UNITED FIRE GROUP INC
Form 10-Q
May 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016
or
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) FO THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number 001-34257

UNITED FIRE GROUP, INC.
(Exact name of registrant as specified in its charter)

Iowa	45-2302834
(State of Incorporation)	(IRS Employer Identification No.)

118 Second Avenue, S.E., Cedar Rapids, Iowa 52401
(Address of principal executive offices) (Zip Code)

Registrant’s telephone number, including area code: (319) 399-5700

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES R NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES R NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer R   Accelerated filer o   Non-accelerated filer o   Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO R
As of May 2, 2016, 25,349,251 shares of common stock were outstanding.

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United Fire Group, Inc.
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FORWARD-LOOKING INFORMATION

This report may contain forward-looking statements about our operations, anticipated performance and other similar matters. The Private Securities Litigation Reform Act of 1995 provides a safe harbor under the Securities Act of 1933 (the "Securities Act") and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for forward-looking statements. The forward-looking statements are not historical facts and involve risks and uncertainties that could cause actual results to differ from those expected and/or projected. Such forward-looking statements are based on current expectations, estimates, forecasts and projections about United Fire Group, Inc. ("UFG," the "Registrant," the "Company," "we," "us," or "our"), the industry in which we operate, and beliefs and assumptions made by management. Words such as "expect(s)," "anticipate(s)," "intend(s)," "plan(s)," "believe(s)," "continue(s)," "seek(s)," "estimate(s)," "goal(s)," "target(s)," "forecast(s)," "project(s)," "predict(s)," "should," "could," "may," "will continue," "might," "hope," "can" and other words and terms of similar meaning or expression in connection with a discussion of future operations, financial performance or financial condition, are intended to identify forward-looking statements. See Part I, Item 1A "Risk Factors" in our 2015 Annual Report on Form 10-K and Part II, Item 1A "Risk Factors" of this report for more information concerning factors that could cause actual results to differ materially from those in the forward-looking statements.

Risks and uncertainties that may affect the actual financial condition and results of the Company include, but are not limited, to the following:

- The frequency and severity of claims, including those related to catastrophe losses and the impact those claims have on our loss reserve adequacy; the occurrence of catastrophic events, including international events, significant severe weather conditions, climate change, acts of terrorism, acts of war and pandemics;
- The adequacy of our reserves for property and casualty insurance losses and loss settlement expenses and our life insurance reserve for future policy benefits;
- Geographic concentration risk in both property and casualty insurance and life insurance segments;
- The potential disruption of our operations and reputation due to unauthorized data access, cyber-attacks or cyber-terrorism and other security breaches;
- Developments in general economic conditions, domestic and global financial markets, interest rates and other-than-temporary impairment losses that could affect the performance of our investment portfolio;
- Our ability to effectively underwrite and adequately price insured risks;
- Changes in industry trends, an increase in competition and significant industry developments;
- Litigation or regulatory actions that could require us to pay significant damages, fines or penalties or change the way we do business;
- Lowering of one or more of the financial strength ratings of our operating subsidiaries or our issuer credit ratings and the adverse impact such action may have on our premium writings, policy retention, profitability and liquidity;
- Governmental actions, policies and regulations, including, but not limited to, domestic health care reform, financial services regulatory reform, corporate governance, new laws or regulations or court decisions interpreting existing laws and regulations or policy provisions; laws, regulations and stock exchange requirements relating to corporate governance and the cost of compliance;
- Our relationship with and the financial strength of our reinsurers; and
- Competitive, legal, regulatory or tax changes that affect the distribution cost or demand for our products through our independent agent/agency distribution network.

These are representative of the risks, uncertainties, and assumptions that could cause actual outcomes and results to differ materially from what is expressed in forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report or as of the date they are made. Except as required under the federal securities laws and the rules and regulations of the Securities and Exchange Commission ("SEC"), we do not have any intention or obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

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PART I — FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

