Report

of the

Examination of

Mt. Pleasant-Perry Mutual Insurance Company

Monticello, Wisconsin

As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

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

June 24, 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:

MT. PLEASANT-PERRY MUTUAL INSURANCE COMPANY
Monticello, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Mt. Pleasant-Perry 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 annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

In addition to auditing, the public accounting firm performs non-auditing services for the company, including compilation and tax services. On December 13, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on May 27, 1876, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Mt. Pleasant 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 no amendments to the bylaws.

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

Columbia	Jefferson
Dane	Lafayette
Grant	Richland
Green	Rock
Iowa	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 one year with premiums payable on the advance premium and assessment basis.

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

Type of Policy	**Compensation**
New policies	18.0%
Renewals	12.5

Structure losses are adjusted by the company manager and losses to personal property are adjusted by agents, up to $1,000. Losses in excess of this amount require a second adjuster who may be another agent, the company manager, or an outside adjuster if special expertise is required. Agents receive $25 for each loss adjusted, $15 per month for phone expenses, and can be reimbursed up to $200 annually for advertising expenses. The company manager receives $15 per month for phone expenses but does not receive additional payment above his stated salary for adjustments.

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
Glenn Burgy	Farmer/Seed Sales	Monticello, WI	2015
Charles Schriber *	Farmer/Independent Insurance Agent	Hollandale, WI	2015
John Thronson *	Grocer	Hollandale, WI	2015
Donald Elmer	Farmer	New Glarus, WI	2016
Sandra Horn	Retired World Dairy Expo	Brooklyn, WI	2016
James Marty *	Farmer	Monticello, WI	2016
Marco Flannery	Farmer	Argyle, WI	2017
Donald Roe	Farmer	Monticello, WI	2017
Matt Sutter *	Sutter's Ridge Farm	Mt. Horeb, WI	2017

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $100 for each meeting attended in Green County and $150 for meetings outside of Green County. Members of the Executive Committee receive $50 per meeting, and the Treasurer receives $15 per hour for any time spent working with the Certificates of Deposit. All individuals receive $0.50 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
Donald Roe	President	$10,605
Sandra Horn	Vice President	2,400
Charles Schriber	Secretary	47,229
James Marty	Treasurer	44,600
Bob Goehring	Company Manager	47,000

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, director and adjusting fees, and reimbursements as applicable.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee
The adjusting committee is the entire board, with President Roe as chair.

Personnel Committee
Donald Roe, Chair
James Marty
Charles Schriber
Sandra Horn
Marco Flannery
Matt Sutter

Building & Grounds Committee
Donald Roe, Chair
Donald Elmer
Matt Sutter
Marco Flannery
Glenn Burgy

Investment/Finance Committee
Donald Roe, Chair
James Marty
Charles Schriber
Sandra Horn
Marco Flannery

Director Only Committee
Donald Roe, Chair
Marco Flannery
Donald Elmer
Glenn Burgy
Sandra Horn

Executive Committee
Donald Roe, Chair
Sandra Horn
Charles Schriber
James Marty

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	$1,065,430	1,941	$ (1,673)	$3,223,276	$2,112,866
2012	1,052,016	1,944	190,015	3,070,515	2,008,686
2011	1,035,374	1,967	(354,314)	3,016,047	2,087,360
2010	962,787	2,006	41,738	3,552,109	2,460,880
2009	960,285	2,005	58,272	3,348,953	2,344,963
2008	951,861	2,051	105,260	3,446,345	2,309,182

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
2013	$1,924,315	$1,103,757	$2,112,866	52%	91%
2012	1,804,000	1,065,460	2,008,686	51	90
2011	1,769,343	1,068,361	2,087,360	51	85
2010	1,769,673	972,654	2,460,880	40	72
2009	1,714,239	954,184	2,344,963	41	73
2008	1,732,130	970,744	2,309,182	42	75

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	$ 645,294	$430,106	$1,065,430	61%	39%	100%
2012	475,628	395,440	1,052,016	45	37	82
2011	1,004,050	417,181	1,035,374	97	39	136
2010	589,846	364,960	962,787	61	38	99
2009	521,635	381,464	960,285	54	40	94
2008	498,456	365,122	951,861	52	38	90

In the past five years, premium written continued to increase despite a decreasing amount of policies in force. This is partially due to farmers replacing old equipment with new, more expensive equipment as economic conditions continue to improve, as well as increasing building values.

