Report

of the

Examination of

Kenosha County Mutual Insurance Company

Bristol, Wisconsin

As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 29, 2011

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:

KENOSHA COUNTY MUTUAL INSURANCE COMPANY
Bristol, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Kenosha County Mutual Insurance Company (the company) was made in 2005 as of December 31, 2004. 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 was organized as a town mutual insurance company on February 26, 1860, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Bristol 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 and no amendments to the bylaws.

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

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. The company does not charge any fees to policyholders.

Business of the company is acquired through two agents, none of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
Fire/Extended Coverage (new)	10.00%
Fire/Extended Coverage (renewal)	10.00
Liability (new)	10.00
Liability (renewal)	10.00

Agents do not have authority to adjust losses. Losses are adjusted by the adjusting committee of the board of directors. Adjusters receive $50 for the first three hours or less and $25 each additional hour.

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
Myron Daniels	Dairy Farmer	Brighton, Wisconsin	2011
Daniel Weidman	Farmer	Bristol, Wisconsin	2013
Dennis Sheen	Retired Service	Salem, Wisconsin	2013
Janet Elfering	Member at Large	Kenosha, Wisconsin	2013
Noel Elfering	Retired Farmer and Bus Driver	Bristol, Wisconsin	2011
Hector Velasquez	Factory Worker	Salem, Wisconsin	2011
Gary Plunkett	Retired Factory Worker	Bristol, Wisconsin	2011
Jeff Bush	Construction Supervisor	Somers, Wisconsin	2011
Jake DeBell	Dairy Farmer	Brighton, Wisconsin	2012

Members of the board currently receive $50.00 for each meeting attended and $0.55 per mile for travel expenses.

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

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

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

The company is in compliance with these requirements.

Officers

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

Name	Office	2010 Compensation
Myron Daniels	President	$ 6,000
Daniel Weidman	Vice President	750
Janet Elfering	Secretary	22,000
Dennis Sheen	Treasurer	6,000

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

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	$156,690	430	$(116,651)	$3,739,836	$3,546,073
2009	150,042	433	(96,048)	3,649,791	3,470,834
2008	142,474	444	(5,606)	3,537,855	3,377,088
2007	168,585	450	129,322	3,821,700	3,669,607
2006	184,834	484	168,510	3,623,898	3,499,369
2005	133,462	513	(25,086)	3,396,919	3,270,915

The ratios of gross and net premiums written to surplus as regards policyholders since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios	
				Net	Gross
2010	$266,748	$155,635	$3,546,073	4%	8%
2009	266,383	148,568	3,470,834	4	8
2008	269,027	144,057	3,377,088	4	8
2007	256,122	186,904	3,669,607	5	7
2006	271,709	191,551	3,499,369	5	8
2005	273,684	133,042	3,270,915	4	8

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Com-posite Ratio
2010	$227,336	$107,176	$156,690	96%	69%	165%
2009	148,471	105,003	150,042	99	71	170
2008	138,672	106,830	142,474	97	74	171
2007	92,863	108,982	168,585	55	58	113
2006	89,828	104,796	184,834	49	55	103
2005	190,610	99,067	133,462	143	74	217

The company’s admitted assets has increased 10%, net premiums written increased by 17%, policies in force decreased by 16%, and surplus increased by 8%. Gross premium written has decreased slightly by 2.5% during the period under examination, mainly due to the decline in policies in force. The decrease of policies in force was a result of the nonrenewal of poor quality risks and a competitive insurance market. The company has 21% of its surplus in

NAMICO stock. The company is Type 1 sufficient and has been type 1 sufficiently for the last ten years. The company had a significant net loss in 2010. The company remains sufficiently capitalized, despite poor results in underwriting and net income. The composite ratio has not been below 100% in the last six years.

