Report

of the

Examination of

Franklin Farmers' Mutual Insurance Company

Spring Green, Wisconsin

As of December 31, 2011

TABLE OF CONTENTS

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 4, 2012

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, 2011, of the affairs and financial condition of:

FRANKLIN FARMERS' MUTUAL INSURANCE COMPANY
Spring Green, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Franklin Farmers' Mutual Insurance Company (the company) was made in 2007 as of December 31, 2006. The current examination covered the intervening time period ending December 31, 2011, 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 was organized as a town mutual insurance company in 1877 under the provisions of the then existing Wisconsin Statutes. The original name of the company was Franklin Spring Green and Bear Creek Farmers' Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. The company filed an amendment to articles of organization to add Green and Lafayette counties to the company's licensed territory.

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

Adams	Grant	Lafayette	Vernon
Columbia	Green	Monroe	
Crawford	Iowa	Richland	
Dane	Juneau	Sauk	

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of three years with premiums payable on the advance premium and assessment basis. The company charges policy fees when a policy is on an interim-billing basis.

Business of the company is acquired through eleven agents, one of whom is a director of the company. Agents are presently compensated at a commission rate of 14%. Agents have no authority to adjust losses. Losses are adjusted by the company manager.

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
V. Charles Gochenaur*	Insurance Agent	Richland Center	2014
John Mindham	Farmer	Boscobel	2015
Paul Kinney	Retired Farmer	Blue River	2015
Ted Glasbrenner	Retired Agent/Farmer	Boscobel	2013
Nick Stolte	Farmer	Fennimore	2013
Robert Nugent	Retired School Adm./Farmer	Richland Center	2014
Gregory Bailey	Electrician	Blue River	2014
James Gorman	Retired Farmer	Soldiers Grove	2013
Robert Menke	Farmer	Highland	2015

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $75 for each meeting attended plus the IRS qualifying mileage rate 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	2011 Compensation
V. Charles Gochenaur	President	$ 7,500
Ted Glasbrenner	Vice President	600
Paul Kinney	Secretary/Treasurer	5,000
Dwayne Hiltbrand	Manager	63,788

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
V. Charles Gochenaur, Chair
Ted Glasbrenner
Paul Kinney
John Mindham

Finance Committee
V. Charles Gochenaur, Chair
Ted Glasbrenner
Paul Kinney
John Mindham
Robert Nugent

Personnel Committee
V. Charles Gochenaur, Chair
Paul Kinney
Robert Menke
Bill Paulsen
James Gorman

Rate Committee
V. Charles Gochenaur, Chair
Ted Glasbrenner
Paul Kinney
Robert Menke
James Gorman

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
2011	$948,953	1,847	$(210,077)	$1,890,250	$ 970,390
2010	911,461	1,783	(15,472)	2,133,898	1,184,263
2009	882,768	1,751	(66,829)	2,086,206	1,171,116
2008	891,013	1,720	(80,877)	2,055,750	1,172,249
2007	985,477	1,866	160,813	2,255,788	1,388,564
2006	938,106	1,927	9,539	2,120,060	1,218,687

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
2011	$1,462,488	$997,149	$ 970,390	103%	151%
2010	1,364,239	919,388	1,184,263	78	115
2009	1,338,326	899,755	1,171,116	77	114
2008	1,304,683	874,681	1,172,249	75	111
2007	1,406,903	950,373	1,388,564	68	101
2006	1,423,793	959,723	1,218,687	79	117

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
2011	$795,868	$368,319	$948,953	84%	37%	121%
2010	592,834	358,067	911,461	65	39	104
2009	678,702	349,583	882,768	77	39	116
2008	732,068	330,270	891,013	82	38	120
2007	480,996	354,304	985,477	49	37	86
2006	626,055	335,197	938,106	67	35	102

Policyholders' surplus decreased 20.4%, from $1,218,687 as of December 31, 2006, to $970,390 as of December 31, 2011. During the period under examination, the loss ratio ranged from 65% to 84%, while the expense ratio averaged 38%. The company experienced net losses for the past four consecutive calendar years. Since 2011, the company has taken a stronger approach towards underwriting. The company analyzes loss experience by agent and by product line. The company plans to use this analysis for underwriting and rating purposes.

II. REINSURANCE

The company's reinsurance program currently consists of one ceding contract. This contract contains a proper insolvency clause and complies with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retention of risk complies with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Grinnell Mutual Reinsurance Company (Grinnell)
Effective:	January 1, 2012, to January 1, 2013
Termination provision:	At the end of any contract year, by either party, with 90 days' advance written notice

The coverage provided under this treaty is summarized as follows:

