Report

of the

Examination of

Baraboo Mutual Insurance Company

Baraboo, Wisconsin

As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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June 21, 2013

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2012, of the affairs and financial condition of:

BARABOO MUTUAL INSURANCE COMPANY
Baraboo, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Baraboo Mutual Insurance Company (the company) was made in 2008 as of December 31, 2007. The current examination covered the intervening time period ending December 31, 2012, and included a review of such subsequent transactions deemed essential to complete this examination.

The “Summary of Examination Results” contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

The company was organized as a town mutual insurance company on December 23, 1876, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Baraboo Farmers Mutual Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and no amendments to the bylaws.

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance. The company is currently licensed to write business in the following counties: Adams, Columbia, Juneau, and Sauk.

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year with premiums payable on the advance premium basis. The company does not charge any other fees to policyholders.

Business of the company is acquired through four agents, all of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
Liability	15%
Fire and extended coverage renewal policies	$25-$120 based on policy dollar amount
New policies	Add $5

Agents have authority to adjust losses up to $5,000. Losses in excess of this amount are adjusted by at least two directors, one of which may be the director/agent. Adjusters receive $15.00 per hour for each loss adjusted plus $0.56 per mile.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
James Rick*	Company Manager	Baraboo, Wisconsin	2014
Marvin Giebel*	Town Chairman/Farmer	Reedsburg, Wisconsin	2014
Richard Schoenoff*	Farmer	Baraboo, Wisconsin	2015
Barbara Terry*	Town Treasurer	Baraboo, Wisconsin	2013
David Kehoe	Contractor	Baraboo, Wisconsin	2013
Mark Keding	Farmer	Baraboo, Wisconsin	2015
John Turner	Farmer	Baraboo, Wisconsin	2015
Tom Webb	Farmer/Mobile Park Owner	Baraboo, Wisconsin	2015
Brian Bender	Farmer	Reedsburg, Wisconsin	2013

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $400.00 per year, along with $50.00 per half-day meeting and $100.00 per full-day meeting attended. Travel expenses are reimbursed at $0.56 per mile.

Section 612.13 (1m), Wis. Stat., requires:

(1) If a town mutual has fewer than nine directors, no more than one director may be an employee or representative of the town mutual; and

(2) Employees and representatives of a town mutual may not constitute a majority of its board.

The company is in compliance with these requirements.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2012 Compensation
Marvin Giebel	President	$15,730
Richard Schoenoff	Vice President	6,200
James Rick	Secretary/Treasurer	47,397

Mr. Giebel, Mr. Schoenoff, and Mr. Rick are agents for the company and receive fees for renewals, new policies and adjustments. This fee is based on the policy face amount and ranges from $25.00 to $120.00. Mr. Giebel and Mr. Rick are licensed agents and receive the same fees as above plus 15% commission for all liability business that they write. Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, and director fees.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee
Marvin Giebel, Chair
Richard Schoenoff
James Rick
Barbara Terry (Alternate)

Investment Committee
Marvin Giebel, Chair
Richard Schoenoff
James Rick

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2012	$322,150	1,130	$ (46,751)	$1,609,940	$1,312,150
2011	310,310	1,138	(145,672)	1,722,349	1,397,665
2010	306,066	1,123	(8,758)	1,824,849	1,508,874
2009	325,290	1,108	111,188	1,784,420	1,506,227
2008	360,985	1,117	6,032	1,711,902	1,417,114
2007	363,038	1,138	68,185	1,778,008	1,437,588

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios Net	Writings Ratios Gross
2012	$608,915	$319,210	$1,312,150	24%	46%
2011	607,255	304,610	1,397,665	22	43
2010	596,405	308,966	1,508,874	20	40
2009	574,234	321,490	1,506,227	21	38
2008	596,833	364,385	1,417,114	26	42
2007	569,154	356,238	1,437,588	25	40

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Com-posite Ratio
2012	$268,719	$121,229	$322,510	83%	38%	121%
2011	311,175	125,139	301,310	103	41	144
2010	223,150	127,218	306,066	73	41	114
2009	134,033	119,748	325,290	41	37	78
2008	269,314	127,841	360,985	75	35	110
2007	234,681	120,198	363,038	65	34	98

