

Report
of the
Examination of
Washington Town Mutual Insurance Company
Washington Island, Wisconsin
As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
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September 21, 2012

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, an examination has been performed as of
December 31, 2011, of the affairs and financial condition of:

WASHINGTON TOWN MUTUAL INSURANCE COMPANY
Washington Island, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Washington Town Mutual Insurance Company (the company) was made in 2007 as of December 31, 2006. The current examination covered the intervening time period ending December 31, 2011, and included a review of such subsequent transactions deemed essential to complete this examination.

The "Summary of Examination Results" contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was organized as a town mutual insurance company on April 1889, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Mutual Home Fire Insurance Association of the Town of Washington, Door County. 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 Door County.

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year with premiums payable on the advance premium basis. Quarterly and semiannual installments are allowed. The company does not charge any other fees to policyholders.

Business of the company is acquired through one agent, who is a director and the Treasurer and Manager of the company. The agent is presently compensated for services on an hourly basis as part of her Manager and agent duties, in addition to her annual wage and inspection and adjuster's fee.

All members of the board of directors are appointed as loss adjusters for the company. Directors are compensated \$50 for each loss adjusted.

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 six 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
Ivan Johnson	Construction/Electrician	Washington Island, WI	2013
Thomas Koyen	Construction and Farming	Washington Island, WI	2012
Marlene Mann	Co-owner of Mann's Grocery Store	Washington Island, WI	2013
Marjorie Bjarnarson *	Manager, Insurance Agent	Washington Island, WI	2012
Bill Jorgenson	Washington Island Ferryline captain	Washington Island, WI	2014
Wayne Boshka	Retired	Washington Island, WI	2014

Directors who are also agents are identified with an asterisk.

Members of the board currently receive \$25 for each meeting attended. Directors are also compensated \$250 annually.

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
Ivan Johnson	President	\$ 300
Thomas Koyen	Vice President	200
Marlene Mann	Secretary	200
Marjorie Bjarnarson	Treasurer and Manager	42,100

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The president appoints the entire board of directors as loss adjusters and property inspectors. Also, the directors, except the Treasurer/Manager, were appointed as the wage committee.

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	\$90,228	459	\$ 4,630	\$1,988,063	\$1,894,514
2010	91,240	450	26,936	1,973,024	1,888,577
2009	90,643	452	38,094	1,934,088	1,846,979
2008	74,268	453	31,191	1,881,790	1,797,608
2007	98,002	467	82,562	1,857,053	1,790,384
2006	78,530	468	42,833	1,801,118	1,725,646

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 Net	Ratios Gross
2011	\$190,923	\$93,058	\$1,894,514	5%	10%
2010	185,492	90,155	1,888,577	5	10
2009	179,335	91,129	1,846,979	5	10
2008	178,227	92,618	1,797,608	5	10
2007	181,565	94,594	1,790,384	5	10
2006	179,001	77,033	1,725,646	4	10

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	Composite Ratio
2011	\$30,265	\$89,286	\$90,228	34%	96%	129%
2010	11,874	86,543	91,240	13	96	109
2009	16,387	85,346	90,643	18	94	112
2008	16,051	85,975	74,268	22	93	114
2007	24,167	80,188	98,002	25	85	109
2006	32,365	75,510	78,530	41	98	139

The company has shown steady premium growth over the past five years with a slight decrease in policies in force. The writings ratios are lower than the industry average. This can be attributed to the company limiting its premium writings exclusively to Washington Island and nearby Detroit Island, considering the cost of traveling to and from Washington Island. The expense ratio is higher than the industry average due to its island location and because of the relatively small premium volume. The company's loss ratio is lower than the town mutual industry

average, which appears to stem from proper underwriting, the company knowing its policyholders, and a limited amount of losses.

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, 2012
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:

- | | |
|----------------------|---|
| Type of contract: | Class A Casualty Excess of Loss |
| Lines reinsured: | All business written classified as casualty or liability business |
| Company's retention: | \$1,000 |
| Coverage: | 100% of each and every loss, including loss adjustment expenses, 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: | 81% of premium written |
- | | |
|----------------------|--|
| Type of contract: | Class B First Surplus |
| Lines reinsured: | All property business |
| Company's retention: | When the company's net retention is \$200,000 or more in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall be obligated to accept up to \$800,000. When the company's net retention is \$200,000 or less in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall be obligated to accept up to 50% of such risk. |
| Coverage: | Pro rata portion of each and every loss, including loss adjustment expenses, corresponding to the amount of the risk ceded |

