EXAMINATION REPORT OF

MIDWEST FAMILY MUTUAL INSURANCE COMPANY

CHARITON, IOWA

AS OF DECEMBER 31, 2015

Chariton, Iowa
April 7, 2017

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

Commissioner:

In accordance with your authorization and pursuant to Iowa statutory provisions, an examination has been made of the records, business affairs and financial condition of

MIDWEST FAMILY MUTUAL INSURANCE COMPANY

CHARITON, IOWA

AS OF DECEMBER 31, 2015

at its Home Office 1711 Osceola Avenue, Suite 212, Chariton, Iowa and regional office at 3033 Campus Drive #E195, Plymouth, Minnesota.

INTRODUCTION

Midwest Family Mutual Insurance Company, hereinafter referred to as the “Company”, was last examined as of December 31, 2010 by the State of Minnesota. The examination reported herein was conducted by examiners for the Iowa Insurance Division.

SCOPE OF EXAMINATION

This is the regular comprehensive financial examination of the Company covering the intervening period from January 1, 2011 to the close of business on December 31, 2015, including any material transactions and/or events occurring and noted subsequent to the examination period.

The examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires the examination to be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company; including corporate governance, identifying and assessing inherent risks within the organization, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions, as well as applicable domestic state regulations.

All accounts and activities of the organization were considered in accordance with the risk-focused examination process. The Company’s assets were verified and evaluated and the liabilities determined to reflect herein a statement of its financial condition as of December 31, 2015.

HISTORY

The Company was incorporated under the laws of the State of Minnesota and commenced business in 1891. The original name of the Company was Minnesota Farmers Mutual Insurance Company. The present name of the Company was adopted in 1983.

The Company initially wrote windstorm and personal property coverages in the farm communities of Minnesota. In 1991, commercial lines were added to allow the company to further broaden product lines. In 1997, the company further diversified by adding the states of Iowa, Nebraska, North and South Dakota to the current states of Minnesota and Wisconsin; with Illinois added later in 2004.

On December 8, 2011, the policyholders of the Company voted to approve the re-domestication of the Company from the State of Minnesota to the State of Iowa. Upon approval by the Insurance Commissioners of Minnesota and Iowa, the Company was re-domesticated to Iowa effective January 1, 2012.

MANAGEMENT AND CONTROL

MEMBERS

Every policyholder of the Company in good standing, with a policy in force, shall be a Member of the Company. Each Member shall be entitled to one vote at all meetings of the Members. The voting privilege may be exercised either in person or by proxy. No proxy shall be valid or received unless dated and actually executed within the preceding thirty days and filed with the Secretary at least ten days before the meeting.

The annual meeting of the Members shall be held at the office of the Company on the third Monday of August, or at such other date, time, and place determined by the Board of Directors in accordance with the Bylaws and designated in the Company's annual notice to its policyholders. Special meetings of the Members shall be called or held at such time and place as provided in the Bylaws. No notice of a regular annual meeting of Members shall be required if the time and place thereof is stated in the policies of insurance, receipts or certificates of renewal; otherwise thirty days' written notice shall be required, or such other notice as is required under Chapter 491, Code of Iowa.

A quorum at any annual or special meeting of Members shall consist of either: (a) two hundred Members present in person or by proxy; or (b) that number of Members present in person as shall be equal to the then number of directors constituting the full Board of Directors, as determined from time to time in accordance with the Articles and these Bylaws, plus one.

BOARD OF DIRECTORS

The Bylaws provide that the business and affairs of the Company are managed by a Board of Directors consisting of at least five and no greater than nine in number. The Board of Directors shall be divided into two classes, designated Class A and Class B. There shall be five "Class A" Directors who shall be elected to staggered five-year terms. There shall be not more than four "Class B" Directors who shall be elected for one-year terms. Each director shall hold office until the next annual meeting of policyholders and until the director's successor has been elected and qualified.

The "Class A" directors, whenever they deem it in the best interests of the corporation, may initially appoint one, two, three or four "Class B" directors who shall serve for a period of one year each, or until their successors have been duly elected and qualified. Except for their respective terms of office, all directors shall have equal powers.

