

EXAMINATION REPORT OF
HAWKEYE MUTUAL INSURANCE ASSOCIATION
NEWTON, IOWA
AS OF DECEMBER 31, 2014

Newton, Iowa
October 7, 2015

HONORABLE NICK GERHART
Commissioner of Insurance
State of Iowa
Des Moines, Iowa

Commissioner Gerhart:

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

HAWKEYE MUTUAL INSURANCE ASSOCIATION

NEWTON, IOWA

AS OF DECEMBER 31, 2014

at its Home Office, 315 South Second Avenue West, Newton, Iowa. The report, containing applicable comments and financial data, is presented herein.

SCOPE OF EXAMINATION

This examination covers the period from December 31, 2009 to December 31, 2014. The examination was conducted in accordance with the procedures established by the Insurance Division of Iowa and generally accepted insurance examination standards.

HISTORY

The Association was incorporated in 1875 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 1954. Effective July 1, 1994, the Association amended its Articles of Incorporation to become a state mutual insurance association under Chapter 518A, Code of Iowa.

MANAGEMENT AND CONTROL

MEMBERSHIP

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

The annual meeting of the members is held at Newton, Iowa on the second Tuesday in April at 1:00 p.m. Special meetings may be called by President upon request of the majority of the Board of Directors or upon written request of one-fourth of the members of the Association. Five days 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 voted on regardless of the number of policies owned by the member. Voting by proxy is not permitted. A quorum shall be one more member than the number 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, each elected by a majority vote at the 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 at December 31, 2014:

<u>Name</u>	<u>Location</u>	<u>Term Expires</u>
Gary Paul	Gilman, Iowa	2015
Ronald Hotger	Laurel, Iowa	2015
Arvin Vander Wilt	Pella, Iowa	2015
Dennis Moore	Newton, Iowa	2016
Luanne Fitzpatrick	Newton, Iowa	2016
TJ Dykstra	Altoona, Iowa	2017
Jerald Thompson	Newton, Iowa	2017

The annual meeting of the Board shall be held immediately following the adjournment of the annual meeting of the members, and thereafter on the call of the President. A majority of the number of directors fixed by resolution of the Board shall constitute a quorum for the transaction of business.

Directors receive an annual fee of \$600 per year. In addition directors receive \$100 for each meeting attended and reimbursement of travel expense of \$.50 per mile.

OFFICERS

At its annual meeting, the Board of Directors shall elect for a term of one year a President, Treasurer and Secretary. Any such offices may be combined except President and Secretary. Board may elect additional officers as it deems necessary. It may leave unfilled for any such period as it may fix by resolution any office except the offices of President, Treasurer and Secretary.

Officers as of December 31, 2014:

<u>Name</u>	<u>Office</u>
TJ Dykstra	President
Luanne Fitzpatrick	Secretary-Treasurer

The salaries of the officers are shown in Exhibit "A".

CONFLICT OF INTEREST

Conflict of interest statements were signed annually by all officers, directors and key employees. No conflicts were disclosed. Officers that also serve as agents did not disclose this as a possible conflict of interest.

CORPORATE RECORDS

The Articles of Incorporation were not amended or substituted during the period covered by this examination. The By-Laws were amended September 8, 2010 to change the current age a Director can be re-elected from 75 to 80. This change was completed by Board approval. Evidence of notification of the Insurance Division was not readily available.

The recorded minutes of the membership and Board of Directors meetings were read and approved. The minutes of the Board of Directors reflected that the Examination Report as of December 31, 2009 was not reviewed nor accepted during the Examination Period.

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 an annual period and the indemnity is noncumulative.

Policies for other coverages are as follows:

- Workers' compensation and employers' liability
- Professional liability
- Officers' and directors' liability
- Building and contents
- General liability
- Umbrella
- Auto

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

Association pays full time employees health, dental and disability insurance with all premiums paid by the Association. Vision insurance is provided for \$8 per month per employee and \$15 for employee and spouse. Employees must work for one year to be eligible for disability insurance. A defined benefit retirement plan is funded by Association for all full time employees. Amounts annually contributed to the retirement plan was \$0, \$25,000, \$45,000, \$45,000, \$0 for 2010 to 2014, respectively. Association also provided a profit sharing plan to three full-time employees in 2014. Profit share payment based on employee salary compared to Association total salaries. Plan is financed by overwrite fees from IMT for liability premiums collected. Amount contributed for profit share was \$20,212, \$20,303, \$21,089, \$22,544 and \$26,121 annually for years 2010 to 2014, respectively.

