Report

of the

Examination of

Marcellon-Courtland-Springvale Mutual Insurance Company

Pardeeville, Wisconsin

As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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September 11, 2014

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, 2013, of the affairs and financial condition of:

MARCELLON-COURTLAND-SPRINGVALE MUTUAL INSURANCE COMPANY
Pardeeville, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Marcellon-Courtland-Springvale Mutual Insurance Company (the company) was made in 2009 as of December 31, 2008. The current examination covered the intervening time period ending December 31, 2013, 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 exempt from the requirement to obtain annual audits by an independent public accounting firm by virtue of meeting all exceptions as prescribed by s. Ins 50.02 (3), Wis. Adm. Code. However, the company relies on the independent public accounting firm to compile its annual financial statements. 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 June 21, 1889, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Mutual Fire Insurance Company of the Towns of Marcellon, Bayfield and Ft. Winnebago. Subsequent amendments to the company's articles and bylaws changed the company's name to Marcellon Town Mutual Fire Insurance Company. On January 1, 2008, Courtland-Springvale Town Insurance Company (Courtland-Springvale) was merged into Marcellon Town Mutual Fire Insurance Company, and the surviving company changed its name to Marcellon-Courtland-Springvale Mutual Insurance Company.

There were no amendments to the articles of incorporation and no amendments to the bylaws during the period of the current examination.

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:

Adams	Fond Du Lac
Columbia	Green Lake
Dane	Marquette
Dodge	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 an annual policy fee equal to a flat fee of $10.00, as well as $5.00 per installment for policies billed on the installment basis.

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

Type of Policy	**Compensation**
Renewal policies	12%
New policies	14

Agents do not have the authority to adjust losses on policies they have written. Losses are adjusted by the members of the board of directors, all of whom are members of the adjusting committee of the board. Two members of the board are also agents for the company. Losses under $5,000 are adjusted by one adjuster, but the adjuster cannot also be the agent for that policy. Losses above $5,000 are adjusted by two in-house adjusters. The company manager determines when to hire an outside adjuster depending on the complexity of the claim. The company's in-house adjusters receive $50 for each loss adjusted plus $0.55 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

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

Name	Principal Occupation	Residence	Expiry
Clark Cupery	Restaurant Owner	Portage, WI	2016
Tom Agnew	Farmer	Fall River, WI	2016
Herb Brunn	Farmer	Wisconsin Dells, WI	2015
John Furman*	Retired Farmer	Montello, WI	2015
Lynn Wingers	Farmer	Randolph, WI	2015
Paul Kearns	Lumber Salesman	Montello, WI	2015
Tim Ashley	Co-owner Body Shop	Cambria, WI	2015
Robert Balliet*	Sire Handler – American Breeders Services	Portage, WI	2014
Randy Link	Farmer – Auctioneer	Cambria, WI	2014

*Directors who are also agents are identified with an asterisk.

Members of the board currently receive $50 for each meeting attended and $0.55 per mile for travel expenses.

Section 612.13 (1m), Wis. Stat., requires:

(1) If a town mutual has fewer than nine directors, no more than one director may be an employee or representative of the town mutual; and

(2) Employees and representatives of a town mutual may not constitute a majority of its board.

The company is in compliance with these requirements.

Officers

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified. Officers serving at the present time are as follows:

Name	Office	2013 Compensation
John Furman	President	$24,762
Tom Agnew	Vice-President	0
Robert Balliet	Secretary	7,197
Clark Cupery	Treasurer	2,000
Tammy Cutsforth	Manager	24,863

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. There were no separate committees to the board at the time of the examination. The entire board of directors was designated both the adjusting and investment committees.