A regular meeting of the Board of Directors shall be held without other notice than as prescribed in the Bylaws immediately after, and at the same place as the annual meeting of policyholders.

By resolution, the Board has a mandatory retirement age of 75 for a non-employee Director. The Director shall tender a Letter of Resignation on their 75th birthday, indicating if there is interest in serving another year. At the Board’s discretion, the Letter of Resignation may or may not be accepted.

Elected directors serving as of December 31, 2015 are as follows:

Name	Principal Business Affiliation	Term Expires
Richard H. Larson Vadnais Heights, MN	Retired Senior Vice President Wacovia Securities	2016
William A. O’Brien Arden Hills, MN	Attorney Mackall, Crounse & Moore, PLC	2017
Ronald G. Boyd Chariton, IA	President and Chief Executive Officer Midwest Family Mutual Insurance Company	2018
Gary G. Stillwell Bloomington, MN	Retired Account Director Imation Corporation	2019
Victoria L. Boyd Chariton, IA	Retired Vice President Qwest Communications	2020
Aaron M. Boyd Rockford, MN	Executive Vice President Midwest Family Mutual Insurance Company	Class B
Kristie F. Van Pelt Polk City, IA	Senior Vice President Midwest Family Mutual Insurance Company	Class B

COMMITTEES

The Board may appoint committees to perform such functions and with such authority as the Board may determine. Committees named include Audit, Investment and Executive.

OFFICERS

The officers of the Company are elected annually by the Board of Directors. The Bylaws prescribe that the Chairman of the Board shall preside at all meetings of the Board and shall have such powers and duties as the Board may determine. The President shall preside at all meetings of the Members and shall be the Company’s executive officer. The Secretary shall keep a record of the proceedings of all meetings of the Company. The Secretary shall be custodian of the Corporate Seal and all books and records belonging to the Company, and shall have such powers and duties as the Board of Directors may determine.

The officers elected and serving at December 31, 2015 are as follows:

Name	Office
Ronald G. Boyd	President and Chief Executive Officer
Aaron W. Boyd	Executive Vice President and Chief Operating Officer
Kristie F. Van Pelt	Senior Vice President, Chief Financial Officer and Treasurer
Rita M. Stott	Vice President – Claims
Michael R. Carey	Vice President – Underwriting
Becky S. Szymczak	Corporate Secretary

Remunerations to officers for 2015 are reflected in Exhibit A at the end of this report.

CONFLICT OF INTEREST

The Company has an established procedure for annual disclosure to its Board of Directors of any material interest or affiliation on the part of its officers, directors or key employees which is, or is likely to be, in conflict with the official duties of such person. While conflicts were disclosed, none were deemed to materially impact the interests of the Company.

CORPORATE RECORDS

On December 8, 2011, the Members of Midwest Family Mutual Insurance Company voted to approve the re-domestication of the Company from the State of Minnesota to the State of Iowa. Upon approval by the Insurance Commissioners of Minnesota and Iowa, the Company re-domesticated to Iowa effective January 1, 2012.

On December 15, 2011, the Iowa Insurance Commissioner approved the Articles of Incorporation of Midwest Family Mutual Insurance Company as an Iowa domestic insurer. The approved Articles of Incorporation were filed with the Iowa Secretary of State on December 15, 2011.

The Bylaws were amended and restated at a Members meeting held August 20, 2012. The Amended and Restated Bylaws were filed with the State of Minnesota Department of Commerce on September 17, 2012. The Amended and Restated Bylaws were not filed with the Iowa Insurance Division. The material changes include adding a conference among Board of Directors by any means of communication through which the Members/Directors may simultaneously hear each other during the conference shall constitute a meeting of the Members/Directors, if the same notice is given of the conference as would be required by the Bylaws for a meeting, and if the number Members/Directors participating in the conference would be sufficient to constitute a quorum at a meeting.

