Report of the Examination of

Darlington Mutual Insurance Company

Darlington, Wisconsin

As of December 31, 2018

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Tony Evers, *Governor*
Mark V. Afable*, Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
ociinformation@wisconsin.gov
oci.wi.gov

October 1, 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:

DARLINGTON MUTUAL INSURANCE COMPANY
Darlington, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Darlington 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 course of the examination.

The company was organized as a town mutual insurance company on May 18, 1875, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Darlington 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 was one amendment to the articles of incorporation and one amendment to the bylaws. The amendments were both effective on March 22, 2019. The amendment to the articles of incorporation removed language limiting the age of board members to under 75 years old. The amendment to the company's bylaws added language detailing requirements for the company's annual meeting.

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	Columbia
Dane	Grant
Green	Iowa
Jefferson	Juneau
Lafayette	Monroe
Richland	Rock
Sauk	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 administrative fee equal to $35 per homeowner, mobile homeowner, and tenant (contents only) policies and charges a policy administrative fee of $40 for all other policy types. The company also charges billing fees. These billing fees are as follows: $6 for semiannual billing, $12 for quarterly billing, and $36 for monthly billing. In addition, the company charges a $25 fee for late payments, for policy reinstatements, and for policy reissues.

Business of the company is acquired through 40 agents, three of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
Homeowner's & Farmowner's	15%
Commercial	15
Inland Marine	10
Liability	10

Agents have no authority to adjust losses. Losses are adjusted by MGW Insurance Services, Inc. Adjusters receive $56 per hour for each loss adjusted plus $0.50 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 meetings 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
Steven Malone*	Bank President & CEO	Benton, Wisconsin	2019
Larry Teasdale	Auctioneer	Shullsburg, Wisconsin	2019
Herb Stone	Farmer	Darlington, Wisconsin	2019
Chuck Kranz	Attorney	Darlington, Wisconsin	2020
Bruce Berget*	Farmer	Darlington, Wisconsin	2020
Robert Stoflet*	Insurance Agent	Darlington, Wisconsin	2020
Donald Tuescher	Electrician	Darlington, Wisconsin	2021
Steve Fleming	Banker	Darlington, Wisconsin	2021
Tom Evenstad	Farmer	Darlington, Wisconsin	2021

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $100 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
Donald Tuescher	President	$5,000
Chuck Kranz	Vice-President	1,200
Herb Stone	Secretary/Treasurer	2,240

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 committee in place at the time of the examination is listed below:

Executive Committee
Donald Tuescher, Chair
Bruce Berget
Chuck Kranz
Steven Malone
Herb Stone

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	$857,404	1,391	$ 145,466	$1,494,970	$708,522
2017	966,177	1,467	33,604	1,539,647	607,355
2016	853,216	1,573	(125,378)	1,546,464	536,798
2015	859,915	1,642	58,916	1,681,797	649,780
2014	898,338	1,679	66,627	1,641,617	627,197

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	Gross
2018	$1,522,380	$840,404	$708,522	119%	215%
2017	1,613,567	939,177	607,355	155	266
2016	1,643,272	829,216	536,798	154	306
2015	1,751,878	873,915	649,780	134	270
2014	1,673,013	874,338	627,197	139	267

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
2018	$459,584	$401,211	$857,404	54%	48%	102%
2017	602,611	493,780	966,177	62	53	115
2016	685,918	440,874	853,216	80	53	134
2015	494,113	482,220	859,915	57	55	113
2014	537,341	469,604	898,338	60	54	114

During the period under examination, the company’s policies-in force decreased by 17%. Despite underwriting losses from 2014 to 2018, policyholders’ surplus increased by 13% over the same period. This was largely attributable to policy and installment fees implemented beginning in 2015, improved underwriting results (as compared to the previous five-year period), and to a lesser extent, investment income. The company’s loss ratio reached a particularly high level in 2016 due to severe weather-related events. The company had five-year average expense and composite ratios of 53% and 115%, respectively (compared to the ratios for the previous 5 years of 54% and 128%). The improvement in the composite ratio was due to improved underwriting results, which resulted in a 12 percentage point decrease in the average net loss and loss adjustment ratio.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty with six coverage sections. 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, 2019, and continuously thereafter until terminated
Termination provisions:	Either the company or the reinsurer may terminate the contract of reinsurance on any January 1st by giving to the other party at least 90 days advance notice in writing.