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
2013	$139,001	552	$ (94,607)	$1,523,076	$1,354,034
2012	145,011	540	(93,698)	1,602,636	1,426,789
2011	121,298	497	(116,414)	1,651,677	1,539,302
2010	115,903	465	(4,474)	1,767,770	1,656,404
2009	135,964	491	25,220	1,757,860	1,648,402
2008	117,848	470	(88,905)	1,730,247	1,629,810

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	Writings Ratios Gross
2013	$390,406	$152,401	$1,354,034	11%	29%
2012	382,825	169,826	1,426,789	12	27
2011	305,560	124,450	1,539,302	8	20
2010	283,135	108,078	1,656,404	7	17
2009	283,700	122,041	1,648,402	7	17
2008	279,210	135,478	1,629,810	8	17

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
2013	$172,328	$90,436	$139,001	124%	59%	183%
2012	182,876	85,419	145,011	126	50	176
2011	186,723	83,734	121,298	154	67	221
2010	80,829	71,820	115,903	70	66	136
2009	74,467	75,123	135,964	55	62	117
2008	187,378	77,704	117,848	159	57	216

The company has reported underwriting losses in each of the five years under examination and net losses in the four consecutive years ending in 2013. These results are attributed to the company's high expense ratio, and high losses, due in part to inclement weather in years 2010 to 2013. The company cedes a higher than average amount of its premium, due in part to high loss recoveries from the reinsurer in prior years. Surplus has decreased an aggregate $275,776 or 17% from $1,629,810 in 2008 to $1,354,034 in 2013.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there are currently two ceding treaties. All treaties reviewed contained proper insolvency clauses. The primary treaty with Wisconsin Reinsurance Corporation complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk under both treaties complied with s. Ins 13.06, Wis. Adm. Code.

Primary Ceding Contract

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2014
Termination provisions:	Either party may terminate this contract as of any subsequent January 1, 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:	Class A, Casualty Quota Share
	Lines reinsured:	Casualty/Liability business
	Company's retention:	None
	Coverage:	100% of each and every loss occurrence, including loss adjustment expenses, in excess of the company's retention subject to the maximum policy limits of: a. $1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability b. $1,000,000 split limits, in any combination of bodily injury and property damage liability c. $25,000 for medical payments, per person; $25,000 per accident
	Reinsurance premium:	100% of net premiums written
	Ceding commission:	15% of net premiums written
2.	Type of contract:	Class B, First Surplus
	Lines reinsured:	Property business
	Company's retention:	$200,000 per ceded risk The company is also subject to a 10% per loss retention
	Coverage:	Pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of risk ceded, up to $2,000,000

	Reinsurance premium:	The pro rata portion of all premiums, fees, and assessments charged by the company corresponding to the amount of each risk ceded
	Ceding commission:	Commission allowance of 15% of the premium ceded. Additional profit commission of 15% of the net profit accruing to the reinsurer each year calculated by a formula, with any net loss from preceding period carried forward.
3.	Type of contract:	Class C-1, Per Risk Excess of Loss First Layer
	Lines reinsured:	Property business
	Company's retention:	$50,000 per each and every risk resulting from one loss occurrence
	Coverage:	100% of each loss, including loss adjustment expense, in excess of $50,000 in respect to each and every risk resulting from one loss occurrence, limited to $60,000 each and every loss occurrence
	Reinsurance premium:	16.84% of net premium written. Annual deposit premium $34,997 Annual aggregate deductible $25,000
4.	Type of contract:	Class C-2, Per Risk Excess of Loss Second Layer
	Lines reinsured:	Property business
	Company's retention:	$110,000 per each and every risk resulting from one loss occurrence
	Coverage:	100% of each loss occurrence, including loss adjustment expense, in excess of $110,000 up to a maximum of $90,000
	Reinsurance premium:	8.5% of net premiums written Annual deposit premium $17,665
5.	Type of contract:	Class D-1, First Aggregate Excess of Loss
	Lines reinsured:	All business written by the company
	Company's retention:	Annual net losses, including loss adjustment expense, equal to not less than 90% of net premium written
	Coverage:	100% of 60% of the amount by which annual aggregate net losses, including loss adjustment expenses, exceed the company's retention
	Premium:	6.5% of net premiums written Annual deposit premium $13,508

