Report

of the

Examination of

Helenville Mutual Insurance Company

Helenville, Wisconsin

As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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May 18, 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:

HELENVILLE MUTUAL INSURANCE COMPANY
Helenville, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Helenville Mutual Insurance Company (hereinafter also 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 on March 27, 1876, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Jefferson Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation and one amendment to the bylaws. The amendment to the bylaws, as of February 8, 2012, was to formalize the management reporting structure of the company.

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

Dodge	Waukesha
Dane	Rock
Jefferson	Walworth

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 basis. The company does not charge any other fees to policyholders.

Business of the company is acquired through 24 agents, none of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
Farmowners	15%
All other lines	18

The company has a contract with an independent adjuster to adjust all property losses greater than $20,000. Losses under $20,000 are adjusted by the company's manager. Wisconsin Reinsurance Corporation adjusts all nonproperty losses.

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 is chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Earl Topel	Retired Agent	Lake Mills	2014
Wesley Freeman	Farmer	Whitewater	2014
James Mode	Farmer	Jefferson	2014
Robert Zarnstorff	Farmer	Fort Atkinson	2012
Elizabeth Rotar	Retired Agent	Fitchburg	2012
Rose Henning	Retired Agent	Jefferson	2012
Earl Reu	Farmer	Fort Atkinson	2013
Melvin Probst	Retired	Helenville	2013
Vic Imrie	Farmer	Johnson Creek	2013

None of the directors are agents of the company. Members of the board currently receive $70.00 for each meeting attended, plus $14.00 per day for meals and $0.555 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	2011 Compensation
Earl Reu	President	$ 4,000
James Mode	Vice-President	Pro-rata*
Earl Topel	Secretary	4,000
Rose Henning	Treasurer	3,000
John Schrader	Manager	63,000

* The vice president is paid a pro rata portion of the president's salary based on the amount of time he assumes the duties of the president. He receives no other compensation.

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:

Advertising Committee
Rose Henning, Chair
Earl Topel
Vic Imrie
Wes Freeman

Salary & Commissions Committee
Betty Rotar, Chair
Jim Mode
Vic Imrie
Robb Zarnstorff

Rate & Form Committee
Betty Rotar, Chair
Bud Probst
Earl Topel
Wes Freeman

Finance Committee
Earl Topel, Chair
Betty Rotar
Rose Henning
Vic Imrie

Reinsurance Committee
Earl Topel, Chair
Jim Mode
Bud Probst
Robb Zarnstorff

Inspection & Agents Committee
Bud Probst, Chair
Wes Freeman
Rose Henning
Jim Mode

Historical Committee
Earl Topel, Chair
Bud Probst

Executive Committee
Earl Reu, President
Jim Mode, Vice President
Earl Topel, Secretary
Rose Henning, Treasurer

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	$1,109,508	2,584	$(434,536)	$1,948,960	$ 892,873
2010	1,106,600	2,605	(69,153)	2,368,742	1,304,683
2009	1,106,644	2,685	(40,224)	2,506,356	1,339,503
2008	1,182,441	2,792	(16,857)	2,414,851	1,324,737
2007	1,162,363	2,914	103,283	2,736,142	1,506,113
2006	1,276,284	3,018	109,905	2,659,875	1,406,533

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	$1,770,275	$1,119,084	$ 892,873	125%	198%
2010	1,758,068	1,090,556	1,304,683	84	135
2009	1,801,693	1,124,869	1,339,503	84	135
2008	1,772,138	1,172,941	1,324,737	89	133
2007	1,770,563	1,149,863	1,506,113	76	118
2006	1,779,185	1,305,284	1,406,533	93	126

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	$1,077,389	$502,795	$1,109,508	97%	45%	142%
2010	764,364	482,325	1,106,600	69	44	113
2009	763,914	490,903	1,106,644	69	44	113
2008	818,777	482,446	1,182,441	69	41	110
2007	678,294	486,895	1,162,363	58	42	101
2006	738,307	492,341	1,276,284	58	38	96