The coverages provided under this treaty are summarized as follows:

1. Type of contract: Casualty Excess of Loss Reinsurance

Lines reinsured:	All casualty or liability business excluding umbrella liability and worker's compensation
Company's retention:	$10,000
Coverage:	100% of each and every loss, including loss adjustment expense, in excess of the retention in respect to each and every loss occurrence subject to the maximum policy limits stated below: The company agrees it will not issue any policy with limits greater than the following: a. $1,000,000 per occurrence, single limit, 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:	Annual deposit premium: $118,170, paid monthly in equal installments Premium calculated by multiplying the rate of 45.45% by the company's net premium
Ceding commission:	None

2. Type of contract: First Surplus Reinsurance

Lines reinsured:	All property business

Company's retention:	$600,000
Coverage:	Up to $2,000,000 of pro rata reinsurance coverage of a risk when the company's first surplus liability in respect to a risk exceeds retention. Any single location which is in excess of $2,500,000 of property coverage, or otherwise beyond the terms, conditions, and limitations of the contract, may be submitted to the reinsurer for special acceptance, in which the reinsurer is 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:	Annual deposit premium: $258,616, paid monthly in equal installments Pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded
Ceding commission:	25% of premium paid to the reinsurer and a profit commission of 15% of net profit accruing to the reinsurer during each annual period. Net profit is calculated as a positive balance resulting from the following formula: A. Premium earned for the annual period; less B. Ceding commission allowed the company on premiums earned for the annual period; less C. Expenses incurred by the reinsurer calculated at 10% of premium earned for the annual period; less D. Losses and loss adjusting expenses incurred for the annual period; less E. The reinsurer's net loss, if any, from the immediately preceding annual period.

3.	Type of contract:	First Per Risk Excess of Loss Reinsurance
	Lines reinsured:	All property business
	Company's retention:	$75,000
	Coverage:	100% of each and every loss, including loss adjustment expense, in excess of the retention in respect to each and every loss occurrence subject to a limit of $100,000 in respect to each and every risk resulting from one loss occurrence
	Reinsurance premium:	Annual deposit premium: $105,752, paid monthly in equal installments Premium calculated by multiplying the rate of 11% by the company's net premium
	Ceding commission:	None

4.	Type of contract:	Second Per Risk Excess of Loss Reinsurance
	Lines reinsured:	All property business
	Company's retention:	$175,000
	Coverage:	100% of each and every loss, including loss adjustment expense, in excess of the retention in respect to each and every loss occurrence subject to a limit of $425,000 in respect to each and every risk resulting from one loss occurrence.
	Reinsurance premium:	Annual deposit premium: $48,069, paid in monthly equal installments Premium calculated by multiplying the rate of 5% by the company's net premium
	Ceding commission:	None
5.	Type of contract:	First Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business
	Company's retention:	In respect to each annual period, the company shall retain net for its own account an amount of net losses, including loss adjustment expenses, equal to not less than the attachment point, which is 50% of net premium for the annual period.
	Coverage:	100% of the company's aggregate net losses, including loss adjustment expenses, which exceed 50% of the company's net premiums written, up to 70% of net premium
	Reinsurance premium:	Annual deposit premium: $82,741, paid monthly in equal installments Premium calculated by multiplying the rate of 7.5% by the company's net premium
	Ceding commission:	None
6.	Type of contract:	Second Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business
	Company's retention:	In respect to each annual period, the company shall retain net for its own account an amount of net losses, including loss adjustment expenses, equal to not less than its attachment point, which is 120% of net premium for the annual period.
	Coverage:	100% of the amount, if any, by which the aggregate of the company's net losses, including loss adjustment expenses,

	which occur during an annual period exceed the attachment point The reinsurer's limit of liability is 100% of all net losses, including loss adjustment expenses, incurred by the company during the annual period.
Reinsurance premium:	Annual deposit premium: $38,612, paid in monthly equal installments Premium calculated by multiplying the rate of 3.5% by the company's net premium
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."

Darlington 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	$ 100	$	$	$ 100
Cash deposited in checking	70,096			70,096
Cash deposited at interest	296,995			296,995
Bonds	575,283			575,283
Stocks and mutual fund investments	355,118			355,118
Mortgage loans on real estate				
Real estate	12,224			12,224
Other invested assets				
Premiums, agents' balances and installments:				
In course of collection	2,908			2,908
Deferred and not yet due	158,398			158,398
Investment income accrued		3,597		3,597
Assessments receivable				
Reinsurance recoverable on paid losses and LAE	6,025			6,025
Electronic data processing equipment				
Fire dues recoverable	960			960
Other expense related assets:				
Reinsurance commission receivable	13,266			13,266
Totals	$1,491,373	$3,597	$	$1,494,970

