

EXAMINATION REPORT OF  
HOWARD COUNTY MUTUAL INSURANCE ASSOCIATION  
HOWARD COUNTY, CRESCO, IOWA  
AS OF DECEMBER 31, 2017

Cresco, Iowa  
November 8, 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

HOWARD COUNTY MUTUAL INSURANCE ASSOCIATION

HOWARD COUNTY, CRESCO, IOWA

AS OF DECEMBER 31, 2017

at its Home Office, 705 2nd Avenue Southeast, Cresco, Iowa. The report, containing applicable comments and financial data, is presented herein.

INTRODUCTION

Howard County 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.

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. 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 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 1953.

Effective December 31, 1999, the Association merged through an Assumption and Reinsurance Agreement with Bohemian Mutual Insurance Association, Protivin, Iowa with the Association being the surviving entity.

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 in effect.

The annual meeting of the members is held at Cresco, Iowa on the last Tuesday in March at 7:00 p.m. Special meetings shall be called by the President upon request of the majority of the Board of Directors or upon written request of one-fourth of the members of the Association. Due notice of the time and place of special meetings shall be given the members. Each member present is entitled to one vote regardless of the number of policies owned by the member on each question to be decided.

Voting by proxy is not permitted. A quorum shall be one more member than the number of Board of Directors fixed by resolution of the Board of Directors.

BOARD OF DIRECTORS

The corporate powers of the Association are vested in a Board of not less than five nor more than fifteen, within such limits shall be fixed by a Resolution of the Board of Directors. At present, the Board of Directors has set the number of directors at nine. As the term of the office of each director expires, the members of the Association at the regular annual meeting shall elect for a term not to exceed three years, members to the Board of Directors. Any vacancy on the Board may be filled by a majority of the remaining directors for the balance of the unexpired term, or the office may be declared vacant.

Directors serving at December 31, 2017 were:

<u>Name</u>	<u>Address</u>	<u>Term Expires</u>
David A. Koudelka	Cresco, Iowa	2018
Eddie Runde	Riceville, Iowa	2018
James Truka	Lime Springs, Iowa	2018
Michael Adams	Lime Springs, Iowa	2019
James Bouska	Protivin, Iowa	2019
William L. Seele	Cresco, Iowa	2019
Ronald Fitzgerald	Lime Springs, Iowa	2020
William Martinek	Cresco, Iowa	2020
Dulcie Ollendieck	Cresco, Iowa	2020

The regular annual meeting of the Board is held immediately following the annual meeting of the members, and thereafter on the call of the President or Chairman of the Board. A majority present constitutes a quorum for the transaction of business.

Directors receive a fee of \$250 for each meeting attended (including training sessions and the state convention) and reimbursement of travel expense. Directors who serve on a committee receive an additional \$250 fee and reimbursement for travel. The Chairman receives an additional \$1,500; the Vice-Chairman receives \$500.

Salaries and remuneration of directors are shown on Exhibit A following this report.

COMMITTEES

The Board of Directors annually appoint an Executive Committee and a Property Committee.

Serving on the committees at December 31, 2017, were:

Executive Committee

David Fritcher - President/Treasurer  
James Truka - Chairman  
David Koudelka - Director

Property Committee

James Bouska - Director  
William Steele - Director  
Eddie Runde - Director

There was one Executive Committee meeting held and one Property Committee meeting held during the exam period.

OFFICERS

At its annual meeting, the Board of Directors shall elect for a term of one year a Chairman, Vice Chairman, President, Secretary and Treasurer, and such other officers, including Vice Presidents, as it may deem advisable. Any such offices may be combined, except those of President and Secretary. Officers shall be members of the Association.

Officers serving at December 31, 2017 were:

<u>Name</u>	<u>Office</u>
James Truka	Chairman
David Fritcher	President/Treasurer
Dulcie Ollendieck	Vice Chairman
Jolene Rosenbaum	Secretary

Salaries and remuneration of officers are shown in Exhibit A following this report.

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees. It appeared disclosures were indicated on the statements.

CORPORATE RECORDS

The Articles of Incorporation and Bylaws were not amended or substituted during the period covered by this examination.

The recorded minutes of the membership and Board of Directors meetings were read and noted. The minutes of the Board of Directors meeting reflected that the Examination Report as of December 31, 2014 was reviewed and accepted at the January 20, 2016 Board meeting.