After over ten years of no changes in premium rates, the company implemented a deductible shift in 2013. All insureds with a $250 deductible were changed to a $500 deductible, although the $250 deductible option is still available at a 10% surcharge. If an insured had a $500 deductible, they were moved to the $1,000 deductible to keep the same premium. The $750 deductible increased to $1,500, and the $1,000 deductible increased to $2,000. The company also added a new $5,000 deductible option. In addition to this deductible shift, a 5% rate increase was applied to all property coverage on all policies.

The company has reported net income in three of the last five years. The large net loss in 2011 was attributable to two large fire losses and a wind and hail event that resulted in a large number of claims.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2014
Termination provisions:	90-day notice

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 classified as casualty business
	Company's retention:	$10,000
	Coverage:	100% of each and every loss in excess of $10,000 occurring on the business covered by this contract, including loss adjustment expenses
	Reinsurance premium:	50% of the company's current net premiums written in respect to the business covered Premium deposit: $147,000
2.	Type of contract:	Class B - First Surplus Reinsurance
	Lines reinsured:	All property business written by the company
	Company's retention:	$600,000
	Coverage:	$2,000,000
	Reinsurance premium:	Pro rata share of all premiums and fees charged by the company corresponding to the amount of each risk ceded
	Ceding commission:	15%, plus 15% profit commission
3.	Type of contract:	Class C-1 - First Per Risk Excess of Loss
	Lines reinsured:	All property business written by the company
	Company's retention:	$75,000 per occurrence $0 annual aggregate deductible
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $75,000, subject to a limit of liability to the reinsurer of $125,000

	Reinsurance premium:	7.55% of the company's current net premiums written in respect to the business covered Premium deposit: $97,083
4.	Type of contract:	Class C-2 - Second Per Risk Excess of Loss
	Lines reinsured:	All property business written by the company
	Company's retention:	$200,000
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $200,000, subject to a limit of liability to the reinsurer of $200,000
	Reinsurance premium:	6.25% of the company's current net premiums written in respect to the business covered Premium deposit: $80,367
5.	Type of contract:	Class C-3 - Third Per Risk Excess of Loss
	Lines reinsured:	All property business written by the company
	Company's retention:	$400,000
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $400,000, subject to a limit of liability to the reinsurer of $200,000
	Reinsurance premium:	1.50% of the company's current net premiums written in respect to the business covered Premium deposit: $19,288
6.	Type of contract:	Class D/E First Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's retention:	75% of net written premium
	Coverage:	100% of the amount by which the aggregate of the company's losses, including loss adjustment expenses, exceed the retention with a limit of 60% of NWP (losses from 75% to 135% of NWP). Estimated attachment point is $1,074,651.
	Reinsurance premium:	6% of the company's current net premiums written in respect to the business covered Premium deposit: $85,972
7.	Type of contract:	Class D/E Second Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's retention:	135% of net written premium

Coverage:	100% of the amount by which the aggregate of the company’s losses, including loss adjustment expenses exceed the retention
Reinsurance premium:	2.50% of the company’s current net premiums written in respect to the business covered Premium deposit: $35,822

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."

