

Report
of the
Examination of
Farmers Town Mutual Insurance Company
Wilton, Wisconsin
As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

October 10, 2011

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

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, 2010, of the affairs and financial condition of:

FARMERS TOWN MUTUAL INSURANCE COMPANY
Wilton, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Farmers Town Mutual Insurance Company (the company) was made in 2006 as of December 31, 2005. The current examination covered the intervening time period ending December 31, 2010, 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 assistance with complex transactions including accounting for income taxes and compilation of the annual statement. 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 September 13, 1909, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the German Farmers Mutual 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 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:

Jackson	Monroe
Juneau	Vernon
La Crosse	

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 two years for property coverage and one year for liability coverage with premiums payable on the advance premium basis. The company also charges a policy fee equal to \$2.00 for each policy paid on an installment basis.

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

Type of Policy	Compensation
New property policies	15%
Renewals as collected	10

Agents do not have authority to adjust losses. All losses are reviewed by the board of directors. Adjusters receive \$35.00 for each loss adjusted plus \$0.50 per mile for travel allowance. Adjusters receive an additional \$10.00 per hour when more time than typical is required to adjust a claim.

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
Dale Donskey*	Farmer	Norwalk, Wisconsin	2014
Joe Flock	Retired	Cashton, Wisconsin	2012
Lynn Miller*	Office Assistant	Kendall, Wisconsin	2014
Howard Pingel	Retired	Tomah, Wisconsin	2013
Robert Radke	Farmer	Norwalk, Wisconsin	2012
Jeffrey Schmitz	Farmer	Norwalk, Wisconsin	2012
Pete Schmitz*	Retired	Norwalk, Wisconsin	2013
Darlene Wedemeier*	Retired	Camp Douglas, Wisconsin	2014
Simon Wells	Bus Driver	Sparta, Wisconsin	2013

Directors who are also agents are identified with an asterisk.

Members of the board currently receive \$65.00 for each meeting attended and \$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	2010 Compensation
Dale Donskey	President	\$ 7,560
Jeffrey Schmitz	Vice-President	0
Darlene Wedemeier	Secretary/Treasurer	30,382

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 Committee

Dale Donskey, Chair
Joe Flock
Howard Pingel
Robert Radke
Jeff Schmitz
Simon Wells

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
2010	\$237,441	705	\$(53,400)	\$2,097,206	\$1,815,803
2009	257,698	702	65,665	2,116,983	1,861,136
2008	247,066	709	(3,308)	2,068,555	1,815,289
2007	232,613	713	68,820	2,057,661	1,810,226
2006	231,784	721	(38,808)	2,018,439	1,728,368
2005	204,927	719	84,623	1,995,556	1,755,646

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
2010	\$564,604	\$232,446	\$1,815,803	31%	13%
2009	562,166	260,398	1,861,136	30	14
2008	540,945	246,966	1,815,289	30	13
2007	538,396	231,693	1,810,226	30	13
2006	513,363	242,401	1,728,368	30	12
2005	513,145	210,070	1,755,646	30	12

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
2010	\$249,354	\$108,347	\$237,441	105%	47%	152%
2009	127,460	114,671	257,698	49	44	93
2008	216,533	102,450	247,066	88	41	129
2007	131,275	95,211	232,613	56	41	97
2006	230,153	104,776	231,784	99	43	142
2005	97,649	93,857	204,927	48	45	92

In the five years since the prior examination, gross premiums written have increased by 9% while net premiums written have decreased by 4.1%. During the same period, surplus has increased by 4.8%. The company reported underwriting losses in three out of the last five years and reported a net loss in three out of the last five years.

The composite ratio has been below 100% in two out of the last five years and three in the last eleven. A composite ratio below 100% indicates that the company had profitable insurance operations.

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, 2011
Termination provisions:	Either party may terminate on any January 1 st by giving the other party 60 days' notice in writing

The coverages provided under this treaty are summarized as follows:

- | | |
|----------------------|---|
| Type of contract: | Class A – Liability |
| Lines reinsured: | Nonproperty |
| Company's retention: | None |
| Coverage: | 100% of each and every loss, including loss adjustment expense subject to the following limits: <ol style="list-style-type: none">\$1,000,000 per occurrence, single limit or combined for bodily injury and property damage\$1,000,000 split limits, in any combination of bodily injury and property damage liability\$25,000 for medical payments, per person; \$25,000 per accident |
| Reinsurance premium: | 100% of Net Premium Written
\$90,000 deposit premium |
| Ceding commission: | 15% on the premium paid to the reinsurer |
- | | |
|----------------------|--|
| Type of contract: | Class B – First Surplus |
| Lines reinsured: | Property |
| Company's retention: | Up to \$250,000 on a pro rata basis |
| Coverage: | When net retention on a policy is \$250,000 or more, the company may cede on a pro rata basis up to \$800,000. When the net retention on a policy is below \$250,000, the company may cede on a pro rata basis up to 50% of such risk. |
| Reinsurance premium: | The pro rata portion of all premiums, fees and assessments |