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, 2010
Termination provisions:	Either party may terminate the contract as of any subsequent January 1 by giving to the other party at least 90 days' advance notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A – Casualty Quota Share Reinsurance
	Lines reinsured:	All casualty business
	Company's retention:	$2,500 in respect to each and every loss
	Coverage:	100% of loss in excess of $2,500 of each and every loss, including loss adjustment expense, occurring on the business covered, subject to the following maximum policy limits: • $1,000,000 per occurrence, single limit or combined for bodily injury and property damage liability • 1,000,000 split limits, in any combination of bodily injury and property damage liability • $5,000 for medical payments per person; $25,000 per accident
	Reinsurance premium:	100% of gross premium written
	Ceding commission:	15% of the premium paid to the reinsurer
2.	Type of contract:	Class B – First Surplus Reinsurance
	Lines reinsured:	All property business
	Company's retention:	Retained pro rata portion of each risk
	Coverage:	When the company's net retention is $300,000 or more in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall accept up to $800,000 When the company's net retention is $300,000 or less in respect to a risk, the company may cede on a pro rata basis, and the reinsurer shall accept up to 50% of such risk

	Reinsurance premium:	The pro rata portion of all premiums corresponding to the amount of each risk ceded
	Ceding commission:	15% of the premium paid to the reinsurer

Contingent commission:
15% of the net profit accruing to the reinsurer during each accounting period. Net profit is defined as follows:

- Premiums earned for the accounting period; less
- Ceding commission on premiums earned for the accounting period; less
- Expenses incurred by the reinsurer calculated at 10% of premiums earned for the period; less
- Losses and loss adjustment expenses incurred for the period; less
- The reinsurer's net loss from the immediately preceding accounting period

3.	Type of contract:	Class C-1 – Excess of Loss First Layer
	Lines reinsured:	All property business
	Company's retention:	$50,000 per loss
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $50,000 in respect to each and every risk resulting from one loss occurrence, with a $100,000 limit
	Reinsurance premium:	Net premium written times (sum of the prior four years' losses incurred divided by the total of the net premiums written for the same period times 100/80hts)

Minimum rate:	7.00%
Maximum rate:	20.00%
Current rate:	20.00%
Deposit premium:	$31,765

	Ceding commission:	None
4.	Type of contract:	Class C-2 – Excess of Loss Second Layer
	Lines reinsured:	All property business
	Company's retention:	$150,000 per loss
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $150,000 in respect to each and every risk resulting from one loss occurrence, with a $150,000 limit
	Reinsurance premium:	6% of current net premium written subject to a deposit premium of $12,457
	Ceding commission:	None

5.	Type of contract:	Class C-3 – Excess of Loss Third Layer
	Lines reinsured:	All property business
	Company's retention:	$300,000 per loss
	Coverage:	100% of any loss, including loss adjustment expense, in excess of $300,000 in respect to each and every risk resulting from one loss occurrence, with a $700,000 limit
	Reinsurance premium:	2% of current net premium written subject to a deposit premium of $4,152
	Ceding commission:	None
6.	Type of contract:	Class D/E – Aggregate Stop Loss
	Lines reinsured:	All property and nonproperty business
	Company's retention:	Losses, including loss adjusting expenses, up to an amount equal to 100% of the company’s net written premium, subject to minimum retention of $185,000
	Coverage:	100% of losses in excess of the company’s retention
	Reinsurance premium:	Net premium written times (sum of the prior eight years’ losses incurred by the reinsurer divided by the total of the net premium written for that same period times 100/80ths) Minimum rate: 7.00% Maximum rate: 25.00% Current rate: 7.00% Deposit premium: $15,832
	Ceding commission:	None

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."

Kenosha County Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2010

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in checking	$ 52,159	$	$	$ 52,159
Cash deposited at interest	525,114			525,114
Bonds	711,214			711,214
Stocks and mutual fund investments	2,433,105			2,433,105
Premiums, agents' balances and installments:				
In course of collection	3,159			3,159
Deferred and not yet due	5,832			5,832
Investment income accrued		7,835		7,835
Reinsurance recoverable on paid losses and loss adjustment expenses				
Electronic data processing equipment	338			338
Fire dues recoverable	23			23
Other expense-related assets:				
Reinsurance commission receivable	1,057			1,057
Totals	$3,732,001	$7,835	$0	$3,739,836

Liabilities and Surplus

Net unpaid losses	$ 45,563
Unpaid loss adjustment expenses	800
Commissions payable	3,218
Unearned premiums	116,617
Reinsurance payable	12,657
Amounts withheld for the account of others	616
Payroll taxes payable (employer's portion)	581
Other liabilities:	
Expense-related:	
Accounts payable	2,850
Nonexpense-related:	
Premiums received in advance	10,861
Total liabilities	193,763
Policyholders' surplus	3,546,073
Total Liabilities and Surplus	$3,739,836