TERRITORY AND PLAN OF OPERATION

The Association was authorized to transact business in counties in the state of Iowa including: Benton, Boone, Hamilton, Hardin, Iowa, Jasper, Jefferson, Johnson, Keokuk, Linn, Madison, Mahaska, Marion, Marshall, Monroe, Polk, Poweshiek, Story, Tama, Wapello, Warren and Washington. Two additional authorized counties, Grundy and Dallas, were requested to be added to the list. Insurance Division approved on November 3, 2014.

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

At the present time, business is produced by 80 licensed agents.

UNDERWRITING EXPERIENCE

FIVE-YEAR PERIOD ENDED DECEMBER 31, 2014

<u>Classification</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Premiums earned	<u>\$2,382,807</u>	<u>\$2,308,353</u>	<u>\$2,406,925</u>	<u>\$2,783,123</u>	<u>\$3,069,054</u>	<u>\$12,950,262</u>
Incurred deductions:						
Losses	\$1,584,367	1,447,419	\$1,869,068	\$1,294,243	\$1,887,914	\$ 8,083,011
Loss adjustment expenses	64,212	116,943	171,197	174,440	244,244	771,036
Commissions	365,181	415,331	4 48,453	504,509	607,965	2,341,439
Salaries	61,919	76,026	87,286	74,762	45,357	345,350
Taxes, licenses and fees	52,102	79,569	43,906	53,621	63,272	292,470
Other underwriting expenses	<u>80,541</u>	<u>115,005</u>	<u>121,191</u>	<u>175,453</u>	<u>136,043</u>	<u>628,233</u>
Total Deductions	<u>\$2,208,322</u>	<u>\$2,250,293</u>	<u>\$2,741,101</u>	<u>\$2,277,028</u>	<u>\$2,984,795</u>	<u>\$12,461,539</u>
Underwriting gain (loss)	<u>\$ 174,485</u>	<u>\$ 58,060</u>	<u>\$ (334,176)</u>	<u>\$ 506,095</u>	<u>\$ 84,259</u>	<u>\$ 488,723</u>

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

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Total</u>
Incurred deductions:						
Losses	66.49%	62.70%	77.65%	46.50%	61.51%	62.42%
Loss adjustment expenses	2.69	5.07	7.11	6.27	7.96	5.95
Commissions	15.33	17.99	18.63	18.13	19.81	18.08
Salaries	2.60	3.29	3.63	2.69	1.48	2.67
Taxes, licenses and fees	2.19	3.45	1.82	1.93	2.06	2.26
Other underwriting expenses	<u>3.38</u>	<u>4.98</u>	<u>5.04</u>	<u>6.30</u>	<u>4.43</u>	<u>4.85</u>
Total deductions	<u>92.68%</u>	<u>97.48%</u>	<u>133.88%</u>	<u>81.82%</u>	<u>97.25%</u>	<u>96.23%</u>
Underwriting gain (loss)	<u>7.32%</u>	<u>2.52%</u>	<u>(13.88)%</u>	<u>18.18%</u>	<u>2.75%</u>	<u>3.77%</u>

REINSURANCE

The Association has reinsurance contracts in force as of December 31, 2014 with an authorized insurer which provide coverage for property business was as follows:

CEDED

First Excess of Loss:

\$175,000 in excess of \$125,000 each and every risk resulting from one loss occurrence including loss adjustment expenses.

Second Excess of Loss:

\$450,000 in excess of \$300,000 each and every risk resulting from one loss occurrence including loss adjustment expenses.

Third Excess of Loss:

\$750,000 in excess of \$750,000 each and every risk resulting from one loss occurrence including loss adjustment expenses.

First Aggregate Excess of Loss Reinsurance:

The reinsurer will indemnify the Association for 100% of the amount by which the aggregate net losses, including loss adjustment expenses, incurred during the annual period exceeds 80% of the Association's net premium. The reinsurer's limit of liability shall be 50% of the Association's net premium, in respect to net losses incurred by the Association during the annual period.