The company’s surplus during the examination period decreased by 8.7% from $1,437,588 to $1,312,150. Since the prior examination, the company’s financial position has declined slightly. Over the five-year period under examination, admitted assets decreased 9.5% to $1,609,940, surplus decreased 8.7% to $1,312,150 and net premiums earned decreased 11.2% to $322,510. The number of policies in force decreased by 0.7% to 1,130 policies. The underwriting expense ratio has averaged 37.7% for the last six years. The company has shown net losses in each of the last three years.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Company
Effective date:	January 1, 2013
Termination provisions:	Either party may terminate this contract as of any subsequent January 1 by giving to the other party at least 90 days' advance notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Casualty Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company classified as casualty or liability business
	Company's retention:	$2,500 in respect to each and every loss occurrence
	Coverage:	Reinsurer shall be liable for 100% of each and every loss, including loss adjustment expense, occurring on the business covered in excess of $1,000, subject to maximum policy limits: a. $1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability b. $1,000,000 split limits, in a combination of bodily injury and property damage liability c. $5,000 for medical payments per person; $25,000 per accident
	Reinsurance premium:	For each annual period this contract is in effect, the company shall pay the reinsurer 59% of premium written for each and every policy issued with respect to the business covered
2.	Type of contract:	Class B First Surplus Reinsurance
	Lines reinsured:	All property business written by the company
	Company's retention:	$250,000 per ceded risk when company's net retention is $250,000 or more in respect to risk; 50% on a pro rata basis per ceded risk when the company's net retention is $250,000 or less
	Coverage:	Up to $800,000 on a pro rata basis when the company's net retention is $250,000 or more in respect to a risk. When the company's first surplus liability in respect to a

		risk is less than $250,000, the company may cede on a pro rata basis up to 50% of such risk.
	Reinsurance premium:	The pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded
3.	Type of contract:	First Per Risk Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company classified as property business
	Company's retention:	$50,000 per risk and per occurrence
	Coverage:	100% of any loss, excluding loss adjusting expense, in excess of $50,000 in respect to each and every risk resulting from one loss occurrence. Limit of liability to the reinsurer of $125,000 per loss.
	Reinsurance premium:	Current rate based on a formula calculation which takes into account the losses incurred by the reinsurer under this contract for the last four years
4.	Type of contract:	Second Per Risk Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company classified as property business
	Company's retention:	$125,000 per risk and occurrence
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $125,000 in respect to each and every risk resulting from one loss occurrence
	Reinsurance premium:	6.3% of the company's current net premiums written in respect to the business covered, subject to a minimum annual premium which shall be 75% of the annual deposit premium
5.	Type of contract:	First Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's retention:	Actual losses incurred up to 60% of the company's net premiums written, including loss adjustment expense, subject to minimum retention of $327,497
	Coverage:	100% of the amount by which losses exceed the company's retention
	Reinsurance premium:	Current rate based on a formula calculation which takes into account the losses incurred by the reinsurer under this contract for the last eight years Minimum rate: 6.45% of the current net written premiums Maximum rate: 15.0% of the current net written premiums

6.	Type of contract:	Second Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's retention:	Actual losses incurred up to130% of the company's net premiums written, including loss adjustment expense
	Coverage:	100% of the amount by which losses exceed the company's retention
	Reinsurance premium:	2.0% of the company's current net premiums written in respect to the business covered

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2012, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Baraboo Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2012

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in checking	$ 27,601	$ 0	$0	$ 27,601
Cash deposited at interest	833,441	0	0	833,441
Bonds	375,295	0	0	375,295
Stocks and mutual fund investments	280,125	0	0	280,125
Premiums, agents' balances and installments:				
In course of collection	3,760	0	0	3,760
Deferred and not yet due	68,000	0	0	68,000
Investment income accrued	0	9,385	0	9,385
Reinsurance recoverable on paid losses and LAE	5,223	0	0	5,223
Fire dues recoverable	76	0	0	76
Other expense-related assets:				
Reinsurance commission receivable	5,835	0	0	5,835
Other nonexpense-related assets:				
Federal income tax recoverable	1,199	0	0	1,199
Totals	$1,600,555	$9,385	$0	$1,609,940

