Report

of the

Examination of

Clarno Mutual Insurance Company

Monroe, Wisconsin

As of December 31, 2012

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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July 8, 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:

CLARNO MUTUAL INSURANCE COMPANY
Monroe, Wisconsin

and the following report thereon is respectfully submitted.

I. INTRODUCTION

The previous examination of Clarno 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 February 16, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Farmers Mutual Fire Insurance Company of the Town of Clarno. 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: Dane, Green, Lafayette, and Rock.

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 $4.00 for policyholders that make their premium payments in installments.

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**
All Policies	12%

Agents have authority to adjust losses up to $15,000. Losses in excess of this amount are adjusted by the Adjusting Committee. The adjusters’ only compensation is $0.55 per mile for a 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
Dean Flannery*	Retired/Agent	Argyle, Wisconsin	2013
Marilyn Bartelt	Clarno's Director	Monroe, Wisconsin	2013
Ted Falk	Retired Farmer	Monroe, Wisconsin	2013
Michelle Steinman	Part-Time Secretary	Monroe, Wisconsin	2013
James Roidt	Bank Loan Officer	Monroe, Wisconsin	2014
Dean Signer*	Retired/Agent	Monroe, Wisconsin	2014
Mark Peterson	Farmer	Monroe, Wisconsin	2014
Beverly Stuckey*	Secretary/Manager	Monroe, Wisconsin	2015
Harvey Mandel*	Retired/Agent	Juda, Wisconsin	2015

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $50.00 for each meeting attended and $0.55 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	2012 Compensation
Dean Signer	President	$ 1,000
Dean Flannery	Vice President	0
Beverly Stuckey	Secretary	47,460
Harvey Mandel	Treasurer	3,000

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, director fees and rental income 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
Dean Signer, Chair
Dean Flannery
Harvey Mandel
Beverly Stuckey
Jim Roidt
Ted Falk

Investment Committee
Harvey Mandel, Chair
Dean Flannery
Marilyn Bartelt
Jim Roidt
Mark Peterson
Ted Falk
Michelle Steinmann
Beverly Stuckey

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	$397,915	784	$43,209	$2,524,334	$2,139,884
2011	381,939	807	17,480	2,542,433	2,125,888
2010	389,916	814	49,074	2,590,402	2,115,464
2009	394,221	810	31,062	2,389,600	2,025,272
2008	405,420	816	38,665	2,447,993	1,994,827
2007	424,060	845	61,162	2,486,686	1,984,326

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	Gross
2012	$618,027	$384,455	$2,139,884	18%	29%
2011	636,231	385,378	2,125,888	18	30
2010	631,028	390,548	2,115,464	18	30
2009	630,476	394,286	2,025,272	19	31
2008	636,142	403,994	1,994,827	20	32
2007	626,169	407,812	1,984,326	21	32

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	$166,951	$184,677	$397,915	42%	48%	90%
2011	181,950	177,231	381,939	48	46	94
2010	90,559	169,127	389,916	23	43	67
2009	263,677	171,332	394,221	67	43	110
2008	181,236	184,635	405,420	45	46	90
2007	135,683	172,389	424,060	32	42	74

Clarno has reported net income in each of the past five years and underwriting profits in four of the last five years. Clarno's reported net income is the main contributor to steady growth in policyholder surplus that the company has experienced. The number of policies in force has decreased since the prior examination; however, this decrease has not had a direct negative corollary effect on underwriting income.

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, 2013
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 casualty or liability business
	Company's retention:	$1,000 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:	60.00% of premium written Annual deposit premium = $60,000
2.	Type of contract:	Class B1 First Surplus
	Lines reinsured:	All property business
	Company's retention:	When the company's net retention is $500,000 or more, the company may cede on a pro rata basis up to $800,000
	Coverage:	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
	Premium:	Pro rata portion of all premiums, fees and assessments corresponding to each of the risk ceded
	Ceding commission:	Commission allowance = 15% of the premium paid Profit commission = 15% of the net profit
3.	Type of contract:	Class C-2 Excess of Loss
	Lines Insured:	All property business
	Company retention:	$100,000 for each and every loss occurrence up to $400,000
	Coverage:	100% of any loss, including loss adjustment expense in excess of the company's retention $100,000 for each and every risk resulting from one loss occurrence up to a maximum of $400,000 in respect to each and every loss occurrence
	Reinsurance premium:	6.25% of net premium written Annual deposit premium = $25,359
4.	Type of contract:	Class DE-1 Stop Loss
	Lines reinsured:	All property business
	Company retention:	Equal to not less than the attachment point, estimated at $334,306 multiplied by net written premium
	Coverage:	100% of 60% annual aggregate losses, including loss adjustment expenses, exceeding 75% of net premium written
	Premium:	Sum of the preceding eight years' losses incurred by the reinsurer, of the business year just completed, divided by the total of the net premiums written for the same period multiplied by 125% Current rate is 7.0%. Minimum rate = 7.0% Maximum rate = 12.5% Annual deposit premium = $31,202
5.	Type of contract:	Class DE-2 Stop Loss
	Lines reinsured:	All property business
	Company retention:	Equal to not less than the attachment point 135% multiplied by net written premium