6. Type of contract: Class D-2, Second Aggregate Excess of Loss

Lines reinsured:	All business written by the company
Company's retention:	Annual net losses, including loss adjustment expense, equal to not less than 150% of net premium written
Coverage:	100% of annual aggregate net losses, including loss adjustment expenses, in excess of 150% of net premiums written
Premium:	3% of net premiums written Annual deposit premium $6,235

Equipment Breakdown Quota Share Coverage

Reinsurer:	Factory Mutual Insurance Company
Effective date:	January 1, 2013, and is continuous until terminated
Lines reinsured:	All equipment breakdown liability Farmowners and Homeowners business, with stated exclusions
Company's retention:	None
Coverage:	100% of losses ceded under this treaty
Reinsurance premium:	100% of the subject gross written premium relating to risks covered under this agreement
Ceding commission:	The current commission rate of 35% of the premiums ceded. Return commission shall be allowed at the same rate on all return premiums paid to the company.
Termination provisions:	By either party, on any January 1, with 90 days' advance written notice by certified mail
Additional comments:	The treaty has a clause where the reinsurer will share in its profits over a three-year period beginning January 1, 2013, through December 31, 2015. The company is to receive a profit-sharing bonus if the net loss ratio for the business reinsured is below 30%. The profit-sharing percentage is dependent on the number of the company's policyholders that had a policy in force as of January 1, 2013, with equipment breakdown coverage.

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, 2013, 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."

Marcellon-Courtland-Springvale Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2013

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 167	$	$	$ 167
Cash in checking	27,329			27,329
Cash deposited at interest	846,577			846,577
Bonds	383,093			383,093
Stocks and mutual fund investments	227,855			227,855
Premiums, agents' balances and installments:				
In course of collection	14,625			14,625
Deferred and not yet due	17,400			17,400
Investment income accrued		6,030		6,030
Totals	$1,517,046	$6,030	$	$1,523,076

Liabilities and Surplus

Net unpaid losses	$ 3,500
Unpaid loss adjustment expenses	300
Commissions payable	2,300
Fire department dues payable	9
Unearned premiums	113,900
Reinsurance payable	39,270
Amounts withheld for the account of others	2,729
Other liabilities:	
Expense-related:	
Accounts payable	197
Nonexpense-related:	
Premiums received in advance	837
Total liabilities	169,042
Policyholders' surplus	1,354,034
Total Liabilities and Surplus	$1,523,076

Marcellon-Courtland-Springvale Mutual Insurance Company
Statement of Operations
For the Year 2013

Net premiums and assessments earned		$139,001
Deduct:		
Net losses incurred	$157,514	
Net loss adjustment expenses incurred	14,814	
Net other underwriting expenses incurred	90,436	
Total losses and expenses incurred		262,764
Net underwriting gain (loss)		(123,763)
Net investment income:		
Net investment income earned	21,445	
Net realized capital gains (losses)	1,777	
Total investment gain (loss)		23,222
Other income (expense):		
Miscellaneous	5,934	
Total other income		5,934
Net income (loss) before federal income taxes		(94,607)
Net Income (Loss)		$ (94,607)

Marcellon-Courtland-Springvale Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2013

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:

	2013	**2012**	**2011**	**2010**	**2009**
Surplus, beginning of year	$1,426,789	$1,539,302	$1,656,404	$1,648,402	$1,629,810
Net income	(94,607)	(93,698)	(116,414)	(4,474)	25,220
Net unrealized capital gain or (loss)	21,852	(18,815)	(688)	11,290	(5,442)
Change in nonadmitted assets				1,186	(1,186)
Surplus, End of Year	$1,354,034	$1,426,789	$1,539,302	$1,656,404	$1,648,402

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2013, 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 again recommended that the company develop a written investment plan. It is also recommended that the company file the investment plan with this office within 180 days after the adoption of this report.

   Action—Compliance

2. Corporate Records—It is recommended that the company develop an attendance policy for directors, including a plan on what action will be taken by the board if the requirements are not being met.

   Action—Compliance

3. Corporate Records—It is recommended that the company record who is present and who is absent from each board meeting in the minutes of that meeting.

