Report

of the

Examination of

Barron Mutual Insurance Company

Barron, Wisconsin

As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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July 16, 2014

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, 2013, of the affairs and financial condition of:

BARRON MUTUAL INSURANCE COMPANY
Barron, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Barron Mutual Insurance Company (Barron or the company) was made in 2009 as of December 31, 2008. The current examination covered the intervening time period ending December 31, 2013, 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 April 18, 1891, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Oak Grove Farmers' Mutual Fire 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, Barron made 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:

Barron	Polk
Bayfield	Rusk
Burnett	Sawyer
Dunn	Washburn

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 charges a policy fee of $20. In addition, Barron charges a $3 fee when policyholders pay in installments.

Business of the company is acquired through 11 agents, 2 of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
All policy types	12%

Agents do not have authority to adjust losses. All adjusting is done by independent adjusting firms at different rates depending on the property, extent of survey, and location.

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
Carsten Ellison*	Insurance Agent	Barron, Wisconsin	2015
Carl Kringle	Retired	Rice Lake, Wisconsin	2015
Richard Peterson	Retired	Rice Lake, Wisconsin	2015
Victor Bekkum	Retired	Cumberland, Wisconsin	2016
Charles Nelson	Farmer	Cumberland, Wisconsin	2016
Severt Olson	Retired	Barron, Wisconsin	2016
Gary Frisle*	Insurance Agent	Prairie Farm, Wisconsin	2017
Jeff Jackson	Laborer	Clayton, Wisconsin	2017
Kenneth Rohl	Retired	Cumberland, Wisconsin	2017

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $150 for each meeting attended ($100 for half day) and $0.565 per mile for travel expenses.

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.

Barron's board of directors is not divided into committees. Rather, all issues brought to the board are presented and discussed by the entire board.

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	2013 Compensation
Carsten Ellison	President	$ 2,400
Carl Kringle	Vice President	0
Charles Nelson	Secretary/Treasurer	1,200
Karen Smith	Office Manager	57,498

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, director fees and rental income as applicable.

Barron Mutual Insurance Agency

In 1998, Barron Mutual Insurance Company established Barron Mutual Insurance Agency, Inc., to service books of business the company purchased from retiring insurance agents. Barron Mutual Insurance Company currently owns all 37 outstanding shares of stock issued by Barron Mutual Insurance Agency, Inc., with a par value of $1,000 per share. Prior to the formation of the agency, the company requested and received approval for the transaction pursuant to s. Ins 6.20 (6) (d) 4., Wis. Adm. Code.

Barron Mutual Insurance Agency, Inc., and Barron Mutual Insurance Company are affiliates as defined by s. 600.03 (1), Wis. Stat. The same individuals manage both companies. Given that Barron Mutual Insurance Agency, Inc., and Barron Mutual Insurance Company are affiliated entities, the company is required to ensure that transactions with Barron Mutual Insurance Agency, Inc., are reasonable and fair to the interests of the insurer pursuant to s. 612.18, Wis. Stat.

The company and its affiliate share certain costs and have entered into formal agreements that recognize these operating arrangements. During the examination these agreements were determined to be reasonable.

The affiliation of this agency with Barron Mutual Insurance Company creates an insurance holding company system. Insurance holding companies are required to file a registration statement by June 1 of each year in accordance with s. Ins 40.03, Wis. Adm. Code. It was noted that the company had complied with the filing requirement.

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
2013	$ 965,978	1,747	$283,349	$4,067,328	$3,114,786
2012	979,837	1,686	331,099	3,703,927	2,775,790
2011	962,485	1,667	96,577	3,407,618	2,581,576
2010	1,008,543	1,713	($7,574)	3,405,016	2,526,509
2009	1,050,221	1,780	186,750	3,417,020	2,467,198
2008	1,096,732	1,866	282,060	3,251,522	3,251,522

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
2013	$1,602,636	$1,007,720	$3,114,786	51.5%	32.4%
2012	1,520,354	999,529	2,775,790	54.8	36.0
2011	1,475,313	975,859	2,581,576	57.1	37.8
2010	1,467,737	984,326	2,526,509	58.1	39.0
2009	1,534,804	1,027,787	2,467,198	62.2	41.7
2008	1,567,959	984,352	2,332,525	67.2	42.2