Surplus decreased 36.5%, from $1,406,533 as of December 31, 2006, to $892,873 as of December 31, 2011. During the period under examination, the loss ratio ranged from 58% to 97%, while the expense ratio averaged 43%. The company experienced underwriting and net losses for the past five consecutive calendar years. The company’s new manager, who took over in the spring of 2012, has indicated a commitment to attend carefully to underwriting, rating, insurance to value, and the use of reinsurance.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty reviewed contained the proper insolvency clauses. The treaty 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, 2012
Termination provisions:	Each party may terminate as of January 1, by either party providing at least 90 days' notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Casualty Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company classified as casualty or liability business
	Company's retention:	$10,000 in respect to each and every loss occurrence
	Coverage:	100% of each and every loss, including loss adjustment expense, 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% of subject net premium written
2	Type of contract:	Class B First Surplus
	Lines reinsured:	All property business
	Company's retention:	When the company's net retention is $400,000 or more, the company may cede on a pro rata basis up to $800,000 When the net retention is $400,000 or less, the company may cede up to 50% of such risk
	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 of all premiums, fees and assessments corresponding to each of the risk ceded

	Commission:	15%
3.	Type of contract:	Class C-1 First Layer Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	$60,000 for each and every risk resulting from one loss occurrence
	Coverage:	100% of each and every loss in excess of $60,000 up to $110,000, including loss adjustment expense
	Reinsurance premium:	The rate in effect shall be determined by taking the sum of the four years' losses incurred (paid plus outstanding) by the reinsurer divided by the total of the net premiums written for the same period, multiplied by the factor 100/80ths Current rate is 11.53% Minimum rate = 6.0% Maximum rate = 20.0% Annual deposit premium = $160,494
4.	Type of contract:	Class C-2 Second Layer Excess of Loss Reinsurance
	Lines reinsured:	All property business
	Company's retention:	$170,000 for each and every risk resulting from one loss occurrence
	Coverage:	100% of each and every loss in excess of $170,000 up to $230,000, including loss adjustment expense
	Reinsurance premium:	4% of subject net premiums written, subject to an annual deposit premium of $55,679
5.	Type of contract:	Class D/E-1 First Aggregate Stop Loss Reinsurance
	Lines reinsured:	All business written
	Company's retention:	An amount of losses equivalent to 49.5% of net premium written, with an estimated attachment point of $748,133
	Coverage:	100% of annual aggregate losses in excess of 49.5% of net premium written up to 117% of net premium written
	Reinsurance premium:	The rate for each annual period shall be determined by taking the sum of the nine years' losses incurred by the reinsurer divided by the total of the net premiums written for the same period multiplied by the factor of 100/80ths Current rate is 11.9% Minimum rate = 8.4% Maximum rate = 15.0% Annual deposit premium = $179,854

6.	Type of contract:	Class D/E-2 Second Aggregate Stop Loss Reinsurance
	Lines reinsured:	All business written
	Company's retention:	An amount of losses equivalent to 117% of net premium written
	Coverage:	100% of annual aggregate losses, including loss adjustment expenses, in excess of the retention
	Reinsurance premium:	3.5% of net premiums written, subject to a minimum annual premium of $52,898

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."

Helenville Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2011

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 25	$	$	$ 25
Cash in checking	(71,895)			(71,895)
Cash deposited at interest	630,864			630,864
Bonds	776,927			776,927
Stocks and mutual fund investments	385,373			385,373
Real estate	2,411			2,411
Premiums, agents' balances and installments:				
In course of collection	18,707			18,707
Deferred and not yet due	183,000			183,000
Investment income accrued		15,289		15,289
Electronic data processing equipment	2,151			2,151
Fire dues recoverable	77			77
Reinsurance premium recoverable	5,536			5,536
Other expense related assets:				
Reinsurance commission receivable	495			495
Totals	$1,933,671	$15,289	$0	$1,948,960

Liabilities and Surplus

Net unpaid losses	$ 128,000
Unpaid loss adjustment expenses	5,000
Commissions payable	52,904
Unearned premiums	815,757
Payroll taxes payable (employer's portion)	4,826
Other liabilities:	
Nonexpense-related:	
Premiums received in advance	49,600
Total liabilities	1,056,087
Policyholders' surplus	892,873
Total Liabilities and Surplus	$1,948,960

