurer will cover 100 percent of losses resulting from earthquakes.

## CLAIMS

Adjustment of property claims is handled by a third party through an annual fixed fee contract up to a set limit of 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

Community Insurance Agency (the Agency) owns the Association's Home Office building. The Association rents office space and pays \$250 monthly rent. The Agency produced sixty-six percent of the Association's business during 2017.

The telephone, internet services, and post office box are split 50/50 between the Association and the Agency. Expenses such as office supplies and other miscellaneous expenses are paid by the company which incurred the expense.

## 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, 2017 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, 2017, the gross risk in force for the Association was \$200,984,686. The Association's statutory minimum surplus level at December 31, 2017 was \$200,985. It is noted the Association's surplus level to minimum surplus level ratio was 9.0/1. 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 stated, 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<br/>Admitted</u> | <u>Admitted</u>        |
|-------------------------|------------------------|----------------------|-------------------------|------------------------|
| Bonds                   | \$ 375,698             | \$                   | \$                      | \$ 375,698             |
| Stocks                  | 653,244                | 234,639              | 8,344                   | 879,539                |
| Bank balances:          |                        |                      |                         |                        |
| Subject to check        | 154,172                |                      |                         | 154,172                |
| On interest             | 950,154                |                      |                         | 950,154                |
| Unpaid premiums:        |                        |                      |                         |                        |
| Due before November 1   |                        | 8,311                | 8,311                   |                        |
| Due after November 1    |                        | 10,994               |                         | 10,994                 |
| Accrued interest        |                        | 3,597                |                         | 3,597                  |
| Equipment and furniture | 1,606                  |                      |                         | 1,606                  |
| Service fees            | <u>          </u>      | <u>15,046</u>        | <u>          </u>       | <u>15,046</u>          |
| <br>Total               | <br><u>\$2,134,874</u> | <br><u>\$272,587</u> | <br><u>\$16,655</u>     | <br><u>\$2,390,806</u> |

LIABILITIES AND SURPLUS

|   |                        |
|---|------------------------|
| Unpaid claims   | \$ 148,068             |
| Unpaid adjusting expenses                             | 15,171                 |
| Ceded reinsurance balances payable                    | 29,623                 |
| Unpaid salaries and commissions                       | 7,931                  |
| Amounts withheld for others                           | 1,318                  |
| Taxes payable   | 705                    |
| Other unpaid expenses                                 | 1,559                  |
| Premiums collected for other companies - not remitted | 3,614                  |
| Premiums received in advance                          | 376                    |
| Unearned premium reserve                              | <u>386,000</u>         |
| <br>Total liabilities                                 | <br>\$ 594,365         |
| <br>Surplus as regards policyholders                  | <br><u>\$1,796,441</u> |
| <br>Total liabilities and surplus                     | <br><u>\$2,390,806</u> |

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

|  |                      |                    |
|--|----------------------|--------------------|
| Ledger assets, December 31, 2016                   |                      | <u>\$1,801,284</u> |
|  | <u>INCOME</u>        |                    |
| Net premiums and fees                              |                      | \$ 640,525         |
| Net interest received on bonds                     |                      | 14,504             |
| Increase (Decrease) by adjustment - bonds          |                      | (2,541)            |
| Dividends received                                 |                      | 10,300             |
| Interest received on bank deposits                 |                      | 4,804              |
| Profit on sale of investments                      |                      | 40,833             |
| Premiums collected for other companies             |                      | 54,503             |
| Increase in ledger liabilities                     |                      | 185                |
| Federal income tax refund                          |                      | <u>37,294</u>      |
| Total income                                       |                      | <u>\$ 800,407</u>  |
| Total assets and income                            |                      | <u>\$2,601,691</u> |
|  | <u>DISBURSEMENTS</u> |                    |
| Net losses paid                                    |                      | \$ 139,371         |
| <u>Operating Expenses</u>                          |                      |                    |
| Loss adjustment expenses                           | \$ 17,875            |                    |
| Commissions  | 116,028              |                    |
| Advertising  | 1,414                |                    |
| Boards, bureaus and associations                   | 5,991                |                    |
| Inspection and loss prevention                     | 14,700               |                    |
| Salaries of officers                               | 20,995               |                    |
| Expenses of officers                               | 1,088                |                    |
| Salaries and welfare of office employees           | 37,597               |                    |
| Insurance  | 6,598                |                    |
| Directors' compensation                            | 800                  |                    |
| Directors' expenses                                | 1,666                |                    |
| Rent and rent items                                | 3,063                |                    |
| Equipment  | 12,748               |                    |
| Printing and supplies                              | 1,998                |                    |
| Postage and telephone                              | 5,502                |                    |
| Legal and auditing                                 | 10,645               |                    |
| State insurance taxes                              | 9,896                |                    |
| Insurance Division licenses and fees               | 1,681                |                    |
| Payroll taxes                                      | 4,554                |                    |
| Travel and Travel Items                            | <u>857</u>           |                    |
| Total operating expense                            |                      | 275,696            |
| <u>Non-Operating Expense</u>                       |                      |                    |
| Premium collections transmitted to other companies |                      | 43,888             |
| Commissions paid agents for other companies        |                      | <u>7,862</u>       |
| Total disbursements                                |                      | <u>\$ 466,817</u>  |
| Balance - ledger assets, December 31, 2017         |                      | <u>\$2,134,874</u> |