On December 11, 2013, the Board of Directors passed a resolution to change the mandatory retirement age for a non-employee Director. Directors shall tender a Letter of Resignation on their 75th birthday, indicating if there is interest in serving another year. At the Board’s discretion, the Letter of Resignation may or may not be accepted.

The recorded minutes of the meetings of the Policyholders, Board of Directors, and Committees were read and noted. They appeared to be complete and were found to be properly attested.

SURPLUS NOTES - RELATED PARTY TRANSACTION

The Company authorized the issuance of Surplus Notes Series 2013, with an aggregate principal amount of $6,000,000 and stated maturity date of January 1, 2024, to officers and directors in exchange for cash. As of December 31, 2015, $3,175,800 of surplus notes have been issued and are outstanding. Each payment of principal and interest may be made only with the prior written approval of the Iowa Insurance Commissioner. The notes are subordinate and junior in right of payment to all obligations of the Company. In the event of dissolution or liquidation proceedings, the surplus note holders are entitled, after payment of all valid obligations and/or liabilities of the Company, to receive the par value of the notes and any unpaid interest. The interest rate is a variable rate of interest adjusted annually on December 31, equal to the average quarterly 10-year Constant Maturity Treasury Note plus a 6% margin. In no event shall the interest rate exceed 13% per annum.

FIDELITY BOND AND OTHER INSURANCE

The Company self-insures its fidelity coverage for protection to the business or individuals for money or other property lost because of dishonest acts of its employees. The other interests of the Company appear to be adequately protected through coverages afforded by policies in force with admitted insurers.

EMPLOYEE WELFARE

Midwest Family Mutual Insurance Company offers several benefit plans to its employees, including: defined benefit pension plan, 401 (k) salary deferral plan, healthcare, life insurance, and flexible spending plans.

The Company also has a formal incentive compensation plan for officers and sponsors a deferred compensation plan for certain key executives.

REINSURANCE

ASSUMED

Regional Reciprocal Catastrophe Pool

The Company is a participant in the regional reciprocal catastrophe reinsurance pool, the Mutual Reinsurance Bureau Reciprocal Catastrophe Pool (MRB). Under this agreement the reinsurer will be liable for its pro rata share of each and every loss occurring on the business covered, not to exceed a maximum of $47,500,000 any one Original Agreement. The Company had a 1.75% participation in the 2015 pool with assumed premiums of $305,429 and no paid loss or outstanding loss reserve.

CEDED

The Company’s primary ceded reinsurance program is placed through the brokerage market. Ceded written premiums for 2015 totaled $23,847,449 or 18% of direct written premiums. Ceded loss reserves for 2015 totaled $22,868,704 or 29% of direct reported loss reserves.

Multiple Line Excess of Loss

Covers: Property, casualty, and workers' compensation business.

Coverage A – Property:

Layer	Company Retention	Reinsurer Limit of Liability Each Loss, Each Risk	Reinsurer Limit of Liability Loss Occurrence
First	$ 350,000	$ 650,000	$1,950,000
Second	1,000,000	1,500,000	1,500,000

Coverage B – Casualty:

Layer	Company Retention	Reinsurer Limit of Liability: Loss Occurrence
First	$ 350,000	$ 650,000
Second	1,000,000	1,000,000

Coverage C – Workers' Compensation:

Layer	Company Retention	Reinsurer Limit of Liability: Loss Occurrence
First	$ 350,000	$ 650,000
Second	1,000,000	1,000,000

Coverage D: Combination of Loss Occurrence under Coverage A, B, and/or C:

Layer	Company Retention	Reinsurer Limit of Liability: Loss Occurrence
Two or more coverage sections	$ 350,000	$ 700,000
Terrorism		
First	350,000	1,950,000
Second	350,000	1,500,000

Recoveries under coverage afforded by coverage A, B and C shall be deducted in determining Ultimate Net Loss. Recoveries under this paragraph shall be considered recoveries under the First Layer hereof.