Helenville Mutual Insurance Company
Statement of Operations
For the Year 2011

Net premiums and assessments earned		$1,109,508
Deduct:		
Net losses incurred	$924,290	
Net loss adjustment expenses incurred	153,099	
Net other underwriting expenses incurred	502,795	
Total losses and expenses incurred		1,580,184
Net underwriting gain (loss)		(470,676)
Net investment income:		
Net investment income earned	49,862	
Net realized capital gains (losses)	(21,128)	
Total investment gain (loss)		28,734
Other income (expense):		
Policy/installment fees	7,406	
Total other income		7,406
Net income (loss) before federal income taxes		(434,536)
Federal income taxes incurred		0
Net Income (Loss)		$ (434,536)

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

	2011	2010	2009	2008	2007
Surplus, beginning of year	$1,304,683	$1,339,503	$1,324,737	$1,506,113	$1,406,533
Net income	(434,536)	(69,153)	(40,224)	(16,857)	103,283
Net unrealized capital gain or (loss)	22,726	34,333	54,990	(164,519)	(3,703)
Surplus, end of year	$ 892,873	$1,304,683	$1,339,503	$1,324,737	$1,506,113

Reconciliation of Policyholders' Surplus

No adjustments were made to surplus as a result of the examination. The amount of surplus of $892,873 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. Corporate Records—It is recommended that the board-appointed committees prepare minutes of all committee meetings.

   Action—Noncompliance; see comments in the "Summary of Current Examination Results."

2. Corporate Records—It is recommended that the board of directors' minutes document the active oversight of operations through the inclusion of more specific comments on investment decisions, financial results, claim approval status, and other significant issues.

   Action—Noncompliance; see comments in the "Summary of Current Examination Results."

3. Underwriting—It is recommended that the company develop procedures that properly document and calculate the maximum probable loss in accordance to the terms of the reinsurance agreement.

   Action—Noncompliance; see comments in the "Summary of Current Examination Results."

4. Claims Adjusting—It is recommended that the Adjusting Committee meet on a regularly scheduled basis or that the board of directors appoint the board-at-large to be the Adjusting Committee.

   Action—Compliance

5. Net Unpaid Losses—It is recommended that the company use increased diligence in the development of accurate loss reserves, specifically with regards to property reserves.

   Action—Compliance

6. Net Unpaid Losses—It is recommended that the company establish a limit, such as $5,000, over which all adjustment contracts for work must be approved by the company before work commences.

   Action—Compliance

7. Return Commissions Due Reinsurers—It is recommended that the company establish a contra-liability, return commissions due reinsurers to offset the reinsurance recoverable that has been listed as an asset since 2003.

   Action—Not applicable. The contra-liability that should have been established was specifically for a claim dating 1990. The claim was closed in 2008 therefore this recommendation is not applicable.

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.

The board of director minutes were generally prepared in the format of an agenda outline with very limited comment on issues discussed or results. Comments were identical from year to year, with the only variance being the names or the amounts. It is again recommended that the board of directors' minutes document the active oversight of operations through the inclusion of more specific comments on investment decisions, financial results, claim approval status, and other significant issues.

The company has eight committees consisting of: Executive (Claims/Adjusting) Committee, Advertising Committee, Salary and Commissions Committee, Rate and Form Committee, Finance Committee, Reinsurance Committee, Inspection and Agents Committee, and the Historical Committee. The Rate and Form Committee meets once every three years to determine if rates should be increased and subsequently the committee's suggestions are then brought to the board for approval. The Salary and Commissions Committee meets every fall and determines commissions, board compensation and salaries. The Salary and Commissions Committee's suggestions are then brought to the board for approval. The Historical Committee has met once in the last five years to research the time at which the company's home office was built. The Executive Committee meets once a month to discuss claims/adjusting and claims checks written. It was noted in a prior recommendation that the company does not adequately document minutes regarding the Executive Committee's discussions. The remaining committees (Advertising Committee, Finance Committee, Reinsurance Committee, Inspection and Agents Committee) meet periodically but have not reported any committee meetings. If the company's committees are not utilized, the company should consider dissolving these unused committees. It is again recommended that the board-appointed committees prepare minutes of all committee meetings.

