Report

of the

Examination of

Seneca, Sigel Mutual Insurance Company

Vesper, Wisconsin

As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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May 19, 2010

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:

SENECA, SIGEL MUTUAL INSURANCE COMPANY
Vesper, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Seneca, Sigel 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 bookkeeping, preparation of tax returns, and town mutual annual statement. On January 20, 2011, 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 April 12, 1891, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Seneca, Sigel and Rudolf Mutual 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:

Adams	Marathon
Chippewa	Oneida
Clark	Portage
Juneau	Taylor
Langlade	Waupaca
Lincoln	Wood

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 corresponding to billing terms with premiums payable on the advance premium basis. The company also charges a policy fee according to the following schedule: $6 for annual premium of $50 to $1,499; $10 for annual premium of $1,500 to $2,499; $15 for annual premium of $2,500 to $4,999; and $20 for annual premium of $5,000 and over.

Business of the company is acquired through 83 agents, none of whom are directors of the company. Agents are presently compensated for their services at a rate of 15% on all types of policies. Agents writing more than $30,000 in annual premium are eligible for a contingent commission. The contingent commission rate is applied to adjusted gross premium written by an agent according to the following schedule:

Agent's Loss Ratio	Commission Rate
0 - 10%	4%
11 - 20	3
21 - 30	2
31 - 40	1

Agents do have authority to adjust losses. The company has two employees who adjust all losses. The adjusters are paid $14.75 per hour plus $0.51/mile for travel allowance.

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
Adeline Scheunemann	Company President; Retired Farmer	Vesper	2012
Harvey Peterson, Jr.	Company Vice-President; Farmer	Pittsville	2014
Dale Fisher	Company Inspector (employee)	Wisconsin Rapids	2012
Albert Heiser	Farmer	Vesper	2012
Paul Mueske	Farmer	Wisconsin Rapids	2014
Dale Pagels	Trucking	Rudolph	2013
Carol Tomfohrde	Veterinary Aide	Vesper	2013
Janice Hagen	Retired	Wisconsin Rapids	2014
Loren Scheunemann	Farming and Crop Adjuster	Vesper	2013

Members of the board currently receive $75.00 for each meeting attended and $0.51/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
Adeline Scheunemann	President	$ 1,800
Harvey Peterson, Jr.	Vice-President	516
Dale Fisher	Secretary/Treasurer	29,517*
Sandra Seifert	Manager	45,000

* Represents adjusting fees paid to Dale Fisher.

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, and director 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
Adeline Scheunemann
Harvey Peterson, Jr.
Dale Fisher
Albert Heiser
Paul Mueske
Dale Pagels

Carol Tomfohrde
Janice Hagen
Loren Scheunemann

Personnel Committee
Dale Pagels, Chair
Loren Scheunemann
Paul Mueske

Rates & Research Committee
Janice Hagen, Chair
Carol Tomfohrde
Harvey Peterson, Jr.

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	$681,489	2,040	$ 42,838	$2,646,917	$2,132,793
2009	761,757	2,105	197,161	2,623,700	2,074,609
2008	915,359	2,265	142,294	2,572,445	1,943,056
2007	947,366	2,527	71,543	2,390,302	1,748,846
2006	869,889	2,664	198,683	2,551,003	1,643,826
2005	891,352	2,813	326,425	2,281,528	1,595,567

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	$1,095,634	$672,690	$2,132,793	32%	51%
2009	1,139,837	718,563	2,074,609	35	55
2008	1,276,893	884,662	1,943,056	46	66
2007	1,348,997	935,614	1,748,846	53	77
2006	1,399,329	856,045	1,643,826	52	85
2005	1,449,657	929,344	1,595,567	58	91

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	Expens e Ratio	Composit e Ratio
2010	$401,436	$325,312	$681,489	59%	48%	107%
2009	250,439	377,185	761,757	33	52	85
2008	362,591	390,313	915,359	40	44	84
2007	572,584	381,263	947,366	60	41	101
2006	285,966	399,389	869,889	33	47	80
2005	278,767	382,105	891,352	31	41	72