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 an annual period and the indemnity is non-cumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Commercial property: building and personal property
- Commercial general liability
- Business automobile liability
- Commercial liability umbrella

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 the following benefits:

Employees and members of the Board of Directors are provided with accidental death and dismemberment benefits up to a policy limit of \$10,000 on a non-contributory basis. Members have the option to purchase additional coverage with the extra premium reimbursed to the Association by the individual.

The Association contributes on a yearly basis to eligible employees' Simple Individual Retirement Accounts upon approval by the Board of Directors at their annual meeting in March. The Board approved a contribution of two percent of the employees' salary for 2015, 2016 and 2017 with total amounts contributed of \$3,166, \$3,281 and \$3,320, 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 five counties in the State of Iowa. The permitted writing territory is composed of the following counties: Howard, Mitchell, Floyd, Chickasaw, and Winneshiek 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 three-year period with premiums payable monthly, quarterly, semi-annually or annually. The Association underwrites these policies every three years.

At the present time, business is produced by fifty-three licensed agents.

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>\$1,292,283</u>	<u>\$1,299,095</u>	<u>\$1,296,964</u>	<u>\$3,888,342</u>
Incurred deductions:				
Losses	434,079	538,385	878,100	1,850,564
Loss adjustment expenses	2,274	5,421	6,429	14,124
Commissions	255,810	251,417	262,699	769,926
Salaries	157,900	164,266	165,947	488,113
Taxes, licenses and fees	29,011	29,956	30,271	89,238
Other underwriting expenses	<u>134,943</u>	<u>129,053</u>	<u>122,219</u>	<u>386,215</u>
Total deductions	<u>\$1,014,017</u>	<u>\$1,118,498</u>	<u>\$1,465,665</u>	<u>\$3,598,180</u>
Underwriting gain (loss)	<u>\$ 278,266</u>	<u>\$ 180,597</u>	<u>\$ (168,701)</u>	<u>\$ 290,162</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>
Incurred deductions:				
Losses	33.59%	41.44%	67.70%	47.59%
Loss adjustment expenses	0.18	0.42	0.50	0.36
Commissions	19.80	19.35	20.25	19.80
Salaries	12.22	12.64	12.80	12.55
Taxes, licenses and fees	2.24	2.31	2.33	2.30
Other underwriting expenses	<u>10.44</u>	<u>9.94</u>	<u>9.43</u>	<u>9.94</u>
Total deductions	<u>78.47%</u>	<u>86.10%</u>	<u>113.01%</u>	<u>92.54%</u>
Underwriting gain (loss)	<u>21.53%</u>	<u>13.90%</u>	<u>(13.01%)</u>	<u>7.46%</u>

REINSURANCE

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

CEDED

First Per Risk Excess of Loss

\$75,000 in excess of \$125,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall be limited to \$187,500 as respects any one loss occurrence, irrespective of the number of risks involved.

Each loss reduces the amount of indemnity provided, however, such amount shall be automatically reinstated without payment of additional premium. Such reinstatement shall be unlimited in number and shall apply to all losses occurring during any annual period.

#### Second Per Risk Excess of Loss

\$300,000 in excess of \$200,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall be limited to \$300,000 as respects any one loss occurrence, irrespective of the number of risks involved.

Each loss reduces the amount of indemnity provided, however, such amount shall be automatically reinstated without payment of additional premium. Such reinstatement shall be unlimited in number and shall apply to all losses occurring during any annual period.

#### Third Per Risk Excess of Loss

\$1,000,000 in excess of \$500,000 ultimate net loss on any one risk involved in any one loss occurrence. The liability of the reinsurer shall be limited to \$1,000,000 as respects any one loss occurrence, irrespective of the number of risks involved.

Each loss reduces the amount of indemnity provided, however, such amount shall be automatically reinstated without payment of additional premium. Such reinstatement shall be unlimited in number and shall apply to all losses occurring during any annual period.

#### First Aggregate Excess of Loss

The reinsurer shall indemnify the Association for 100 percent of the amount by which the ultimate net loss in the aggregate in any one annual period exceeds 82.5 percent of the Association's gross net written premium income in any one annual period. The reinsurer's liability shall not exceed 30 percent of the Association's gross net written premium income in any one annual period on losses occurring during the respective annual period.