Coverage:	100% of annual aggregate losses, including loss adjustment expenses, exceeding 135% of net premium written
Premium:	The rate of each annual period shall be determined by multiplying the rate by the net premium written Current rate is 2.5%. Annual deposit premium = $11,144

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."

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

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 32	$	$	$ 32
Cash in checking	86,764			86,764
Cash deposited at interest	1,488,544			1,488,544
Bonds	301,265			301,265
Stocks and mutual fund investments	525,583			525,583
Real estate	36,528			36,528
Premiums, agents' balances and installments:				
In course of collection	10,911			10,911
Deferred and not yet due	58,556			58,556
Investment income accrued		7,452		7,452
Reinsurance recoverable on paid losses and LAE	2,206			2,206
Electronic data processing equipment	152			152
Fire dues recoverable	173			173
Reinsurance premium recoverable	4,839			4,839
Other expense-related assets:				
Federal income tax recoverable	1,329			1,329
Totals	$2,516,882	$7,452	$0	$2,524,334

Liabilities and Surplus

Net unpaid losses	$ 54,209
Unpaid loss adjustment expenses	1,109
Unearned premiums	232,530
Amounts withheld for the account of others	2,582
Payroll taxes payable (employer's portion)	1,229
Nonexpense-related:	
Premiums received in advance	40,718
Policyholder dividends payable	52,073
Total liabilities	384,450
Policyholders' surplus	2,139,884
Total Liabilities and Surplus	$2,524,334

Clarno Mutual Insurance Company
Statement of Operations
For the Year 2012

Net premiums and assessments earned		$397,915
Deduct:		
Net losses incurred	$152,047	
Net loss adjustment expenses incurred	14,904	
Net other underwriting expenses incurred	184,677	
Total losses and expenses incurred		351,628
Net underwriting gain (loss)		46,287
Net investment income:		
Net investment income earned		47,968
Other income (expense):		
Billings fees		4,243
Net income (loss) before policyholder dividends and before federal income taxes		98,498
Policyholder refunds or dividends		50,866
Net income (loss) before federal income taxes		47,632
Federal income taxes incurred		4,423
Net Income (Loss)		$ 43,209

Clarno 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	$2,125,888	$2,115,464	$2,025,272	$1,994,827	$1,984,325
Net income	43,209	17,480	49,074	31,062	38,665
Net unrealized capital gain or (loss)	(29,213)	(7,056)	33,007	(8,728)	(36,274)
Change in nonadmitted assets	0	0	8,111	8,111	8,111
Surplus, End of Year	$2,139,884	$2,125,888	$2,115,464	$2,025,272	$1,994,827

The examination resulted in no adjustments to policyholders' surplus. The amount of $2,139,884 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. Unpaid Loss Adjusting Expense—It is recommended that the company establish an adequate loss adjustment expense for all property losses.

   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, either individually or with their agency. The contracts include language indicating the agent will represent the company's interests "in good faith." However, it is recommended that the company execute formal written agreements with all agencies/agents that represent the company indicating that the company has the right of first refusal for transfer of in-force business. In addition, it is recommended that the company execute formal written agreements with all agencies/agents that represent the company that require that the agencies/agents shall keep errors and omissions insurance in force.

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	$ 110,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Combined professional and directors' and officers' liability	2,000,000
Business owners:	1,000,000
Liability and medical expenses	
Building	211,000
Business personal property	64,000
Employee dishonesty	100,000

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.

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 aid in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs.