Total admitted assets have increased 16% and surplus has increased 34% over the six-year period since the last exam. Gross premiums written have decreased 24% and net premiums written have decreased 28%, while the number of policies has decreased from 2,813 to 2,040 over the six-year period. The company had experienced two years of net underwriting losses in the last six years. The company has experienced declining trends in both premium and in the number of policies issued in the previous six years. These changes in trend are a direct result of a few factors: one, the company consciously strengthened its underwriting standards in 2006 for nonrenewed policies; two, it continues to strengthen its standards; and three, the company is becoming more selective in accepting new policies.

Since the prior examination, the loss ratio has fluctuated from a low of 31% in 2005 to a high of 59% in 2010. Simultaneously, the expense ratio has fluctuated less than the loss ratio; ranging from 41% in 2005 to 52% in 2009. The composite ratio increased from 72% in 2005 to 107% in 2010.

Overall, the company's expense ratios were close to the industry averages; however, the company's operating ratios have shown variation over the last six years, primarily due to an increase in losses and adjusted expenses, which is mostly attributed to unfavorable weather conditions (i.e., unusually high frequency of windstorms and/or hail damage). As a result of unfavorable weather conditions, the company's income has fluctuated from year to year. The company has for six consecutive years been stable in producing positive income, indicating that the company operationally remains profitable. The board of directors actively monitors and evaluates the performance of the company's agents.

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. Contracts assuming business from another town mutual insurer complied with s. 612.31 (6), Wis. Stat. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Rockford Mutual Insurance Company
Effective date:	January 1, 2011
Termination provisions:	January 1, 2013, or any subsequent January 1 by either party by giving the other party at least 90 days' advance written notice. In the event any unpaid premiums due hereunder by the company beyond a period of 15 days after such premiums become due, the contract may be terminated by sending the company 15 days' advance written notice.

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Property Per Risk Excess of Loss	
	Lines reinsured:	Property	
	Company's retention:	Part A:	$30,000 per risk
		Part B:	$100,000 per risk
		Part C:	$300,000 per risk
	Coverage:	Part A:	$70,000 excess of $30,000 per each and every loss, each and every risk
		Part B:	$200,000 excess of $100,000 per each and every loss, each and every risk
		Part C:	$300,000 excess of $300,000 per each and every loss, each and every risk
	Reinsurance premium:	37.5% of premium written. Premium includes amounts due for all of the following contracts: Property Per Risk Excess of Loss (Coverage A, B, and C), Property Annual Aggregate Excess of Loss, Windstorm Occurrence Excess of Loss (Coverage A and B), Liability Excess of Loss, and Liability Annual Aggregate Excess of Loss.	
	Ceding commission:	Profit sharing: 10% of the profit of the reinsurer Profit is calculated as follows: All reinsurance premiums earned by the reinsurer; less all amounts incurred by the company for loss and loss adjustment expenses; less all commission earned by the company; less the reinsurer's operating expenses equal to 20% of the reinsurance premiums.	

Risks in excess of $600,000 are reinsured on a facultative basis with 30% commission and $250 disappearing deductible.