Mt. Pleasant-Perry Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2013

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 200	$	$	$ 200
Cash in checking	2,353			2,353
Cash deposited at interest	937,707			737,707
Bonds	538,670			538,670
Stocks and mutual fund investments	1,346,200			1,346,200
Real estate	14,495			14,495
Premiums, agents' balances and installments:				
In course of collection	74,415			74,415
Deferred and not yet due	254,071			254,071
Investment income accrued		6,819		6,819
Reinsurance recoverable on paid losses and LAE	16,899			16,899
Electronic data processing equipment	2,010			2,010
Other expense-related assets:				
Reinsurance commission receivable	15,437			15,437
Other nonexpense-related assets:				
Federal income tax recoverable	14,000			14,000
Furniture and fixtures	9,915		9,915	
Totals	$3,226,372	$6,819	$9,915	$3,223,276

Liabilities and Surplus

Net unpaid losses	$ 148,921
Unpaid loss adjustment expenses	4,300
Commissions payable	43,200
Fire department dues payable	651
Unearned premiums	718,665
Reinsurance payable	122,005
Other liabilities:	
Expense-related:	
Accounts payable	5,657
Deferred compensation payable	42,746
Nonexpense-related:	
Premiums received in advance	24,265
Total liabilities	1,110,410
Policyholders' surplus	2,112,866
Total Liabilities and Surplus	$3,223,276

Mt. Pleasant-Perry Mutual Insurance Company
Statement of Operations
For the Year 2013

Net premiums and assessments earned		$1,065,430
Deduct:		
Net losses incurred	$605,692	
Net loss adjustment expenses incurred	39,602	
Net other underwriting expenses incurred	430,106	
Total losses and expenses incurred		1,075,400
Net underwriting gain (loss)		(9,970)
Net investment income:		
Net investment income earned	12,333	
Net realized capital gains (losses)	(8,682)	
Total investment gain (loss)		3,651
Other income (expense):		
Miscellaneous income		4,646
Net Income (Loss)		$ (1,673)

Mt. Pleasant-Perry 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	$2,088,686	$2,087,360	$2,460,880	$2,344,963	$2,309,182
Net income	(1,673)	190,015	(354,314)	41,738	58,272
Net unrealized capital gain or (loss)	23,336	(178,939)	(18,522)	72,289	(23,081)
Change in nonadmitted assets	2,517	(9,750)	(684)	1,890	590
Surplus, End of Year	$2,112,866	$2,088,686	$2,087,360	$2,460,880	$2,344,963

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. Fidelity Bond and Other Insurance—It is recommended that the company monitor and update, on a regular basis, its fidelity bond coverage for all employees in order to comply with the requirements of s. Ins 13.05 (6), Wis. Adm. Code.

   Action—Compliance.

2. Commissions Payable—It is recommended that the company report its current and future obligations to its agents under agent contracts as Deferred Compensation Payable on line 12 – Other Liabilities on all future financial statements.

   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.

It was noted during review of the board of directors meeting minutes that on December 19, 2011, the directors voted on the agent retirement compensation. Four of the directors are also agents and therefore should have abstained from voting on this matter. It was noted that only one director had abstained. It is recommended that directors who are agents shall abstain from voting on agent compensation.

Biographical data relating to company officers and directors has 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 an apparent conflict being properly disclosed. It was noted that one of the company’s agent-directors is licensed with another insurer to write lines of business not currently offered by Mt. Pleasant-Perry Mutual Insurance Company, allowing policyholders to cover multiple insurance needs through one agent.

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	$ 170,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Professional liability and directors and officers liability	2,000,000

Underwriting

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

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review. However, during review of company policies, it was noted that inspections are not always done every three years, as outlined in the agency manual. It is recommended that the company follow the guidelines of its agency manual and perform timely inspections of insured property every three years.

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, 2013.

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. Auto backups are also produced daily and stored by the company's software vendor.