The Association shall retain, in each annual period, net for its own account an amount of losses, including loss adjusting expenses, equal to not less than 82.5 percent of its gross net written premium income.

#### Second Aggregate Property Excess of Loss

The reinsurer shall indemnify the Association for 100 percent of the amount by which the ultimate net loss in the aggregate in any one annual period exceeds 112.50 percent of the Association's gross net written premium income in any one annual period. The reinsurer's liability shall not exceed 137.50 percent of the Association's gross net written premium income in any one annual period on losses occurring during the respective annual period.

The Association shall retain, in each annual period, net for its own account an amount of losses, including loss adjusting expenses, equal to not less than 112.50 percent of its gross net written premium income.

#### Third Aggregate Excess of Loss

The reinsurer shall indemnify the Association for 100 percent of the amount by which the ultimate net loss in the aggregate in any one annual period exceeds 250 percent of the Association's gross net written premium income in any one annual period.

The Association shall retain, in each annual period, net for its own account an amount of losses, including loss adjusting expenses, equal to not less than 250 percent of its gross net written premium income.

### Property Pro Rata Facultative

The Association may cede an amount of facultative reinsurance on any one risk, on a pro rata basis, up to but not exceeding the reinsurer's limit of liability as stated on the facultative certificate. As of December 31, 2017, there were five risks that warranted facultative coverage.

For all of the above reinsurance contacts, it is warranted the maximum limit of any one risk is \$1,500,000 and any amount greater than this maximum limit will be reinsured elsewhere on a pro rata basis or so deemed.

### 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. Of the claims reviewed, 100 percent were paid within fourteen days from the date sufficient information was received to pay the claim.

### AFFILIATED AGENCY

The Association owns its Home Office building and shares a portion of the space with Howard County Mutual Insurance Services, Inc.

The agency is 100 percent owned by the Association. This agency produced approximately 15 percent of the Association's business during 2017 and received \$41,172 in commissions from the Association on business written during 2017.

The agency paid \$150 monthly rent to the Association in 2017. The telephone, office supplies and other business expenses incurred by the agency are paid directly by the agency. In 2018, the Association will charge the Agency \$150 per month in addition to their \$150 monthly rent to share utility, copy, and supply 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.

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 \$423,225,800. The Association's statutory minimum surplus level at December 31, 2017 was \$423,226. 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, 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 Admitted</u>	<u>Admitted</u>
Bonds	\$ 2,788,608	\$	\$ 660	\$ 2,787,948
Stocks	1,378,048	301,674		1,679,722
Bank balances:				
Subject to check	229,420			229,420
On interest	81,502			81,502
Real estate	90,295			90,295
Cash in office	100			100
Unpaid premiums:				
Due after November 1	320,773		320,242	531
Accrued interest		25,439		25,439
Equipment and furniture	802		802	
Federal income tax recoverable		65,500	29,650	35,850
Reinsurance premium refundable		2,461		2,461
IMT overwrite receivable		662		662
Prepaid reinsurance	<u>207,720</u>			<u>207,720</u>
 Total	 <u>\$ 5,097,268</u>	 <u>\$ 395,736</u>	 <u>\$ 351,354</u>	 <u>\$ 5,141,650</u>

LIABILITIES AND SURPLUS

Losses	\$ 214,312
Unpaid adjusting expenses	1,400
Ceded reinsurance balances payable	4,350
Unpaid salaries and commissions	31,083
Amounts withheld for the account of others	4,184
Taxes	1,761
Other unpaid expenses	2,669
Premiums collected for other companies - not remitted	8,041
Premiums received in advance	29,802
Unearned premium reserve	<u>524,861</u>
 Total liabilities	 \$ 822,463
 Surplus as regards policyholders	 <u>4,319,187</u>
 Total liabilities and surplus	 <u>\$5,141,650</u>

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016		\$4,949,414
	<u>INCOME</u>	
Net premiums and fees		\$1,311,649
Net interest received on bonds		112,051
Increase (decrease) by adjustment - bonds		(4,111)
Dividends received		86,458
Interest received on bank deposits		2,327
Profit on sale of investments		6,610
Rents received		7,800
Increase in ledger liabilities		4,783
Underwriting expense reimbursement		7,818
Total income		<u>\$1,535,385</u>
Total assets and income		<u>\$6,484,799</u>

