

EXAMINATION REPORT OF  
ADAIR COUNTY MUTUAL INSURANCE ASSOCIATION  
ADAIR COUNTY, GREENFIELD, IOWA  
AS OF DECEMBER 31, 2017

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

Greenfield, Iowa  
October 9, 2018

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, 2017

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, 2014. The examination reported herein was conducted by the Iowa Insurance Division.

SCOPE OF EXAMINATION

This examination covers the 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 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 1:30 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. 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 five 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>
Greg Lilly	Greenfield, Iowa	2018
Richard Wallace	Orient, Iowa	2019
Sherol Brown	Greenfield, Iowa	2019
Ami Christensen	Greenfield, Iowa	2020
Allen Tanner	Creston, 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 set per-diem fee of \$100 for each meeting attended and reimbursement of travel expense, except the President who receives \$150 per meeting.

#### 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 serving at December 31, 2017 were:

<u>Name</u>	<u>Office</u>
Allen Tanner	President
Ami Christensen	Vice-President
Marcia Kralik	Secretary-Treasurer

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. Two of the directors are insurance producers.

#### 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 as of December 14, 2015 reflected that the Examination Report as of December 31, 2014 was reviewed and approved.

#### FIDELITY BONDS AND OTHER INSURANCE

The Association is protected by a blanket bond in the amount of \$250,000 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
- 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

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.

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 \$16,222 (10%), \$14,622 (10%) and \$13,272 (8%) were paid by the Association to the retirement benefit fund for 2015, 2016 and 2017, 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 the present time, business is produced by sixty-nine 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>\$1,323,523</u>	<u>\$1,290,750</u>	<u>\$1,219,836</u>	<u>\$3,834,109</u>
Incurred deductions:				
Losses	\$ 909,612	\$ 513,731	\$ 574,884	\$1,998,227
Loss adjustment expense	51,834	41,863	43,758	137,455
Commissions	241,024	292,272	240,883	774,179
Salaries	163,020	144,634	163,675	471,329
Taxes, licenses and fees	39,739	32,843	34,781	107,363
Other underwriting expenses	<u>140,039</u>	<u>206,869</u>	<u>157,592</u>	<u>504,500</u>
Total deductions	<u>\$1,545,268</u>	<u>\$1,232,212</u>	<u>\$1,215,573</u>	<u>\$3,993,053</u>
Underwriting gain or (loss)	<u>\$ (221,745)</u>	<u>\$ 58,538</u>	<u>\$ 4,263</u>	<u>\$ (158,944)</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	68.73%	39.80%	47.13%	52.12%
Loss adjustment expense	3.92	3.24	3.59	3.59
Commissions	18.21	22.64	19.75	20.19
Salaries	12.32	11.21	13.42	12.29
Taxes, licenses and fees	3.00	2.54	2.84	2.80
Other underwriting expenses	<u>10.58</u>	<u>16.03</u>	<u>12.92</u>	<u>13.16</u>
Total deductions	<u>116.76%</u>	<u>95.46%</u>	<u>99.65%</u>	<u>104.15%</u>
Underwriting gain or (loss)	<u>(16.76)%</u>	<u>4.54%</u>	<u>0.35%</u>	<u>(4.15)%</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 the 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. The Association is required to provide a timely notification to reinsurer of any risks exceeding \$10,000,000.

### Property Aggregate Excess of Loss

First \$1,000,000 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.

## 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 16 percent of the Association's business during 2017. The Agency paid monthly rent of \$500 and an annual management fee of \$48,500 to the Association in 2017.

### 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, 2017 relative to security custodial requirements.

Six checks written by the Association were outstanding for more than a year as of the Examination date. Two of the six were outstanding for over three years. 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, 2017, the gross risk in force for the Association was \$364,786,402. The Association's statutory minimum surplus level at December 31, 2017 was \$364,786. It is noted the Association's surplus level to minimum surplus level ratio was 8.3/1. 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	\$1,879,800	\$	\$	\$1,879,800
Stocks	666,397	1,124,595	23,514	1,767,478
Bank balances:				
Subject to check	56,800			56,800
On interest	500			500
Real estate	47,191			47,191
Cash in office	200			200
Unpaid premiums:				
Due before November 1	(8)		(8)	
Due after November 1	260,642		257,566	3,076
Accrued interest		16,422		16,422
Equipment and furniture	618		618	
Electronic data processing equipment	10			10
Interest receivable	<u>52</u>	<u>          </u>	<u>          </u>	<u>52</u>
Total	<u>\$2,912,202</u>	<u>\$1,141,017</u>	<u>\$281,690</u>	<u>\$3,771,529</u>

LIABILITIES AND SURPLUS

Unpaid claims	\$ 18,704
Unpaid adjusting expenses	1,243
Ceded reinsurance balances payable	43,383
Unpaid salaries and commissions	14,115
Amounts withheld for others	10,733
Taxes payable	1,522
Other unpaid expenses	2,965
Premiums collected for other companies - not remitted	4,183
Premiums received in advance	20,783
Unearned premium reserve	<u>577,775</u>
Total liabilities	\$ 695,406
Surplus as regards policyholders	<u>\$3,076,123</u>
Total liabilities and surplus	<u>\$3,771,529</u>