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 two 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	$1,410,410
2.	Liabilities plus 33% of gross premiums written	1,745,434
3.	Liabilities plus 50% of net premiums written	1,662,289
4.	Amount required (greater of 1, 2, or 3)	1,745,434
5.	Amount of Type 1 investments as of December 31, 2013	1,667,011
6.	Excess or (deficiency)	$ (78,423)

The company did not have sufficient Type 1 investments as of December 31, 2013. It was noted that the company had also been Type 1 deficient as of December 31, 2012, but had made purchases of Type 2 investments during 2013. It is recommended that the company invest in Type 2 assets only if on December 31 of the preceding year its Type 1 assets were an amount at least equal to its Type 1 investment threshold, in accordance with s. Ins 6.20 (6) (c), Wis. Adm. Code.

ASSETS

Cash and Invested Cash **$940,260**

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

Cash in company's office	$ 200
Cash deposited in banks—checking accounts	2,353
Cash deposited in banks at interest	937,707
Total	$940,260

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

Cash deposited in banks represents the aggregate of eight deposits in five depositories. Deposits were verified by direct correspondence with the respective depositories. Interest received during the year 2013 totaled $6,801 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.55% to 0.85%. Accrued interest on cash deposits totaled $740 at year-end.

Book Value of Bonds **$538,670**

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 located in a custodial account.

Bonds were verified by direct confirmation from the custodian. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. Interest received during 2013 on bonds amounted to $6,265 and was traced to cash receipts records. Accrued interest of $6,079 at December 31, 2013, was checked and allowed as a nonledger asset.

During review of the bond portfolio, it was noted that the company held several corporate bonds with variable interest rates as of December 31, 2013. Interest paid by these bonds was based upon various factors such as the current London Interbank Offered Rate (LIBOR) or changes in the Consumer Price Index (CPI). These rates can be subject to wide fluctuation based on changing economic conditions or other circumstances and therefore can result in unpredictable cash flows.

In addition to this, the very small size of the variable rate corporate debt issues raises concerns regarding the existence of a market to trade these securities in the future. Large issues tend to trade more frequently than small issues and investors may have greater awareness about a larger issue because it is widely held and analyzed. An issue size of $250 million represents an approximate lower boundary for a bond issue to attract significant institutional interest when liquidity is a concern. For example, the minimum par amount outstanding for a bond issue's inclusion in the Barclays U.S. Corporate Index is $250 million. The minimum par amount outstanding for a bond issue's inclusion in the Barclays U.S. Floating Rate Note Index is $300 million. It was noted that several of the bonds included in the bond portfolio had issue sizes well below $250 million.

The company began investing in corporate bonds with variable interest rate in 2011. In July of 2013 it changed its investment advisor and discontinued investing in these types of securities. The company's investment policy, however, has not been updated to provide any specific guidelines in regard to investment in variable rate corporate bonds. Investment guidelines that state what types of corporate bonds are acceptable for investment by a town mutual company can prevent the company from accepting inappropriate risks. It is recommended that the board of directors modify its written investment policy to specify, in accordance with the instructions included in this report, acceptable characteristics of the investments in variable rate corporate debt securities and provide this office with a copy of the revised investment policy within 60 days of the adoption of this report. For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:

a. may assume that any U.S. Dollar London Interbank Offered Rate will exceed zero percent; and
b. may invest in a security that specifies some increment of interest in excess of a U.S. Dollar London Interbank Offered Rate of a single specified duration; and

c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and
d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate of a single specified duration, unless such increment is expressed as a percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable).

Stocks and Mutual Fund Investments $1,346,200

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2013. Stocks owned by the company are held by the custodian, Comerica.

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 $19,160 and were traced to cash receipts records.

Book Value of Real Estate $14,495

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2013. The company's real estate holdings consisted of the home office building.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Premiums, Agents' Balances in Course of Collection **$74,415**

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 **$254,071**

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 **$6,819**

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

Cash at interest	$ 740
Bonds	6,079
Total	$6,819

Reinsurance Recoverable on Paid Losses and LAE **$16,899**

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, 2013. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$2,010**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2013. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Reinsurance Contingent Commission Receivable **$15,437**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2013, based on the profitability of the business ceded under its contract with Wisconsin Reinsurance Corporation. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Federal Income Tax Recoverable **$14,000**

The above balance represents the overpayment of taxes for the 2013 tax year, which the company expects to receive upon filing its 2013 tax returns.

