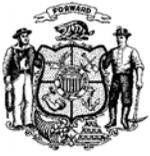


Report  
of the  
Examination of  
Ashland County Town Insurance Company  
Butternut, Wisconsin  
As of December 31, 2011

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

**Wisconsin.gov**

May 4, 2012

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Honorable Theodore K. Nickel  
Commissioner of Insurance  
State of Wisconsin  
125 South Webster Street  
Madison, Wisconsin 53703

Commissioner:

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

ASHLAND COUNTY TOWN INSURANCE COMPANY  
Butternut, Wisconsin

and the following report thereon is respectfully submitted:

## I. INTRODUCTION

The previous examination of Ashland County Town 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 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, limited mainly to tax return and annual statement preparation. On November 23, 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 originally organized as a town mutual insurance company on August 17, 1901, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Farmers' Town Mutual Fire Insurance Company of Ashland and Price Counties. 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 either the articles of incorporation or 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:

Ashland	Bayfield
Douglas	Iron
Price	Sawyer

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of three years with premiums payable on the advance premium basis in annual, semiannual or quarterly payment methods. The company also charges a policy fee of \$20.00 plus an installment fee for all policies not paid on an annual basis.

Business of the company is acquired through 39 agents, two of whom are directors of the company. Agents are presently compensated for their services as follows:

<b>Type of Policy</b>	<b>Compensation</b>
New business	15%
Renewal business	10%

Agents have no authority to adjust losses. Members of the adjusting committee review losses. Adjusters receive \$15.00 per hour, plus mileage at the federal government rate for travel allowance. Adjusters are also compensated for meals, the taking of photographs and any other necessary expenses incurred.

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:

<b>Name</b>	<b>Principal Occupation</b>	<b>Residence</b>	<b>Expiry</b>
Hans Brendalen	Retired	Glidden, Wisconsin	2014
Dale Berweger	Retired	Ashland, Wisconsin	2013
John Bruch	School Bus Driver/Farmer	Butternut, Wisconsin	2015
Max Bruch*	Retired	Butternut, Wisconsin	2013
Timothy Kennedy	Retired School Teacher	Butternut, Wisconsin	2014
Gerald Richardson	Farmer	Ashland, Wisconsin	2015
Randy Richardson	Farmer	Ashland, Wisconsin	2015
Linda Smart*	Secretary/Treasurer/ Company Manager	Butternut, Wisconsin	2014

There is currently one opening on the board of directors. Directors who are also agents are identified with an asterisk.

Members of the board currently receive \$75.00 for each meeting attended less than four hours and \$85.00 for each meeting over four hours plus the federal government rate for mileage 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:

<b>Name</b>	<b>Office</b>	<b>2011 Compensation</b>
Max Bruch	President	\$ 3,200
Gerald Richardson	Vice President	974
Linda Smart	Secretary-Treasurer/Office Manager	39,122

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

**Committees of the Board**

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

**Adjusting and Inspecting Committee**

Dale Berweger  
Gerald Richardson  
Randy Richardson

**Investment Committee**

Max Bruch  
Linda Smart

## 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	\$211,515	870	\$ 45,270	\$1,234,329	\$1,055,079
2010	210,655	936	(7,403)	1,232,503	1,011,538
2009	239,794	969	116,179	1,205,979	1,005,628
2008	285,103	1,025	140,684	1,130,058	915,387
2007	342,225	1,137	161,095	1,058,911	763,117
2006	314,610	1,312	138,338	888,971	583,272

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	\$375,777	\$192,271	\$1,055,079	18%	36%
2010	400,125	212,508	1,011,538	21	40
2009	411,288	219,928	1,005,628	22	41
2008	445,426	264,938	915,387	29	49
2007	503,532	330,096	763,117	43	66
2006	568,043	331,043	583,272	57	97

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	\$ 68,941	\$120,288	\$211,515	33%	63%	95%
2010	126,400	121,269	210,655	60	57	117
2009	37,819	119,420	239,794	16	54	70
2008	64,125	119,263	285,103	22	45	68
2007	94,071	134,954	342,225	27	41	68
2006	93,754	129,021	314,610	30	39	69

The company reported a net income in four of the five years under examination.

During the period under examination, the company's admitted assets increased by 39%, net premiums written decreased by 42%, policies in force decreased by 34%, and surplus increased by 81%. The increase in admitted assets and surplus was due to the combination of positive investment results and the overall underwriting profitability of the company since the previous

examination. The decrease of policies in force and net premiums written was a result of the nonrenewal of poor quality risks and a competitive insurance market.