	Ceding commission:	15% on all premiums paid 15% of net profit
3.	Type of contract:	Class C-1 Excess of Loss
	Lines reinsured:	Property
	Company's retention:	\$40,000 for each and every risk resulting from one loss occurrence
	Coverage:	100% of any loss, including loss adjustment expense, in excess of the company's retention and limited to \$40,000 for each and every risk resulting from one loss occurrence
	Reinsurance premium:	The sum of the losses for the prior four annual periods divided by the sum of the net premium written for the same four periods times a factor of 100/80ths. This rate is then multiplied by net premiums written to arrive at the reinsurance premium.
		Current rate: 7.0% Maximum rate: 18.50% Annual deposit premium: \$34,557
4.	Type of contract:	Class C-2 Excess of Loss
	Lines reinsured:	Property
	Company's retention:	\$100,000
	Coverage:	100% of any loss including loss adjustment expenses in excess of the company's retention up to \$150,000
	Reinsurance premium:	5% of net premium written Annual deposit premium: \$15,794
5.	Type of contract:	Class D/E First Aggregate Excess of Loss
	Lines reinsured:	All lines of business including nonproperty
	Company's retention:	80% of net premium written
	Coverage:	100% of the aggregate net losses that exceed the company's retention up 60%
	Reinsurance premium:	The sum of losses for the previous eight annual periods divided by the sum of net premiums written for the same periods multiplied by 100/80ths. This rate is then multiplied by net premiums written to arrive at the reinsurance premium.
		Minimum rate: 6.5% Maximum rate: 15.0% Attachment point: \$252,699 Annual deposit premium: \$20,532

6. Type of contract:	Class D/E Second Aggregate Excess of Loss
Lines reinsured:	All lines of business including nonproperty
Company's retention:	140% of net premium written
Coverage:	100% of the aggregate net losses, including loss adjustment expenses in excess of the company's retention
Reinsurance premium:	3% of net premium written Annual deposit premium: \$9,476

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, 2010, 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."

Farmers Town Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2010

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	\$ 777	\$	\$	\$ 777
Cash in checking	108			108
Cash deposited at interest	1,518,819			1,518,819
Stocks and mutual fund investments	448,946			448,946
Premiums, agents' balances and installments:				
In course of collection	7,366	68	(68)	7,366
Deferred and not yet due	93,753			93,753
Investment income accrued	9,819			9,819
Reinsurance recoverable on paid losses and LAE	(6,698)			(6,698)
Other nonexpense-related assets:				
Federal income tax recoverable	24,316			24,316
Furniture and fixtures		909	(909)	0
Other nonadmitted assets:				
Prepaid rent/security deposit	_____	675	(675)	_____0
Totals	<u>\$2,097,206</u>	<u>\$1,652</u>	<u>\$(1,652)</u>	<u>\$2,097,206</u>

Liabilities and Surplus

Net unpaid losses	\$ 56,939
Unpaid loss adjustment expenses	100
Commissions payable	10,830
Fire department dues payable	84
Unearned premiums	151,805
Reinsurance payable	56,321
Amounts withheld for the account of others	1,729
Payroll taxes payable (employer's portion)	(694)
Other liabilities:	
Nonexpense-related:	
Premiums received in advance	_____4,289
Total liabilities	284,403
Policyholders' surplus	<u>1,815,803</u>
Total Liabilities and Surplus	<u>\$2,097,206</u>

**Farmers Town Mutual Insurance Company
Statement of Operations
For the Year 2010**

Net premiums and assessments earned		\$ 237,441
Deduct:		
Net losses incurred	\$231,779	
Net loss adjustment expenses incurred	17,575	
Net other underwriting expenses incurred	<u>108,347</u>	
Total losses and expenses incurred		<u>357,701</u>
Net underwriting gain (loss)		(120,260)
Net investment income:		
Net investment income earned	<u>54,841</u>	
Total investment gain (loss)		54,841
Net income (loss) before federal income taxes		(65,419)
Federal income taxes incurred		<u>(12,019)</u>
Net Income (Loss)		<u>\$ (53,400)</u>