- 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: 15% of premium paid
Profit commission: 15% of net profit
3. Type of contract: Class C-1 Excess of Loss First Layer
- Lines reinsured: All property business
- Company's retention: \$20,000 for each and every risk resulting from one loss occurrence
- Coverage: 100% of any loss, including loss adjustment expenses, in excess of \$20,000 up to a maximum of \$55,000 in respect to each and every loss occurrence
- Reinsurance premium: Net premium written multiplied by the sum of four years' losses incurred divided by the total net premiums written for the same period multiplied by a factor of 100/80ths
- Minimum Rate = 6%
Maximum Rate = 20%
Annual Deposit Premium = \$6,204
4. Type of contract: Class C-2 Second Excess of Loss
- Lines reinsured: All property business
- Company's retention: \$75,000 for each and every loss occurrence
- Coverage: 100% of any loss, including loss adjustment expenses, in excess of \$75,000 for each and every risk resulting from one loss occurrence up to a maximum of \$125,000 in respect to each and every loss occurrence
- Reinsurance premium: 5% of net premiums written, subject to an annual deposit premium of \$5,170
5. Type of contract: Class D/E Stop Loss - First layer
- Lines reinsured: All property business
- Company's retention: 100% of net premium written
- Coverage: 100% of net losses, including loss adjustment expenses, in excess of 100% of net premium written up to 60% of net premium written
- Reinsurance premium: 6.50% of net premiums written
6. Type of contract: Class D/E Stop Loss – Second Layer
- Lines reinsured: All property business

Company's retention:	160% of net premium written.
Coverage:	100% of the amount by which the aggregate of the company's net losses, including loss adjustment expenses, exceed the 160% of net premium written
Reinsurance premium:	2.50% of net premiums written

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."

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

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in checking	\$ 15,566	\$	\$	\$ 15,566
Cash deposited at interest	1,166,195			1,166,195
Stocks and mutual fund investments	121,309			121,309
Mortgage loans on real estate	655,874			655,874
Real estate	15,166			15,166
Premiums, agents' balances and installments:				
In course of collection	6,540			6,540
Deferred and not yet due	4,501			4,501
Investment income accrued	<u>0</u>	<u>2,912</u>	<u>0</u>	<u>2,912</u>
Totals	<u>\$1,985,151</u>	<u>\$2,912</u>	<u>\$0</u>	<u>\$1,988,063</u>

Liabilities and Surplus

Net unpaid losses	\$ 2,250
Unpaid loss adjustment expenses	100
Fire department dues payable	111
Unearned premiums	77,504
Reinsurance payable	1,491
Amounts withheld for the account of others	2,597
Payroll taxes payable (employer's portion)	757
Other liabilities:	
Expense related:	
Accounts payable	3,363
Nonexpense related:	
Premiums received in advance	<u>5,376</u>
Total liabilities	93,549
Policyholders' surplus	<u>1,894,514</u>
Total Liabilities and Surplus	<u>\$1,988,063</u>

Washington Town Mutual Insurance Company
Statement of Operations
For the Year 2011

Net premiums and assessments earned		\$ 90,228
Deduct:		
Net losses incurred	\$17,779	
Net loss adjustment expenses incurred	12,486	
Net other underwriting expenses incurred	<u>89,286</u>	
Total losses and expenses incurred		<u>119,551</u>
Net underwriting gain (loss)		(29,323)
Net investment income:		
Net investment income earned		33,953
Net income (loss) before federal income taxes		<u>4,630</u>
Net Income (Loss)		<u>\$ 4,630</u>

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

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2011	2010	2009	2008	2007
Surplus, beginning of year	\$1,888,577	\$1,846,979	\$1,797,608	\$1,790,384	\$1,725,646
Net income	4,630	26,936	38,094	31,191	82,562
Net unrealized capital gain or (loss)	(3,088)	10,269	6,884	(28,360)	(250)
Change in nonadmitted assets	<u>4,395</u>	<u>4,393</u>	<u>4,393</u>	<u>4,393</u>	<u>(17,574)</u>
Surplus, End of Year	<u>\$1,894,514</u>	<u>\$1,888,577</u>	<u>\$1,846,979</u>	<u>\$1,797,608</u>	<u>\$1,790,384</u>

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2011, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Mortgage Loans on Real Estate—It is recommended that the company correctly report all data as it relates to mortgage loans in its annual statement filing.

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 not executed formal written agreements with its agents. The company's only agent is a director and the Treasurer/Manager of the company and is not paid a commission.

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	\$ 100,000
Professional liability	2,000,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Commercial general liability	
General aggregate	2,000,000
Each occurrence	1,000,000
Medical expense	5,000
Property	
Office building	166,700
Personal property	40,000

Underwriting

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

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review.

Claims Adjusting

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained.
2. A proper cash receipts journal is maintained.
3. A proper cash disbursements journal is maintained.
4. A proper general journal is maintained.
5. A proper general ledger is maintained.

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2011.

The company is not audited annually by an outside public accounting firm. The company is exempt from the audit requirement of ch. Ins 50, Wis. Adm. Code, due to the small premium volume.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computer is limited to people authorized to use the computer. Company personnel maintain an off-site monthly back up of the computers. In addition, an on-site weekly or bi-weekly back up is also performed.