## 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 as of January 1 <sup>st</sup> by giving at least 90 days' written notice to the other party

The coverages provided under this treaty are summarized as follows:

- |                      |  |
|----------------------|--|
| Type of contract:    | Class AX1 Casualty Excess of Loss  |
| Lines reinsured:     | All casualty or liability business   |
| Company's retention: | \$1,000 each and every loss occurrence   |
| Coverage:            | 100% of each and every loss occurrence, including loss adjustment expense, in excess of the company's retention subject to the maximum policy limits of: <ol style="list-style-type: none"><li>\$1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability</li><li>\$1,000,000 split limits, in any combination of bodily injury and property damage liability</li><li>\$25,000 for medical payments, per person; \$25,000 per accident</li></ol> |
| Reinsurance premium: | 62.50% of premium written<br>Annual deposit premium = \$40,625   |
- |                      |  |
|----------------------|--|
| Type of contract:    | Class B First Surplus  |
| Lines reinsured:     | All property business  |
| Company's retention: | \$100,000 for each occurrence  |
| Coverage:            | If net retention is \$100,000 or more on a risk, the company may cede on a pro rata basis, and the reinsurer is obligated to accept up to \$800,000. If net retention is \$100,000 or less on a risk, the company may cede on a pro rata basis, and the reinsurer is obligated to accept up to 50% of such risk. |

- 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 rate: 15% of the premium paid  
Profit commission: 15% of the net profit
3. Type of contract: Class C-1 First Layer of Excess of Loss
- Lines reinsured: All property business
- Company's retention: \$25,000 per loss per occurrence
- Coverage: \$75,000 excess of retention
- Reinsurance premium: The rate in effect shall be determined by taking the sum of the four years' losses incurred by the reinsurer divided by the total of the net premiums written for the same period, multiplied by the factor 100/80ths. Current rate is 20.00%.
- Minimum rate = 6.00%  
Maximum rate = 25.00%  
Annual deposit premium = \$53,901
4. Type of contract: Class DE-1 First Aggregate Excess of Loss Reinsurance
- Lines reinsured: All business written by the company
- Company's retention: 70% of net premium written
- Coverage: 65% of annual aggregate losses, including loss adjustment expenses, exceeding 100% of net premium written and in excess of the company's retention
- Reinsurance premium: The rate for each annual period shall be determined by multiplying the rate by the company's net written premium. The current rate is 5.50%.
- Minimum rate = 5.50%  
Maximum rate = 15.0%  
Annual deposit premium = \$16,163  
Estimated attachment point = \$205,715
5. Type of contract: Class DE-2 Second Aggregate Excess of Loss Reinsurance
- Lines reinsured: All business written by the company
- Company's retention: 70% of net premium written
- Coverage: 100% of annual aggregate losses, including loss adjustment expenses, exceeding 135% of net premium written and in excess of the company's retention

Reinsurance premium:

The rate for each annual period shall be determined by multiplying the rate by the company's net written premium. The current rate is 2.00%.

Rate = 2.00%

Annual deposit premium = \$5,878

Attachment point = 135.00%

### **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."

**Ashland County Town Insurance Company  
Statement of Assets and Liabilities  
As of December 31, 2011**

<b>Assets</b>	<b>Ledger</b>	<b>Nonledger</b>	<b>Not Admitted</b>	<b>Net Admitted</b>
Cash on hand	\$ 78	\$	\$	\$ 78
Cash in checking	117,667			117,667
Cash deposited at interest	652,267			652,267
Bonds	32,287			32,287
Stocks and mutual fund investments	314,358			314,358
Real estate	55,566			55,566
Premiums, agents' balances and installments:				
In course of collection	896			896
Deferred and not yet due	57,390			57,390
Investment income accrued		1,187		1,187
Reinsurance recoverable on paid losses and LAE	359			359
Fire dues recoverable	287			287
Other expense-related assets:				
Reinsurance commission receivable	1,038			1,038
Other nonexpense-related assets:				
Federal income tax recoverable	949			949
Furniture and fixtures	<u>190</u>	<u>          </u>	<u>190</u>	<u>          </u>
Totals	<u>\$1,233,332</u>	<u>\$1,187</u>	<u>\$190</u>	<u>\$1,234,329</u>