2.	Type of contract:	Property Annual Aggregate Excess of Loss
	Lines reinsured:	Property Business
	Company's retention:	$650,000
	Coverage:	100% of the losses above the retention
	Reinsurance premium:	See premium for Property per Risk Excess of Loss above
	Ceding commission:	10% of the profit, as calculated above
3.	Type of contract:	Windstorm Occurrence Excess of Loss
	Lines reinsured:	Windstorm and Hail business (excluding Fire, Other Extended Coverage, and Other Perils)
	Company's retention:	Coverage A: $120,000 per loss occurrence + 5% of the excess up to $880,000 Coverage B: $1,000,000 per loss occurrence
	Coverage:	Coverage A: 95% of $880,000 excess of $120,000 per each and every loss occurrence Coverage B: $1,000,000 per each and every loss occurrence Loss occurrence is defined as all losses occasioned, in whole or in part, by hail or windstorm, which arise out of one atmospheric disturbance during a continuous period of 72 hours.
	Reinsurance premium:	See premium for Property per Risk Excess of Loss above
	Ceding commission:	10% of the profit, as calculated above
4.	Type of contract:	Liability Reinsurance Contract
	Lines reinsured:	Casualty Business
	Company's retention:	Coverage A: $5,000 for each and every loss Coverage B: $200,000 of the aggregate net retained losses and loss adjustment expenses during one calendar year
	Coverage:	Coverage A: 100% of each and every loss over the retention Coverage B: 100% of the net aggregate retained losses and loss adjustment expenses above the retention during one calendar year
	Reinsurance premium:	See premium for Property per Risk Excess of Loss above
	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."

Seneca, Sigel Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2010

Assets	Ledger	Non-ledger	Not Admitted	Net Admitted
Cash on hand	$ 60	$	$	$ 60
Cash in checking	79,282			79,282
Cash deposited at interest	369,907			369,907
Bonds	1,633,894			1,633,894
Stocks and mutual fund investments	462,817			462,817
Real estate	35,800			35,800
Premiums, agents' balances and installments:				
In course of collection	4,000		435	3,565
Investment income accrued		21,244		21,244
Reinsurance recoverable on paid losses and LAE	5,514			5,514
Electronic data processing equipment	5,143			5,143
Fire dues recoverable	246			246
Reinsurance premium recoverable	9,602			9,602
Other expense-related assets:				
Reinsurance commission receivable	13,893			13,893
Other nonexpense-related assets:				
Federal income tax recoverable	5,950			5,950
Furniture and fixtures	14,367		14,367	0
Totals	$2,640,475	$21,244	$14,802	$2,646,917

Liabilities and Surplus

Net unpaid losses	$ 56,855
Unpaid loss adjustment expenses	5,000
Commissions payable	16,188
Unearned premiums	415,457
Amounts withheld for account of others	3,172
Payroll taxes payable (employer's portion only)	1,518
Other liabilities:	
Expense-related:	
Accounts payable	152
Accrued property tax	2,602
Nonexpense-related:	
Premiums received in advance	13,180
Total liabilities	514,124
Policyholders' surplus	2,132,793
Total Liabilities and Surplus	$2,646,917

Seneca, Sigel Mutual Insurance Company
Statement of Operations
For the Year 2010

Net premiums and assessments earned		$681,489
Deduct:		
Net losses incurred	$289,893	
Net loss adjustment expenses incurred	111,543	
Net other underwriting expenses incurred	325,312	
Total losses and expenses incurred		726,748
Net underwriting gain (loss)		(45,259)
Net investment income:		
Net investment income earned	70,444	
Net realized capital gains (losses)	(1,380)	
Total investment gain (loss)		69,064
Other income (expense):		
Policy service charges		27,656
Net income (loss) before federal income taxes		51,461
Federal income taxes incurred		8,623
Net Income (Loss)		$ 42,838

Seneca, Sigel 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	$2,074,609	$1,943,056	$1,748,846	$1,643,826	$1,595,567	$1,204,438
Net income	42,838	197,161	142,294	71,543	198,683	326,425
Net unrealized capital gain or (loss)	27,485	(66,590)	47,713	32,782	32,701	67,846
Change in nonadmitted assets	(12,139)	982	4,203	695	7,621	(3,142)
Surplus, End of Year	$2,132,793	$2,074,609	$1,943,056	$1,748,846	$1,643,826	$1,595,567

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. Conflict of Interest—It is recommended that the directors with a conflict of interest properly disclose such and abstain from voting on matters involving their interests and that the minutes clearly indicate such abstentions pursuant to s. 612.18, Wis. Stat., and the Commissioner's directive.