**Farmers Town Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2010**

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:

	2010	2009	2008	2007	2006
Surplus, beginning of year	\$1,861,136	\$1,815,289	\$1,810,226	\$1,728,368	\$1,755,646
Net income	(53,400)	65,665	(3,308)	68,820	(38,808)
Net unrealized capital gain or (loss)	7,793	(20,497)	10,676	13,038	11,448
Change in nonadmitted assets	<u>274</u>	<u>679</u>	<u>(2,305)</u>	<u> </u>	<u>82</u>
Surplus, End of Year	<u>\$1,815,803</u>	<u>\$1,861,136</u>	<u>\$1,815,289</u>	<u>\$1,810,226</u>	<u>\$1,728,368</u>

* In 2006, the company identified that there were differences between unpaid losses, loss adjustment expenses and commissions payable. These differences affected total liabilities and policyholders' surplus.

Reconciliation of Policyholders' Surplus

A reconciliation of the policyholders' surplus as reported by the company in its filed annual statement and as determined by the examination is detailed in the following schedule:

Policyholders' surplus per December 31, 2010, annual statement			\$1,815,803
Item	Increase	Decrease	
Net unpaid losses	—	<u>\$31,384</u>	
Total	<u>\$</u>	<u>\$31,384</u>	
Decrease to surplus per examination			<u>31,384</u>
Policyholders' Surplus per Examination			<u>\$1,784,419</u>

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. Board of Directors—It is recommended that the company comply with s. 612.13 (1m), Wis. Stat., regarding the number of inside directors.

Action—Compliance.

2. Corporate Records—It is recommended that attendance be noted in the minutes of all meetings of the board of directors.

Action—Compliance.

3. Corporate Records—It is suggested that directors maintain a reasonable pattern of attendance at board meetings.

Action—Compliance.

4. Corporate Records—It is recommended that directors comply with the Articles of Incorporation regarding the filling of director vacancies.

Action—Compliance.

5. Corporate Records—It is suggested that the company implement a policy to approve marketing materials before they are purchased.

Action—Compliance.

6. Conflict of Interest—It is recommended that directors with a potential conflict of interest properly abstain from voting on matters affecting their interest and that the minutes clearly indicate their abstention pursuant to s. 612.18, Wis. Stat.

Action—Compliance.

7. Claim Adjusting—It is recommended that the company appoint an adjusting committee to comply with s. 612.13 (4), Wis. Stat.

Action—Compliance.

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

Action—Compliance.

9. Cash and Invested Assets—It is recommended that the company diversify its investments such that no more than \$100,000 is invested in any one financial institution in accordance with s. Ins 6.20 (6) (b) (2), Wis. Adm. Code. It is further recommended that if more than the FDIC-insured limit regularly must be on deposit at a particular bank for the company's operational efficiency, then the company should arrange for security for the excess, such as a surety bond.

Action—Compliance.

10. Unpaid Loss Adjusting Expenses—It is recommended that the company establish a method for reserving for unpaid loss adjusting expenses that allows for estimation of this liability when a fixed minimum reserve figure would be inadequate.

Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

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

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

Conflict of Interest

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

Fidelity Bond and Other Insurance

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

Type of Coverage	Coverage Limits
Fidelity bond	\$ 100,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Insurance agents errors and omissions	
Each claim and in the aggregate for the policy period	1,000,000
Insurance company professional liability	
Each claim	1,000,000
Aggregate limit for professional liability	1,000,000
Insurance company directors and officers liability	
Each claim	1,000,000
Aggregate limit for directors and officers liability	1,000,000
Aggregate limit for combined insurance company professional liability and directors and officers liability	1,000,000
Business personal property (\$100 deductible)	10,000
General aggregate liability	2,000,000
Liability and medical expense	1,000,000
Fire damage limit(any one fire)	100,000
Medical expense limit	1,000

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. The company inspects all new policies and rewritten policies.

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, 2010.

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 computer is limited to people authorized to use the computer. Company personnel back up the computers daily and the backed-up data is kept off-site. The company has online manuals documenting the use of its software and outlining the steps to complete specific tasks.

Business Continuity Plan

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

Invested Assets

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

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

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

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

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

The company is in compliance with these requirements.

