Report

of the

Examination of

Bloomington Farmers Mutual Insurance Company

Bloomington, Wisconsin

As of December 31, 2018

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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July 9, 2019

Honorable Mark V. Afable
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, 2018, of the affairs and financial condition of:

BLOOMINGTON FARMERS MUTUAL INSURANCE COMPANY
Bloomington, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Bloomington Farmers Mutual Insurance Company (the company) was made in 2011 as of December 31, 2010. The current examination covered the five-year period beginning January 1, 2014, and ending December 31, 2018, 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 examination.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including preparation of financial statements, preparation of depreciation schedules, and preparation of adjusting journal entries. On December 3, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on April 11, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Bloomington 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, 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:

Crawford	Lafayette
Grant	Monroe
Green	Richland
Iowa	Sauk
La Crosse	Vernon

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 also charges a policy fee equal to $30 for homeowners, dwelling and commercial policies, and $40 for farmowners and farm-fire policies.

Business of the company is acquired through 19 agents, two of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
All Lines of Business	12%

Agents have authority to adjust losses up to $5,000. After three years of claims experience, the company may consider increasing the loss adjustment limit to $10,000. Losses in excess of this amount are adjusted by third-party vendors. Adjusters receive $18.00 per hour for each loss adjusted plus $0.58 per mile for travel allowance.

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
Michael Breuer	Farmer/Tax Preparer	Glen Haven, WI	2020
Dennis Conley	Farmer	Fennimore, WI	2021
Thomas Friar	Farmer/Retired Banker	Lancaster, WI	2021
James Hampton*	Farmer/Agent	Glen Haven, WI	2022
Ronald Leeser	Farmer	Lancaster, WI	2021
David Meoska	Farmer	Bagley, WI	2022
Charles Raisbeck	Farmer	Bloomington, WI	2020
Gunnar Renner	Electrician	Prairie du Chien, WI	2020
Matthew Vogt*	Farmer/Agent	Bloomington, WI	2022

Directors who are also agents are identified with an asterisk. Members of the board currently receive $100.00 for each meeting attended and $0.58 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.

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	2018 Compensation
Charles Raisbeck	President	$ 5,607.08
David Meoska	Vice-President	2,533.95
Michael Breuer	Secretary/Treasurer	0.00
Barbara Thornton	General Manager	75,748.34

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

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
Charles Raisbeck, Chair
Gunnar Renner
Michael Breuer
Thomas Friar
Dennis Conley
Ronald Leeser
Matthew Vogt
James Hampton
David Meoska

Manager Review Committee
Charles Raisbeck, Chair
Ronald Leeser
Matthew Vogt
Dennis Conley

Contingency Committee
Michael Breuer, Chair
Barbara Thornton

Executive Finance Committee
Charles Raisbeck, Chair
David Meoska
Barbara Thornton

Surcharge Committee
Charles Raisbeck, Chair
Matthew Vogt
Ronald Leeser
James Hampton

New Business Committee
Thomas Friar, Chair
James Hampton
David Meoska
Michael Breuer

Growth of Company

The growth of the company during the examination period, as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2018	$1,186,021	1,557	$ 378,481	$3,407,044	$1,974,610
2017	1,127,421	1,596	(134,537)	3,016,787	1,684,525
2016	1,225,374	1,682	326,449	2,916,920	1,677,950
2015	1,185,632	1,762	(204,842)	2,535,161	1,187,476
2014	1,128,021	1,829	52,068	2,581,201	1,333,675

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

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios Net	Writings Ratios Gross
2018	$2,096,862	$1,278,911	$1,974,610	64.7%	106.2%
2017	2,041,359	1,060,801	1,684,525	63.0	121.2
2016	2,127,954	1,180,393	1,677,950	70.3	126.2
2015	2,178,571	1,202,532	1,187,476	101.3	183.5
2014	2,117,034	1,162,541	1,333,675	87.2	158.7