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

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

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	$ 155,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	5,000,000
Combined professional liability and director and officer liability	2,000,000
Commercial building	150,000

Underwriting

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

The company does not have a formal inspection procedure for both new and renewal business. The company should establish a formal inspection program for new business and keep a list of renewal policies that were inspected each reporting year. The list should include, at a minimum, the policy number, the agent, the type of policy, all problems found and underwriting actions required as a result of the inspection. This report should be provided to the board of directors at each meeting, and the results should help prioritize future inspections. The board of directors should review a sample of inspected policies for compliance with the inspection guidelines to ensure that the company is undertaking risk according to its underwriting goals. It is again recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

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 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.

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	$1,356,087
2.	Liabilities plus 33% of gross premiums written	1,640,278
3.	Liabilities plus 50% of net premiums written	1,615,629
4.	Amount required (greater of 1, 2, or 3)	1,640,278
5.	Amount of Type 1 investments as of 12/31/2011	1,333,545
6.	Excess or (deficiency)	$ (306,733)

The company does not have sufficient Type 1 investments.

It was noted during the examination that the company has two bonds from the same issuer that, in total, exceed 3% of admitted assets. The company did not have prior approval from the Commissioner to exceed 3% of admitted assets from a single issuer. It is recommended that the company refrain from investing in individual corporate issues that would exceed 3% of admitted assets without prior approval from the Commissioner per s. Ins 6.20 (6) (f) 1., Wis. Adm. Code.

It was noted during the examination that the company has one bond that has a rating below BBB- that is not correctly reported as a Type 2 Investment. It is recommended the company report Type 2 bond investments in accordance with the Town Mutual Annual Statement Instructions.

During the review of the company's custodial statement, it was noted that the company had a bond issued by Washington Mutual Bank with a par value of $25,000 that was written down to $3 that was not listed on the company's annual statement. It is recommended the company report all invested assets in accordance with the Town Mutual Annual Statement Instructions.

Reinsurance

The company currently has a reinsurance contract with Wisconsin Reinsurance Corporation as referenced in the section of this examination report captioned "Reinsurance." The contract clearly states the coverages provided by Wisconsin Reinsurance Corporation as well as the reinsurance premiums to be paid by the company. The examination noted that the company did not report for reinsurance all of the applicable policies under Class B First Surplus Agreement. In failing to report policies and remit reinsurance premiums for applicable policies, the company becomes vulnerable to potentially large losses on specific individual policies. It is recommended that the company annually review the benefits and risks associated with utilizing its Class B layer of reinsurance and adhere to their reinsurance agreement.

Maximum possible loss is the estimate of maximum dollar value that can be lost under realistic situations. For example, a fire involving a barn that is a distance removed from a farmhouse and other outbuildings might be unlikely to destroy the house and other buildings or farms at other locations owned by the same insured. The maximum probable loss information has significant value to the company in working with its reinsurance programs. Typically, a maximum probable loss worksheet should be completed as part of the new or renewal application process or mid-term when a request for an endorsement is received involving a significant increase in the risk. The company's manager is currently determining the maximum probable loss without proper documentation. A specific policy file may contain a probable loss worksheet; however, it is unclear what information these worksheets are trying to convey. It is again recommended that the company develop procedures that properly document and calculate the maximum probable loss in accordance to the terms of the reinsurance agreement.

Defined Benefit Pension Plan

The company has a defined benefit pension plan covering substantially all of its employees, which was originally effective January 1, 1975. The benefits are based on years of service and the employee's average of the five consecutive years of highest annual compensation paid prior to retirement or termination. The company's funding and accounting policies are to contribute annually the maximum amount that can be deducted for federal income tax purposes and to charge such contributions to expense in the year they are deductible for income tax purposes. Pension expense recognized in 2011 was $38,947. The plan's projected benefit obligation, valued as of December 31, 2011, was $509,036; and the fair value of plan assets was $343,729. The assumptions used in the measurement of the company's net periodic benefit cost included a discount rate of 5.5%, an expected long-term rate of return of 8%, and a rate of compensation increase of 3%.

