

FINANCIAL STATEMENTS
AND COMMENTS THEREON

Note: Except as otherwise stated, the financial statements immediately following reflect only the transactions of the year ended December 31, 2009 and the assets and liabilities as of that date.

STATEMENT OF ASSETS AND LIABILITIES

ASSETS

	<u>Ledger</u>	<u>Not Admitted</u>	<u>Net Admitted</u>
Bonds	\$5,062,387	\$133,858	\$4,928,529
Common stocks	1,029,223	38,767	990,456
Real estate properties occupied	235,923		235,923
Cash and short-term investments	41,394		41,394
Interest and dividends due and accrued	56,982	2,900	54,082
Premiums and agents' balances in course of collection	43,476	17,670	25,806
Deferred premiums, agents' balances and installments booked but deferred and not yet due	723,656		723,656
Current federal income tax and interest thereon	91,786	5,784	86,002
Electronic data processing equipment and software	72,884	62,918	9,966
Furniture and equipment	142,934	142,934	
Loss prevention inventory	630	630	
Miscellaneous accounts receivable	497	497	
Total assets	\$7,501,772	\$405,958	\$7,095,814

LIABILITIES AND SURPLUS

Losses	\$ 768,887
Loss adjustment expenses	88,044
Commissions payable and other similar charges	280,814
Other expenses	39,048
Taxes, licenses and fees	50,899
Unearned premiums	2,995,620
Advance premiums	174,034
Ceded reinsurance premiums payable	17,018
Amounts withheld or retained by company for the account of others	40,642
Total liabilities	\$4,455,006
Unassigned funds (surplus)	\$2,640,808
Total liabilities and surplus	\$7,095,814

UNDERWRITING AND INVESTMENT EXHIBIT

FOR THE ONE YEAR PERIOD ENDED DECEMBER 31, 2009

STATEMENT OF INCOME

Underwriting Income

Premiums earned \$ 4,857,196

Incurred Deductions

Losses	\$3,365,946	
Loss adjustment expenses	434,094	
Commissions and other similar expenses	1,133,684	
Salaries	388,995	
Taxes, licenses and fees	68,291	
Other underwriting expenses	483,309	
Total underwriting deductions		<u>5,874,319</u>

Net underwriting gain (loss) \$(1,017,123)

Investment Income

Net investment income earned	\$ 138,151	
Net realized capital gain (loss)	<u>26,102</u>	
Net investment gain (loss)		164,253

Other Income

Finance and service charges	\$ 179,005	
Miscellaneous income	2,651	
Overwrite fee	<u>30,542</u>	
Other income		<u>212,198</u>

Net income before Federal and foreign income taxes	\$ (640,672)
Federal and foreign income taxes incurred	<u>(72,204)</u>

Net income (loss) \$ (568,468)

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2008 \$ 3,050,482

Gains and (Losses) in Surplus

Net income	\$ (568,468)
Change in net unrealized capital gains (losses)	(3,813)
Change in nonadmitted assets	(55,827)
Audit adjustment	<u>218,434</u>

Change in surplus as regards policyholders for the period \$ (409,674)

Surplus as regards policyholders, December 31, 2009 \$ 2,640,808

CASH FLOW

Cash from Operations

Premiums collected net of reinsurance	\$4,968,390
Net investment income	148,354
Miscellaneous income	<u>212,198</u>

Total

\$5,328,942

Benefit and loss related payments	\$3,379,983
Commissions, expenses paid and aggregate write-ins	2,326,579
Federal and foreign income taxes paid	<u>12,485</u>

Total

\$5,719,047

Net cash from operations

\$ (390,105)

Cash from Investments

Proceeds from investments sold, matured or repaid:	
Bonds	\$ 778,802
Stocks	<u>2,326,087</u>

Total investment precedes

\$3,104,889

Cost of investments acquired (long-term only):	
Bonds	\$ 737,673
Stocks	<u>2,218,102</u>

Total investments acquired

\$2,955,775

Net cash from investments

\$ 149,114

Cash from Financing and Miscellaneous Sources

Other cash provided (applied)

(55,595)

Net cash from financing and miscellaneous sources

\$ (55,595)