1.	Type:	Individual Occurrence, First Occurrence, Excess of Loss
	Lines reinsured:	All property business written by the company
	Company's retention:	$100,000 for First Occurrence of Loss
	Coverage:	$200,000 for Individual Occurrence of Loss Excess
	Reinsurance premium:	On adjusted gross fire risk in force, per $1,000 First Occurrence - $0.2464 Individual Occurrence of Loss - $0.1046
2.	Type:	Aggregate Excess Reinsurance
	Lines reinsured:	All property business written by the company
	Attachment point:	$857,614
	Coverage:	100% above attachment, subject to the following limits: $1,000,000 Livestock, poultry, and horse operations $1,000,000 Commercial and public property $1,000,000 Farm product storage buildings $2,000,000 Farm machinery and equip. storage buildings $1,000,000 Dwelling Exposures that exceed these limits may be eligible for reinsurance protection through facultative reinsurance
	Adjusted annual rate:	$0.4254 on adjusted gross fire risk in force, per $1,000
3.	Type:	Facultative Reinsurance
	Lines reinsured:	These terms and limits (underwritten by Grinnell) are determined on a per-risk basis

4.	Type:	Comprehensive Personal Liability
	Premium and coverage:	100%
	Ceding commission: on liability premium	20% of ceded premium

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, 2011, 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."

Franklin Farmers' Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2011

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 100	$	$	$ 100
Cash in checking	13,638			13,638
Cash deposited at interest	1,070,210			1,070,210
Stocks and mutual fund investments	334,425			334,425
Real estate	99,885			99,885
Premiums, agents' balances and installments:				
In course of collection	17,364		55	17,309
Deferred and not yet due	308,082			308,082
Investment income accrued		4,720		4,720
Reinsurance recoverable on paid losses and LAE	41,773			41,773
Other nonexpense-related assets:				
Federal income tax recoverable	108			108
Furniture and fixtures	44		44	
Totals	$1,885,629	$4,720	$99	$1,890,250

Liabilities and Surplus

Net unpaid losses	$ 16,000
Unpaid loss adjustment expenses	2,000
Commissions payable	59,134
Borrowed money unpaid	99,951
Unearned premiums	642,805
Reinsurance payable	40,020
Amounts withheld for the account of others	1,852
Payroll taxes payable (employer's portion)	702
Other liabilities:	
Expense-related:	
Accounts payable	15,997
Fire dues payable	567
Nonexpense-related:	
Premiums received in advance	40,832
Total liabilities	919,860
Policyholders' surplus	970,390
Total Liabilities and Surplus	$1,890,250

Franklin Farmers' Mutual Insurance Company
Statement of Operations
For the Year 2011

Net premiums and assessments earned		$ 948,953
Deduct:		
Net losses incurred	$768,756	
Net loss adjustment expenses incurred	27,112	
Net other underwriting expenses incurred	368,319	
Total losses and expenses incurred		1,164,187
Net underwriting gain (loss)		(215,234)
Net investment gain (loss)		3,994
Total other income (expense)		9,163
Net income (loss) before federal income taxes		(202,077)
Federal income taxes incurred		8,000
Net Income (Loss)		$ (210,077)

Franklin Farmers' Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2011

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:

	2011	2010	2009	2008	2007
Surplus, beginning of year	$1,184,263	$1,171,116	$1,172,249	$1,388,564	$1,218,687
Net income	(210,077)	(15,472)	(66,829)	(80,877)	160,813
Net unrealized capital gain or (loss)	(4,338)	27,509	65,496	(136,289)	5,775
Change in nonadmitted assets	542	1,110	200	851	3,289
Surplus, End of Year	$ 970,390	$1,184,263	$1,171,116	$1,172,249	$1,388,564

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2011, 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. Management & Control—It is recommended that the board of directors annually prepare a current business plan and file the plan with the Office of the Commissioner of Insurance in accordance with s. 612.04 (2), Wis. Stat.

   Action—Compliance

2. Conflict of Interest—It is recommended that agent/directors annually disclose the amount of commissions earned on items they sell to the company, such as company investments or the home office insurance policy.

   Action—Compliance

3. Investment Rule Compliance—It is again recommended that the company adopt and file a written investment plan with the Office of the Commissioner of Insurance in accordance with s. Ins 6.20 (6) (h) 1, Wis. Adm. Code.

   Action—Compliance

Current Examination Results

Corporate Records

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

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

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

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with one apparent conflict being noted. In the course of examining claim files for employees, directors, and their respective relatives, it was noted that an Adjusting Committee member participated in discussion and voted on the disposition of a claim for a family member. This situation represents a conflict of interest. The director should have recused himself and neither participated in that particular discussion, except to the extent specifically requested by the other directors, nor voted on the disposition of the claim. The director should have temporarily left the room while the claim was being discussed. It is recommended that the company's directors abstain from voting on matters related to family members or other situations in which a conflict of interest exists.

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 insurance	
Professional liability	
Per claim	2,000,000
Aggregate	2,000,000
Business owners	
Business liability	
Occurrence	1,000,000
Aggregate	2,000,000
Medical expense	
Per person	5,000
Building	252,573
Building contents	50,000
Worker's compensation:	
Employee injury	
Each accident	100,000
Each employee	100,000
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.

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, 2011.

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 computer is limited to people authorized to use the computer.

