Report

of the

Examination of

Merrimac Lodi Mutual Insurance Company

Prairie du Sac, Wisconsin

As of December 31, 2015

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 29, 2016

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, 2015, of the affairs and financial condition of:

MERRIMAC LODI MUTUAL INSURANCE COMPANY
Prairie du Sac, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Merrimac Lodi Mutual Insurance Company (the company) was made in 2010 as of December 31, 2009. The current examination covered the intervening time period ending December 31, 2015, 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 preparation of the financial statements and related notes, preparation of depreciation schedules, preparation of adjusting journal entries, preparation of annual statement to the Commissioner of Insurance, and the preparation of the company’s federal income tax return. 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 November 25, 1873, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Merrimac Mutual Farmer’s Fire Insurance Company (Merrimac Mutual). Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used. Lodi Mutual Insurance Company merged into Merrimac Mutual on October 1, 2008.

During the period under examination there were two amendments to the articles of incorporation and two amendments to the bylaws. The articles of incorporation were amended to include the county of Grant as an authorized territory and to reduce the number of directors from nine to seven. After the board of directors hired Vicki Kearney as General Manager in 2012, the bylaws were amended to include a description of duties and responsibilities of the general manager position and to limit the age of the company’s directors who serve on the board.

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

Columbia	Juneau
Dane	Richland
Grant	Sauk
Iowa	

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 charges a policy fee of $10 and an installment fee of $10 per each installment. The company also charges a $15 policy fee to reinstate a cancelled policy.

Business of the company is acquired through 13 agents, 2 of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All Lines	13%

Agents have no authority to adjust losses on their own. The general manager of the company adjusts losses of up to $5,000. Losses in excess of this amount are adjusted by an outside adjuster, Wisconsin Adjustments, Inc.

Adjusters receive $56.00 per hour as a professional fee for each loss adjusted plus $.60 per mile for travel allowance, and $1.00 for each digital photograph.

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

As of year-end 2015 the board of directors consisted of nine members divided into three classes. At the company's annual meeting on February 25, 2016, the members voted to reduce the board from nine to seven, and the expiring terms of two directors were not filled. 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 board of directors as of year-end 2015 consisted of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Brian Gasser*	President/Farmer	Lodi, WI	2016
William Been	Vice President/Teacher	Spring Green, WI	2016
Keith Yanke	Secretary/Farmer	Prairie du Sac, WI	2017
Richard Kessenich	Treasurer/Retired Pilot	Prairie du Sac, WI	2018
Paul Dietmann	Marketing	Prairie du Sac, WI	2017
Ronald Bula	Production/Ag	Baraboo, WI	2018
Robert Weiss	Retired Agent	Prairie du Sac, WI	2018
Ronald Kohn*	Farmer	Lodi, WI	2016
Timothy H. Colby	Farmer	North Freedom, WI	2017

Directors who are also agents are identified with an asterisk.

The expiring seats of William Been and Ronald Kohn were not filled, and Brian Gasser was elected to serve another three-year term expiring in 2018. Brian Gasser is now the only director/agent serving on the board

Members of the board currently receive $100 for a full day and $75 for a half day for each meeting attended and mileage reimbursement at the Federal Standard Mileage Rate of $.54 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	2015 Compensation
Brian Gasser	President	$ 5,544
William Been	Vice President	745
Keith Yanke	Secretary	784
Richard Kessenich	Treasurer	1,975
Vicki Kearney	General Manager	65,994

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 year-end 2015 are listed below:

Adjusting/Claims Committee
Brian Gasser, Chair
William Been
Keith Yanke
Richard Kessenich
Ronald Kohn
Ronald Bula
Timothy H. Colby
Robert Weiss
Paul Dietmann