United Fire Group, Inc.
Consolidated Balance Sheets

(In Thousands, Except Share Data)	March 31, 2016 (unaudited)	December 31, 2015
ASSETS		
Investments		
Fixed maturities		
Held-to-maturity, at amortized cost (fair value $667 in 2016 and $675 in 2015)	$664	$ 672
Available-for-sale, at fair value (amortized cost $2,770,718 in 2016 and $2,793,069 in 2015)	2,855,166	2,824,961
Trading securities, at fair value (amortized cost $11,537 in 2016 and $11,475 in 2015)	13,000	12,622
Equity securities		
Available-for-sale, at fair value (cost $68,724 in 2016 and $68,514 in 2015)	237,816	236,247
Trading securities, at fair value (cost $4,443 in 2016 and $4,443 in 2015)	4,446	4,353
Mortgage loans	3,899	3,961
Policy loans	5,348	5,618
Other long-term investments	51,815	54,151
Short-term investments	175	175
	3,172,329	3,142,760
Cash and cash equivalents	143,981	106,449
Accrued investment income	26,825	25,136
Premiums receivable (net of allowance for doubtful accounts of $1,039 in 2016 and $867 in 2015)	302,762	276,517
Deferred policy acquisition costs	160,158	168,264
Property and equipment (primarily land and buildings, at cost, less accumulated depreciation of $47,393 in 2016 and $46,590 in 2015)	52,340	53,241
Reinsurance receivables and recoverables	71,745	73,527
Prepaid reinsurance premiums	4,112	3,790
Goodwill and intangible assets	25,317	25,509
Other assets	16,423	15,183
TOTAL ASSETS	$3,975,992	$ 3,890,376
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Future policy benefits and losses, claims and loss settlement expenses		
Property and casualty insurance	$1,016,082	$ 1,003,895
Life insurance	1,367,327	1,372,358
Unearned premiums	436,058	415,057
Accrued expenses and other liabilities	192,023	200,599
Income taxes payable	5,645	4,917
Deferred income taxes	29,688	14,653
TOTAL LIABILITIES	$3,046,823	$ 3,011,479
Stockholders' Equity		
Common stock, $0.001 par value; authorized 75,000,000 shares; 25,324,068 and 25,151,428 shares issued and outstanding in 2016 and 2015, respectively	$25	$ 25

Additional paid-in capital	212,484	207,426
Retained earnings	607,883	591,009
Accumulated other comprehensive income, net of tax	108,777	80,437
TOTAL STOCKHOLDERS' EQUITY	$929,169	$ 878,897
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$3,975,992	$ 3,890,376

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire Group, Inc.
Consolidated Statements of Income and Comprehensive Income (Unaudited)

	Three Months Ended March 31,	
(In Thousands, Except Share Data)	2016	2015
Revenues		
Net premiums earned	$241,298	$213,171
Investment income, net of investment expenses	22,224	24,363
Net realized investment gains (includes reclassifications for net unrealized investment gains on available-for-sale securities of $1,646 in 2016 and $1,895 in 2015; previously included in accumulated other comprehensive income)	2,055	887
Other income	108	63
Total revenues	$265,685	$238,484
Benefits, Losses and Expenses		
Losses and loss settlement expenses	$142,128	$126,409
Increase in liability for future policy benefits	12,552	7,623
Amortization of deferred policy acquisition costs	50,231	42,472
Other underwriting expenses (includes reclassifications for employee benefit costs of $1,371 in 2016 and $1,867 in 2015; previously included in accumulated other comprehensive income)	26,753	23,534
Interest on policyholders' accounts	5,247	6,615
Total benefits, losses and expenses	$236,911	$206,653
Income before income taxes	$28,774	$31,831
Federal income tax expense (includes reclassifications of ($96) in 2016 and ($10) in 2015; previously included in accumulated other comprehensive income)	6,347	8,152
Net income	$22,427	$23,679
Other comprehensive income		
Change in net unrealized appreciation on investments	$43,876	$13,114
Change in liability for underfunded employee benefit plans	—	—
Other comprehensive income, before tax and reclassification adjustments	$43,876	$13,114
Income tax effect	(15,357)	(4,590)
Other comprehensive income, after tax, before reclassification adjustments	$28,519	$8,524
Reclassification adjustment for net realized investment gains included in income	$(1,646)	$(1,895)
Reclassification adjustment for employee benefit costs included in expense	1,371	1,867
Total reclassification adjustments, before tax	$(275)	$(28)
Income tax effect	96	10
Total reclassification adjustments, after tax	$(179)	$(18)
Comprehensive income	$50,767	$32,185
Weighted average common shares outstanding	25,209,888	24,990,470
Basic earnings per common share	$0.89	$0.95
Diluted earnings per common share	0.88	0.94