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	Composite Ratio
2018	$457,685	$459,218	$1,186,021	38.6%	35.9%	74.5%
2017	946,187	405,508	1,127,421	83.9	38.2	122.2
2016	548,229	410,092	1,225,374	44.7	34.7	79.5
2015	1,100,884	405,549	1,185,632	92.9	33.7	126.6
2014	759,361	415,144	1,128,021	67.3	35.7	103.0

Despite underwriting losses in 2014, 2015, and 2017, the overall trend in policyholders' surplus has been favorable over the examination period. The company posted significant improvements in its net underwriting results compared to the previous five-year period (the average net loss ratio for 2014 – 2018 was 66%, as compared to 76% for 2009 – 2013). In addition, steady growth in investment income earned (since 2016), an increase in policy and installment fees (since 2015), and unrealized capital gains also contributed to the favorable trend. Much of the growth in policyholders' surplus has occurred since 2015, during which time policyholders' surplus has increased 66.3% to $1,974,610 (2018) from $1,187,476 (2015).

During the same period, the company's policies in force have decreased from 1,829 (2014) to 1,557 (2018), representing a 14.9% decline. The company has taken measures to address this decline.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty with seven coverage sections. All treaties reviewed contained proper insolvency clauses. All treaties 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, 2019
	Termination provisions:	Either the company or the reinsurer can terminate this contract by giving the other party at least ninety (90) days advance notice in writing.
1.	Type of contract:	Class AX-1 – Casualty Excess of Loss
	Lines reinsured:	Casualty (subject to exclusions)
	Company's retention:	$5,000 each and every loss occurrence including loss adjustment expenses
	Coverage:	100% of losses, including loss adjustment expenses, in excess of the company’s retention subject to a maximum 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. d) $25,000 for medical payments per accident for personal lines.
	Reinsurance premium:	60% of net written premium, with annual deposit premium of $159,000
	Ceding commission:	None
2.	Type of contract:	Class B-1 – First Surplus
	Lines reinsured:	All property lines (subject to exclusions)
	Company's retention:	$1,000,000
	Coverage:	When the liability in respect to the risk exceeds the company’s retention, the company may cede on a pro rata basis and the reinsurer shall accept up to $2,000,000 of pro rata reinsurance coverage of such a risk. 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. When a cession has been made hereunder, 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 a risk.
	Reinsurance premium:	Percentage of written premium varies by the total risk formula: (Total Risk – Company's Retention)/Total Risk.
	Commission rate:	20% of net written premium, with annual deposit premium of $222,829
	Profit commission rate:	15% of annual net profit to reinsurer
3.	Type of contract:	Class C-1 – First Per Risk Excess of Loss
	Lines reinsured:	All property lines (subject to exclusions)
	Company's retention:	$70,000 per risk per loss occurrence, including loss adjustment expenses
	Coverage:	100% of $100,000 per risk per loss occurrence, including loss adjustment expenses, in excess of the company's retention.
	Reinsurance premium:	7.69% of net written premium, with an annual deposit premium of $121,669
	Ceding commission:	None
4.	Type of contract:	Class C-2 – Second Per Risk Excess of Loss
	Lines reinsured:	All property lines (subject to exclusions)
	Company's retention:	$170,000 per risk per loss occurrence, including loss adjustment expenses
	Coverage:	100% of $330,000 per risk per loss occurrence, including loss adjustment expenses, in excess of the company's retention.
	Reinsurance premium:	4% of net written premium, with an annual deposit premium of $63,287
	Ceding commission:	None
5.	Type of contract:	Class C-3 – Third Per Risk Excess of Loss
	Lines reinsured:	All property lines (subject to exclusions)
	Company's retention:	$500,000 per risk per loss occurrence, including loss adjustment expenses
	Coverage:	100% of $500,000 per risk per loss occurrence, including loss adjustment expenses, in excess of the company's retention.
	Reinsurance premium:	2% of net written premium, with an annual deposit premium of $31,643
	Ceding commission:	None