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	$ 684,450
2.	Liabilities plus 33% of gross premiums written	588,399
3.	Liabilities plus 50% of net premiums written	576,678
4.	Amount required (greater of 1, 2, or 3)	684,450
5.	Amount of Type 1 investments as of 12/31/2012	1,575,308
6.	Excess or (deficiency)	$ 890,858

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$1,575,340**

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

Cash in company's office	$ 32
Cash deposited in banks—checking accounts	86,764
Cash deposited in banks at interest	1,488,544
Total	$1,575,340

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 a local 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 20 deposits in 12 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 $36,924 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.380% to 4.700%. Accrued interest on cash deposits totaled $4,315 at year-end.

Book Value of Bonds **$301,265**

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 a safety deposit box at the local bank.

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 2012 on bonds amounted to $4,190 and was traced to cash receipts records. Accrued interest of $3,137 at December 31, 2012, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$525,583**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2012. Stocks owned by the company are located in a safety deposit box at the local bank.

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 $22,651 and were traced to cash receipts records. No dividends for stocks or mutual funds were accrued at December 31, 2012.

Book Value of Real Estate **$36,528**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2012. The company's real estate holdings consisted of a home office building.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was 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 **$10,911**

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 **$58,556**

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 **$7,452**

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

Cash at interest	$4,315
Bonds	3,137
Total	$7,452

Reinsurance Recoverable on Paid Losses and LAE **$2,206**

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.

Electronic Data Processing Equipment **$152**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2012. A review of receipts and other documentation verified the balance.

Fire Dues Recoverable **$173**

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 Premium Recoverable **$4,839**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2012. The examiners verified the balance directly with the reinsurer.

Federal Income Tax Recoverable **$1,329**

The above asset represents the balance recoverable at year-end for federal income taxes incurred prior to December 31, 2012. The examiners reviewed the company's 2012 federal income tax return and reviewed cash receipt records to verify the accuracy of this asset.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$54,209**

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. To the actual paid loss figure was added an estimated amount for 2012 and prior losses remaining unpaid at the time of the examination. 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	$55,000	$43,048	$11,952
Less: Reinsurance recoverable on unpaid losses	791	791	0
Net Unpaid Losses	$54,209	$42,257	$11,952

The above difference of $11,925 was not considered material for the purposes of this examination.

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 **$1,109**

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 methodology used by the company in establishing this liability is an estimate using a percentage of property unpaid losses based on historical data.

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.

Unearned Premiums **$232,530**

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.

Amounts Withheld for the Account of Others **$2,582**

This liability represents employee payroll deductions in the possession of the company at December 31, 2012. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$1,229**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2012, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **$40,718**

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.

Policyholder Dividends Payable **$52,073**

The above liability represents policyholder dividends payable on 2012 business. The board of directors approved a 10% policy dividend on fire and extended coverage in-force premiums at year-end. The examiners' review of the calculation and test of cash disbursement and in-force records verified the reported liability. The policyholder dividends were approved at the January 17, 2013, board meeting.

V. CONCLUSION

Clarno Mutual Insurance Company is a town mutual insurer with an authorized territory of four counties. The company has been in business for 139 years providing property and liability insurance to its policyholders.

Policyholders' surplus has increased 7.8%, from $1,984,326 per the examination report as of year-end 2007, to $2,139,884 as of year-end 2012. The following schedule summarizes the cumulative increases and decreases to the company's surplus from December 31, 2007, when policyholders' surplus was last verified by examination, to December 31, 2012:

Policyholders' surplus, December 31, 2007	$1,984,326
Net income	179,490
Unrealized capital gains or (losses)	(48,264)
Change in nonadmitted assets	24,333
Policyholders' Surplus, December 31, 2012	$2,139,884

The company has reported net income in each of the past five years and underwriting profits in four of the last five years. The company's reported net income is the main contributor to steady growth in policyholder surplus that the company has experienced. The number of policies in force has decreased since the prior examination; however, this decrease has not had a direct negative corollary effect on underwriting income.

The only area of improvement recommended by this examination was related to the company's contracts with its agents, resulting in two recommendations. The company complied with the one prior examination recommendation. There were no adjustments to surplus or reclassifications to the balance sheet.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 13 - Corporate Records—It is recommended that the company execute formal written agreements with all agencies/agents that represent the company indicating that the company has the right of first refusal for transfer of in-force business.

2. Page 13 - Corporate Records—It is recommended that the company execute formal written agreements with all agencies/agents that represent the company that require that the agencies/agents shall keep errors and omissions insurance in force.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Michael Miller
Examiner-in-Charge