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire Group, Inc.
Consolidated Statement of Stockholders' Equity (Unaudited)

(In Thousands, Except Share Data)	Three Months Ended March 31, 2016
Common stock	
Balance, beginning of year	$25
Shares issued for stock-based awards (180,026 shares)	—
Balance, end of period	$25
Additional paid-in capital	
Balance, beginning of year	$207,426
Compensation expense and related tax benefit for stock-based award grants	313
Shares issued for stock-based awards	4,745
Balance, end of period	$212,484
Retained earnings	
Balance, beginning of year	$591,009
Net income	22,427
Dividends on common stock ($0.22 per share)	(5,553)
Balance, end of period	$607,883
Accumulated other comprehensive income, net of tax	
Balance, beginning of year	$80,437
Change in net unrealized investment appreciation(1)	27,449
Change in liability for underfunded employee benefit plans(2)	891
Balance, end of period	$108,777
Summary of changes	
Balance, beginning of year	$878,897
Net income	22,427
All other changes in stockholders' equity accounts	27,845
Balance, end of period	$929,169

(1) The change in net unrealized appreciation is net of reclassification adjustments and income taxes.
(2) The change in liability for underfunded employee benefit plans is net of reclassification adjustments and income taxes.

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

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United Fire Group, Inc.
Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,	
(In Thousands)	2016	2015
Cash Flows From Operating Activities		
Net income	$22,427	$23,679
Adjustments to reconcile net income to net cash provided by operating activities		
Net accretion of bond premium	3,447	3,702
Depreciation and amortization	1,626	1,618
Stock-based compensation expense	977	553
Net realized investment gains	(2,055)	(887)
Net cash flows from trading investments	(129)	510
Deferred income tax benefit	322	(1,519)
Changes in:		
Accrued investment income	(1,689)	(1,020)
Premiums receivable	(26,245)	(19,926)
Deferred policy acquisition costs	(3,579)	(6,333)
Reinsurance receivables	1,782	3,427
Prepaid reinsurance premiums	(322)	(295)
Other assets	(1,240)	(697)
Future policy benefits and losses, claims and loss settlement expenses	23,965	8,726
Unearned premiums	21,001	19,535
Accrued expenses and other liabilities	(7,205)	(20,919)
Income taxes payable	728	3,790
Deferred income taxes	(548)	(433)
Other, net	2,063	342
Total adjustments	$12,899	$(9,826)
Net cash provided by operating activities	$35,326	$13,853
Cash Flows From Investing Activities		
Proceeds from sale of available-for-sale investments	$1,968	$5,017
Proceeds from call and maturity of held-to-maturity investments	8	31
Proceeds from call and maturity of available-for-sale investments	142,629	172,825
Proceeds from short-term and other investments	789	3,450
Purchase of available-for-sale investments	(124,338)	(133,920)
Purchase of short-term and other investments	—	(1,560)
Net purchases and sales of property and equipment	(569)	(1,881)
Net cash provided by investing activities	$20,487	$43,962
Cash Flows From Financing Activities		
Policyholders' account balances		
Deposits to investment and universal life contracts	$25,145	$36,099
Withdrawals from investment and universal life contracts	(41,954)	(67,248)
Payment of cash dividends	(5,553)	(4,997)
Repurchase of common stock	—	(1,083)
Issuance of common stock	4,745	353
Tax impact from issuance of common stock	(664)	(193)
Net cash used in financing activities	$(18,281)	$(37,069)
Net Change in Cash and Cash Equivalents	$37,532	$20,746
Cash and Cash Equivalents at Beginning of Period	106,449	90,574

Cash and Cash Equivalents at End of Period	$143,981	$111,320

The Notes to Unaudited Consolidated Financial Statements are an integral part of these statements.