Kenosha County Mutual Insurance Company
Statement of Operations
For the Year 2010

Net premiums and assessments earned		$ 156,690
Deduct:		
Net losses incurred	$215,049	
Net loss adjustment expenses incurred	12,287	
Net other underwriting expenses incurred	107,176	
Total losses and expenses incurred		334,512
Net underwriting gain (loss)		(177,822)
Net investment income:		
Net investment income earned	61,994	
Net realized capital gains (losses)	(881)	
Total investment gain (loss)		61,113
Miscellaneous Income (expense)		58
Net Income (Loss)		$(116,651)

Kenosha County Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Six-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	2005
Surplus, beginning of year	$3,470,834	$3,377,088	$3,669,607	$3,499,369	$3,270,915	$3,216,243
Net income	(116,651)	(96,048)	(5,606)	129,322	168,510	(25,086)
Net unrealized capital gain or (loss)	191,960	189,794	(286,913)	35,543	54,131	73,945
Change in nonadmitted assets				5,373	5,813	5,813
Surplus, End of Year	$3,546,143	$3,470,834	$3,377,088	$3,669,607	$3,499,369	$3,270,915

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2010, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

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

1. Corporate Records—It is recommended that the company adhere to its articles of incorporation as they relate to the minimum number of members, or quorum, required to be present at the annual meeting before it can validly proceed to transact business.

   Action—Compliance

2. Fidelity Bond and Other Insurance—It is recommended that the company obtain proper fidelity bond coverage for all officers, directors, and employees having direct access to the company's assets in accordance with s. Ins 13.05 (6), Wis. Adm. Code.

   Action—Compliance

3. Underwriting—It is recommended that the company define and document the underwriting guidelines it follows in its business practice in order to avoid unfair discrimination among policyholders described in s. 628.34 (3) (a), Wis. Stat.

   Action—Compliance

4. Underwriting—It is suggested that the company finalize its criteria for requiring photographs of insured property.

   Action—Compliance

5. Underwriting—It is recommended that the company properly complete general interrogatories on all future annual statements by reporting the amount of the largest risk and the company's net retention in regard to this risk in accordance with the Town Mutual Annual Statement Instructions.

   Action—Compliance

6. Book Value of Bonds—It is recommended that the company correctly report CUSIP numbers on all future financial statements.

   Action—Compliance

7. Net Unpaid Losses—It is suggested that the company establish and report a liability for incurred but not reported losses on all future financial statements.

   Action—Compliance

8. Net Unpaid Losses—It is again recommended that the company comply with s. Ins 13.05 (4) (e), Wis. Adm. Code. Specifically, the company should enter all claims into the claim register when the claim is reported.

   Action—Compliance

9. Net Unpaid Losses—It is again recommended that the company document all communications with insureds and claimants in order to avoid the unfair claims settlement practice described in s. Ins 6.11 (3) (a) 1, Wis. Adm. Code.

   Action—Compliance

10. Unpaid Loss Adjustment Expenses—It is again recommended that the company establish a method of determining unpaid loss adjustment expenses, such as paid-to-paid methodology, in order to determine a more adequate loss adjustment expense reserve.

   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 Bonds	$250,000 Deductible $5,000
Combined Professional Liability & D&O Liability	PL: $1,000,000 each claim subject to $1,000 in the aggregate for all claims D&O: $1,000,000 each claim subject to $1,000,000 in the aggregate for all claims Deductible $5,000

Type of Coverage	Coverage Limits
Agents Errors and Omissions	$1,000,000 each claim Deductible $2,500
Business Owners Liability Medical Payments	 Each occurrence limit $100,000 Each person $1,000 Each accident $25,000
Office Equipment & Supplies	Elfering home $7,000 Reiter home $500
Worker's Compensation	Bodily injury $100,000 each accident Bodily injury by disease $500,000 policy limit Bodily injury by Disease $100,000 each employee

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 does not have an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. It is recommended that the company's board of directors appoint an adjusting committee as required by s. 612.13 (4), Wis. Stat.

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 not audited annually by an outside public accounting firm as it is exempt from the audit requirement pursuant to s. Ins 50.02 (3), Wis. Adm. Code.

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 once a week the data is moved to a secure off-site location.