Investment Rule Compliance

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

1. Liabilities plus \$300,000	\$ 581,403
2. Liabilities plus 33% of gross premiums written	467,722
3. Liabilities plus 50% of net premiums written	397,626
4. Amount required (greater of 1, 2, or 3)	581,403
5. Amount of Type 1 investments as of 12/31/2010	<u>1,516,640</u>
6. Excess or (deficiency)	<u>\$ 935,237</u>

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **\$1,519,704**

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

Cash in company's office	\$ 777
Cash deposited in banks—checking accounts	108
Cash deposited in banks at interest	<u>1,518,819</u>
Total	<u>\$1,519,704</u>

Cash in the company's office at year-end represents cash in transit as of December 31, 2010, for an interest earned check that was not deposited at year-end.

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

Cash deposited in banks represents the aggregate of 32 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 2010 totaled \$46,946 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.49% to 4.29%. Accrued interest on cash deposits totaled \$9,819 at year-end.

Stocks and Mutual Fund Investments **\$448,946**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2010. Stocks owned by the company are located in the company's 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 2010 on stocks and mutual funds amounted to \$22,035 and were traced to cash receipts records. There were no accrued dividends at December 31, 2010.

Premiums, Agents' Balances in Course of Collection **\$7,366**

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 **\$93,753**

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 **\$9,819**

Interest due and accrued on the various assets of the company at December 31, 2010, related entirely to cash deposited at interest.

Reinsurance Recoverable on Paid Losses and LAE **\$(6,698)**

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, 2010. A review of year-end accountings with the reinsurer verified the above asset.

Federal Income Tax Recoverable **\$24,316**

The asset represents the amount of federal income tax recoverable that the company had overpaid as of December 31, 2010. The examiners reviewed the company's 2010 tax calculation to verify the accuracy of this asset.

Furniture and Fixtures **\$0**

This asset consists of \$992 of furniture and fixtures owned by the company at December 31, 2010. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is \$0.

Prepaid Rent/Security Deposit

\$0

This asset consists of \$675 in prepaid rent and a security deposit. 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 **\$56,939**

This liability represents losses incurred on or prior to December 31, 2010, 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, 2010, with incurred dates in 2010 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	\$93,605	\$119,094	\$25,489
Less: Reinsurance recoverable on unpaid losses	<u>37,111</u>	<u>31,216</u>	<u>5,895</u>
Net Unpaid Losses	<u>\$56,494</u>	<u>\$ 93,330</u>	<u>\$31,384</u>

The net difference is reflected in Section III of this report under the heading, "Reconciliation of Policyholders' Surplus." It is recommended that the company establish proper loss reserves and record those estimates in the loss register.

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, 2010, 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.

Commissions Payable **\$10,830**

This liability represents the commissions payable to agents as of December 31, 2010. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Fire Department Dues Payable **\$84**

This liability represents the fire department dues payable to the State of Wisconsin as of December 31, 2010.

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 **\$151,805**

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 **\$56,321**

This liability consists of amounts due to the company's reinsurer at December 31, 2010, relating to transactions which occurred on or prior to that date.

Class A: Liability	\$ 5,879
Class B: Property Pro Rata	15,339
Class C: Property Excess of Loss	3,021
Class C: Per Risk Excess of Loss	1,343
Class D/E: First Aggregate Excess of Loss	1,611
Class D/E: Second Aggregate Excess of Loss	806
First Surplus Deferred Premium	31,763
Adjustments due to Year-end Calculations	1,323
Less commission	<u>(4,764)</u>
Total	<u>\$56,321</u>

Amounts Withheld for the Account of Others **\$1,729**

This liability represents employee payroll deductions in the possession of the company at December 31, 2010. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **\$(694)**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2010, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **\$4,289**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2010. The examiners reviewed 2010 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

Farmers Town Mutual Insurance Company is a town mutual insurer with an authorized territory of five counties. The company has been in business over 102 years providing property and liability insurance to its policyholders.

In the five years since the prior examination, gross premiums written have increased by 9%, while net premiums written have decreased by 4.1%. During the same period, surplus has increased by 4.8%. The company reported underwriting losses in three out of the last five years and reported a net loss in three out of the last five years.

The composite ratio has been below 100% in two out of the last five years and three in the last eleven. A composite ratio below 100% indicates that the company had profitable insurance operations.

The prior examination of the company resulted in ten recommendations. The company has taken actions to address the prior examination recommendations. The current examination resulted in one new recommendation and an adjustment to surplus as a result of inadequately recorded unpaid losses.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 22 - Net Unpaid Losses—It is recommended that the company establish proper loss reserves and record those estimates in the loss register.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Judith Michael
Examiner-in-Charge