   Action—Compliance

2. Underwriting—It is recommended that the company properly complete general interrogatories on all future annual statements by reporting the amount of the largest risk in accordance with the Town Mutual Annual Statement Instructions.

   Action—Compliance

3. Claim Adjusting—It is recommended that the board of directors annually appoint an adjusting committee from its own members and that the minutes clearly indicate such action pursuant to s. 612.13 (4), Wis. Stat.

   Action—Compliance

4. Account and Records—It is recommended that the company comply with the provisions of s. 177.02, Wis. Stat., regarding abandoned property. Specifically, the company should stop the practice of charging a service fee which reduces the amount of the original claim or policy refund.

   Action—Compliance

5. Book Value of Bonds—It is recommended that the company report investments in bonds on Schedule D Section 1 in accordance with the Town Mutual Annual Statement instructions on all future financial statements.

   Action—Compliance

6. Net Unpaid Losses—It is recommended that the company estimate and report its unpaid loss reserve based on year-end data.

   Action—Compliance

7. Reinsurance Payable—It is recommended that annual statements be completed correctly, in regard to reinsurance balances, in accordance with the Town Mutual Annual Statement instructions.

   Action—Compliance

8. Premiums Receivable in Advance—It is recommended that the company report advance premium in accordance with the Town Mutual Annual Statement instructions on all future financial statements.

   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	$ 250,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	1,000,000
Each accident	1,000,000
Each employee	1,000,000
Policy limit	1,000,000
Business owners:	
Building	198,600
Personal property	46,800
Professional liability:	1,000,000
Directors and officers liability	1,000,000
Errors and omissions	1,000,000

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, 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 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.

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	$ 814,124
2.	Liabilities plus 33% of gross premiums written	875,683
3.	Liabilities plus 50% of net premiums written	850,469
4.	Amount required (greater of 1, 2, or 3)	875,683
5.	Amount of Type 1 investments as of 12/31/2010	2,070,508
6.	Excess or (deficiency)	$1,194,825

The company has sufficient Type 1 investments.

The investment rule prescribes that a town mutual shall divest of any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. As of December 31, 2010, the company does not have bank deposits in excess of the $250,000 Federal Deposit Insurance Corporation (FDIC) insured limit.

ASSETS

Cash and Invested Cash **$449,249**

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

Cash in company's office	$ 60
Cash deposited in banks—checking accounts	79,282
Cash deposited in banks at interest	369,907
Total	$449,249

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 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 five 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 $84,212 and was verified to company cash records. Rates of interest earned on cash deposits ranged from .09% to 2.19%. Accrued interest on cash deposits totaled $500 at year-end.

Book Value of Bonds **$1,633,894**

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 one of the company’s depositories under a safe keeping agreement.

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 $77,964 and was traced to cash receipts records. Accrued interest of $20,744 at December 31, 2010, was checked and allowed as a nonledger asset.

The examination determined that the company wrote off two Tribune Company bonds as of December 31, 2008, due to the issuer filing for bankruptcy protection and the uncertainty of any recovery on the bond at the time. This was considered to be an other than temporary impairment (OTTI). Since the company considered this to be an OTTI, no write-up of the value is allowed in future years (unless they are sold), even if there appears to be value at a later date in accordance with the Statement of Statutory Accounting Principles (SSAP) No 26. Because the company continues to own them and might recognize a gain on sale someday, these bonds should continue to be reported on the Town Mutual Annual Statement in Schedule C, Section 1, with a value of zero. It is recommended that the company report two Tribune Company bonds on Schedule C, Section 1, in accordance with the Town Mutual Annual Statement instructions on all future financial statements.

Stocks and Mutual Fund Investments **$462,817**

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 under a custodial agreement with a bank.

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 $2,283 and were traced to cash receipts records. There were no accrued dividends at December 31, 2010.