**Liabilities and Surplus**

Net unpaid losses	\$ 10,345
Unpaid loss adjustment expenses	100
Unearned premiums	159,059
Reinsurance payable	2,228
Amounts withheld for the account of others	1,044
Payroll taxes payable (employer's portion)	604
Other liabilities:	
Expense-related:	
Accounts payable	444
Accrued property tax	857
Pension payable	125
Nonexpense-related:	
Premiums received in advance	<u>4,444</u>
Total liabilities	179,250
Policyholders' surplus	<u>1,055,079</u>
Total Liabilities and Surplus	<u>\$1,234,329</u>

**Ashland County Town Insurance Company  
Statement of Operations  
For the Year 2011**

Net premiums and assessments earned		\$211,515
Deduct:		
Net losses incurred	\$ 58,271	
Net loss adjustment expenses incurred	10,670	
Net other underwriting expenses incurred	<u>120,288</u>	
Total losses and expenses incurred		<u>189,229</u>
Net underwriting gain (loss)		22,286
Net investment income:		766
Other income (expense):		
Service income	<u>23,269</u>	
Total other income		<u>23,269</u>
Net income (loss) before federal income taxes		46,321
Federal income taxes incurred		<u>1,051</u>
Net Income (Loss)		<u>\$ 45,270</u>

**Ashland County Town 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	\$1,011,538	\$1,005,628	\$ 915,387	\$763,117	\$583,272
Net income	45,270	(7,403)	116,179	140,684	161,095
Net unrealized capital gain or (loss)	(2,108)	12,933	(26,318)	11,206	18,370
Change in nonadmitted assets	<u>379</u>	<u>380</u>	<u>380</u>	<u>380</u>	<u>380</u>
Surplus, End of Year	<u>\$1,055,079</u>	<u>\$1,011,538</u>	<u>\$1,005,628</u>	<u>\$915,387</u>	<u>\$763,117</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. Stocks and Mutual Fund Investments—It is again recommended that the company divest itself of any investment that does not comply with s. Ins 6.20 (6) (b), Wis. Adm. Code.

Action—Compliance.

2. Premiums Received in Advance—It is again recommended that the company not include payments received for the policies on the multiple payment plans in the advance premium balance reported on the annual statement.

Action—Non-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 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 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:

<b>Type of Coverage</b>	<b>Coverage Limits</b>
Fidelity bond	\$ 100,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Combined professional and directors and officers liability	
Deductible	5,000
Each claim	1,000,000
In aggregate	1,000,000
Business owners	
Liability coverages:	
Commercial liability	1,000,000
Aggregate limit	2,000,000
Medical payments	5,000
Fire legal liability	100,000
Property coverages:	
Building coverage	104,000
Business personal property	44,200
Equipment breakdown	148,200
Other coverages:	
Outside signs	20,000
Employee dishonesty	20,000
Accounts receivable coverage	20,000
Valuable papers and records coverage	20,000
Water damage coverage	2,500
Spoilage coverage	20,000
Money and securities – inside premises	5,000
Money and securities – outside premises	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 has a formal inspection procedure for both new and renewal business. All new applications and renewal business are 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.

All outstanding uncashed checks over five years old are required to be filed on an Unclaimed Property Report and are to be turned over to the state of Wisconsin as required by ch. 177, Wis. Stat., and the company is to maintain copies of these filings. The company has not made these filings since 2008 and there are outstanding checks dating back to 2004. It is recommended that the company file Unclaimed Property Reports as required by ch. 177, Wis. Stat., and maintain copies of these filings.

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 weekly 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. 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	\$479,250
2. Liabilities plus 33% of gross premiums written	424,006
3. Liabilities plus 50% of net premiums written	396,136
4. Amount required (greater of 1, 2, or 3)	479,250
5. Amount of Type 1 investments as of 12/31/2011	<u>933,617</u>
6. Excess or (deficiency)	<u>\$454,367</u>

The company has sufficient Type 1 investments.

**ASSETS**

**Cash and Invested Cash** **\$770,012**

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

Cash in company's office	\$ 78
Cash deposited in banks—checking accounts	117,667
Cash deposited in banks at interest	<u>652,267</u>
Total	<u>\$770,012</u>

Cash in the 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 balance 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 31 deposits in 5 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 \$6,278 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.500% to 1.950%. Accrued interest on cash deposits totaled \$602 at year-end.

**Book Value of Bonds** **\$32,287**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2011. Bonds owned by the company are located at the company in a fireproof cabinet.