The OCI Town Mutual Annual Statement Instructions for the years 2012 and prior do not include any specific guidance for the disclosure of defined benefit pension plans or for reporting any asset or liability relating to the difference between such a plan's projected benefit obligation and the fair value of plan assets. However, the pension is clearly material relative to the company's financial position. It is recommended that the company comply with the applicable National Association of Insurance Commissioners' Statements of Statutory Accounting Principles relating to reporting for employers' pension obligations. From December 31, 2013, until January 1, 2017, if the projected benefit obligation for vested employees exceeds the fair value of plan assets, this liability shall be recognized according to one of the two following methods:

a. The company may elect to record the entire liability as a direct charge to surplus; or

b. Alternatively, the company may elect to amortize the liability as a component of net periodic pension cost over a period not to exceed three years, unless the OCI Town Mutual Annual Statement Instructions for the applicable reporting period provides for a longer period of amortization.

From January 1, 2017, and thereafter, the company will follow the guidance of the OCI Town Mutual Annual Statement Instructions relating to reporting for pension obligations.

ASSETS

Cash and Invested Cash **$558,994**

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

Cash in company's office	$ 25
Cash deposited in banks—checking accounts	(71,895)
Cash deposited in banks at interest	630,864
Total	$558,994

Cash in the company's office at year-end represents the company's petty cash fund. The amount in the company’s petty cash fund was deemed immaterial; therefore, the examiners did not take a physical count.

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 bank and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 19 deposits in 9 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 2011 totaled $19,250 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0% to 3.2%. Accrued interest on cash deposits totaled $1,167 at year-end.

Book Value of Bonds **$776,927**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2011. Bonds owned by the company are held under a custodial agreement with a banking and trust company.

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 2011 on bonds amounted to $43,579 and was traced to cash receipts records. Accrued interest of $10,622 at December 31, 2011, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$385,373**

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 are held under a custodial agreement.

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 2011 on stocks and mutual funds amounted to $*7,223* and were traced to cash receipts records. Accrued dividends of $3,500 at December 31, 2011, were checked and allowed as a nonledger asset.

Book Value of Real Estate **$2,411**

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 land. The value of the company’s home office building has been fully depreciated.

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.

Premiums, Agents' Balances in Course of Collection **$18,707**

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. The examination noted the company’s amounts due from agents or policyholders balance includes amounts that are 90 days past due. The amount is immaterial and no adjustment to the company's reported balance was made for purposes of this examination. It is recommended that the company nonadmit amounts due from agents or policyholders which are in excess of 90 days past due at year-end.

Premiums Deferred and Not Yet Due **$183,000**

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 **$15,289**

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

Cash deposited at interest	$ 1,167
Bonds	10,622
Stocks and mutual funds	3,500
Total	$15,289

Electronic Data Processing Equipment **$2,151**

The above balance consists of computer hardware and operating system software, net of depreciation, as of December 31, 2011. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Fire Dues Recoverable ***$77***

This asset represents the amount overpaid to the State of Wisconsin for 2011 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 **$5,536**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2011. A review of year-end accountings with the reinsurer verified the above asset.

Reinsurance Commission Receivable **$495**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2011. 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 **$128,000**

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	$507,364	$809,848	$302,484
Less: Reinsurance recoverable on unpaid losses	380,064	664,438	284,374
Net Unpaid Losses	$127,300	$145,410	$ 18,110

The examination noted a difference of $700 between the company's loss reserve documentation and the annual statement. Due to the immaterial nature of this amount, no further testing was considered necessary.

The examination determined that loss reserves at year-end 2011 were deficient by $18,110, net of reinsurance. This deficiency did not result in an examination adjustment due to the likelihood that the company will hit their attachment point under the aggregate excess of loss portion of their reinsurance coverage and the amount reserves are deficient will be recoverable from reinsurance.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$5,000**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2011, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is considered reasonable.

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 **$52,904**

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

Accounts Payable **$0**

This liability represents an accrual set up at year-end for various expenses. During review of the January 2012 cash disbursements documentation, it was determined there were several payments made in 2012 for 2011 expenses. However, there was no accrual set up at year-end for these expenses. The amount was immaterial and no adjustment to surplus was made for purposes of this examination. It is recommended that the company set up an accrual for their year-end accounts payable liabilities in accordance with the Town Mutual Annual Statement Instructions.