Property Per Risk Excess of Loss

The Reinsurer shall be liable in respect of each loss, each risk, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2,500,000 each loss, each risk, subject to a limit of liability to the Reinsurer of $2,500,000 each loss, each risk, and further subject to a limit of liability to the Reinsurer of $5,000,000 each Loss Occurrence.

Facultative

The Company has a Property Facultative Agreement with the Reinsurer liable for losses over and above an initial limit of $5,000,000 each loss, each risk, subject to a limit of liability to the Reinsurer of $15,000,000 each Loss Occurrence.

Excess Casualty

The Reinsurer shall be liable in respect of each Loss Occurrence, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of $2,000,000 each Loss Occurrence, subject to a limit of liability to the Reinsurer of $8,000,000 each Loss Occurrence.

Workers' Compensation Per Occurrence Excess of Loss

The Reinsurer shall be liable in respect of each Loss Occurrence, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of $10,000,000 each Loss Occurrence, subject to a limit of liability to the Reinsurer of $10,000,000 each Loss Occurrence, and subject further to a limit of liability of $10,000,000 for all Loss Occurrences commencing during the term of this Contract.

Workers' Compensation Reinsurance Association

The Association shall reinsure the Member's Minnesota workers' compensation liability and shall indemnify the Member for 100% of the amount of statutory ultimate loss arising out of each occurrence compensable under Minn. Stat. Ch. 176 to the extent that the ultimate loss exceeds the Member's retention limit in effect at the time of the loss occurrence and subject to the terms and conditions of the Enabling Act, the Plan, and the Operating Rules.

The Member shall select the low, high, or super retention level for each calendar year. Each retention level has a corresponding retention dollar limit, as determined in accordance with the requirements of Minn. Stat. § 79.34, subd. 2. The retention levels may be changed annually on January 1. The Member shall notify the Association in writing of any change of its retention level selection by December 1 of the year preceding the coverage year.

Property Catastrophe Aggregate Excess of Loss

The Reinsurer shall indemnify the Company for 100% of the amount, if any, by which the aggregate of the Company’s Subject Ultimate Net Loss on Loss Occurrences commencing during the term of the Contract exceeds $2,500,000. The Reinsurer’s limit of liability shall be $2,500,000 in the aggregate during the term of the Contract. Subject Ultimate Net Loss means the amount of the Company’s Ultimate Net Loss in excess of $350,000 each Loss Occurrence, but not to exceed $400,000 any one Loss Occurrence. The Reinsurer shall not be liable unless two or more Risks are involved in the same Loss Occurrence.

Property Catastrophe Excess of Loss

		Reinsurer Limit of Liability	
Layer	Company Retention	Each Loss Occurrence	All Loss Occurrences
First	$3,000,000	$ 3,000,000	$ 6,000,000
Second	6,000,000	10,000,000	20,000,000

Third Property Catastrophe - MRB

The Company will retain and be liable for the first Retention of $16,000,000 of ultimate net loss arising out of each loss occurrence. MRB will then be liable for the amount by which such ultimate net loss exceeds the Company’s retention, but the liability of MRB will not exceed Per Occurrence Limit of $9,000,000 of ultimate net loss as respects any one loss occurrence, nor will it exceed Contract Year Limit of $18,000,000 of ultimate net loss as respects all loss occurrences commencing during the term of this agreement. MRB will not be liable under this agreement unless two or more risks are involved in the same loss occurrence.

Umbrella Quota Share

The Company shall cede, and the Reinsurer shall accept as reinsurance:

95% share of up to $1,000,000 of Ultimate Net Loss, each Loss Occurrence, each Policy, on all business reinsured hereunder.

100% of $4,000,000 each Loss Occurrence, each Policy.

The liability of the Reinsurer shall not exceed an annual aggregate limit of $10,000,000, inclusive of Loss Adjustment Expense.

The Reinsurer shall allow the Company a 35% commission on annual Gross Net Written Premium.

Commercial Umbrella Regional Facultative

The Reinsurer shall be liable in respect of each Loss Occurrence, each Policy, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of $5,000,000 each Loss Occurrence, each Policy, subject to a limit of liability to the Reinsurer of $5,000,000 each Loss Occurrence, each Policy. The Reinsurer shall allow the Company a 30% commission on Gross Net Written Premium.