Investment/Audit Committee
Keith Yanke, Chair
Paul Dietmann
Ronald Bula

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
2015	$782,802	1,945	$ 108,677	$4,260,785	$3,480,115
2014	726,128	1,887	68,663	4,103,001	3,363,410
2013	628,718	1,808	23,241	3,786,648	3,147,931
2012	648,851	1,778	132,167	3,632,382	3,047,001
2011	647,829	1,771	(154,908)	3,628,777	2,952,891
2010	625,333	1,785	80,443	3,740,151	3,119,879
2009	573,648	1,785	88,947	3,540,298	2,972,468

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
2015	$1,328,148	$809,291	$3,480,115	23%	38%
2014	1,251,919	803,631	3,363,410	24	37
2013	1,161,608	645,829	3,147,931	21	37
2012	1,146,925	646,294	3,047,001	21	38
2011	1,137,959	661,487	2,952,891	22	39
2010	1,140,354	628,133	3,119,879	20	37
2009	1,111,625	569,788	2,972,468	19	37

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
2015	$359,038	$383,503	$782,802	46%	47%	93%
2014	400,460	354,467	726,128	55	44	99
2013	362,069	321,862	628,718	58	50	107
2012	307,269	306,843	648,851	47	47	95
2011	598,138	279,982	647,829	92	42	135
2010	275,558	360,294	625,333	44	57	101
2009	241,057	312,700	573,648	42	55	97

Net premiums earned increased from $573,648 in 2009 to $782,802 in 2015. The company reported a net income in all but one of the last six years. Surplus increased 17% to $3,480,115 during the six-year examination period. Admitted assets increased from $3,540,298 in 2009 to $4,260,785 in 2015. Policy count increased by 160 to 1,945. Expense ratio varied between the lowest value of 42% in 2011 and the highest value of 57% in 2010. In 2014 the company increased its reinsurance retention from $8,000 to $10,000 under the casualty and from $50,000 to $75,000 under the property excess of loss reinsurance coverage which contributed to a decrease in the expense ratio.

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, 2016
Termination provisions:	Shall be effective January 1 and continuously thereafter until terminated by either party with 90-day notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Exhibit AX1 - Casualty Excess of Loss
	Lines reinsured:	All casualty or liability business
	Company's retention:	$10,000 for each and every loss occurrence
	Coverage:	100% in excess of retention including loss adjustment expense, subject to policy limits of $1,000,000 for bodily injury and property damage liability and $25,000 per person and $25,000 per accident for medical payments
	Reinsurance premium:	50% of gross liability premiums charged for each policy issued
2.	Type of contract:	Exhibit B1 - First Surplus
	Lines reinsured:	All property business written by the company
	Company’s retention:	$500,000 per ceded risk
	Coverage:	Up to $2,000,000 on a pro rata basis; company may apply for facultative coverage on single location policies in excess of $2,500,000
	Premium:	Pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of risk ceded
	Ceding commission:	15% of the premiums paid to the reinsurer
	Profit commission:	15% of the net profit calculated as follows: a) Premiums earned for the period: less b) Ceding commission allowed the company on premiums earned for the period: less c) 10% of premiums earned by the reinsurer for the period to cover incurred expenses: less

d) Losses and loss adjustment expenses incurred for the period: less
e) The reinsurer's net loss, if any, from the preceding period

3.	Type of contract:	Exhibit C1 - First Per Risk Excess of Loss
	Lines reinsured:	All property business written by the company
	Company's retention:	$75,000 for each and every risk from one loss occurrence
	Coverage:	$100,000 each and every risk and loss occurrence, including loss adjustment expense, above the company's retention
	Reinsurance premium:	7.19% of subject net premium written Annual premium deposit: $71,554
4.	Type of contract:	Exhibit C2 - Second Per Risk Excess of Loss
	Lines reinsured:	All property business written by the company
	Company's retention:	$175,000 each and every risk from one loss occurrence
	Coverage and limits:	$325,000 each and every risk and loss occurrence, including loss adjustment expenses, above the company's retention
	Reinsurance premium:	4.50% of subject net premiums written Annual premium deposit: $44,783
5.	Type of contract:	Exhibit DE1 - First Aggregate Excess of Loss
	Lines reinsured:	All business written by the company
	Company's retention:	Losses in aggregate equal to 75% of net premiums written
	Coverage:	100% of the amount by which the aggregate of the company's losses, including loss adjustment expenses, exceed the retention with a limit of 65% of net premium written (estimated attachment point $834,722)
	Reinsurance premium:	7.45% of net premium written Annual premium deposit: $82,916
6.	Type of contract:	Exhibit DE2 - Second Aggregate Excess of Loss
	Lines reinsured:	All business written by the company
	Company's retention:	Losses in aggregate equal to 140% of net premiums written
	Coverage:	100% of the amount by which the company's aggregate losses, including loss adjustment expenses, exceed the retention