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

Liabilities and Surplus

Net unpaid losses	$ 103,000
Loss adjustment expenses unpaid	2,000
Commissions payable	37,100
Unearned premiums	469,000
Reinsurance payable	80,755
Amounts withheld for the account of others	3,701
Other liabilities:	
Expense related:	
Accounts payable	4,738
Nonexpense related:	
Premiums received in advance	86,154
Total Liabilities	786,448
Policyholders' Surplus	708,522
Total Liabilities and Surplus	$1,494,970

Darlington Mutual Insurance Company
Statement of Operations
For the Year 2018

Net premiums and assessments earned		$857,404
Deduct:		
Net losses incurred	$406,737	
Net loss adjustment expenses incurred	52,847	
Net other underwriting expenses incurred	401,211	
Total losses and expenses incurred		860,795
Net underwriting gain (loss)		(3,391)
Net investment income:		
Net investment income earned		19,666
Other income (expense):		
Policy and installment fees		129,191
Net Income (Loss)		$145,466

Darlington 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	$607,355	$536,798	$649,780	$627,197	$570,528
Net income (loss)	145,466	33,604	(125,378)	58,916	66,627
Net unrealized capital gain or (loss)	(44,299)	36,629	11,910	(36,819)	(10,444)
Change in non-admitted assets		324	486	486	486
Surplus, End of Year	$708,522	$607,355	$536,798	$649,780	$627,197

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. Investment Rule Compliance—It is recommended that the company make no additional Type 2 investments, including reinvestment of interest, dividends, or other income from existing Type 2 assets, until the company meets the required amount of Type 1 investments pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

   Action—Compliance.

2. Net Unpaid Losses— It is recommended that the company establish a reasonable threshold claim amount that would require a proof of loss form to be completed and signed by the insured.

   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. During the review of the company's committee meeting minutes, it was discovered that the company's executive committee does not take or retain committee meeting minutes. It is recommended that the minutes for the executive committee be maintained pursuant to s. Ins 6.80 (4) (a), Wis. Adm. Code.

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 examination team reviewed all amendments to the company's articles of incorporation and the company's bylaws that occurred during the examination period. The company amended both its articles of incorporation and bylaws in 2019. However, only the company's amended articles of incorporation were filed with the State of Wisconsin. It is recommended that the company file amended bylaws with this office as soon as possible after any changes have been voted on and approved, in accordance with s. 612.04 (2), Wis. Stat.

The company has executed formal written agreements with its agents.

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
Worker’s compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Liability & medical expenses	1,000,000
Professional liability	1,000,000
Directors and officer’s liability	1,000,000

Underwriting

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

The company has a formal inspection procedure for both new and renewal business. The company’s underwriting guidelines indicate that inspections for renewal business should occur every three to five years. A sampling of new applications and renewal business showed that not all inspections occur within the timeframe outlined in the company’s underwriting guideline. It is recommended that the company adhere to its inspection policy, whereby inspections of insured properties will take place every three to five years.

Claims Adjusting

The company does not have an adjusting committee; rather, Darlington’s entire board of directors reviews claims and loss adjustment 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, 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 both on and 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	$1,086,448
2.	Liabilities plus 33% of gross premiums written	1,288,833
3.	Liabilities plus 50% of net premiums written	1,206,650
4.	Amount required (greater of 1, 2, or 3)	1,288,833
5.	Amount of Type 1 investments as of 12/31/2018	945,621
6.	Excess or (deficiency)	(343,212)

The company does not have sufficient Type 1 investments. The company did not make any new Type 2 investment purchases during the period under examination.

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.

ASSETS

Cash and Invested Cash **$367,191**

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

Cash in company's office	$ 100
Cash deposited in banks—checking accounts	70,096
Cash deposited in banks at interest	296,995
Total	$367,191

Cash in company's office at year’s end represents the company's petty cash fund.

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

Cash deposited in banks at interest represents the aggregate of six certificates of deposit and one savings account. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of the certificates of deposit. Interest received during the year 2018 totaled $4,778 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.20% to 3.55%. Accrued interest on cash deposits totaled $283 at year’s end.

Book Value of Bonds **$575,283**

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 under a custodial agreement with a bank.

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 as regards investments made by town mutual insurers.

Interest received during 2018 on bonds amounted to $21,802 and was traced to cash receipts records. Accrued interest of $3,314 at December 31, 2018, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$355,118**

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 held under a custodial agreement with a bank, with the exception of one holding that is not publicly traded. For that holding, the company keeps the stock certificate in a secure location.