6.	Type of contract:	Class D-1 – First Aggregate Excess of Loss
	Lines reinsured:	All property lines (subject to exclusions)
	Attachment Point Percentage:	62% of company's net premium written
	Coverage:	100% of the company's aggregate net losses, including loss adjustment expenses, which exceed 62% of the company's net premiums written, up to 68% of net premiums written
	Reinsurance premium:	7.4% of net written premium, with an annual deposit premium of $124,925
	Ceding commission:	None
7.	Type of contract:	Class D-2 – Second Aggregate Excess of Loss
	Lines reinsured:	All property lines (subject to exclusions)
	Attachment Point Percentage:	130% of company's net premium written
	Coverage:	100% of the company's aggregate net losses, including loss adjustment expenses, which exceed 130% of the company's net premiums written
	Reinsurance premium:	2% of net written premium, with an annual deposit premium of $33,763
	Ceding commission:	None

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, 2018, 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."

Bloomington Farmers Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2018

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in company's office	$ 150	$	$	$ 150
Cash deposited in checking	12,145			12,145
Cash deposited at interest	473,790			473,790
Bonds	1,390,996			1,390,996
Stocks and mutual fund investments	1,130,197			1,130,197
Real estate	15,052			15,052
Premiums, agents' balances and installments:				
In course of collection	40,170			40,170
Deferred and not yet due	322,023			322,023
Investment income accrued		13,665		13,665
Reinsurance recoverable on paid losses and LAE	8,768			8,768
Fire dues recoverable	88			88
Totals	$3,393,379	$13,665	$	$3,407,044

Bloomington Farmers Mutual Insurance Company
Statement of Assets and Liabilities (cont.)
As of December 31, 2018

Liabilities and Surplus

Net unpaid losses	$ 157,000
Loss adjustment expenses unpaid	5,000
Commissions payable	57,700
Federal income taxes payable	87,392
Unearned premiums	840,681
Reinsurance payable	107,894
Other liabilities:	
Expense related:	
Accounts payable	4,000
Accrued property taxes	1,450
Policy buyout	140,247
Nonexpense related:	
Premiums received in advance	31,070
Total Liabilities	1,432,434
Policyholders' Surplus	1,974,610
Total Liabilities and Surplus	$3,407,044

Bloomington Farmers Mutual Insurance Company
Statement of Operations
For the Year 2018

Net premiums and assessments earned		$1,186,021
Deduct:		
Net losses incurred	$396,068	
Net loss adjustment expenses incurred	61,617	
Net other underwriting expenses incurred	459,218	
Total losses and expenses incurred		916,903
Net underwriting gain (loss)		269,118
Net investment income:		
Net investment income earned	38,546	
Net realized capital gains (losses)	97,357	
Total investment gain (loss)		135,903
Other income (expense):		
Policy and installment fees	53,760	
Total other income (expense)		53,760
Net income (loss) before federal income taxes		458,781
Federal income taxes incurred		80,300
Net Income (Loss)		$ 378,481

Bloomington Farmers Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2018

The following schedule is a reconciliation of surplus as regards policyholders during the last five years as reported by the company in its filed annual statements:

	2018	2017	2016	2015	2014
Surplus, beginning of year	$1,684,521	$1,677,950	$1,187,476	$1,333,675	$1,138,909
Net income (loss)	378,481	(134,537)	326,449	(204,842)	52,068
Net unrealized capital gain or (loss)	(88,392)	141,108	164,025	58,643	142,698
Surplus, End of Year	$1,974,610	$1,684,521	$1,677,950	$1,187,476	$1,333,675

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2018, 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. Net Unpaid Losses—It is recommended that the company establish its incurred but not reported (IBNR) reserves so as to more reasonably anticipate IBNR development.

   Action—Compliance.