Second Aggregate Excess of Loss Reinsurance

The reinsurer will indemnify the Association for 100% of aggregate net losses, including loss adjustment expenses, incurred during the annual period, which exceeds 130% of the Association's net premium.

AFFILIATES

Dykstra Insurance, Inc.

The Dykstra Insurance, Inc. agency is officed in the same building owned and occupied by the Association. As of Examination date, the agency is primarily owned by Patricia and TJ Dykstra. Expenses appeared to be allocated appropriately between the agency and the Association.

In lieu of monthly rental charge, the agency reimburses the Association fifty percent of commissions written through the agency, which relates to the Association. The 2014 reimbursement from the Dykstra agency to the Association was \$35,201.

The agency produced approximately 12 percent of the Association's 2014 business.

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 examination involved review of claims paid or closed. Several of the proofs of loss associated with the claims reviewed were not signed by the insured.

Bonds listed on the Annual Statement for 2014 did not report the acquisition date. Proper accounting of book value of bonds requires the purchase date.

Three checks outstanding over twelve months were on year ended 2014 reconciliation. Association should consider escheating these funds to State Treasurer.

The Association was in compliance with the Commissioner's Bulletin 97-6 at December 31, 2014 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, 2014, the gross risk in force for the Association was \$1,231,514,690. The Association's statutory minimum surplus level as December 31, 2014 was \$1,231,515. It is noted the Association's surplus level to minimum surplus level ratio was 17.4/1. The reported surplus/statutory minimum ratio average for the Chapter 518A licensed industry at December 31, 2014 was 11.7/1.

SUBSEQUENT EVENTS

On January 1, 2015, the Association changed reinsurer from Wisconsin Reinsurance Corporation to Farmers Mutual Hail of West Des Moines, Iowa.

In letter dated February 16, 2015, Association requested permission to write coverage in the following counties of Delaware, Jones and Louisa. Iowa Insurance Division approved the request on February 18, 2015.

In letter dated April 14, 2015, Association requested permission to write coverage in the following counties of Black Hawk, Buchanan, Cedar, Muscatine, Des Moines, Lee and Van Buren. Iowa Insurance Division approved the request on April 24, 2015.

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, 2014 and the assets and liabilities as of this date.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Admitted</u>
Bonds	\$21,045,473	\$	\$21,045,473
Common stocks	594,473		594,473
Properties occupied by Company	148,004		148,004
Cash	1,529,399		1,529,399
Investment income due and accrued	244,352	(3,514)	247,866
Unpaid premiums: in collection	14,142	14	14,128
Furniture and equipment	42,531	42,531	
IMT liability premium receivable	<u>20,601</u>		<u>20,601</u>
Total assets	<u>\$23,638,975</u>	<u>\$ 39,031</u>	<u>\$23,599,944</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 407,451
Loss adjustment expenses	38,510
Commissions Payable	(2)
Other expenses	6,806
Taxes, licenses and fees	6,060
Current federal taxes	52,000
Unearned premiums	1,536,020
Advance premium	99,742
Ceded reinsurance premiums payable	<u>(10,467)</u>
Total liabilities	<u>\$ 2,136,120</u>
Surplus as regards policyholders	<u>\$21,463,824</u>
Total liabilities and surplus	<u>\$23,599,944</u>

UNDERWRITING AND INVESTMENT EXHIBIT
ONE YEAR PERIOD ENDED DECEMBER 31, 2014
STATEMENT OF INCOME

<u>Underwriting Income</u>		
Premiums earned		\$ 3,069,054
<u>Deductions</u>		
Losses incurred	\$1,887,914	
Loss expenses incurred	244,244	
Other operating expenses incurred	852,637	
Total underwriting deductions		<u>2,984,795</u>
Net underwriting gain (loss)		\$ 84,259
<u>Investment Income</u>		
Net investment income earned		701,592
Net realized capital gain		7,957
<u>Other Income</u>		
Finance charges and service charges not included in premiums		35,063
Aggregate write-ins for miscellaneous income:		
Reimbursed office commissions		35,202
Reimbursed expense		<u>26,122</u>
Net income before Federal income taxes		\$ 890,195
Federal income tax incurred		<u>52,000</u>
Net income		<u>\$ 838,195</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2013	<u>\$20,665,199</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 838,195
Unrealized capital change	163
Change in non-admitted assets	(14,191)
Prior end of year premium due, not paid	<u>(25,542)</u>
Change in surplus as regards policyholders for the year	<u>\$ 798,625</u>
Surplus as regards policyholders, December 31, 2014	<u>\$21,463,824</u>