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
2013	$142,524	$497,922	$ 965,978	14.8%	51.5%	66.3%
2012	165,843	439,311	979,837	16.9	44.8	61.8
2011	541,519	428,831	962,485	56.3	44.6	100.8
2010	707,687	427,876	1,008,543	70.2	42.4	112.6
2009	423,959	465,698	1,050,221	40.4	44.3	84.7
2008	345,827	451,366	1,096,732	31.5	41.2	72.7

Barron has had net income in five of the past six years. Over that time, Barron’s most profitable years were in 2013 and 2012. These favorable results are largely due to Barron’s loss ratio of 14.8% and 16.9% in 2013 and 2012, respectively. Barron’s expense ratio has been relatively steady. Since 2008, Barron’s expense ratio has been between 41.2% and 51.5%. These ratios led Barron to report a composite ratio of fewer than 100% in four of the past six 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 Corporation
Effective date:	January 1, 2014
Termination provisions:	Either party may terminate as of January 1st by giving at least 90 days' written notice to the other party

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class AX1 Casualty Excess of Loss
	Lines reinsured:	All liability business
	Company's retention:	$5,000 each and every loss occurrence
	Coverage:	100% of each and every loss occurrence, including loss adjustment expense, in excess of the company's retention subject to the maximum policy limits of: a. $1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability b. $1,000,000 split limits, in any combination of bodily injury and property damage liability c. $25,000 for medical payments, per person; $25,000 per accident
	Reinsurance premium:	50.0% of net premium written Annual deposit premium: $91,500
2.	Type of contract:	Class B First Surplus
	Lines reinsured:	All property business
	Company's retention:	$350,000 for each occurrence
	Coverage:	If net retention is $350,000 or more on a risk, the company may cede on a pro rata basis, and the reinsurer is obligated to accept up to $2,000,000. Notwithstanding the above, any single location which is in excess of $2,500,000 of property coverage may be submitted to the reinsurer for special acceptance. The reinsurer reserves the right to accept or reject each such risk submitted. When a cession has been made the reinsurer shall be liable for the pro rata portion of each and every loss,

		including loss adjustment expense, corresponding to the amount of the risk ceded by the company as it bears to the company's gross liability on 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 Annual deposit premium: $171,817
	Ceding commission:	Commission rate: 15% of the premium paid Profit commission: 15% of the net profit
3.	Type of contract:	Class C-1 First Layer of Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	$75,000 per loss per occurrence
	Coverage:	100% of $100,000 in excess of $75,000
	Reinsurance premium:	9.8% of subject net premium Annual deposit premium: $117,912
4.	Type of contract:	Class C-2 Second Layer of Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	$175,000 per loss per occurrence
	Coverage:	100% of $175,000 in excess of $175,000
	Reinsurance premium:	4.0% of subject net premium Annual deposit premium: $48,127
5.	Type of contract:	Class DE-1 First Aggregate Excess of Loss Reinsurance (Stop Loss)
	Lines reinsured:	All business written by the company
	Company's retention:	70% of net premium written
	Coverage:	100% of annual aggregate losses, including loss adjustment expenses, to 140% of net premium written and in excess of the company's retention
	Reinsurance premium:	6.4% of subject net premium Annual deposit premium: $82,860 Estimated attachment point: $906,278
6.	Type of contract:	Class DE-2 Second Aggregate Excess of Loss Reinsurance (Stop Loss)
	Lines reinsured:	All business written by the company
	Company's retention:	140% of net premium written

Coverage:	100% of annual aggregate losses, including loss adjustment expenses in excess of the company’s retention
Reinsurance premium:	3.0% of subject net premium Annual deposit premium: $32,367

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, 2013, 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."