INCOME AND DISBURSEMENTS  
AND  
RECONCILIATION OF LEDGER ASSETS

Ledger assets, December 31, 2016		\$2,876,676
	<u>INCOME</u>	
Net premiums and fees		\$1,219,956
Net interest received on bonds		68,325
Increase (Decrease) by adjustment - bonds		(7,338)
Dividends received		34,433
Interest received on bank deposits		15
Profit on sale of investments		1,039
Rents received		7,800
Premiums collected for other companies		189,469
Miscellaneous income		(350)
Total income		<u>\$1,513,349</u>
Total assets and income		<u>\$4,390,025</u>
	<u>DISBURSEMENTS</u>	
Net losses paid		\$ 663,210
<u>Operation Expense</u>		
Loss adjustment expenses	\$ 45,737	
Commissions	240,883	
Advertising	11,377	
Boards, bureaus and associations	12,100	
Inspection and loss prevention	25,739	
Salaries of officers	60,000	
Expenses of officers	1,884	
Salaries of office employees	105,908	
Employee welfare	45,115	
Insurance	15,143	
Directors' compensation	6,750	
Directors' expenses	1,484	
Rent and rent items	1,200	
Equipment	27,395	
Printing, stationery and supplies	8,471	
Postage and telephone	5,299	
Legal and auditing	22,730	
State insurance taxes	18,086	
Insurance Division licenses and fees	490	
Payroll taxes	16,538	
All other taxes	366	
Real estate expenses	8,465	
Real estate taxes	1,956	
Miscellaneous	(38,308)	
Donations/contributions	2,541	
Annual meeting	4,192	
Travel and Travel Items	493	
Total operating expense		652,034
<u>Non-Operating Expense</u>		
Depreciation on real estate		4,543
Loss on sale of investment		1,682
Premium collections transmitted to other companies		154,940
Decrease in ledger liabilities		1,414
Total disbursements		<u>\$1,477,823</u>
Balance - ledger assets, December 31, 2017		<u>\$2,912,202</u>

UNDERWRITING AND INVESTMENT EXHIBIT

ONE YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$1,219,836

Deductions

Losses incurred \$574,884

Loss expenses incurred 43,758

Other operating expenses incurred 596,931

Total underwriting deductions 1,215,573

Net underwriting gain (loss) \$ 4,263

Investment Income

Net investment income earned 85,523

Other Income

Premiums collected for other companies 40,474

Miscellaneous income (350)

Net income before Federal income tax \$ 129,910

Federal income tax incurred 0

Net income \$ 129,910

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2016 \$2,796,443

Gains and (Losses) in Surplus

Net income \$ 129,910

Change in not admitted assets 4,970

Unrealized capital change 144,800

Change in surplus as regards policyholders for the year \$ 279,680

Surplus as regards policyholders, December 31, 2017 \$3,076,123

UNDERWRITING AND INVESTMENT EXHIBIT

THREE-YEAR PERIOD ENDED DECEMBER 31, 2017

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$3,834,109

Deductions

Losses incurred \$1,998,227

Loss expenses incurred 137,455

Other operating expenses incurred 1,857,371

Total underwriting deductions 3,993,053

Net underwriting gain (loss) \$ (158,944)

Investment Income

Net investment income earned 244,727

Other Income

Borrowed money (645,449)

Premiums collected for other companies 100,992

Miscellaneous income 68

Net income before Federal income tax \$ (458,606)

Federal income tax incurred 0

Net income \$ (458,606)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014 \$2,613,948

Gains and (Losses) in Surplus

Net income \$ (458,606)

Change in not admitted assets 7,075

Unrealized capital change 913,706

Change in surplus as regards policyholders for the period \$ 462,175

Surplus as regards policyholders, December 31, 2017 \$3,076,123

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>			
Stocks	\$1,765,822	\$1,767,478	\$ 1,656
<u>Liabilities</u>			
Unpaid claims	16,960	18,704	(1,744)
Unpaid adjusting expenses	3,222	1,243	1,979
Unpaid salaries and commissions	42,854	14,115	28,739
Amounts withheld from others	12,406	10,733	<u>1,673</u>
Net change to surplus			\$ 32,303
Surplus to Association			<u>\$3,043,820</u>
Surplus to Examination			<u>\$3,076,123</u>

During the period under review, surplus funds increased \$462,175 from the amount of \$2,613,948 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:

Stocks \$1,767,478

Asset increased \$1,656 due to adjusting valuation of subsidiary properly reported as a stock.

Unpaid claims \$ 18,704

The liability was increased by \$1,744 to account actual unpaid losses as of December 31, 2017.

Unpaid adjusting expenses \$ 1,243

An analysis of paid loss adjusting expenses to paid losses decreased the liability by \$1,979.

Unpaid salaries and commissions \$ 14,115

The liability was decreased by \$28,739 to account for actual salaries and commissions due as of December 31, 2017.

Amounts withheld from others \$ 10,733

The liability decreased \$1,673 due to comparing with the actual amounts withheld as of December 31, 2017 that have yet been paid to others.

CONCLUSION

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

Respectfully submitted,

\_\_\_\_/s/ Jerry Cihota  
JERRY P CIHOTA, CPA, CFE  
Examiner Specialist  
Insurance Division  
State of Iowa