Current Examination Results

Audit Engagement Letter

A review of the engagement letter submitted to the company by its independent certified public accounting firm in anticipation of the external audit as of December 31, 2019, found that the engagement letter included a clause which is designed to limit the CPA firm's liability. The clause indicates that any legal action by the insurer against the CPA firm must be commenced within 24 months of the date of delivery of the audit report. If 24 months passes, the insurer is forever barred from starting a lawsuit or obtaining any legal or equitable relief or recovery. Further, the clause indicates that the 24-month period applies even if the insurer has not suffered any damage or loss or has not become aware of the existence or possible existence of a dispute.

Section Ins 50.08 (1) (am), Wis. Adm. Code, provides that the Commissioner may rule that an accountant is not qualified to express an opinion on an audited financial statement if, among other things, the accountant has “either directly or indirectly entered into an agreement of indemnification with respect to the audit of the insurer.” Section Ins 50.01 (4m), Wis. Adm. Code, defines indemnification as, “an agreement of indemnity or a release from liability where the intent or effect is to shift or limit in any manner the potential liability of the person or firm for failure to adhere to applicable auditing or professional standards, whether or not resulting in part from knowing or other misrepresentations made by the insurer or its representatives.”

The clause included in the engagement letter creates a contractual limit of liability, with the intent to limit the liability of the CPA firm for failure to adhere to auditing standards. It is recommended that the company enter into future audit engagements with independent certified public accountants that are compliant with all requirements under s. Ins 50.08 (1), Wis. Adm. Code.

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 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 disclosing to its board of directors 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
Directors and officers liability	1,000,000
Commercial umbrella	1,000,000
Business owners liability	1,000,000
Workers' compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	500,000
Each employee	500,000
Policy limit	500,000

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 committee members who are independent of the risk under consideration and review.

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. The company's full board functions as the adjusting committee.

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, tested for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2018.

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, with the following exception: it does not address how the company will continue to operate in the event of the loss of a key employee. Such plans typically identify individuals who have the ability to perform critical functions until a permanent replacement is retained. It is recommended that the company develop, and the board approve, a formal written succession plan which addresses how the company will continue to operate in the event of the loss of a key employee; after board approval, the plan should be submitted to this office.

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 the above requirements.

The review of the Custodial Agreement noted two deficiencies from the recommended language of the National Association of Insurance Commissioners' (NAIC) Financial Condition Examiners Handbook as follows:

- The executed agreement should include language stating that; “if this agreement has been terminated or if 100 percent of the assets of the account have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the depositor’s domiciliary commissioner.”
- The executed agreement should include language stating that; “during regular business hours, and upon reasonable notice, an officer or employee of the depositor, an independent accountant selected by the depositor, or a representative of the depositor’s domiciliary commissioner shall be entitled to examine, on the premises of the custodian, the custodian’s records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the depositor.”

It is recommended that the company amend their Custodial Agreement to conform with standards set forth by the NAIC Financial Condition Examiners Handbook.

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	$1,732,434
2.	Liabilities plus 33% of gross premiums written	2,124,398
3.	Liabilities plus 50% of net premiums written	2,071,890
4.	Amount required (greater of 1, 2, or 3)	2,124,398
5.	Amount of Type 1 investments as of 12/31/2018	1,810,423
6.	Excess or (deficiency)	$ (313,975)

The company does not have sufficient Type 1 investments.

It is recommended that the company make no additional Type 2 investments until the company meets the required amount of Type 1 investments, pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

Investment Advisors

The company utilizes the services of an investment advisor to assist in the management of its investment strategy. The agreement provided by the company did not contain certain appropriate provisions considered to be necessary for the protection of the company.

It is recommended that the company enter into an agreement with its investment advisor that includes, at a minimum: (1) a description of the scope and nature of services to be provided, (2) the standard of care to be provided, (3) how (or whether) the investment strategy (including asset allocations, and any applicable limitations) incorporates the board approved investment policy, (4) the level of authority the advisor exercises over the insurer's portfolio (discretionary or non-discretionary), (5) a description of all types of compensation to be paid to the investment advisor, and (6) a description as to how investment transactions, holdings, and portfolio performance will be communicated to the company's board of directors (including the frequency, content, and means of reporting). A copy of the executed agreement, along with evidence of board approval, shall be submitted to the Office of the Commissioner of Insurance within 60 days of the date of this report.