Liabilities and Surplus

Net unpaid losses	$ 25,000
Unpaid loss adjustment expenses	1,200
Commissions payable	6,745
Unearned premiums	212,400
Reinsurance payable	25,074
Other liabilities:	
Expense-related:	
Accounts payable	9,600
Nonexpense-related:	
Premiums received in advance	17,771
Total labilities	297,790
Policyholders' surplus	1,312,150
Total Liabilities and Surplus	$1,609,940

Baraboo Mutual Insurance Company
Statement of Operations
For the Year 2012

Net premiums and assessments earned		$322,510
Deduct:		
Net losses incurred	$249,059	
Net loss adjustment expenses incurred	19,660	
Net other underwriting expenses incurred	121,229	
Total losses and expenses incurred		389,948
Net underwriting gain (loss)		(67,438)
Net investment income:		
Net investment income earned	25,084	
Net realized capital gains (losses)	3	
Total investment gain (loss)		25,087
Net income (loss) before federal income taxes		(42,351)
Federal income taxes incurred		4,400
Net Income (Loss)		$ (46,751)

Baraboo Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2012

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2012	**2011**	**2010**	**2009**	**2008**
Surplus, beginning of year	$1,397,665	$1,508,874	$1,506,227	$1,417,114	$1,437,588
Net income	(46,751)	(145,672)	(8,758)	111,188	6,032
Net unrealized capital gains or (losses)	(38,764)	34,463	11,405	(22,075)	(26,506)
Surplus, End of Year	$1,312,150	$1,397,665	$1,508,874	$1,506,227	$1,417,114

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2012, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Conflict of Interest—It is again recommended that directors disclose all potential conflicts of interest in their annual conflict of interest questionnaires including being an agent of the company.

   Action—Compliance

2. Conflict of Interest—It is also suggested that the company revise its Conflict of Interest form to provide a signature line.

   Action—Compliance

3. Invested Assets—It is suggested that the company correct the company's name on the custodian agreement with Waukesha State Bank.

   Action—Compliance

4. Invested Assets—It is recommended that the board expand and revise its investment plan required by s. Ins 6.20 (6) (h), Wis. Adm. Code, to establish specific limitations or ranges on classes of investment and to follow the investment rules stated in s. Ins 6.20, Wis. Adm. Code.

   Action—Compliance

5. Invested Assets—It is further recommended that the company execute a written agreement with its investment advisor, wherein the investment advisor acknowledges its compliance with the investment guidelines and limitations established by the company.

   Action—Compliance

6. Book Value of Bonds—It is recommended that the company not invest in reverse convertible bonds or other financial futures or options until such time as the company has an approved plan pursuant to s. Ins 6.20 (8) (o), Wis. Adm. Code.

   Action—Compliance

7. Unpaid Loss Adjustment Expenses—It is recommended that the company adopt a methodology for estimating unpaid loss adjustment expense which will more accurately reflect all expenses needed to adjust for unpaid losses.

   Action—Compliance

8. Unearned Premium—It is recommended that the company properly report unearned premiums in the future in compliance with the Town Mutual Annual Statement Instructions.

   Action—Compliance

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adapted their conflict of interest questionnaires to include a signature line for the director or employee completing the form. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with apparent conflicts being noted. Four directors for the company also are the only agents for the company.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	$ 100,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Professional liability	1,000,000
Director and officers' liability	1,000,000
Insured agents errors and omissions	1,000,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by adjusting committee members. All the members of the adjusting committee are also the agents for the company. It is recommended the company expand their inspection procedure to ensure inspections are completed by individuals who are independent of the risk. It is suggested the company strengthen their underwriting by requiring pictures of the inspected risks to be gathered by the person completing the inspection and retained in the applicable policy file.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained.
2. A proper cash receipts journal is maintained.
3. A proper cash disbursements journal is maintained.
4. A proper general journal is maintained.
5. A proper general ledger is maintained.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2012.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers.

Company personnel back up the computers daily and the backed-up data is kept off-site.