Book Value of Real Estate **$35,800**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2010. The company's real estate holdings consisted of the land and building occupied by the company.

The required documents supporting the validity of this asset were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers. Real estate depreciation is calculated using the straight-line method.

Premiums, Agents' Balances in Course of Collection **$3,565**

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.

Investment Income Accrued **$21,244**

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

Cash at interest	$ 500
Bonds	20,744
Total	$21,244

Reinsurance Recoverable on Paid Losses and LAE **$5,514**

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.

Electronic Data Processing Equipment **$5,143**

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 **$246**

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 Premium Recoverable **$9,602**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2010. The examiners verified the balance directly with the reinsurer.

Reinsurance Commission Receivable **$13,893**

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 its reinsurer. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Furniture and Fixtures **$0**

This asset consists of $14,367 of furniture and equipment owned by the company at December 31, 2005. 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 **$56,855**

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	$217,477	$212,877	$ 4,600
Less: Reinsurance recoverable on unpaid losses	160,622	147,075	13,547
Net Unpaid Losses	$ 56,855	$ 65,802	$ (8,947)

The net difference is reflected in Section III of this report under the heading, "Reconciliation of Policyholders' Surplus." The above difference of $(8,947) 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 **$5,000**

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 a review of the claims at year-end.

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 **$16,188**

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

Fire Department Dues Payable **$0**

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.

Federal Income Taxes Payable **$0**

This liability represents the balance payable at year-end for federal income taxes incurred prior to December 31, 2010.

The examiners reviewed the company's 2010 tax return and verified amounts paid to cash disbursement records to verify the accuracy of this liability.

Unearned Premiums **$414,457**

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. The company also uses an accelerated method of earned premium calculation for certain seasonal coverage whereby premiums are earned at the inception of the policy.

Amounts Withheld for the Account of Others **$3,172**

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 **$1,518**

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 **$152**

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 **$13,180**

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.

Reimbursements Payable **$2,602**

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

V. CONCLUSION

The company had complied with all of the eight prior examination recommendations. There was one recommendation and no adjustments or reclassifications to surplus made as a result of the examination.

Total admitted assets have increased 16% and surplus has increased 34% over the six-year period since the last exam. Gross premiums written have decreased 24% and net premiums written have decreased 28%, while the number of policies has decreased from 2,813 to 2,040 over the six-year period. The company had experienced two years of net underwriting losses in the last six years. The company has experienced declining trends in both premium and in the number of policies issued in the previous six years. These changes in trend are a direct result of a few factors: one, the company consciously strengthened its underwriting standards in 2006 for nonrenewed policies; two, it continues to strengthen its standards; and three, the company is becoming more selective in accepting new policies.

Since the prior examination, the loss ratio has fluctuated from a low of 31% in 2005 to a high of 59% in 2010. Simultaneously, the expense ratio has fluctuated less than the loss ratio; ranging from 41% in 2005 to 52% in 2009. The composite ratio increased from 72% in 2005 to 107% in 2010.

Overall, the company's expense ratios were close to the industry averages; however, the company's operating ratios have shown variation over the last six years, primarily due to an increase in losses and adjusted expenses, which is mostly attributed to unfavorable weather conditions (i.e., unusually high frequency of windstorms and/or hail damage). As a result of unfavorable weather conditions, the company's income has fluctuated from year to year and has also experienced a decrease of 87% in net income over the last six years. Despite this decrease, the company has for six consecutive years been stable in producing positive income, indicating that the company operationally remains profitable. The board of directors actively monitors and evaluates the performance of the company's agents.

The company was in compliance with the minimum capital and surplus requirements of ch. 612, Wis. Stat., for the kinds of insurance which the company was authorized to write.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Book Value of Bonds—It is recommended that the company report two Tribune Company bonds on Schedule C, Section 1, in accordance with the Town Mutual Annual Statement instructions on all future financial statements.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Rauf Mirza
Examiner-in-Charge