It is further recommended that the company provide the investment advisor with a copy of its adopted investment policy.

ASSETS

Cash and Invested Cash **$486,085**

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

Cash in company's office	$ 150
Cash deposited in banks—checking accounts	12,145
Cash deposited in banks at interest	473,790
Total	$486,085

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 a confirmation directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks at interest represents the aggregate of nine deposits in four depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of the certificates of deposit and/or passbooks. The examination determined this balance to be overstated by $790 due to interest received that was erroneously included in the book value of the certificate of deposit. The difference was deemed immaterial.

Interest received during the year 2018 totaled $4,406 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.60% to 2.15%. Accrued interest on cash deposits totaled $585 at year end.

Book Value of Bonds **$1,390,996**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2018. Bonds owned by the company are held in a custodial account with the company’s custodian.

Bonds were verified by review of the custodian’s year-end statement of the company’s investments. 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 regarding investments made by town mutual insurers.

Interest received during 2018 on bonds amounted to $40,873, which was traced to cash receipts records. Accrued interest of $12,910 at December 31, 2018, was verified and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$1,130,197**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2018. Stocks owned by the company are either located in the company's safe or held in a custodial account with the company's custodian.

Stock certificates held in the company's safe were physically examined by the examiners. Stocks held in the company's custodial account were verified by review of the custodian's year-end statement of the company's investments. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. Dividends received during 2018 on stocks and mutual funds amounted to $20,201 and were traced to cash receipts records. Accrued dividends of $170 at December 31, 2018, were verified and allowed as a nonledger asset.

Book Value of Real Estate **$15,052**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2018. The company's real estate holdings consisted of the home office. Adequate hazard insurance was carried on the real estate and contents. The company's investment in real estate and related items conformed with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Premiums, Agents' Balances in Course of Collection **$40,170**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. The examination relied on the testing performed by the CPA to confirm this balance.

Premiums Deferred and Not Yet Due **$322,023**

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

Investment Income Accrued **$13,665**

Interest due and accrued on the various assets of the company at December 31, 2018, consists of the following:

Cash Deposited at Interest	$ 585
Bonds	12,910
Stocks and Mutual Fund Dividend Interest	170
Total	$13,665

Reinsurance Recoverable on Paid Losses and LAE **$8,768**

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, 2018. The examiners relied on the testing performed by the CPA to confirm this balance.

Fire Dues Recoverable **$88**

This asset represents the amount overpaid to the State of Wisconsin for 2018 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be incorrectly calculated. There was a discrepancy between the CPA's trial balance and the Annual Statement. In the Annual Statement, the company reported Fire Dues Recoverable of $88 while the CPA's trial balance reported Fire Dues Payable of $88. The difference was deemed immaterial.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$157,000**

This liability represents losses incurred on or prior to December 31, 2018, 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, 2018, with incurred dates in 2018 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	$437,874	$436,190	$ 1,684
Less: Reinsurance recoverable on unpaid losses	280,874	282,442	(1,568)
Net Unpaid Losses	$157,000	$153,748	$ 3,252

The net difference was deemed immaterial.

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 **$5,000**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2018, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is derived from conversations and estimations from their accountants.

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 **$57,700**

This liability represents the commissions payable to agents as of December 31, 2018. The examiners relied on the testing performed by the CPA to confirm this balance.

Fire Department Dues Payable **$0**

This liability represents the fire department dues payable to the State of Wisconsin as of December 31, 2018.

The examiners reviewed the company's fire department dues calculation and found this liability to be incorrectly stated by $88. The net difference was deemed immaterial.

Federal Income Taxes Payable **$87,392**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2018. The examiners relied on the testing performed by the CPA to confirm this balance.

Unearned Premiums **$840,681**

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. A recalculation of a sample from the company’s detailed list of unearned premiums verified the accuracy of this asset.