Terrorism Excess of Loss

The Reinsurer shall be liable in respect of each Loss Occurrence, for the Ultimate Net Loss over and above an initial Ultimate Net Loss of $10,000,000 each Loss Occurrence, subject to a limit of liability to the Reinsurer of $20,000,000 each Loss Occurrence, and subject further to a limit of liability of $20,000,000 for all Loss Occurrences commencing during the Contract term.

Quota Share – Cyber Liability Coverage

Primary Cyber Liability Limits Program: the Company shall cede, and the Reinsurer shall accept as reinsurance, a 100% share of all Primary Cyber Liability Limits Program business reinsured hereunder, subject to a maximum limit of $50,000 for any one original insured or Policy, as applicable. The Reinsurer shall pay to the Company the Reinsurer’s quota share of losses and Loss Adjustment Expense under the Policies covered by this Contract.

Increased Cyber Liability Limits Program: the Company shall cede, and the Reinsurer shall accept as reinsurance, a 100% share of the difference between the Primary Cyber Liability Limits Program coverage limits and the Increased Cyber Liability Limits Program coverage limits, subject to a maximum limit of $1,000,000 for any one original insured Policy, as applicable.

STATUTORY DEPOSIT

As of December 31, 2015, the book/adjusted carrying value of special deposits held in trust by the Iowa Insurance Commissioner for the benefit of all policyholders totaled $2,708,477. A schedule of the book/adjusted carrying value of all other special deposits held for the benefit of policyholder in the respective jurisdiction follows:

Idaho	$249,809	New Mexico	$312,072
Montana	59,981	Oregon	156,036
Nevada	329,578		

TERRITORY AND PLAN OF OPERATION

The Company is a multi-line insurer that writes commercial and personal property/casualty coverage through independent agents in the states of:

Arizona	Colorado	Illinois	Iowa
Indiana	Kansas	Minnesota	Missouri
Montana	Nebraska	Nevada	North Dakota
South Dakota	Utah	Wisconsin	Wyoming

The Company is also licensed in Idaho, New Mexico, Ohio, Oregon, and Washington with no writings to date.

The Company’s largest books of business are commercial multi-peril and workers’ compensation insurance. Approximately 25% of all direct written premiums are on business located in the state of Minnesota. The Company is focused on reducing the geographic risk exposure, and thereby reducing catastrophe weather related claim risks.

Automobile coverage is written for preferred and standard risks. Homeowners is provided through the company's elite and standard programs. The Company's Portfolio of Personal Insurance (POPI) product allows customers to package their auto, homeowner, recreational vehicle, and umbrella coverages. The Company also offers a Commercial Portfolio insurance product that allows customers to package all their commercial coverages under one policy. Additional coverages offered are inland marine and general liability.

GROWTH OF COMPANY

The following historical data, as taken from filed copies of the annual statements, reflects the financial position of the Company.

Year	Admitted Assets	Surplus to Policyholders	Net Premiums Earned	Net Losses Incurred	Investment Income Earned
2010	$ 123,112,754	$ 38,297,799	$ 65,406,476	$ 44,074,876	$ 3,676,698
2011	130,010,415	39,285,899	71,841,069	47,618,011	3,501,955
2012	146,590,248	39,755,066	80,501,164	51,821,292	3,166,183
2013	162,793,859	44,475,565	91,099,392	56,369,292	2,860,868
2014	178,963,841	50,134,301	96,672,038	54,145,552	2,629,792
2015	197,391,112	54,030,016	101,337,976	57,728,973	2,436,958

ACCOUNTS AND RECORDS

The Company’s general ledgers are maintained on an accrual basis. Trial balances were prepared for the examination years under review. Amounts from the general ledger accounts were reconciled and found to be in agreement with balances reported on the annual statements for assets, liabilities, income or disbursements.