UNDERWRITING AND INVESTMENT EXHIBIT
FIVE YEAR PERIOD ENDED DECEMBER 31, 2014
STATEMENT OF INCOME

<u>Underwriting Income</u>	
Premiums earned	\$12,950,262
Deductions	
Losses incurred	\$8,083,011
Loss expenses incurred	771,036
Other operating expenses incurred	<u>3,607,492</u>
Total underwriting deductions	<u>12,461,539</u>
Net underwriting gain (loss)	\$ 488,723
<u>Investment Income</u>	
Net investment income earned	3,468,190
Net realized capital gain	154,003
<u>Other Income</u>	
Finance changes not included	153,292
Miscellaneous income	<u>253,700</u>
Net income before Federal income taxes	\$ 4,517,908
Federal income tax incurred	<u>673,762</u>
Net income	<u>\$ 3,844,146</u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2009	<u>\$17,733,735</u>
<u>Gains and (Losses) in Surplus</u>	
Net income	\$ 3,844,146
Unrealized capital gains	1,637
Change in non-admitted assets	(44,019)
Aggregate write-ins for gains and losses in surplus	<u>(71,675)</u>
Change in surplus as regards policyholders for the period	<u>\$ 3,730,089</u>
Surplus as regards policyholders, December 31, 2014	<u>\$21,463,824</u>

CASH FLOW STATEMENT
ONE YEAR PERIOD ENDED DECEMBER 31, 2014

Cash from Operations

Premiums collected net of reinsurance	\$4,680,209
Net investment income	618,508
Miscellaneous income	<u>96,387</u>
Total	\$ 5,395,104
Benefit and loss related payments	\$ 1,480,463
Commissions, expenses paid and aggregate write-ins	<u>1,045,506</u>
Total	\$ 2,525,969
Net cash from operations	<u>\$ 2,869,135</u>

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	<u>\$ 2,012,121</u>
Total investment proceeds	\$ 2,012,121
Cost of investments acquired (long-term only):	
Bonds	\$ 3,058,429
Real estate	<u>134,724</u>
Total investments acquired	<u>\$ 3,193,153</u>
Net cash from investments	<u>\$ (1,181,032)</u>

Cash from Financing and Miscellaneous Sources

Cash provided (applied):	
Other cash applied	<u>(88,674)</u>
Net cash from financing and miscellaneous sources	<u>\$ (88,674)</u>

Reconciliation of Cash and Short-term Investments

Net change in cash, cash equiv. and short-term invts	\$ 1,599,429
Cash, cash equivalents, short-term investments	
Beginning of the year	<u>\$ (70,030)</u>
End of year	<u>\$ 1,529,399</u>

SURPLUS AS REGARDS POLICYHOLDERS

Examination changes which resulted in the net increase to surplus are shown in the following statement of differences:

<u>Classification</u>	<u>Per Association</u>	<u>Per Examination</u>	<u>Surplus Increase (Decrease)</u>
<u>Assets</u>			
Investment income due and accrued	\$244,352	\$247,866	\$ 3,514
<u>Liabilities</u>			
Losses	442,618	407,451	\$ 35,167
Loss adjustment expenses	0	38,510	<u>(38,510)</u>
Net change in surplus			<u>\$ 171</u>
Surplus per Association			<u>\$21,463,653</u>
Surplus per Examination			<u>\$21,463,824</u>

During the period under review, surplus funds increased \$3,730,089 from the amount of \$17,733,735 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:

<u>Investment income due and accrued</u>	<u>\$ 247,866</u>
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This asset was increased \$3,514 due to recalculation of accrued interest due and accrued.

<u>Losses</u>	<u>\$ 407,451</u>
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The loss reserves were decreased \$35,167 to reflect the actual amounts paid and reserved after 2014 that were reserved for 2014 and prior incurred claims.

<u>Loss adjustment expenses</u>	<u>\$ 38,510</u>
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This liability was established based on the ratio of paid loss adjustment expenses to paid losses increasing this liability \$23,411.

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, CPE
Insurance Company Examiner Specialist
Insurance Division
State of Iowa