Reinsurance Payable **$107,894**

This liability consists of amounts due to the company's reinsurer at December 31, 2018, relating to transactions which occurred on or prior to that date. The examiners relied on the testing performed by the CPA to confirm this balance.

Total Billed	$ 67,541
Premium Adjustment Payable (Current Year)	3,390
Profit Commission (Current Year)	(9,698)
Deferred Premium (Current Year)	46,661
Total	$107,894

Accounts Payable **$4,000**

This liability represents miscellaneous company liabilities that were incurred prior to December 31, 2018, which had not been paid. The examiners relied on the testing performed by the CPA to confirm this balance.

Accrued Property Taxes **$1,450**

This liability represents the estimated amount of property taxes owed at year-end to the local governments. The examiners relied on the testing performed by the CPA to confirm this balance.

Policy Buyout **$140,247**

This liability relates to the policy buyouts of three agents/agencies as per their mutual agreements with these agents. Buyouts are given at 100% of the most recent year's commissions if paid in a lump sum, or at 1.5 times those commissions if paid out over five years. The examiners relied on the testing performed by the CPA to confirm this balance.

Premiums Received in Advance **$31,070**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2018. The examiners reviewed 2018 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

Bloomington Farmers Mutual Insurance Company is a town mutual insurer currently operating in a ten-county area of southwestern Wisconsin. The company has been in business providing insurance to its policyholders for over 145 years.

Despite underwriting losses in 2014, 2015, and 2017, the overall trend in policyholders' surplus has been favorable over the examination period. The company posted significant improvements in its net underwriting results compared to the previous five-year period (the average net loss ratio for 2014 – 2018 was 66%, as compared to 76% for 2009 – 2013). In addition, steady growth in investment income earned (since 2016), an increase in policy and installment fees (since 2015), and unrealized capital gains also contributed to the favorable trend. Much of the growth in policyholders' surplus has occurred since 2015, where policyholders' surplus has increased 66.3% to $1,974,610 (2018) from $1,187,476 (2015).

During the same period, the company's policies in force have decreased from 1,829 (2014) to 1,557 (2018), representing a 14.9% decline. The company has taken measures to address this decline.

The prior examination resulted in one examination recommendation, with which the company has complied. The current examination has resulted in six examination recommendations and no examination adjustments or reclassifications.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 - Audit Engagement Letter—It is recommended that the company enter into future audit engagements with independent certified public accountants that are compliant with all requirements under s. Ins 50.08 (1), Wis. Adm. Code.

2. Page 19 - Succession Plan—It is recommended that the company develop, and the board approve, a formal written succession plan which addresses how the company will continue to operate in the event of the loss of a key employee; after board approval, the plan should be submitted to this office.

3. Page 20 - Invested Assets—It is recommended that the company amend their Custodial Agreement to conform with standards set forth by the NAIC Financial Condition Examiners Handbook.

4. Page 20 Investment Rule Compliance—It is recommended that the company make no additional Type 2 investments until the company meets the required amount of Type 1 investments, pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

5. Page 21 - Investment Advisors (Investment Advisory Agreement)—It is recommended that the company enter into an agreement with its investment advisor that includes, at a minimum: (1) a description of the scope and nature of services to be provided, (2) the standard of care to be provided, (3) how (or whether) the investment strategy (including asset allocations, and any applicable limitations) incorporates the board approved investment policy, (4) the level of authority the advisor exercises over the insurer's portfolio (discretionary or non-discretionary), (5) a description of all types of compensation to be paid to the investment advisor, and (6) a description as to how investment transactions, holdings, and portfolio performance will be communicated to the company's board of directors (including the frequency, content, and means of reporting). A copy of the executed agreement, along with evidence of board approval, shall be submitted to the Office of the Commissioner of Insurance within 60 days of the date of this report.

6. Page 21 - Investment Advisors (Investment Policy)—It is further recommended that the company provide the investment advisor with a copy of its adopted investment policy.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Gene M. Renard, CFE
Examiner-in-Charge