Unearned Premiums **$815,757**

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 and adjusting for unearned premium held by the reinsurer. The examiners reviewed the company's calculation of this balance and determined this liability to be adequately stated.

Payroll Taxes Payable **$4,826**

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.

Premiums Received in Advance **$49,600**

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

Helenville Mutual Insurance Company is a town mutual insurer with an authorized territory of six counties. The company has been in business over 136 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	$1,406,533
Net losses	(457,487)
Unrealized capital losses	(56,173)
Policyholders' Surplus, December 31, 2011	$ 892,873

The company reported assets of $1,948,960, liabilities of $1,056,087, and policyholders' surplus of $892,873 at year-end 2011. Surplus decreased 36.5%, from $1,406,533 as of December 31, 2006, to $892,873 as of December 31, 2011. During the period under examination, the loss ratio ranged from 58% to 97%, while the expense ratio averaged 43%. The company experienced underwriting and net losses for the past five consecutive calendar years. The company's new manager, who took over in the spring of 2012, has indicated a commitment to attend carefully to underwriting, rating, insurance to value, and the use of reinsurance.

The examination verified the financial condition of the company as reported in its annual statement as of December 31, 2011. The examination did not result in any adjustments to surplus or reclassifications. This examination resulted in 11 recommendations, including 3 repeated from the prior examination report. Areas for improvement recommended by this examination included, but were not limited to, underwriting, investment compliance and reporting, pension plan accounting, reinsurance, and board minutes.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 14 - Corporate Records—It is again recommended that the board of directors' minutes document the active oversight of operations through the inclusion of more specific comments on investment decisions, financial results, claim approval status, and other significant issues.

2. Page 14 - Corporate Records—It is again recommended that the board-appointed committees prepare minutes of all committee meetings.

3. Page 16 - Underwriting—It is again recommended that the company establish a formal inspection procedure for new and renewal business, whereby a sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration.

4. Page 18 - Investment Rule Compliance—It is recommended that the company refrain from investing in individual corporate issues that would exceed 3% of admitted assets without prior approval from the Commissioner per s. Ins 6.20 (6) (f) 1., Wis. Adm. Code.

5. Page 18 - Investment Rule Compliance—It is recommended the company report Type 2 bond investments in accordance with the Town Mutual Annual Statement Instructions.

6. Page 18 - Investment Rule Compliance—It is recommended the company report all invested assets in accordance with the Town Mutual Annual Statement Instructions.

7. Page 19 - Reinsurance—It is recommended that the company annually review the benefits and risks associated with utilizing its Class B layer of reinsurance and adhere to their reinsurance agreement.

8. Page 19 - Reinsurance—It is again recommended that the company develop procedures that properly document and calculate the maximum probable loss in accordance to the terms of the reinsurance agreement.

9. Page 20 - Defined Benefit Pension Plan—It is recommended that the company comply with the applicable National Association of Insurance Commissioners' Statements of Statutory Accounting Principles relating to reporting for employers' pension obligations. From December 31, 2013, until January 1, 2017, if the projected benefit obligation for vested employees exceeds the fair value of plan assets, this liability shall be recognized according to one of the two following methods:
   a. The company may elect to record the entire liability as a direct charge to surplus; or
   b. Alternatively, the company may elect to amortize the liability as a component of net periodic pension cost over a period not to exceed three years, unless the OCI Town Mutual Annual Statement Instructions for the applicable reporting period provides for a longer period of amortization.

   From January 1, 2017, and thereafter, the company will follow the guidance of the OCI Town Mutual Annual Statement Instructions relating to reporting for pension obligations.

10. Page 23 - Premiums, Agents' Balances in Course of Collection—It is recommended that the company nonadmit amounts due from agents or policyholders which are in excess of 90 days past due at year-end.

11. Page 26 - Accounts Payable—It is recommended that the company set up an accrual for their year-end accounts payable liabilities in accordance with the Town Mutual Annual Statement Instructions.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Amanda Schroeder
Examiner-in-Charge