The stock certificate was physically examined by the examiners. Stocks held in the company's 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. 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 2018 on stocks and mutual funds amounted to $30,291 and were traced to cash receipts records. There were no accrued dividends as of December 31, 2018.

Book Value of Real Estate **$12,224**

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 company's home office building.

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 **$2,908**

This asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year's end.

Premiums Deferred and Not Yet Due **$158,398**

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 **$3,597**

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

Cash deposited at interest	$ 283
Bonds	3,314
Total	$3,597

Reinsurance Recoverable on Paid Losses and LAE **$6,025**

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. A review of year-end accountings with the reinsurers verified the above asset.

Fire Dues Recoverable **$960**

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 correctly calculated.

Reinsurance Commission Receivable **$13,266**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2018. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$103,000**

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. To the actual paid loss figure was added an estimated amount for 2018 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	$252,853	$267,251	$(14,398)
Less: Reinsurance recoverable on unpaid losses	149,853	154,507	(4,654)
Net Unpaid Losses	$103,000	$112,744	$ (9,744)

The above difference of $(9,744) was not considered material for 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 **$2,000**

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’s end. The methodology used by the company in establishing this liability is the company’s historical flat rate. This historical flat rate bears no relationship to the company’s current practice of using an independent claim adjusting firm.

The examination’s analysis of unpaid loss adjustment included the development of a ratio by comparing the net paid loss adjustment expense to paid losses over the five-year period prior to the examination “as of” date. The resultant ratio was then applied to the examination balance of unpaid losses. The examiners believe this represents a much more accurate method for estimating unpaid loss adjustment expenses than use of the historical flat rate once paid for the adjustment of losses.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses determined this liability to be inadequately stated by $10,052. This difference was not deemed material for purposes of this examination. However, the company should improve its methodology for estimating unpaid loss adjustment expenses. It is recommended that the company adopt a methodology for estimating unpaid loss adjustment expense which more accurately reflects expenses needed to adjust unpaid losses.

Commissions Payable **$37,100**

This liability represents the commissions payable to agents as of December 31, 2018. The examiners reviewed the company’s commission calculation and found the liability to be reasonably stated.

Unearned Premiums **$469,000**

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 **$80,755**

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. This amount consisted of a deferred reinsurance balance of $80,755 that was traced to the year-end deferred premium report supplied by the reinsurer.

Amounts Withheld for the Account of Others **$3,701**

This liability represents employee payroll deductions in the possession of the company at December 31, 2018.

Accounts Payable **$4,738**

This liability represents the expense-related amount due at December 31, 2018.

Premiums Received in Advance **$86,154**

This liability represents the total premiums received prior to year's 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

Darlington Mutual Insurance Company is a town mutual insurer with an authorized territory of 14 counties. The company has been in business for 144 years providing property and liability insurance to its policyholders.

During the examination period, policyholders' surplus has increased 24.2% to $708,522 as of year-end 2018. The following schedule summarizes the cumulative increases and decreases to surplus from January 1, 2014, to December 31, 2018:

Policyholders' surplus, January 1, 2014	$570,528
Net income (loss)	179,235
Net unrealized capital gains (losses)	(43,023)
Change in nonadmitted assets	1,782
Policyholders' surplus, December 31, 2018	$708,522

During the period under examination, the company's policies-in force decreased by 17%. Despite underwriting losses from 2014 to 2018, policyholders' surplus increased by 13% over the same period. This was largely attributable to policy and installment fees implemented beginning in 2015, improved underwriting results (as compared to the previous five-year period), and to a lesser extent, investment income.

Darlington Mutual Insurance Company complied with the two recommendations from the previous examination report. The current examination resulted in six recommendations. There were no adjustments or reclassifications to the balance sheet as a result of this examination.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - 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 18 - Corporate Records—It is recommended that the minutes for the executive committee be maintained pursuant to s. Ins 6.80 (4) (a), Wis. Adm. Code.

3. Page 18 - Corporate Records—It is recommended that the company file amended bylaws with this office as soon as possible after any changes have been voted on and approved, in accordance with s. 612.04 (2), Wis. Stat.

4. Page 19 - Underwriting—It is recommended that the company adhere to its inspection policy, whereby inspections of insured properties will take place every three to five years.

5. Page 21 - Investment Advisors—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 27 - Unpaid Loss Adjustment Expenses—It is recommended that the company adopt a methodology for estimating unpaid loss adjustment expense which more accurately reflects expenses needed to adjust unpaid losses.

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