   Action—Compliance

4. Corporate Records—It is recommended that a director with a conflict should abstain from a vote where a conflict exists, and the minutes indicate any abstention in order to document compliance with s. 612.18, Wis. Stat.

   Action—Compliance

5. Corporate Records—It is recommended that the annual policyholders' minutes include the number of policyholders in attendance.

   Action—Compliance

6. Corporate Records—It is suggested that the board appoint the entire board as the adjusting committee since that is the company's practice.

   Action—Compliance

7. Corporate Records—It is recommended that the board committees maintain recorded minutes and the board minutes reflect who is appointed to committees and the name of the chairperson.

   Action—Compliance

8. Conflict of Interest—It is recommended that the directors completely fill out the conflict of interest statements even if the potential conflict is perceived to be generally known and that the company retain each year's statements.

   Action—Compliance

9. Underwriting—It is recommended that the company comply with s. 631.36 (4) (a), Wis. Stat., as regards providing timely notice of renewal to its policyholders.

   Action—Compliance

10. Underwriting—It is recommended that the company adopt and enforce its underwriting guidelines and develop a plan for agents that habitually do not follow the guidelines.

    Action—Compliance

11. 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. It is also recommended that the company file the procedure with this office within 180 days after adoption of this report.

    Action—Compliance

12. Underwriting—It is recommended that the company keep some form of documentation for cancellations in the policy files.

    Action—Compliance

13. Claims Adjusting—It is suggested that the company have an adjusting policy more in line with companies similar in size.

    Action—Compliance

14. Plan—It is recommended that the company keep its business plan up to date.

    Action—Compliance

15. Invested Assets—It is again recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

    Action—Compliance. See comments in the section captioned "Invested Assets."

16. Cash and Invested Cash—It is recommended that the company mark invoices "paid" to avoid the possible double payment of an invoice.

    Action—Compliance

17. Cash and Invested Cash—It is recommended that the company keep its check stock and checkbook in a locked fireproof safe or file cabinet.

    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 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	$ 200,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Agents and brokers professional liability—each claim and in the aggregate	1,000,000
Commercial general liability coverage:	
General aggregate	2,000,000
Products-completed operations aggregate	2,000,000
Personal injury and advertising injury	1,000,000
Each occurrence	1,000,000
Damage to premise rented (fire damage)—any one premise	50,000
Medical payments—any one person	5,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing. The company writes annual premium policies with three-year renewal terms.

The company has a formal inspection procedure for both new and renewal business. All new applications and approximately one-third of renewal business are inspected by an employee of the company who is independent of the risk under consideration and review. The manager has discretion as to which renewal policies to inspect. However, priority is given to policies that are perceived to be at higher risk or have certain underwriting features. The inspections are documented using an inspection form and photographs. The results of the inspections are presented to the company manager who determines whether or not to underwrite the risk based on the results of the inspections.

Claims Adjusting

The company has designated the entire board of directors as the adjusting committee to comply with requirements of s. 612.13 (4), Wis. Stat. The board is responsible for adjusting or supervising 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, 2013.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers. Company personnel back up the computers daily and the backed-up data is kept off-site.

The company has manuals documenting the use of its software and outlining the steps to complete specific tasks. The manuals assist in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs. However, the company in most cases relies on the software vendor to provide technical assistance.

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. However, the examiners considered the business continuity plan to be lacking in sufficient detail to be reliable in the event of business disruptions. For example, the business continuity plan states that in the event the office manager is temporarily or permanently unavailable, total operations will be handled by the board President and the Vice-President. At a minimum, the plan should elaborate on what the total operations are and describe how to perform the critical functions for each operation. Further, examiners discovered that the board has not updated its business continuity plan since being adopted in 2009. This is in violation of company policy which requires the board to annually review and update its business continuity plan. It is recommended that the company update its business continuity plan to include adequate level of detail as to be effectively reliable during periods of business disruptions. It is also recommended that the board of directors comply with company policy by annually reviewing and updating its business continuity plan.