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UNITED FIRE GROUP, INC.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(Amounts in thousands, except share amounts or as otherwise noted)

NOTE 1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION
Nature of Business
United Fire Group, Inc. ("UFG,", the "Registrant," the "Company," "we," "us," or "our") and its consolidated subsidiaries and affiliates are engaged in the business of writing property and casualty insurance and life insurance and selling annuities through a network of independent agencies. We report our operations in two business segments: property and casualty insurance and life insurance. Our insurance company subsidiaries are licensed as a property and casualty insurer in 46 states and the District of Columbia, and as a life insurer in 37 states.
Basis of Presentation
The unaudited consolidated interim financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial reporting and with the instructions to Form 10-Q and Regulation S-X promulgated by the SEC. Certain financial information that is included in our Annual Report on Form 10-K, including certain financial statement footnote disclosures, are not required by the rules and regulations of the SEC for interim financial reporting and have been condensed or omitted.
The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The financial statement categories that are most dependent on management estimates and assumptions include: investments; deferred policy acquisition costs; reinsurance receivables and recoverables; future policy benefits and losses, claims and loss settlement expenses; and pension and postretirement benefit obligations.
In the preparation of the accompanying unaudited Consolidated Financial Statements, we have evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition or disclosure.
Certain prior year amounts have been reclassified to conform to the current year presentation.
Management of UFG believes the accompanying unaudited Consolidated Financial Statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. All significant intercompany transactions have been eliminated in consolidation. The results reported for the interim periods are not necessarily indicative of the results of operations that may be expected for the year. The unaudited Consolidated Financial Statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2015. The review report of Ernst & Young LLP as of March 31, 2016 and for the three-month periods ended March 31, 2016 and 2015 accompanies the unaudited Consolidated Financial Statements included in Part I, Item 1 "Financial Statements."
Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash, money market accounts, and non-negotiable certificates of deposit with original maturities of three months or less.
For the three-month periods ended March 31, 2016 and 2015, we made payments for income taxes totaling $6,509 and $6,508, respectively. We did not receive a tax refund during the three-month periods ended March 31, 2016 and 2015.

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For the three-month periods ended March 31, 2016 and 2015, we made no interest payments (excluding interest credited to policyholders' accounts).

Deferred Policy Acquisition Costs ("DAC")

Certain costs associated with underwriting new business (primarily commissions, premium taxes and variable underwriting and policy issue expenses associated with successful acquisition efforts) are deferred. The following table is a summary of the components of DAC, including the related amortization recognized for the three-month period ended March 31, 2016.

	Property & Casualty Insurance	Life Insurance	Total
Recorded asset at beginning of period	$90,547	$77,717	$168,264
Underwriting costs deferred	52,540	1,270	53,810
Amortization of deferred policy acquisition costs	(48,412)	(1,819)	(50,231)
Ending unamortized deferred policy acquisition costs	$94,675	$77,168	$171,843
Impact of unrealized gains and losses on available-for-sale securities	—	(11,685)	(11,685)
Recorded asset at March 31, 2016	$94,675	$65,483	$160,158

Property and casualty insurance policy acquisition costs deferred are amortized as premium revenue is recognized. The method followed in computing DAC limits the amount of such deferred costs to their estimated realizable value. This takes into account the premium to be earned, losses and loss settlement expenses expected to be incurred and certain other costs expected to be incurred as the premium is earned.

For traditional life insurance policies, DAC is amortized to income over the premium-paying period in proportion to the ratio of the expected annual premium revenue to the expected total premium revenue. Expected premium revenue and gross profits are based on the same mortality and withdrawal assumptions used in determining future policy benefits. These assumptions are not revised after policy issuance unless the recorded DAC asset is deemed to be unrecoverable from future expected profits.

For non-traditional life insurance policies, DAC is amortized over the anticipated terms in proportion to the ratio of the expected annual gross profits to the total expected gross profits. Changes in the amount or timing of expected gross profits result in adjustments to the cumulative amortization of these costs. The effect on amortization of DAC for revisions to estimated gross profits is reported in earnings in the period the estimated gross profits are revised.

The effect on DAC that results from the assumed realization of unrealized gains (losses) on investments allocated to non-traditional life insurance business is recognized with an offset to net unrealized investment appreciation as of the balance sheet date. The impact of unrealized gains and losses on available-for-sale securities decreased the DAC asset by $13,688 and $2,003 at March 31, 2016 and December 31, 2015, respectively.

Income Taxes

Deferred tax assets and liabilities are established based on differences between the financial statement bases of assets and liabilities and the tax bases of those same assets and liabilities, using the currently enacted statutory tax rates. Deferred income tax expense is measured by the year-to-year change in the net deferred tax asset or liability, except for certain changes in deferred tax amounts that affect stockholders' equity and do not impact federal income tax expense.