Barron Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2013

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 200	$	$	$ 200
Cash in checking	144,202			144,202
Cash deposited at interest	336,924			336,077
Bonds	2,223,417			2,223,417
Stocks and mutual fund investments	944,527			944,527
Real estate	111,353			111,353
Other invested assets				
Premiums, agents' balances and installments:				
In course of collection	49,646			49,646
Deferred and not yet due	202,546			202,546
Investment income accrued	0	10,621		10,621
Reinsurance recoverable on paid losses and LAE	3,252			3,252
Reinsurance commission receivable	21,185			21,185
Other nonexpense related assets:				
Federal income tax recoverable	19,092			19,092
Agency receivable	363			363
Furniture and fixtures	6,318		6,318	
Totals	$4,063,025	$10,621	$6,318	$4,067,328

Liabilities and Surplus

Net unpaid losses	$ 43,950
Unpaid loss adjustment expenses	7,000
Commissions payable	82,595
Fire department dues payable	638
Unearned premiums	721,157
Reinsurance payable	58,364
Amounts withheld for the account of others	2,768
Payroll taxes payable (employer’s portion)	1,314
Other liabilities:	
Expense-related:	
Accounts payable	4,884
Nonexpense-related:	
Premiums received in advance	29,872
Total liabilities	952,542
Policyholders' surplus	3,114,786
Total Liabilities and Surplus	$4,067,328

Barron Mutual Insurance Company
Statement of Operations
For the Year 2013

Net premiums and assessments earned		$965,978
Deduct:		
Net losses incurred	$ 82,028	
Net loss adjustment expenses incurred	60,496	
Net other underwriting expenses incurred	497,922	
Total losses and expenses incurred		640,446
Net underwriting gain (loss)		325,532
Net investment income:		
Net investment income earned	40,556	
Net realized capital gains (losses)	13,810	
Total investment gain (loss)		54,366
Other income (expense):		
Miscellaneous income		52,169
Net income (loss) before federal income taxes		432,067
Federal income taxes incurred		148,718
Net Income (Loss)		$283,349

Barron Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2013

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:

	2013	2012	2011	2010	2009
Surplus, beginning of year	$2,775,790	$2,581,576	$2,526,509	$2,467,198	$2,332,525
Net income	283,349	331,099	96,577	(7,574)	186,750
Net unrealized capital gain or (loss)	54,384	(129,304)	(41,826)	64,677	(56,698)
Change in nonadmitted assets	1,263	(7,581)	316	2,208	4,621
Surplus, End of Year	$3,114,786	$2,775,790	$2,581,576	$2,526,509	$2,467,198

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders’ surplus. The amount reported by the company as of December 31, 2013, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were no comments and recommendations contained in the last examination.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors 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 adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

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	$250,000 Single loss limit
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	1,000,000
Each employee	1,000,000
Policy limit	1,000,000
Combined professional and directors' and officers' liability:	
Each claim	3,000,000
In aggregate	3,000,000
Business owners:	
Liability and medical expenses	1,000,000
Building	339,560
Business personal property	128,128
Equipment breakdown	50,000

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. The entire board reviews Barron's underwriting procedures and results. If needed, board members who are independent of the risk under consideration and review inspect new and renewal applications.

Claims Adjusting

The company does not have an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. Rather, the entire board of directors regularly reviews the adjustment of losses at their board meetings.

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, 2013.

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	$1,252,542
2.	Liabilities plus 33% of gross premiums written	1,481,412
3.	Liabilities plus 50% of net premiums written	1,456,402
4.	Amount required (greater of 1, 2, or 3)	1,481,412
5.	Amount of Type 1 investments as of December 31, 2013	2,818,786
6.	Excess or (deficiency)	$1,337,374

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$481,326**

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

Cash in company's office	$ 200
Cash deposited in banks—checking accounts	144,202
Cash deposited in banks at interest	336,924
Total	$481,326

Cash in company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

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 depositor and reconciling the amounts shown thereon to company records.

Cash deposited at interest in banks represents the aggregate of five deposits in five 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 2013 totaled $1,621 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.00% to 1.24%. Accrued interest on cash deposits totaled $87 at year-end. Included in Barron’s cash deposited at interest were brokered certificates of deposit. Brokered certificates of deposit have more in common with bonds than traditional certificates of deposit. Therefore, it is recommended that the company list all brokered CDs on Schedule C of the annual statement.

Book Value of Bonds **$2,223,417**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2013. Bonds owned by the company are held by its custodian, Community Bank & Trust.

Bonds were physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2013 on bonds amounted to $61,773 and was traced to cash receipts records. Accrued interest of $10,534 at December 31, 2013, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments $944,527

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2013. Stocks owned by the company are held by the company’s custodian.