DISBURSEMENTS

Losses paid		\$ 740,888
<u>Operating Expense</u>		
Loss adjusting expenses	\$ 5,629	
Commissions	257,930	
Advertising	8,946	
Boards, bureaus and associations	12,068	
Inspection and loss prevention	8,443	
Salaries of officers	86,954	
Expenses of officers	4,805	
Salaries of office employees	78,993	
Employee welfare	5,506	
Insurance	16,180	
Directors' compensation	12,355	
Directors' expenses	2,833	
Rent and rent items	6,000	
Equipment	5,720	
Printing, stationery and supplies	2,832	
Postage and telephone	6,660	
Legal and auditing	15,950	
Premium taxes	17,268	
Insurance Division licenses and fees	480	
Payroll taxes	12,942	
Real estate expenses	6,431	
Real estate taxes	3,162	
Miscellaneous	(6)	
Data processing	12,245	
Utilities	804	
Donations	725	
Travel expenses	122	
Investment fees and bank charges	13,560	
Total operating expense		<u>\$ 605,537</u>

Non-Operating Expense

Depreciation on real estate		5,113
Loss on sale of investments		3,756
Federal income tax		32,237
Total disbursements		<u>\$1,387,531</u>
Balance - ledger assets, December 31, 2017		<u>\$5,097,268</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE-YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$1,296,964
<u>Deductions</u>		
Losses incurred	\$ 878,100	
Loss expenses incurred	6,429	
Other operating expenses incurred	581,136	
Total underwriting deductions		<u>1,465,665</u>
Net underwriting gain (loss)		\$ (168,701)
<u>Investment Income</u>		
Net investment income earned		190,585
<u>Other Income</u>		
Premiums collected for other companies (net)		(944)
Miscellaneous income		<u>78</u>
Net income before Federal income tax		\$ 21,018
Federal income tax incurred		<u>(3,613)</u>
Net income		<u>\$ 24,631</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016		<u>\$4,088,382</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 24,631	
Change in not admitted assets	1,203	
Change in net unrealized gains/losses	204,971	
Change in surplus as regards policyholders for the year		<u>\$ 230,805</u>
Surplus as regards policyholders, December 31, 2017		<u>\$4,319,187</u>

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$3,888,342
<u>Deductions</u>		
Losses incurred	\$1,850,564	
Loss expenses incurred	14,124	
Other operating expenses incurred	<u>1,733,492</u>	
Total underwriting deductions		<u>3,598,180</u>
Net underwriting gain (loss)		\$ 290,162
<u>Investment Income</u>		
Net investment income earned		518,219
<u>Other Income</u>		
Premiums collected for other companies (net)		(2,714)
Miscellaneous income		<u>223</u>
Net income before Federal income tax		\$ 805,890
Federal income tax incurred		<u>193,761</u>
Net income		<u>\$ 612,129</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014		<u>\$3,517,635</u>
<u>Gains and (Losses) in Surplus</u>		
Net income	\$ 612,129	
Change in not admitted assets	3,666	
Change in net unrealized gains/losses	<u>185,757</u>	
Change in surplus as regards policyholders for the period		<u>\$ 801,552</u>
Surplus as regards policyholders, December 31, 2017		<u>\$4,319,187</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>			
Federal income tax recoverable	\$ 0	\$ 35,850	\$ 35,850
<u>Liabilities</u>			
Losses	217,700	214,312	3,388
Amounts withheld for the account of others	5,042	4,184	858
Other unpaid expenses	3,669	2,669	<u>1,000</u>
Net change to surplus			\$ 41,096
Surplus per Association			<u>\$4,278,091</u>
Surplus per examination			<u>\$4,319,187</u>

During the period under review, surplus funds increased \$801,552 from the amount of \$3,517,635 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:

Federal income tax recoverable \$ 35,850

This asset was increased by \$35,850 to reflect the income tax refund received in 2018.

Losses \$ 214,312

This liability was decreased by \$3,388 to reflect actual loss development.

Amounts withheld for the account of others \$ 4,184

This liability was decreased by \$858 to reflect the actual amount of payroll taxes paid in 2018 for 2017.

Other unpaid expenses \$ 2,669

This liability was decreased by \$1,000 to reflect actual expenses paid in 2018 for 2017.

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 & Company, LLP  
Representing the State of Iowa