We reported a federal income tax expense of $6,347 and $8,152 for the three-month periods ended March 31, 2016 and 2015, respectively. Our effective tax rate is different than the federal statutory rate of 35.0 percent due principally to the effect of tax-exempt municipal bond interest income and non-taxable dividend income.

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The Company performs a quarterly review of its tax position and makes a determination of whether it is more likely than not that the tax position will be sustained upon examination. If based on review, it appears not more likely than not that the position will be sustained, the Company will calculate any unrecognized tax benefits and, if necessary, calculate and accrue any related interest and penalties. We did not recognize any liability for unrecognized tax benefits at March 31, 2016 or December 31, 2015. In addition, we have not accrued for interest and penalties related to unrecognized tax benefits. However, if interest and penalties would need to be accrued related to unrecognized tax benefits, such amounts would be recognized as a component of federal income tax expense.

We file a consolidated federal income tax return. We also file income tax returns in various state jurisdictions. We are no longer subject to federal or state income tax examination for years before 2009. The Internal Revenue Service is conducting a routine examination of our income tax return for the 2011 tax year.

Subsequent Events

In the preparation of the accompanying financial statements, the Company has evaluated all material subsequent events or transactions that occurred after the balance sheet date through the date on which the financial statements were issued for potential recognition or disclosure in the Company's financial statements. The Company concluded there are no material subsequent events or transactions that have occurred after the balance sheet date through the date on which the financial statements were issued.

Recently Issued Accounting Standards

Accounting Standards Adopted in 2016

Short-Duration Contracts

In May 2015, the FASB issued guidance on disclosure requirements for short-duration contracts. The new guidance requires additional disclosures about the liability for unpaid loss and loss adjustment expenses and requires disclosure of any information about significant changes in methodologies and assumptions used to calculate the liability. The new guidance is effective for annual periods beginning after December 15, 2015 and interim periods beginning the following year. The Company will include the new annual disclosures beginning with the December 31, 2016 annual financial statements. The adoption of the new guidance will change disclosures regarding short- duration contracts, but management currently does not expect the adoption of the new guidance to have an impact on the Company's financial position or results of operations.

Other Internal Use Software

In April 2015, the Financial Accounting Standards Board ("FASB") issued guidance which clarifies customers' accounting for fees paid for cloud computing arrangements. The new standard provides guidance to customers about whether a cloud computing arrangement includes a software license or whether the arrangement is considered a service contract. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company adopted the new guidance as of January 1, 2016. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Debt Issuance Costs

In April 2015, the FASB issued new guidance on the presentation of debt issuance costs. The new guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company adopted the new guidance as of January 1, 2016. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

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Consolidation

In February 2015, the FASB issued amendments to the consolidation analysis that a reporting entity performs to determine whether it should consolidate certain legal entities. Specifically, the new guidance modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIE"), eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that have VIE's, particularly those with fee arrangements and related party relationships. The new guidance is effective for annual and interim periods beginning after December 15, 2015. The Company adopted the guidance as of January 1, 2016. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Going Concern

In August 2014, the FASB issued new guidance on the disclosure of uncertainties about an entity's ability to continue as a going concern. The new guidance requires management to evaluate whether there is substantial doubt about the entity's ability to continue as a going concern and, if so, to disclose the fact and what the entity's plans are to alleviate that doubt. The guidance is effective for annual periods ending after December 15, 2016 and interim periods within annual periods beginning after December 15, 2016. The Company adopted the guidance as of January 1, 2016. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Share-Based Payments

In June 2014, the FASB issued new guidance on the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. The new guidance requires a performance target that affects vesting and that could be achieved after the service period, be treated as a performance condition. The guidance is effective for interim and annual periods beginning after December 15, 2015. The amendments can be applied prospectively or retrospectively and early adoption is permitted. The Company adopted the guidance as of January 1, 2016. The adoption of the new guidance had no impact on the Company's financial position or results of operations.