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

Underwriting Income

Premiums earned \$ 631,934

Deductions

Losses incurred \$279,439

Loss expenses incurred 31,374

Other operating expenses incurred 262,716

Total underwriting deductions 573,529

Net underwriting gain (loss) \$ 58,405

Investment Income

Net investment income earned 68,626

Other Income

Premiums collected for other companies 3,576

Net income before Federal income tax \$ 130,607

Federal income tax incurred (47,294)

Net income \$ 177,901

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016 \$1,529,623

Gains and (Losses) in Surplus

Net income \$ 177,901

Change in not admitted assets 40

Unrealized capital change 88,877

Change in surplus as regards policyholders for the year \$ 266,818

Surplus as regards policyholders, December 31, 2017 \$1,796,441

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$1,846,081

Deductions

Losses incurred \$696,624

Loss expenses incurred 72,542

Other operating expenses incurred 771,235

Total underwriting deductions 1,540,401

Net underwriting gain (loss) \$ 305,680

Investment Income

Net investment income earned 166,629

Other Income

Premiums collected for other companies 20,850

Net income before Federal income tax \$ 493,159

Federal income tax incurred 53,616

Net income \$ 439,543

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014 \$1,270,025

Gains and (Losses) in Surplus

Net income \$ 439,543

Unrealized capital change 86,873

Change in surplus as regards policyholders for the period \$ 526,416

Surplus as regards policyholders, December 31, 2017 \$1,796,441

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<br/>Annual<br/>Statement</u> | <u>Examination<br/>Financial<br/>Statement</u> | <u>Surplus<br/>Increase<br/>(Decrease)</u> |
|---------------------------------|---|--|--|
| <u>Assets</u>                   |   |  |  |
| Stocks                          | \$887,883                                   | \$879,539                                      | \$ (8,344)                                 |
| <u>Liabilities</u>              |   |  |  |
| Unpaid claims                   | 158,162                                     | 148,068  | 10,094                                     |
| Unpaid adjusting expenses       | 4,660                                       | 15,171   | (10,511)                                   |
| Unpaid salaries and commissions | 2,304                                       | 7,931  | (5,627)                                    |
| Taxes payable                   | 4,705                                       | 705  | 4,000                                      |
| Other unpaid expenses           | 1,440                                       | 1,559  | <u>(119)</u>                               |
| Net change in surplus           |   |  | \$ (10,507)                                |
| Surplus per Association         |   |  | <u>\$1,806,948</u>                         |
| Surplus per examination         |   |  | <u>\$1,796,441</u>                         |

During the period under review, surplus funds increased \$526,416 from the amount of \$1,270,025 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 \$ 879,539

The prior examination report classified stocks in excess of the statutory limit as not admitted assets. The Association continues to incorrectly list these stocks as admitted assets resulting in the decrease of \$8,344.

Unpaid claims \$ 148,068

An analysis of loss development of unpaid claims at the end of 2017 decreased this liability by \$10,094.

Unpaid adjusting expenses \$ 15,171

An analysis of paid adjusting expenses to paid losses applied to the unpaid claim reserve increased this liability by \$10,511.

Unpaid salaries and commissions \$ 7,931

Liability increased by \$5,627 primarily due to including commissions from a report not used in Association's calculation.

Taxes Payable

\$ 705

This liability decreased by \$4,000 due to actual reporting of federal income tax.

CONCLUSION

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

Respectfully submitted,

/s/ Jerry Cihota  
JERRY CIHOTA, CFE, CPA  
Insurance Company Examiner  
Insurance Division  
State of Iowa