Reinsurance premium:	2.50% of net premiums written Annual premium deposit: $27,824

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, 2015, 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."

Merrimac Lodi Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2015

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 200	$	$	$ 200
Cash in checking	238,171			238,171
Cash deposited at interest	752,191			752,191
Bonds	1,775,149			1,775,149
Stocks and mutual fund investments	1,359,326			1,359,326
Premiums, agents' balances and installments:				
In course of collection	52,967			52,967
Deferred and not yet due	59,854			59,854
Investment income accrued		20,511		20,511
Reinsurance recoverable on paid losses and LAE	811			811
Electronic data processing equipment	1,605			1,605
Furniture and fixtures	855		855	
Totals	$4,241,129	$20,511	$855	$4,260,785

Liabilities and Surplus

Net unpaid losses	$ 76,064
Unpaid loss adjustment expenses	5,500
Commissions payable	33,395
Fire department dues payable	1,577
Federal income taxes payable	16,818
Unearned premiums	558,394
Reinsurance payable	26,323
Amounts withheld for the account of others	3,095
Payroll taxes payable (employer's portion)	638
Other liabilities:	
Expense-related:	
Accounts payable	2,027
Accrued salaries and wages	1,089
Nonexpense-related:	
Premiums received in advance	55,750
Total liabilities	780,670
Policyholders' surplus	3,480,115
Total Liabilities and Surplus	$4,260,785

Merrimac Lodi Mutual Insurance Company
Statement of Operations
For the Year 2015

Net premiums and assessments earned		$782,802
Deduct:		
Net losses incurred	$303,947	
Net loss adjustment expenses incurred	55,091	
Net other underwriting expenses incurred	383,503	
Total losses and expenses incurred		742,541
Net underwriting gain (loss)		40,261
Net investment income:		
Net investment income earned	67,590	
Net realized capital gains (losses)	2,334	
Total investment gain (loss)		69,924
Other income (expense):		
Miscellaneous	23,292	
Total other income		23,292
Net income (loss) before federal income taxes		133,477
Federal income taxes incurred		24,800
Net Income (Loss)		$108,677

Merrimac Lodi Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Six-Year Period Ending December 31, 2015

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:

	2015	2014	2013	2012	2011	2010
Surplus, beginning of year	$3,363,410	$3,147,931	$3,047,001	$2,952,891	$3,119,879	$2,972,468
Net income (loss)	108,677	68,663	23,241	132,167	(154,908)	80,443
Net unrealized capital gain or (loss)	6,714	136,936	81,608	(39,097)	(15,069)	66,282
Change in nonadmitted assets	1,314	9,880	(3,919)	1,040	2,989	686
Surplus, End of Year	$3,480,115	$3,363,410	$3,147,931	$3,047,001	$2,952,891	$3,119,879

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2015, 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 execute formal written agreements with its agents that include language indicating that the agent will represent the company's interests "in good faith."

   Action—Compliance.

2. Invested Assets—It is recommended that the company update its custodial agreement to reflect the custodian's name change.

   Action—Compliance.

3. 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.

4. Accounts Payable—It is recommended that the company file Unclaimed Property Reports as required by ch. 177, Wis. Stat., and maintain copies of these filings.

   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."