Business Plan

The company maintains a written business plan. A review of the business plan found it to be not sufficiently detailed, as it does not provide concrete strategies by the board to address challenges currently faced by the company. These challenges include, but are not limited to, the following:

- The high expense ratio affects the company's underwriting results, even though actual expense dollars appear reasonable. In the last five years, the expense ratio has ranged between 50% and 67%. The high expense ratio coupled with significant losses, particularity in the years starting in 2011, resulted in the company reporting underwriting and net losses in the last four years.

- Continuing decline in surplus owing to sustained underwriting losses as discussed above. Surplus has decreased an aggregate $275,776 or 17% from $1,629,810 in 2008 to $1,354,034 in 2013. This trend is unsustainable and poses a threat to the company's long-term solvency.

- The company has one key employee running the day-to-day operations. It is therefore prudent for the company to develop a succession plan for key roles or functions to reduce the potential adverse impact to operations should the key employee be no longer able to function in that capacity.

Due to the issues discussed above, it is critical for the company to develop a strategic business plan to address current challenges, to provide a road map for growth, and, most importantly, to reverse the ongoing decline in surplus in order to maintain solvency in the future. Such a business plan might include short-term and long-term goals as follows:

- A plan for business growth, profitability and preservation of surplus given the continued underwriting losses.

- A review of current underwriting and inspection guidelines to evaluate the appropriateness of risks accepted by the company.

- A plan for annual rate reviews in order to determine adequacy of rates in keeping up with rising costs.

- Identification of the company's strengths and weaknesses to improve operating efficiencies particularly given the high expense ratios.

- Establishment of benchmarks to evaluate annual performance for agents, employees and the company's management.

- Creation of a succession plan for key roles and function in the organization given there is only one key employee running the day-to-day operations.

It is recommended that the company update its business plan to include more comprehensive detail as to the company's short-term and long-term strategic goals.

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 was not in compliance with these requirements at the beginning of the examination fieldwork. The examiners discovered that the company's investment assets were held in custody by a brokerage firm, under a general brokerage account agreement. This arrangement was in violation of s. 610.23, Wis. Stat., which requires that securities not held under a custodial agreement or trust agreement with a bank or banking and trust company be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank per

s. Ins 13.05 (4), Wis. Adm. Code. However, during the course of the examination fieldwork, the company executed a proper custody agreement with a qualified custodian. Effective September 4, 2014, all investment assets of the company previously held in custody by the broker were transferred to the custodian. Therefore, the company is in compliance with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

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	$ 469,042
2.	Liabilities plus 33% of gross premiums written	297,875
3.	Liabilities plus 50% of net premiums written	245,242
4.	Amount required (greater of 1, 2, or 3)	469,042
5.	Amount of Type 1 investments as of December 31, 2013	1,210,124
6.	Excess or (deficiency)	$ 741,082

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$874,073**

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

Cash in company's office	$ 167
Cash deposited in banks—checking accounts	27,329
Cash deposited in banks at interest	846,577
Total	$874,073

Cash in company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

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

Cash deposited in banks represents the aggregate of 11 deposits in seven depositories, and one money market account currently maintained with the company's custodian. 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 2013 totaled $9,918 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.10% to 1.23%. Accrued interest on cash deposits totaled $2,225 at year-end.

Book Value of Bonds **$383,093**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2013. Bonds owned by the company are currently held under a safekeeping and custody agreement with the custodian.

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 2013 on bonds amounted to $16,966 and was traced to cash receipts records. Accrued interest of $3,180 at December 31, 2013, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$227,855**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2013. The majority of stocks and mutual funds owned by the company are currently held under a safekeeping and custody agreement with the custodian.

Stock certificates for stocks not held by the custodian 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 2013 on stocks and mutual funds amounted to $6,189 and were traced to cash receipts records. There were no accrued dividends at December 31, 2013.