The company has manuals documenting the use of its software and outlining the steps to complete specific tasks. The manuals assist in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs. The examination determined that the level of documentation contained in the manuals was reasonable.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as “Type 2”) provided that the town mutual has a sufficient amount of lower risk investments (referred to as “Type 1”). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1.	Liabilities plus $300,000	$ 597,790
2.	Liabilities plus 33% of gross premiums written	500,942
3.	Liabilities plus 50% of net premiums written	459,605
4.	Amount required (greater of 1, 2, or 3)	597,790
5.	Amount of Type 1 investments as of 12/31/2012	1,252,013
6.	Excess or (deficiency)	$ 654,223

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$861,402**

The above asset is comprised of the following types of cash items:

Cash deposited in banks—checking accounts	$ 27,601
Cash deposited in banks at interest	833,441
Total	$861,402

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one bank. Verification of checking account balances was made by obtaining confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 16 deposits in 7 depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2012 totaled $21,773 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.00% to 3.96%. Accrued interest on cash deposits totaled $3,510 at year-end.

Book Value of Bonds **$375,295**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2012. Bonds owned by the company are located in Waukesha State Bank.

Bonds were traced from a direct confirmation from the Waukesha State Bank to the annual statement. During tracing from the confirmation to the annual statement, the examiners noted one quantity error, one description error, two CUSIP number errors, and three interest rate errors. It is recommended the company report their bond holdings in accordance with the Town Mutual Annual Statement Instructions.

Bond purchases and sales for the period under examination were checked to custodial statements.

Within the annual statement period, the company invested in three securities issued by financial corporations with floating rates that were dependent on year over year changes in the

U.S. Consumer Price Index. The floating rates can be subject to wide fluctuation based on changing economic conditions or other circumstances.

Town mutual insurers are considered restricted insurers under s. 620.03 (1), Wis. Stat., and s. Ins 6.20 (6) (a), Wis. Adm. Code. This office has imposed and may impose additional special investment restrictions for town mutual insurers that are subject to additional risk which may compromise their financial position and ability to provide uninterrupted service to their policyholders. Furthermore, pursuant to s. 620.04 (1), Wis. Stat., this office may impose reasonable and temporary restrictions upon the investments of an individual insurer, including prohibition or divestment of a particular asset. This office concludes that the company's investment in variable rate corporate debt securities presents an unreasonable amount of risk to the company and is not appropriate for a town mutual insurance company. The basis for this conclusion and the company's action required by this office is described below.

The objectives of investment regulation as defined in s. 620.01, Wis. Stat., include, in part, to provide for the safety of principal and, to the extent consistent therewith, maximum yield and growth, and to provide sufficient liquidity to avoid the necessity in reasonably expected circumstances for selling assets at undue sacrifice. The interest rate on these bonds could drop to 0%, which could significantly impair the value of the bond and prevent the company from earning a reasonable return on their investment. There also may not be a trading market for the security in the event that the company may need to dispose of the bond in order to pay claims, rendering the investment illiquid. The risk that the market for trading these securities may not necessarily exist or be maintained in the future is substantially exacerbated by the very small size of the variable rate corporate debt issues that the company has purchased. Large issues tend to trade more frequently than small issues and investors may have greater awareness about a larger issue because it is widely held and analyzed. An issue size of $250 million represents an approximate lower boundary for a bond issue to attract significant institutional interest when liquidity is a concern. For example, the minimum par amount outstanding for a bond issue's inclusion in the Barclays U.S. Corporate Index is $250 million. The minimum par amount outstanding for a bond issue's inclusion in the Barclays U.S. Floating Rate Note Index is

$300 million. The par amounts outstanding for the variable rate corporate debt securities owned by the company ranged from $14.2 million to $47.7 million. It is recommended that, if the company invests in any variable rate corporate debt security, such security must have the following characteristics:

a. the reference for setting the interest rate must be a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
b. the interest rate must have a floor in excess of zero percent; and
c. the total outstanding principal amount of the security at the time of issuance must equal or exceed $250 million.

For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:

a. may assume that any U.S. Dollar London Interbank Offered Rate will exceed zero percent; and
b. may invest in a security that specifies some increment of interest in excess of a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and
d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate of a single specified duration, unless such increment is expressed as a percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable).