Company personnel back up the computers nightly and the backed-up data is kept off-site. Weekly records are transferred to Grinnell Info-Systems for further back up and for reporting purposes.

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	$1,219,860
2.	Liabilities plus 33% of gross premiums written	1,402,481
3.	Liabilities plus 50% of net premiums written	1,418,435
4.	Amount required (greater of 1, 2, or 3)	1,418,435
5.	Amount of Type 1 investments as of 12/31/2011	1,085,365
6.	Excess or (deficiency)	$ (333,070)

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.

ASSETS

Cash and Invested Cash **$1,083,948**

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

Cash in company's office	$ 100
Cash deposited in banks—checking accounts	13,638
Cash deposited in banks at interest	1,070,210
Total	$1,083,948

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. Verification of the checking account balance was made by obtaining a confirmation directly from the bank and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents one deposit in one depository. The deposit was verified by direct correspondence with the applicable depository. Interest received during the year 2011 totaled $17,415 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.25% to 2.00%. Accrued interest on cash deposits totaled $2,701 at year-end.

Stocks and Mutual Fund Investments **$334,425**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2011. Stocks owned by the company include 30 shares of the Class B common stock of NAMIC Insurance Company, Inc., with a statement value of $6,611. The stock certificate was not physically examined by the examiners due to immateriality.

Mutual fund purchases and sales for the period under examination were checked to the mutual fund statements. 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 2011 on stocks and mutual funds amounted to $11,356 and were traced to cash receipts records. Accrued dividends of $2,019 at December 31, 2011, were checked and allowed as a nonledger asset.

Book Value of Real Estate **$99,885**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2011. The company's real estate holdings consisted of its home office located at 146 West Jefferson Street in Spring Green, Wisconsin.

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 **$17,309**

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 **$308,082**

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 **$4,720**

Interest due and accrued on the various assets of the company at December 31, 2011, consists of the following:

Cash at interest	$2,701
Stocks and mutual fund investments	2,019
Total	$4,720

Reinsurance Recoverable on Paid Losses and LAE **$41,773**

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, 2011. A review of year-end accountings with the reinsurer verified the above asset.

Furniture and Fixtures **$0**

This asset consists of $44 of office supplies owned by the company at December 31, 2011. In accordance with annual statement requirements, this amount has been reported as nonadmitted asset, thus the balance shown above is $0.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$16,000**

This liability represents losses incurred on or prior to December 31, 2011, 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, 2011, with incurred dates in 2011 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	$475,927	$591,793	$(115,866)
Less: Reinsurance recoverable on unpaid losses	459,927	578,550	(118,623)
Net Unpaid Losses	$ 16,000	$ 13,243	$ (2,757)

The above difference of $2,757 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, 2011, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is based upon payments typically due for one month of loss adjustment.

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 **$59,134**

This liability represents the commissions payable to agents as of December 31, 2011. The examiners reviewed the company’s commission calculation and found the liability to be reasonably stated.

Unearned Premiums **$642,805**

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 **$40,020**

This liability consists of amounts due to the company's reinsurer at December 31, 2011, relating to transactions which occurred on or prior to that date.

Amounts Withheld for the Account of Others **$1,852**

This liability represents employee payroll deductions in the possession of the company at December 31, 2011. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$702**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2011, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$15,997**

This liability represents unpaid utilities, the unpaid company-provided portion of employee retirement account contributions, and unpaid taxes due under the Federal Insurance Contribution Act incurred prior to December 31, 2011. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **$40,832**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2011. The examiners reviewed 2011 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

Franklin Farmers' Mutual Insurance Company is a town mutual insurer with an authorized territory of 13 counties. The company has been in business over 135 years providing property and liability insurance to its policyholders.

The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2006, when policyholders' surplus was last verified by examination, to December 31, 2011, the reporting date for this examination:

Policyholders' surplus, December 31, 2006	$1,218,687
Net losses	(212,442)
Unrealized capital losses	(41,847)
Change in nonadmitted assets	5,992
Policyholders' surplus, December 31, 2011	$ 970,390

Policyholders' surplus decreased 20.4%, from $1,218,687 as of December 31, 2006, to $970,390 as of December 31, 2011. During the period under examination, the loss ratio ranged from 65% to 84%, while the expense ratio averaged 38%. The company experienced net losses for the past four consecutive calendar years. Since 2011, the company has taken a stronger approach towards underwriting. The company analyzes loss experience by agent and by product line. The company plans to use this analysis for underwriting and rating purposes.

This examination did not result in any changes to policyholders' surplus. This examination resulted in one recommendation regarding the need for board members to abstain from voting on matters related to family members or other situations in which a conflict of interest exists and another covering investments. The examination also determined that the company has complied with all the recommendations of the prior examination.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 13 - Conflict of Interest—It is recommended that the company's directors abstain from voting on matters related to family members or other situations in which a conflict of interest exists.

2. Page 16 - 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.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Satinderjit Basra
Examiner-in-Charge