Reconciliation of Cash and Short-Term Investments

Net change in cash and short-term investments

\$ (296,586)

Cash and short-term investments:

Beginning of year

337,980

End of period

\$ 41,394

UNDERWRITING AND INVESTMENT EXHIBIT
FOR THE THREE YEAR PERIOD ENDED DECEMBER 31, 2009

STATEMENT OF INCOME

Underwriting Income

Premiums earned		\$ 14,486,405
<u>Incurred Deductions</u>		
Losses	\$9,638,313	
Loss adjustment expenses	1,024,384	
Commissions and other similar expenses	3,312,768	
Salaries	1,023,296	
Taxes, licenses and fees	228,721	
Other underwriting expenses incurred	1,345,300	
Total underwriting deductions		<u>16,572,782</u>
Net underwriting gain (loss)		\$ (2,086,377)

Investment Income

Net investment income earned	\$ 450,865	
Net realized capital gain (loss)	<u>(77,343)</u>	
Net investment gain (loss)		373,522

Other Income

Finance and service charges	\$ 562,506	
Miscellaneous income	3,027	
Overwrite fee	<u>91,026</u>	
Other income		<u>656,559</u>
Net income before Federal and foreign income taxes		\$ (1,056,296)
Federal and foreign income taxes incurred		<u>(118,291)</u>
Net income (loss)		\$ (938,005)

CAPITAL AND SURPLUS ACCOUNT

Examination surplus as regards policyholders, December 31, 2006	\$ 3,500,600
<u>Gains and (Losses) in Surplus</u>	
Net income (loss)	\$ (938,005)
Change in net unrealized capital gains (losses)	(189,060)
Change in nonadmitted assets	(63,419)
Reinsurance premiums due to reinsurer	
Change in net unrealized foreign exchange capital gain (loss)	3,460
Audit adjustment	<u>327,232</u>
Change in surplus as regards policyholders for the period	\$ (859,792)
Surplus as regards policyholders, December 31, 2009	<u>\$ 2,640,808</u>

SURPLUS AS REGARDS POLICYHOLDERS

Examination changes which resulted in a net decrease to surplus 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>			
Bonds	\$5,062,387	\$4,928,529	\$ (133,858)
Common stocks	1,029,223	990,456	(38,767)
Interest and dividends due and accrued	56,982	54,082	(2,900)
Premiums and agents' balances in course of collection	43,471	25,806	(17,665)
Current federal income tax and interest thereon	91,786	86,002	(5,784)
Electronic data processing equipment and software	13,524	9,966	(3,558)
Miscellaneous accounts receivable	497	-0-	(497)
<u>Liabilities</u>			
Losses	827,104	768,887	58,217
Loss adjustment expenses	-0-	88,044	(88,044)
Commissions payable and other similar charges	273,768	280,814	(7,046)
Other expenses	16,007	39,048	(23,041)
Taxes, licenses and fees	24,000	50,899	(26,899)
Unearned premiums	3,002,686	2,995,620	7,066
Ceded reinsurance premiums payable	-0-	17,018	(17,018)
Amounts withheld or retained by company for the account of others	38,874	40,642	(1,768)
Net change to surplus			\$ (301,562)
Surplus per Association			<u>2,942,370</u>
Surplus per Examination			<u>\$2,640,808</u>

During the period under review surplus funds decreased \$859,792 from the amount of \$3,500,600 shown in the last examination report. An operating statement reflecting the decrease is shown in the financial section.

COMMENTS

<u>Bonds</u>	<u>\$4,928,529</u>
Upon review of the portfolio it was noted several bonds were foreign investments which are not admitted under the Code of Iowa 518A.12.4. The asset was decreased \$133,858 due to foreign investments.	
<u>Common stocks</u>	<u>\$990,456</u>
This asset was decreased \$38,767 resulting from foreign investments which are not admitted under the Code of Iowa 518A.12.4.	
<u>Interest and dividends due and accrued</u>	<u>\$54,082</u>
This asset was decreased by \$2,900 to reflect the recalculation of accrued interest.	

Premiums and agents' balances in course of collection \$25,806

The asset was decreased \$17,665 to reflect the actual premiums received after December 31, 2009.