Bonds were physically inspected by the examiners. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2011 on bonds amounted to \$2,252 and was traced to cash receipts records. Accrued interest of \$585 at December 31, 2011, was checked and allowed as a nonledger asset.

**Stocks and Mutual Fund Investments** **\$314,358**

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 at the company in a fireproof cabinet.

Stock certificates were physically examined by the examiners. 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 \$1,765 and were traced to cash receipts records.

**Book Value of Real Estate** **\$55,566**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2011. The company's real estate holdings consisted of its home office 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** **\$896**

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** **\$57,390**

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** **\$1,187**

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

Cash deposited at interest	\$ 602
Bonds	<u>585</u>
Total	<u>\$1,187</u>

**Reinsurance Recoverable on Paid Losses and LAE** **\$359**

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2011. A review of year-end accountings with the reinsurer verified the above asset.

**Fire Dues Recoverable** **\$287**

This asset represents the amount overpaid to the state of Wisconsin for 2011 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

**Reinsurance Commission Receivable** **\$1,038**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2011, 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** **\$949**

This asset represents the balance recoverable at year-end for federal income taxes incurred prior to December 31, 2011. The examiners reviewed the company's 2011 tax return and verified amounts paid to cash receipt records to verify the accuracy of this asset.

**Furniture and Fixtures****\$0**

This asset consists of \$190 of office equipment owned by the company at December 31, 2011. 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** **\$10,345**

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.

	<b>Company Estimate</b>	<b>Examiners' Development</b>	<b>Difference</b>
Incurred but unpaid losses	\$53,400	\$53,400	\$0
Less: Reinsurance recoverable on unpaid losses	<u>43,055</u>	<u>43,055</u>	<u>0</u>
Net Unpaid Losses	<u>\$10,345</u>	<u>\$10,345</u>	<u>\$0</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 an estimate based on an average of prior year's payments 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.

**Unearned Premiums****\$159,059**

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 the statutory methodology of 50% of net premium in force. The examiners reviewed the company's calculation of this liability and determined it to be adequately stated.

**Reinsurance Payable****\$2,228**

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.

The following is the reinsurance payable balance at year-end.

Class A Casualty Excess of Loss	\$ (897)
Class B First Surplus	6,918
Class C Excess of Loss	(2,611)
Class D-1 Stop Loss	(864)
Class D-2 Stop Loss	<u>(318)</u>
Total	<u>\$ 2,228</u>

**Amounts Withheld for the Account of Others****\$1,044**

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****\$604**

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****\$444**

This liability consists of amounts due to creditors for office and miscellaneous expenses as of December 31, 2011. Supporting records and subsequent cash disbursements verified this item.

**Accrued Property Taxes****\$857**

This liability consists of amounts due for property taxes to the village where the company's office is located. Supporting records and subsequent cash disbursements verified this item.

**Pension Payable****\$125**

This liability represents the amounts due for the employee's savings incentive plan, a SIMPLE 401(k) plan, as of December 31, 2011, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

**Premiums Received in Advance****\$4,444**

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. The company included premium received in advance for policy installment payments. These premium receipts are already accounted for in the unearned premium calculation and are double counted by including them here. The amount of the misstatement was immaterial. However, it is again recommended that the company not include payments received for the policies on the multiple payment plans in the advance premium balance reported on the annual statement.

## **V. CONCLUSION**

Ashland County Town Insurance Company is a town mutual insurer with an authorized territory of six counties. The company has been in business over 111 years providing property and liability insurance to its policyholders.

The company reported a net income in four of the five years under examination. During the period under examination, the company's admitted assets increased by 39%, net premiums written decreased by 42%, policies in force decreased by 34%, and surplus increased by 81%. The increase in admitted assets and surplus was due to the combination of positive investment results and the overall underwriting profitability of the company since the previous exam. The decrease of policies in force and net premiums written was a result of the nonrenewal of poor quality risks and a competitive insurance market.

The examination did not result in any changes to surplus. The company only complied with one of the two recommendations from the previous examination report, resulting in a repeat recommendation. The current examination resulted in two recommendations as summarized in the following section.

## VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - Unclaimed Property—It is recommended that the company file Unclaimed Property Reports as required by ch. 177, Wis. Stat., and maintain copies of these filings.
2. Page 26 - Premiums Received in Advance—It is again recommended that the company not include payments received for the policies on the multiple payment plans in the advance premium balance reported on the annual statement.

## **VII. ACKNOWLEDGMENT**

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

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

Respectfully submitted,

Terry Lorenz  
Examiner-in-Charge