During the course of the examination, no material aggregate surplus difference was identified from the amount reflected in the financial statements, as presented in the annual statement at December 31, 2015.

Allocation of Business Owners Policy Premium – The Company has a policy for the manual allocation of the system generated premium for the business owners’ policies. The Company allocation was not in accordance with the established policy. As a result, this error in reporting premium ultimately impacts the actual loss ratio and pricing assumptions. The Company corrected the error for reporting periods subsequent to the exam.

Use of Credit Information: Personal Insurance – The Company uses credit information to underwrite or rate risks for a policy of personal insurance. During the examination period, the Company did not obtain insurance scores every thirty-six months as required by Iowa Administrative Code 515.103. The Company has developed a policy subsequent to the exam period.

SUBSEQUENT EVENTS

Amendment to the Articles of Incorporation and Bylaws

Effective August 15, 2016, the Articles of Incorporation and Bylaws were amended and restated to change the classes of Directors from two classes (A and B) to one class of board members with staggered terms. The “Class B Directors” designation was eliminated and the number of Directors was defined as no less than five and no more than nine. The approved Articles were filed with the Iowa Insurance Division on September 8, 2016 and the Iowa Secretary of State on August 30, 2016.

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, 2015 and the assets and liabilities as of this date. Schedules may not add or tie precisely due to rounding.

STATEMENT OF ASSETS AND LIABILITIES

	Ledger	Not Admitted	Admitted
Bonds	$128,110,561	$	$128,110,561
Common stocks	13,922,137		13,922,137
Cash and short-term investments	9,601,690		9,601,690
Receivables for securities	840,324		840,324
Investment income due and accrued	1,309,243		1,309,243
Uncollected premiums and agents' balances in course of collection	4,655,159	292,747	4,362,412
Premiums booked but deferred	32,040,519		32,040,519
Amounts recoverable from reinsurers	874,915		874,915
Other reinsurance amounts receivable	63,378		63,378
Current federal income tax recoverable	393,459		393,459
Net deferred tax asset	5,254,441	206,268	5,048,173
Electronic data processing equipment	449,331		449,331
Furniture and equipment	170,718	170,718	
Life insurance	350,939		350,939
Automobiles	405,434	405,434	
Prepaid expenses and advances	472,759	472,759	
Software	8,141	8,141	
Other miscellaneous assets	24,031		24,031
Total assets	$198,947,179	$1,556,067	$197,391,112

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	$ 56,304,387
Loss adjustment expenses	16,485,699
Commissions payable, contingent and	2,171,775
Other expenses	1,011,329
Taxes, licenses and fees	487,529
Unearned premiums	57,634,350
Advance premiums	1,770,874
Dividends declared and unpaid - Policyholders	160,671
Ceded reinsurance premiums payable	2,608,414
Remittances and items not allocated	67,204
Unfunded supplemental executive retirement plan	2,211,426
SSAP 102 change in account principal	2,341,800
Deferred compensation-board of directors	105,638
Total liabilities	$143,361,096
Guaranty funds	$ 1,000,000
Surplus notes	3,175,800
Unassigned funds (surplus)	49,854,216
Surplus as regards policyholders	$ 54,030,016
Total liabilities, surplus and other funds	$197,391,112

STATEMENT OF INCOME

ONE-YEAR PERIOD ENDING DECEMBER 31, 2015

Underwriting Income		
Premiums earned		$ 101,337,976
Deductions		
Losses incurred	$ 57,728,973	
Loss expenses incurred	14,296,785	
Other underwriting expenses incurred	25,574,525	
Total underwriting deductions		97,600,283
Net underwriting gain (loss)		$ 3,737,693
Investment Income		
Net investment income earned	$ 2,436,958	
Net realized capital gains (losses)	306,925	
Net investment income		2,743,883
Other Income		
Net (loss) from agents' balances charged off	$ (124,955)	
Finance and service charges not included in premium	438,752	
Life insurance	85,260	
Total other income		399,057
Net income before dividends to policyholders		$ 6,880,633
Dividends to policyholders		794,039
Net income before Federal income taxes		$ 6,086,594
Federal and foreign income taxes incurred		1,528,226
Net income		$ 4,558,368