The company has manuals documenting the use of its software and outlining the steps to complete specific tasks. The manuals assist in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs. The examination determined that the level of documentation contained in the manuals was reasonable.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

The investment rule for town mutual insurers allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$ 393,549
2. Liabilities plus 33% of gross premiums written	156,554
3. Liabilities plus 50% of net premiums written	140,078
4. Amount required (greater of 1, 2, or 3)	393,549
5. Amount of Type 1 investments as of 12/31/2011	<u>1,181,761</u>
6. Excess or (deficiency)	<u>\$ 788,212</u>

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **\$1,181,761**

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

Cash deposited in banks—checking accounts	\$ 15,566
Cash deposited in banks at interest	<u>1,166,195</u>
Total	<u>\$1,181,761</u>

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 depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 15 deposits in 13 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 \$13,073 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.8% to 2.0%. Accrued interest on cash deposits totaled \$647 at year-end.

Stocks and Mutual Fund Investments **\$121,309**

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 located in company safety deposit box.

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 \$1,884 and were traced to cash receipts records. Accrued dividends of \$1,884 at December 31, 2011, were checked and allowed as a nonledger asset.

Mortgage Loans on Real Estate**\$655,874**

The company's investment in mortgage loans on real estate consisted of nine loans having aggregate unpaid balances totaling \$655,874 as of December 31, 2011. Investments in mortgage loans were within the limitations prescribed by the Wisconsin Statutes and the rules of the Commissioner of Insurance. The mortgage loans outstanding at year-end had interest rates of 6%.

Required legal records and documents were reviewed for all loans made during the examination period. Mortgage loan records contained recent appraisals on properties securing loans. Records containing evidence that adequate hazard insurance was maintained on mortgaged property and that current property taxes had been paid were reviewed by the examiners. All loans are made to policyholders with terms not exceeding 20 years. Additionally, the company has to be the first mortgagee on the property. Section Ins 6.20 (6) (d) 7., Wis. Adm. Code, requires that a town mutual may not issue a mortgage loan more than 2/3 of the market value of the property. In addition, the Office of the Commissioner of Insurance has requested that the company not have more than 50% of its assets in mortgage loans. Mortgage payments are reviewed each month at board meetings along with interest and remaining principal of each loan. The company is in compliance with s. Ins 6.20 (6) (d) 7., Wis. Adm. Code, and the 50% limitation. The examination did determine that two of the nine mortgage loans had delinquent taxes; one for 2010 and one for 2011. To avoid the possibility of the property being seized by the government, the company should have procedures in place to assure the timeliness of tax payments. It is recommended that the company have procedures in place to assure the timeliness of tax payments for properties for which they hold mortgages.

During the current year, interest received amounted to \$33,884 and interest due and accrued at year-end totaled \$2,265.

Book Value of Real Estate**\$15,166**

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, building, and improvements. The local preschool uses the basement of the office building for its

activities for an annual fee of \$1. There is a written lease agreement with the preschool. The preschool carries, at its expense, liability and fire and contents insurance with the town mutual listed as an additional insured.

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 \$6,540

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 \$4,501

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 \$2,912

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

Cash deposited at interest	\$ 647
Mortgage loans on real estate	<u>2,265</u>
Total	<u>\$2,912</u>

LIABILITIES AND SURPLUS

Net Unpaid Losses **\$2,250**

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	\$46,250	\$30,886	\$15,364
Less: Reinsurance recoverable on unpaid losses	<u>44,000</u>	<u>29,886</u>	<u>14,114</u>
Net Unpaid Losses	<u>\$ 2,250</u>	<u>\$ 1,000</u>	<u>\$ 1,250</u>

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 **\$100**

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 10% of open case reserves subject to a minimum IBNR reserve. The examination accepted the company's estimate of unpaid loss adjustment expenses.

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.

Fire Department Dues Payable **\$111**

This liability represents the fire department dues payable to the state of Wisconsin as of December 31, 2011.

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 **\$77,504**

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 **\$1,491**

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

Amounts Withheld for the Account of Others **\$2,597**

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

Payroll Taxes Payable **\$757**

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

Accounts Payable **\$3,363**

This liability represents the company's estimate for unpaid general expenses at December 31, 2011. Supporting records and subsequent cash disbursements verified items and that the liability was reasonable.

Premiums Received in Advance**\$5,376**

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

Washington Town Mutual Insurance Company is a unique company in that it writes only on Washington Island and nearby Detroit Island. The company has shown consistent increases in admitted assets and surplus over the five years since the last examination with surplus increasing 9.8%. Policies in force decreased 2% over the past five years.

The loss ratio has historically been low, averaging 25% during the examination period. The company's low loss ratio is the result of the company's low claim volume stemming from its conservative underwriting practices and knowledge of the policyholder.

This examination resulted in one recommendation regarding timeliness of tax payments for properties for which they hold mortgages. The examination also determined that the company has complied with all prior recommendation.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Mortgage Loans on Real Estate—It is recommended that the company have procedures in place to assure the timeliness of tax payments for properties for which they hold mortgages.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Satinderjit Basra
Examiner-in-Charge