As noted earlier, at the 2016 annual meeting, the members voted to reduce the number of directors from nine to seven. The expiration years of the remaining directors are three expirations in 2017, three in 2018, and one in 2019. Pursuant to s. 612.13 (1), Wis. Stat., classes of directors should be in sizes as nearly equal as possible, which would be a 3/2/2 expiration pattern, not a 3/3/1 pattern. The company could remedy this by electing one of the 2017 expiring directors to a two-year term with the other two directors selected for a three-year term. It is recommended that the company comply with s. 612.13 (1), Wis. Stat., by establishing director classes as nearly equal in size as possible.

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	$ 250,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
General liability:	
General aggregate	2,000,000
Products aggregate	2,000,000
Personal and advertising injury	1,000,000
Each occurrence	1,000,000
Damage to premises	100,000
Medical limit each person	5,000
Property:	
Building contents	29,200
Combined professional liability and directors and officers liability:	
Each claim	2,000,000
In aggregate	2,000,000
Deductible each claim	10,000
Insurance agents' and brokers' liability:	
Each claim	5,000,000
In aggregate	5,000,000
Deductible each claim	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. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review.

Claims Adjusting

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

Accounts and Records

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

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

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2015.

The company is audited annually by an outside public accounting firm.

EDP Environment

Company personnel were interviewed with respect to the company's electronic data processing environment. Access to the computers is limited to people authorized to use the computers. Company personnel back up the computers daily and the backed-up data is kept off-site.

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

Business Continuity Plan

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

The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Invested Assets

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

> (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
>
> (2) Any insurer may acquire and hold securities in bearer form.

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

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

The company is in compliance with these requirements. The company keeps its investments in bonds, stock and short-term financial instruments under custody of a qualified financial institution. However, a review of the custodial agreement revealed that the agreement lacks certain provisions that would protect and replace the value of the company's investments under certain circumstances. All custodian agreements between insurance companies and qualified financial institutions must contain provisions prescribed in the NAIC <u>Financial Condition Examiners Handbook</u>. Specifically, it is required that the agreement contains the following provisions:

1. The custodian is obligated to indemnify the insurance company for any loss of securities in the custodian's custody occasioned by the negligence or dishonesty of the officers or employees of the custodian or any agent or subcustodian of the custodian, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage of destruction. In the event of a loss of the securities for which the custodian is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

2. If the custodial agreement has been terminated or if 100% of the account assets have been withdrawn, the custodian shall provide written notification, within three business days of termination or withdrawal, to the insurance company's domiciliary commissioner.

3. During regular business hours, and upon reasonable notice, an officer or employee of the insurance company, an independent accountant selected by the insurance company, or a representative of the insurance company's domiciliary commissioner shall be entitled to examine, on the premises of the custodian, custodian's records relating to securities, if the custodian is given written instructions to that effect from an authorized officer of the insurance company.

The custodial agreement between the company and its custodian provides that the custodian is only liable for any loss, reduction in value or income directly caused by its gross negligence or willful misconduct. The agreement does not extend a standard of liability of the custodian beyond gross negligence and dishonesty nor does it specify how the value of the securities will be replaced in the event the loss is caused by an act of the custodian. In addition, the agreement completely lacks provisions 2 and 3 from the above description. It is recommended that the company direct the custodian to revise the custodial agreement to include the guideline provisions contained in the NAIC's Financial Condition Examiners Handbook.

Investment Rule Compliance

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

1.	Liabilities plus $300,000	$1,080,670
2.	Liabilities plus 33% of gross premiums written	1,218,959
3.	Liabilities plus 50% of net premiums written	1,185,316
4.	Amount required (greater of 1, 2, or 3)	1,218,959
5.	Amount of Type 1 investments as of 12/31/2015	2,838,483
6.	Excess or (deficiency)	$1,619,524

The company has sufficient Type 1 investments.

The company has been granted permission to hold 30% of net admitted assets in common stocks and like securities. It has also been granted permission to hold Wisconsin Reinsurance common stock and NAMIC stock.