Furniture and Fixtures **$0**

This asset consists of $9,915 of office furniture and equipment owned by the company at December 31, 2013. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$148,921**

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. To the actual paid loss figure was added an estimated amount for 2013 and prior losses remaining unpaid at the time of the examination. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$357,796	$315,518	$42,278
Less: Reinsurance recoverable on unpaid losses	208,875	205,647	3,228
Net Unpaid Losses	$148,921	$109,871	$39,050

The above difference of $39,050 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 **$4,300**

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 an estimate based on a review of open claims.

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 **$43,200**

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 **$651**

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. The actual amount paid was verified to the cash disbursement records.

Unearned Premiums **$718,665**

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 **$122,005**

This liability consists of amounts due to the company's reinsurer at December 31, 2013, relating to transactions which occurred on or prior to that date.

Accounts Payable **$5,657**

This liability includes estimates for bills that were received but not paid at year-end. This account includes items such as utilities, employee paid time off accrual, and CPA fees.

Deferred Compensation Payable **$42,746**

This liability is an accrual for amounts due to agents upon retirement. Agents are entitled to retirement payments based on how long they have been with the company, as well as an additional commission paid annually for three years after retirement. The additional commission is calculated as 3% of the commissions the agent had received in their final

12 months writing for the company. This amount is reduced if commissions on this book of business decrease due to nonrenewals.

Additionally, several agents are still due to receive payments from a retirement plan that was discontinued in 2004. This retirement plan entitled all agents to receive a retirement bonus equal to 130% of all commissions received in their final 12 months before retirement. Because the plan was discontinued in 2004, the deferred payment is now based upon commissions received in the 12 months prior to June 2004. This is the largest component of the Deferred Compensation Payable amount, which means this payable will continue to decrease substantially as the agents subject to this agreement retire. As of December 31, 2013, three agents still have amounts due from this retirement plan.

Premiums Received in Advance **$24,265**

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

Mt. Pleasant-Perry Mutual Insurance Company is a town mutual insurer with an authorized territory of ten counties. The company has been in business since 1876, providing property and liability insurance to its policyholders.

During the period under examination, the company's admitted assets have decreased by 6% and surplus has decreased by 9%. Net premium written increased 14%, even with a decline in the amount of policies written. The company has generally produced positive net income during this period.

The examination did not result in any changes to surplus. The company has complied with all recommendations from the previous examination report. The current examination resulted in four recommendations as summarized in the following section.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Corporate Records—It is recommended that directors who are agents shall abstain from voting on agent compensation.

2. Page 16 - Underwriting—It is recommended that the company follow the guidelines of its agency manual and perform timely inspections of insured property every three years.

3. Page 18 - Investment Rule Compliance—It is recommended that the company invest in Type 2 assets only if on December 31 of the preceding year its Type 1 assets were an amount at least equal to its Type 1 investment threshold, in accordance with s. Ins 6.20 (6) (c), Wis. Adm. Code.

4. Page 20 - Book Value of Bonds—It is recommended that the board of directors modify its written investment policy to specify, in accordance with the instructions included in this report, acceptable characteristics of the investments in variable rate corporate debt securities and provide this office with a copy of the revised investment policy within 60 days of the adoption of this report. For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:

   a. may assume that any U.S. Dollar London Interbank Offered Rate will exceed zero percent; and
   b. may invest in a security that specifies some increment of interest in excess of a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
   c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and
   d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate of a single specified duration, unless such increment is expressed as a percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while the 3 month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable).

VII. ACKNOWLEDGMENT

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

In addition to the undersigned, James Vanden Branden of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination.

Respectfully submitted,

Dan Schroeder
Examiner-in-Charge