Premiums, Agents' Balances in Course of Collection **$14,625**

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 **$17,400**

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 **$6,030**

Interest due and accrued on the various assets of the company at December 31, 2013, consists of the following:

Cash at interest	$2,225
Bonds interest	3,805
Total	$6,030

These assets represent interest income earned, but not yet received, on the company's cash deposited at interest and investment assets. This amount was verified by comparing interest reported as earned on the company's assets against actual interest income receipts shown on the cash records for 2013.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$3,500**

This liability represents losses incurred on or prior to December 31, 2013, 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, 2013, with incurred dates in 2013 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	$113,000	$52,565	$60,435
Less: Reinsurance recoverable on unpaid losses	109,500	50,925	58,575
Net Unpaid Losses	$ 3,500	$ 1,641	$ 1,859

The net difference was not considered material for purposes of this examination. Therefore there was no adjustment made to the company's surplus to reflect this difference.

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 **$300**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2013, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is the manager's best estimate of loss adjustment expenses that remain unpaid based on the volume of claims that remain open at year-end.

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 **$2,300**

This liability represents the commissions payable to agents as of December 31, 2013. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Fire Department Dues Payable **$9**

This liability represents the fire department dues payable to the state of Wisconsin as of December 31, 2013. The examiners reviewed the company's fire department dues calculation and found this liability to be correctly calculated.

Unearned Premiums **$113,900**

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. The examiners verified this liability by recalculating unearned premiums for a sample of policies and comparing the results against the company's reserves.

Reinsurance Payable **$39,270**

This liability consists of amounts due to the company's reinsurers at December 31, 2013, relating to transactions which occurred on or prior to that date by contract. The examiners verified this liability by reviewing the year-end invoice billings from the company's reinsurers.

Amounts Withheld for the Account of Others **$2,729**

This liability represents employee payroll deductions in the possession of the company at December 31, 2013. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$197**

This liability represents amounts due to vendors and other accrued expenses that remained unpaid at December 31, 2013.

Premiums Received in Advance **$6,837**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2013. The examiners reviewed 2013 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

The company has reported underwriting losses in each of the five years under examination and net losses in the four consecutive years ending in 2013. These results are attributed to the company's high expense ratio, and high losses, due in part to inclement weather in years 2010 to 2013. The company cedes a higher than average amount of its premium, due in part to high loss recoveries from the reinsurer in prior years. Surplus has decreased an aggregate $275,776 or 17% from $1,629,810 in 2008 to $1,354,034 in 2013.

The company's prior examination conducted as of year-end 2008 resulted in 17 recommendations. An integral part of the current examination was to verify the company's compliance with all prior exam recommendations. The examiners found the company to be in compliance with all prior exam recommendations and the company's efforts towards achieving that goal is hereby acknowledged.

VI. SUBSEQUENT EVENT

On July 31, 2014, the company purchased real property intended to be the company's main office building. The property is located at 144 North Main Street, Pardeeville, Columbia County, Wisconsin. The total assessed value of the real property was $78,200. The company paid $44,700 in consideration using proceeds from a maturing Certificate of Deposit.

The company failed to properly notify the Office of the Commissioner of Insurance prior to making the purchase. This is a violation of s. Ins 6.20 (6) (d) 6., Wis. Adm. Code, which requires the company to obtain prior written approval of the commissioner before purchasing real property needed for the convenient transaction of the insurer's business. It is recommended that the company comply with s. Ins 6.20 (6) (d) 6., Wis. Adm. Code, by obtaining the prior written approval of the commissioner before investing in real property needed for the convenient transaction of the insurer's business.

VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Business Continuity Plan—It is recommended that the company update its business continuity plan to include adequate level of detail as to be effectively reliable during periods of business disruptions.

2. Page 18 - Business Continuity Plan—It is also recommended that the board of directors comply with company policy by annually reviewing and updating its business continuity plan.

3. Page 19 - Business Plan—It is recommended that the company update its business plan to include more comprehensive detail as to the company's short-term and long-term strategic goals.

4. Page 28 - Subsequent Event—It is recommended that the company comply with s. Ins 6.20 (6) (d) 6., Wis. Adm. Code, by obtaining the prior written approval of the commissioner before investing in real property needed for the convenient transaction of the insurer's business.

VIII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Raymond K. Kangogo
Examiner-in-Charge