Interest received during 2012 on bonds amounted to $13,384 and was traced to cash receipts records. Accrued interest of $5,875 at December 31, 2012, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments $280,125

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2012.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with

Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2012 on stocks and mutual funds amounted to $7,334 and were traced to cash receipts records.

Premiums, Agents' Balances in Course of Collection **$3,760**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of detailed premium records verified the accuracy of this asset.

Premiums Deferred and Not Yet Due **$68,000**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Accrued **$9,385**

Interest due and accrued on the various assets of the company at December 31, 2012, consists of the following:

Cash deposited at interest	$ 3,510
Bonds	5,875
Total	$ 9,385

Reinsurance Recoverable on Paid Losses and LAE **$5,223**

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2012. A review of year-end accountings with the reinsurer verified the above asset.

Fire Dues Recoverable **$76**

This asset represents the amount overpaid to the state of Wisconsin for 2012 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Reinsurance Commission Receivable **$5,835**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2012, under its contract with the reinsurer. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Federal Income Tax Recoverable **$1,199**

This asset represents the amount overpaid federal income taxes for 2012. The examiners reviewed the company's tax calculation and found this asset to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$25,000**

This liability represents losses incurred on or prior to December 31, 2012, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2012, with incurred dates in 2012 and prior years. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$107,362	$96,608	$10,754
Less: Reinsurance recoverable on unpaid losses	82,362	82,362	0
Net Unpaid Losses	$ 25,000	$14,246	$10,754

Reserves appeared redundant at the examination date based on the examiners' development; no adjustment has been made for purposes of this examination report in fair consideration of the possibility of further loss development.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$1,200**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2012, but which remained unpaid as of year-end.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$6,745**

This liability represents the commissions payable to agents as of December 31, 2012. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Unearned Premiums **$212,400**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using a daily pro rata methodology.

Reinsurance Payable **$25,074**

This liability consists of amounts due to the company's reinsurer at December 31, 2012, relating to transactions which occurred on or prior to that date.

Accounts Payable **$9,600**

This liability consists of the accruals for the Secretary/Treasurer's and President's salary as of December 31, 2012. The examiners reviewed the company's salary and wage calculation and found the liability to be reasonably stated.

Premiums Received in Advance **$17,771**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2012. The examiners reviewed 2012 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

Baraboo Mutual Insurance Company is a town mutual insurer covering a four-county area. The company has been in business for more than 137 years providing property and liability insurance to its policyholders.

The company's surplus during the examination period decreased by 8.7% from $1,437,588 to $1,312,150. Since the prior examination, the company's financial position has declined slightly. Over the five-year period under examination, admitted assets decreased 9.5% to $1,609,940, surplus decreased 8.7% to $1,312,150 and net premiums earned decreased 11.2% to $322,510. The number of policies in force decreased by 0.7% to 1,130 policies. The underwriting expense ratio has averaged 37.7% for the last six years. The company has shown net losses in each of the last three years.

The company complied with all of the prior examination recommendations. The current examination resulted in one suggestion and three recommendations.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Underwriting—It is recommended the company expand their inspection procedure to ensure inspections are completed by individuals who are independent of the risk.

2. Page 15 - Underwriting—It is suggested the company strengthen their underwriting by requiring pictures of the inspected risks to be gathered by the person completing the inspection and retained in the applicable policy file.

3. Page 18 - Book Value of Bonds—It is recommended the company report their bond holdings in accordance with the Town Mutual Annual Statement Instructions.

4. Page 20 - Book Value of Bonds—It is recommended that, if the company invests in any variable rate corporate debt security, such security must have the following characteristics:
   a. the reference for setting the interest rate must be a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
   b. the interest rate must have a floor in excess of zero percent; and
   c. the total outstanding principal amount of the security at the time of issuance must equal or exceed $250 million.

   For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:
   a. may assume that any U.S. Dollar London Interbank Offered Rate will exceed zero percent; and
   b. may invest in a security that specifies some increment of interest in excess of a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
   c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and
   d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate of a single specified duration, unless such increment is expressed as a percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable).

VII. ACKNOWLEDGMENT

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Marisa Rodgers of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Derek Sliter
Examiner-in-Charge