Current federal income tax recoverable \$86,002

This asset was decreased \$5,784 to reflect the actual amount recovered from the United States Treasury.

Electronic data processing equipment and software \$9,966

This asset was decreased \$3,558 since items listed did not meet the three year depreciation limit.

Miscellaneous accounts receivable \$-0-

This asset was decreased \$497 to reflect changes resulting from the comparison of transactions to the reported accrual amounts.

Losses \$768,887

The liability was decreased \$58,217 to reflect current loss development.

Loss adjustment expenses \$88,044

An analysis of paid adjusting expenses to paid losses increased this liability by \$88,044.

Commissions payable and other similar changes \$280,814

Commissions paid during 2010 but incurred in 2009 were compared to the year-end accrual, increasing this liability by \$7,046.

Other expenses \$39,048

Items paid during 2010 but incurred in 2009 were compared to the accrual amount, increasing this liability \$23,041.

Taxes, licenses and fees \$50,899

The accrual was increased by \$26,899 due to the review of items paid during 2010 but incurred in 2009.

Unearned premiums \$2,995,620

This liability was decreased by \$7,066 to reflect the decrease in premiums receivable.

Ceded reinsurance premiums payable \$17,018

The liability was increased by \$17,018 to reflect the adjusted reinsurance premiums payable.

Amounts withheld or retained by company for the account of others \$40,642

This liability was increased \$1,768 upon comparison of actual to the reported.

EXHIBIT "A"

Salaries, fees and other remuneration's paid to the Association's officers and directors during the year ended December 31, 2009 were as follows:

<u>Name and Title</u>	<u>Salary</u>
Bruce D. Thomas President and Treasurer	\$75,996
Richard F. Bothe Executive Vice President and Secretary	68,157

At its December 8, 2009 Board of Directors meeting, the Association approved a \$200 holiday gift for each employee.

<u>Name and Title</u>	<u>Director Meeting Fees</u>	<u>Director Expenses</u>	<u>Agency Commissions & Profit Share</u>
Richard P. Hauswirth Chairman of the Board	\$2,700	\$485	\$
Jason W. Helmers Vice Chairman of the Board	3,000	462	37,243
Dwayne B. Eden Director	2,700	613	
John C. Pedersen Director	2,100	562	
Thomas A. Powers Director	2,700	415	48,546
Michael J. Frankl Director	3,000	448	
Steven R. Lane Director	2,400	92	7,091
Michael A. Peterson Director	2,700	207	
William R. Hanson Director	2,100	35	
Marsha J. Farnham Director	3,000	264	41,769



STATE OF IOWA

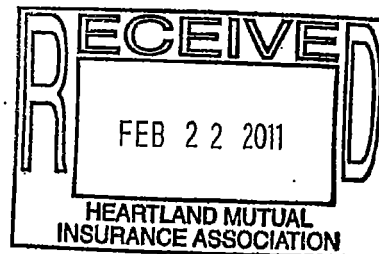
TERRY E. BRANSTAD
GOVERNOR

SUSAN E. VOSS
COMMISSIONER OF INSURANCE

KIM REYNOLDS
LT. GOVERNOR

February 18, 2011

Bruce D. Thomas, President
Heartland Mutual Insurance Association
101 N. Wooster
Algona, IA 50511



Dear Mr. Thomas:

Enclosed is a copy of the Iowa Insurance Division's Examination Report of Heartland Mutual Insurance Association as of December 31, 2009.

If you have any objection to this report, transmit your objection by letter to the Division no later than twenty days after the date of this letter. The Division will respond to objections in accordance with Iowa Code section 507.10.

If the report meets with your approval, a letter of acceptance to that effect on or before March 10, 2011, will be appreciated. Absent any comment from you by March 10, 2011, the report will become final and will be adopted immediately following the above specified date.

Please note that the report becomes a public document under Iowa law upon (1) your written acceptance of the report, or (2) twenty days following the expiration of the time period set forth in this letter, whichever comes first.

Yours truly,

JAMES N. ARMSTRONG, CFE, CPA
Deputy Commissioner and Chief Examiner

JNA/ns
Enc.