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	$493,763
2.	Liabilities plus 33% of gross premiums written	281,790
3.	Liabilities plus 50% of net premiums written	271,581
4.	Amount required (greater of 1, 2, or 3)	493,763
5.	Amount of Type 1 investments as of 12/31/2010	2,031,603
6.	Excess or (deficiency)	$1,537,840

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$577,273**

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

Cash deposited in banks—checking accounts	$ 52,159
Cash deposited in banks at interest	525,114
Total	$577,273

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

Cash deposited in banks subject to the company's check and withdrawal consists of two checking accounts maintained at 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 eight deposits in six 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 $16,393 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.375% to 0.797%. Accrued interest on cash deposits totaled $879 at year-end.

Book Value of Bonds **$711,214**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2010. Bonds owned by the company are located in a bank safety deposit box in Kenosha, Wisconsin.

Bonds were physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2010 on bonds amounted to $12,150 and was traced to cash receipts records. Accrued interest of $6,959 at December 31, 2010, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$2,433,105**

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 kept under custodial agreement and in the 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 $39,664 and were traced to cash receipts records. There were no accrued dividends allowed as a nonledger asset.

During the examination it was noted that the company had two mutual fund investments that exceeded the 10% aggregate investment limit in money market mutual funds. The Wisconsin Administrative Code states that town mutuals cannot invest more than an aggregate of 10% of assets in money market mutual funds. It is recommended that the company divest itself of any investment that does not comply with s. Ins 6.20 (6) (b), Wis. Adm. Code.

Premiums, Agents' Balances in Course of Collection **$3,159**

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 **$5,832**

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 **$7,835**

Interest due and accrued on the various assets of the company at December 31, 2010, consists of the following:

Cash at interest	$ 876
Bonds	6,959
Total	$7,835

Electronic Data Processing Equipment **$338**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2010. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Fire Dues Recoverable **$23**

This asset represents the amount overpaid to the State of Wisconsin for 2010 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 Contingent Commission Receivable **$1,057**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2010, based on the profitability of the business ceded under its contract with the reinsurer. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$45,563**

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. To the actual paid loss figure was added an estimated amount for 2010 and prior losses remaining unpaid at the time of the examination. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$96,416	$74,865	$21,551
Less: Reinsurance recoverable on unpaid losses	50,853	50,051	802
Net Unpaid Losses	$45,563	$24,814	$20,749

The above difference of $20,749 was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$800**

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 based on the history of the amounts of claims incurred at year-end but unpaid and the related adjusting 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 **$3,218**

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.

Unearned Premiums **$116,617**

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. Policy data was tested and recalculated to verify the accuracy of this liability.

Reinsurance Payable **$12,657**

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. Subsequent reinsurance accounting verified the amount of this liability.

Amounts Withheld for the Account of Others **$616**

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 **$581**

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.

Accounts Payable **$2,850**

This liability consists of amounts due to creditors for miscellaneous expenses at December 31, 2010. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **$10,861**

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

Kenosha County Mutual Insurance Company is a town mutual insurer with an authorized territory of three counties. The company has been in business over 151 years providing property and liability insurance to its policyholders.

The company's admitted assets has increased 10%, net premiums written increased by 17%, policies in force decreased by 16% and surplus increased by 8%. Gross premium written has decreased slightly by 2.5% during the period under examination, mainly due to the decline in policies in force. The decrease of policies in force was a result of the nonrenewal of poor quality risks and a competitive insurance market. The company has 21% of its surplus in NAMICO stock. The company is Type 1 sufficient and has been Type 1 sufficient for the last ten years. The company had a significant net loss in 2010. The company remains sufficiently capitalized, despite poor results in underwriting and net income. The composite ratio has not been below 100% in the last six years.

The examination did not result in any changes to surplus. The company complied with the ten recommendations from the previous examination report. The current examination resulted in two exam recommendations pertaining to appointment of an adjusting committee and compliance with investment limitations required by law.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 - Claims Adjusting—It is recommended that the company's board of directors appoint an adjusting committee as required by s. 612.13 (4), Wis. Stat.

2. Page 20 - Stocks and Mutual Fund Investments—It is recommended that the company divest itself of any investment that does not comply with s. Ins 6.20 (6) (b), Wis. Adm. Code.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Satinderjit Basra
Examiner-in-Charge