ASSETS

Cash and Invested Cash **$990,562**

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

Cash in company's office	$ 200
Cash deposited in banks—checking accounts	238,171
Cash deposited in banks at interest	752,191
Total	$990,562

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

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained 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 ten deposits in four 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 2015 totaled $7,936 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.897% to 1.200%. Accrued interest on cash deposits totaled $1,270 at year-end.

Book Value of Bonds **$1,775,149**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2015. Bonds owned by the company are held in a custodial account with U.S. Trust.

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 2015 on bonds amounted to $86,244 and was traced to cash receipts records. Accrued interest of $19,241 at December 31, 2015, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$1,359,326**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2015. Stocks owned by the company are located in a safety deposit box at a local bank or under a safekeeping agreement.

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 2015 on stocks and mutual funds amounted to $30,338 and were traced to cash receipts records. There was no accrued dividend receivable balance at December 31, 2015.

Premiums, Agents' Balances in Course of Collection **$52,967**

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 **$59,854**

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 **$20,511**

Interest due and accrued on the various assets of the company at December 31, 2015, consists of the following:

Accrued interest on cash	$ 270
Accrued interest on bonds	19,241
Total	$20,511

Reinsurance Recoverable on Paid Losses and LAE **$811**

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, 2015. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$1,605**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2015. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Furniture and Fixtures **$0**

This asset consists of $855 of office equipment owned by the company at December 31, 2015. 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 **$76,064**

This liability represents losses incurred on or prior to December 31, 2015, 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, 2015, with incurred dates in 2015 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	$489,143	$493,284	$ 4,141
Less: Reinsurance recoverable on unpaid losses	413,079	394,070	(19,009)
Net Unpaid Losses	$ 76,064	$ 99,214	$23,150

The above difference of $23,150 was not considered material for purposes of this examination; therefore, no adjustment was made to surplus.

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 **$5,500**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2015, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is estimation based on prior year adequacy and open losses.

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 **$33,395**

This liability represents the commissions payable to agents as of December 31, 2015. The examiners reviewed the company's subsequent commission payments and found the liability to be reasonably stated.

Fire Department Dues Payable **$1,577**

This liability represents the fire department dues payable to the State of Wisconsin as of December 31, 2015.

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.

Federal Income Taxes Payable **$16,818**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2015.

The examiners reviewed the company's 2015 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

Unearned Premiums **$558,394**

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 **$26,323**

This liability consists of amounts due to the company's reinsurer at December 31, 2015, relating to transactions which occurred on or prior to that date.

Class AX1	$ 7,589
Class B	0
Class B Commissions	(8,627)
Class C-1	3,303
Class C-2	1,709
Class D/E-1	3,120
Class D/E-2	1,047
Deferred Reinsurance Payable	18,182
Total	$ 26,323

Amounts Withheld for the Account of Others **$3,095**

This liability represents employee payroll deductions in the possession of the company at December 31, 2015. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$638**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2015, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$2,027**

This liability represents miscellaneous business expenses. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **$55,750**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2015. The examiners reviewed 2015 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

As of December 31, 2015, the company reported assets of $4,260,785, liabilities of $780,670 and policyholders' surplus of $3,480,115. The company reported net income of $108,677 and underwriting gain of $40,261.

Assets increased 19.5% and surplus increased by 17.1% over the examination period. The company had a net loss in one of the last six years, in 2011. Both gross and net premium increased by 19.5% and 42.0%, respectively. Policies in force increased by 160 policies, or 9%, from 1,785 in 2009 to 1,945 in 2015.

The company complied with the four prior recommendations. There were no adjustments to policyholders' surplus or reclassifications of account balance.. The current examination resulted in two recommendations which are summarized in the following section.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Corporate Records—It is recommended that the company comply with s. 612.13 (1), Wis. Stat., by establishing director classes as nearly equal in size as possible.

2. Page 19 - Invested Assets—It is recommended that the company direct the custodian to revise the custodial agreement to include the guideline provisions contained in the NAIC's Financial Condition Examiners Handbook.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Vickie Ostien
Examiner-in-Charge