Pending Adoption of Accounting Standards

Share-Based Payments

In March 2016, the FASB issued new guidance on the accounting for share-based payments. The new guidance was issued to simplify the accounting of share-based payment, specifically in the areas of income taxes, classification on the balance sheets as liabilities or equity and classification in the cash flow statement. The new guidance is effective for annual periods beginning after December 15, 2016 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2017 and is currently evaluating the impact on the Company's financial position and results of operations.

Leases

In February 2016, the FASB issued guidance on the accounting for leases. The new guidance requires lessees to place most leases on their balance sheets with expenses recognized on the income statement in a similar manner as previous methods. The new guidance is effective for annual periods beginning after December 15, 2018 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2019 and is currently evaluating the impact on the Company's financial position and results of operations.

Financial Instruments

In January 2016, the FASB issued guidance updating certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments in this update supersede the guidance to classify equity securities with readily determinable fair values into different categories (for example, trading or available-for-sale)

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and require equity securities to be measured at fair value with changes in the fair value recognized through net income. The new guidance also simplifies the impairment process for equity investments without readily determinable fair values. The new guidance is effective for annual periods beginning after December 15, 2017 and interim periods within those years. The Company will adopt the new guidance as of January 1, 2018 and is currently evaluating the impact on the Company's financial position and results of operations.

Income Taxes

In December 2015, the FASB issued guidance on the balance sheet classification of deferred taxes. The new guidance eliminates the requirement to split deferred tax liabilities and assets between current and non-current in a classified balance sheet. The new guidance allows deferred tax liabilities and assets to be included in non-current accounts. The Company will adopt the new guidance as of January 1, 2017, the adoption will have no impact on the Company's financial position and results of operations.

Revenue Recognition

In May 2014, the FASB issued comprehensive new guidance on revenue recognition which supersedes nearly all existing revenue recognition guidance under GAAP. The new guidance requires a company to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The standard creates a five-step model that requires companies to exercise judgment when considering the terms of the contract(s) and all relevant facts and circumstances. Insurance contracts are not within the scope of this new guidance. The new guidance is effective for annual and interim periods beginning after December 15, 2017. The Company will adopt the guidance as of January 1, 2018 and is currently evaluating the impact on the Company's financial position and results of operations and considering which portions of the guidance, if any, applies to the Company.

NOTE 2. SUMMARY OF INVESTMENTS

Fair Value of Investments

A reconciliation of the amortized cost (cost for equity securities) to fair value of investments in held-to-maturity and available-for-sale fixed maturity and equity securities as of March 31, 2016 and December 31, 2015, is as follows:

March 31, 2016

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Bonds				
Corporate bonds				
Technology, media and telecommunications	$450	$ 2	$ —	$452
Financial services	150	—	—	150
Mortgage-backed securities	64	1	—	65
Total Held-to-Maturity Fixed Maturities	$664	$ 3	$ —	$667
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$23,783	$ 303	$ 3	$24,083
U.S. government agency	176,116	3,728	28	179,816
States, municipalities and political subdivisions				

General obligations:				
Midwest	160,686	5,464	14	166,136
Northeast	61,333	2,594	—	63,927
South	119,448	3,971	—	123,419
West	106,544	3,949	49	110,444
Special revenue:				
Midwest	156,902	6,186	—	163,088
Northeast	29,203	1,143	4	30,342
South	160,498	5,779	7	166,270
West	80,862	3,796	2	84,656
Foreign bonds	80,115	2,555	1,925	80,745
Public utilities	215,122	7,624	826	221,920
Corporate bonds				
Energy	116,341	1,763	3,422	114,682
Industrials	239,448	7,950	3,276	244,122
Consumer goods and services	176,258	7,529	3	183,784
Health care	87,699	3,870	43	91,526
Technology, media and telecommunications	141,213	4,394	1,070	144,537
Financial services	252,289	8,961	228	261,022
Mortgage-backed securities	15,352	464	17	15,799
Collateralized mortgage obligations				
Government national mortgage association	123,776	3,716	403	127,089
Federal home loan mortgage corporation	134,375	5,285	149	139,511
Federal national mortgage association	108,566	4,994	127	113,433
Asset-backed securities	4,789	238	212	4,815
Total Available-for-Sale Fixed Maturities	$2,770,718	$96,256	$11,808	$2,855,166
Equity securities:				
Common stocks				
Public utilities	$7,231	$14,893	$181	$21,943
Energy	6,514	6,409	158	12,765
Industrials	13,252	32,722	232	45,742
Consumer goods and services	10,301	13,978	5	24,274
Health care	7,763	19,108	—	26,871
Technology, media and telecommunications	5,931	8,550	57	14,424
Financial services	17,289	74,132	93	91,328
Nonredeemable preferred stocks	443	26	—	469
Total Available-for-Sale Equity Securities	$68,724	$169,818	$726	$237,816
Total Available-for-Sale Securities	$2,839,442	$266,074	$12,534	$3,092,982