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 2013 on stocks and mutual funds amounted to $9,966 and were traced to cash receipts records. The company had no accrued dividends at December 31, 2013.

Book Value of Real Estate $111,353

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2013. The company's real estate holdings consisted of its home office building.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance is carried on the real estate and contents as noted under the caption "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Premiums, Agents' Balances in Course of Collection **$49,646**

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 **$202,546**

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 **$10,621**

Interest due and accrued on the various assets of the company at December 31, 2013, consists of the following:

Cash	$ 87
Bonds	10,534
Total	$10,621

Reinsurance Recoverable on Paid Losses and LAE **$3,252**

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, 2013. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$0**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2013. A review of receipts and other documentation verified the balance. Barron's EDP Equipment was fully depreciated as of December 31, 2013.

Reinsurance Commission Receivable **$21,185**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2013. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Furniture and Fixtures **$0**

This asset consists of $7,581 of office furniture and fixtures owned by the company at December 31, 2013. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

Federal Income Tax Recoverable **$19,092**

The above asset is the amount still to be recovered for federal income taxes. This amount is a calculation that took Barron's "Total Tax Liability" and subtracted "Estimated Tax Payments Made."

Agency Receivable **$363**

The above asset is a receivable due to Barron from their affiliate Barron Mutual Insurance Agency, Inc. This receivable is from normal transactions that occur between the two entities throughout the year.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$43,950**

This liability represents losses incurred on or prior to December 31, 2013, 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, 2013, with incurred dates in 2013 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	$46,089	$87,987	$(41,898)
Less: Reinsurance recoverable on unpaid losses	2,139	4,307	(2,168)
Net Unpaid Losses	$43,950	$83,680	$(39,730)

Surplus was not adjusted for difference noted above as the difference was not material.

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 **$7,000**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2013, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is paid-to-paid method.

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 **$82,595**

This liability represents the commissions payable to agents as of December 31, 2013. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Fire Department Dues Payable **$638**

This liability represents the fire department dues payable to the state of Wisconsin as of December 31, 2013.

The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Unearned Premiums **$721,157**

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 **$58,364**

This liability consists of amounts due to the company's reinsurer at December 31, 2013, relating to transactions which occurred on or prior to that date. The total amount payable is all due to Barron's reinsurer, Wisconsin Reinsurance Corporation.

Amounts Withheld for the Account of Others **$2,768**

This liability represents employee payroll deductions in the possession of the company at December 31, 2013. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$1,314**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2013, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accrued Property Taxes **$4,884**

This liability is the amount Barron has accrued for their home office building's property taxes. This amount is not due to be paid until 2014.

Premiums Received in Advance **$29,872**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2013. The examiners reviewed 2013 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

Barron Mutual Insurance Company is a town mutual insurer with an authorized territory of eight counties. The company has served the insurance needs of its policyholders since April 18, 1891.

As of December 31, 2013, the company reported assets of $4,067,328, liabilities of $952,542 and policyholders' surplus of $3,114,786. Surplus increased by 33.5% since the last examination, while gross premium written increased by 2.9% and net premium written decreased 2.8%, and policy count decreased by 6.3%.

The following schedule summarizes the cumulative increases and decreases to the policyholders' surplus of Barron Mutual Insurance Company from December 31, 2008, when policyholders' surplus was last verified by examination, to December 31, 2013:

Policyholders' surplus, December 31, 2008	$2,332,525
Net income	890,201
Unrealized capital gains or (losses)	(108,767)
Change in nonadmitted assets	827
Policyholders' Surplus, December 31, 2013	$3,114,786

Barron has had net income in five of the past six years. Over that time, Barron's most profitable years were in 2013 and 2012. These favorable results are largely due to Barron's loss ratio of 14.8% and 16.9% in 2013 and 2012, respectively. Barron's expense ratio has been relatively steady. Since 2008, Barron's expense ratio has been between 41.2% and 51.5%. These ratios led Barron to report a composite ratio of fewer than 100% in four of the past six years.

There was one recommendation as a result of this examination. There were no adjustments to policyholders' surplus or reclassifications in the balance sheet.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Cash and Invested Cash—It is recommended that the company list all brokered CDs on Schedule C of the annual statement.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Mike Miller
Examiner-in-Charge