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2014	$ 50,134,302
Gains and (Losses) in Surplus	
Net income	$ 4,558,368
Change in net unrealized capital gains or (losses)	(453,716)
Change in net deferred income tax	265,706
Change in nonadmitted assets	(157,431)
Change in surplus notes	296,200
Cumulative effect of changes in accounting principles	(613,413)
Change in surplus as regards policyholders for the year	$ 3,895,714
Surplus as regards policyholders, December 31, 2015	$ 54,030,016

CASH FLOW

Cash from Operations		
Premiums collected net of reinsurance	$102,998,072	
Net investment income	4,287,732	
Miscellaneous income	399,057	
Total		$107,684,861
Benefit and loss related payments	$ 49,244,078	
Commissions, expenses paid and write-in deductions	35,722,907	
Dividends paid to policyholders	798,883	
Federal income taxes (paid) recovered	2,826,760	
Total		88,592,628
Net cash from operations		$ 19,092,233
Cash from Investments		
Proceeds from investments sold, matured or repaid:		
Bonds	$ 30,006,966	
Stocks	5,387,886	
Total investment proceeds		$ 35,394,852
Cost of investments acquired (long-term only):		
Bonds	$ 44,784,611	
Stocks	5,218,286	
Miscellaneous applications	840,324	
Total investments acquired		50,843,221
Net cash from investments		$(15,448,369)
Cash from Financing and Miscellaneous Sources		
Cash provided:		
Surplus notes, capital notes	$ 296,200	
Other cash provided (applied)	(2,158,364)	
Net cash from financing and miscellaneous sources		$ (1,862,164)

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	$ 1,781,700
Cash and short-term investments:	
Beginning of year	7,819,990
End of year	$ 9,601,690

STATEMENT OF INCOME
FIVE-YEAR PERIOD ENDING DECEMBER 31, 2015

Underwriting Income		
Premiums earned		$441,451,639
Deductions		
Losses incurred	$267,683,120	
Loss expenses incurred	56,051,966	
Other underwriting expenses incurred	113,925,762	
Total underwriting deductions		437,660,848
Net underwriting gain (loss)		$ 3,790,791
Investment Income		
Net investment income earned	$ 14,595,756	
Net realized capital gains (losses)	1,145,913	
Net investment income		15,741,669
Other Income		
Net (loss) from agents' balances charged off	$ (680,098)	
Finance and service charges not included in premiums	2,191,053	
Life insurance	83,410	
Miscellaneous income	579,148	
Total other income		2,173,513
Net income before dividends to policyholders		$ 21,705,973
Dividends to policyholders		5,284,972
Net income before Federal income taxes		$ 16,421,001
Federal and foreign income taxes incurred		3,518,586
Net income		$ 12,902,415

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2010	$ 38,297,799
Gains and (Losses) in Surplus	
Net income	$ 12,902,415
Change in net unrealized capital gains or (losses)	2,000,416
Change in net deferred income tax	2,241,288
Change in nonadmitted assets	36,049
Change in surplus notes	3,175,800
Cumulative effect of changes in accounting principles	(4,623,751)
Change in surplus as regard policyholders for the exam period	$ 15,732,217
Surplus as regards policyholders, December 31, 2015	$ 54,030,016

CONCLUSION

Acknowledgment is hereby made of the cooperation and assistance extended by the officers and employees of the Company during this examination.

In addition to the undersigned, the following examiners participated in the examination and preparation of this report: Jan Jones and Bouavan Kha, Iowa Insurance Examiners.

A review of the information technology system was performed by Bob Wong, CFE, IT Specialist.

A review and evaluation of actuarial processes and procedures was performed under the direction of Charles C. Emma, FCAS, MAAA, and Principal with EVP Advisors, Inc.

Respectfully submitted,

/s/ Virginia R. West

VIRGINIA R. WEST, CFE
Examiner-in-Charge
Insurance Division
State of Iowa