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December 31, 2015

Type of Investment	Cost or Amortized Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Fair Value
HELD-TO-MATURITY				
Fixed maturities:				
Bonds				
Corporate bonds				
Technology, media and telecommunications	$450	$ 1	$ —	$451
Financial services	150	—	—	150
Mortgage-backed securities	72	2	—	74
Total Held-to-Maturity Fixed Maturities	$672	$ 3	$ —	$675
AVAILABLE-FOR-SALE				
Fixed maturities:				
Bonds				
U.S. Treasury	$21,587	$ 100	$ 38	$21,649
U.S. government agency	232,808	2,622	2,400	233,030
States, municipalities and political subdivisions				
General obligations:				
Midwest	160,484	4,990	18	165,456
Northeast	56,449	1,996	—	58,445
South	125,565	3,358	134	128,789
West	103,721	3,160	67	106,814
Special revenue:				
Midwest	152,780	4,956	30	157,706
Northeast	23,892	919	212	24,599
South	144,183	4,281	27	148,437
West	78,935	3,150	44	82,041
Foreign bonds	82,580	2,405	2,457	82,528
Public utilities	213,233	3,701	1,251	215,683
Corporate bonds				
Energy	116,800	1,032	4,713	113,119
Industrials	227,589	3,329	6,663	224,255
Consumer goods and services	172,529	2,844	776	174,597
Health care	92,132	2,168	791	93,509
Technology, media and telecommunications	142,431	1,972	2,003	142,400
Financial services	259,382	5,246	1,143	263,485
Mortgage-backed securities	16,413	376	51	16,738
Collateralized mortgage obligations				
Government national mortgage association	120,220	1,391	1,985	119,626
Federal home loan mortgage corporation	137,874	2,377	1,342	138,909
Federal national mortgage association	106,021	2,400	941	107,480
Asset-backed securities	5,461	221	16	5,666

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Total Available-for-Sale Fixed Maturities	$2,793,069	$58,994	$27,102	$2,824,961
Equity securities:				
Common stocks				
Public utilities	$7,231	$12,022	$193	$19,060
Energy	6,103	5,374	266	11,211
Industrials	13,251	31,872	313	44,810
Consumer goods and services	10,301	13,017	3	23,315
Health care	7,763	20,454	—	28,217
Technology, media and telecommunications	5,931	7,538	105	13,364
Financial services	17,392	78,411	109	95,694
Nonredeemable preferred stocks	542	34	—	576
Total Available-for-Sale Equity Securities	$68,514	$168,722	$989	$236,247
Total Available-for-Sale Securities	$2,861,583	$227,716	$28,091	$3,061,208

Maturities

The amortized cost and fair value of held-to-maturity, available-for-sale and trading fixed maturity securities at March 31, 2016, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset-backed securities, mortgage-backed securities and collateralized mortgage obligations may be subject to prepayment risk and are therefore not categorized by contractual maturity.

	Held-To-Maturity		Available-For-Sale		Trading	
March 31, 2016	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ —	$ —	$88,221	$88,799	$1,614	$2,178
Due after one year through five years	600	602	841,686	865,457	7,701	8,401
Due after five years through 10 years	—	—	934,933	964,495	375	488
Due after 10 years	—	—	519,020	535,768	1,847	1,933
Asset-backed securities	—	—	4,789	4,815	—	—
Mortgage-backed securities	64	65	15,352	15,799	—	—
Collateralized mortgage obligations	—	—	366,717	380,033	—	—
	$ 664	$ 667	$2,770,718	$2,855,166	$11,537	$13,000

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Net Realized Investment Gains and Losses

Net realized gains on disposition of investments are computed using the specific identification method and are included in the computation of net income. A summary of the components of net realized investment gains (losses) is as follows:

Three
Months
Ended
March
31,
2016