

Report
of the
Examination of
Arlington Mutual Fire Insurance Company
Arlington, Wisconsin
As of December 31, 2015

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. REINSURANCE.....	7
III. FINANCIAL DATA	10
IV. SUMMARY OF EXAMINATION RESULTS.....	14
V. CONCLUSION.....	27
VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS	28
VII. ACKNOWLEDGMENT.....	29



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

September 26, 2016

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, an examination has been performed as of
December 31, 2015, of the affairs and financial condition of:

ARLINGTON MUTUAL FIRE INSURANCE COMPANY
Arlington, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Arlington Mutual Fire 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 bookkeeping and tax preparation. On November 23, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on June 21, 1873, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Arlington Farmers Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was no amendment to the articles of incorporation and one amendment to the bylaws to allow for company disbursements of funds by electronic and ACH payment.

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	Iowa
Dane	Marquette
Dodge	Sauk
Green Lake	

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 also charges a policy fee equal to \$25 per policy.

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

Type of Policy	Compensation
Property	15%
Nonproperty	15%

As an incentive to good underwriting, agents can receive a contingent commission on property insurance equal to 2% of premiums written if the losses incurred on such property insurance total 15% or less of the premiums written or equal to 1% of premiums written if the loss ratio is more than 15% but less than 20%. Contingent commission is due and payable on the first day of August of the following calendar year.

All losses are currently handled by an outside adjustor. Adjusters receive an hourly rate and are reimbursed for some expenses. A mileage and drive time fee is paid for travel distances in excess of 25 miles.

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	Expires
James Attoe	Agent/Farmer	Poynette, Wisconsin	2019
Kim Bauer	Maintenance Manager	Wyocena, Wisconsin	2017
Kurt Breunig	Farmer	Waunakee, Wisconsin	2019
Ronald Lovick	Farmer	Deforest, Wisconsin	2017
Thomas Manke	Farmer	Arlington, Wisconsin	2017
Lee Roberts	Retired Loss Prevention Consultant	Rio, Wisconsin	2018
William Stewart*	Retired Bank Senior Vice President	Poynette, Wisconsin	2018
Harlan Stiemke	Farmer	Arlington, Wisconsin	2018
Jim Tlusty*	Retired WAMIC Board President	Windsor, Wisconsin	2019

Directors who are also agents are identified with an asterisk.

Members of the board currently receive \$100.00 for each meeting attended and \$0.525 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	2015 Compensation
Kurt Breunig	President	\$ 6,602.60*
Harlan Stiemke	Vice President	1275.38**
William Stewart	Secretary and Treasurer	14,973.60***
Teri Krysa	Manager	75,066.15****

* New President as of February 2015.

** President meeting per diem granted during President absence, plus mileage reimbursement.

*** Commissions only; waived meeting fees and mileage.

**** Includes \$21,066.15 in commission.

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

Committees of the Board

The company's bylaws do allow for the formation of certain committees by the board of directors. At the time of the examination the Adjusting Committee was comprised of the whole of the board of directors. The board of directors has formed no other specific committees.

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	\$1,098,740	2,080	\$ 279,328	\$3,197,235	\$2,294,535
2014	1,029,247	2,396	(276,205)	3,174,334	1,977,446
2013	1,014,289	2,427	(240,331)	3,297,406	2,128,814
2012	1,075,062	2,346	(371,524)	3,664,534	2,359,634
2011	1,069,425	2,325	(471,940)	3,775,305	2,818,706
2010	1,098,351	2,307	48,298	4,323,473	3,289,065
2009	1,106,836	2,324	122,052	4,257,196	3,239,449

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

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Net	Ratios Gross
2015	\$1,631,068	\$ 953,465	\$2,294,535	42%	71%
2014	1,975,407	1,019,976	1,977,446	52	100
2013	1,979,459	1,079,931	2,128,814	51	93
2012	1,858,343	1,111,731	2,359,634	47	79
2011	1,765,148	1,072,834	2,818,706	38	63
2010	1,742,043	1,116,592	3,289,065	34	53
2009	1,694,899	1,101,869	3,239,449	34	52

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

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Composite Ratio
2015	\$ 395,375	\$504,241	\$1,098,740	36%	53%	89%
2014	879,572	519,619	1,029,247	85	51	136
2013	770,562	511,985	1,014,289	76	47	123
2012	989,974	493,236	1,075,062	92	44	136
2011	1,114,112	468,617	1,069,425	104	44	148
2010	697,190	430,584	1,098,351	63	39	102
2009	621,876	421,768	1,106,836	56	38	94

Over the past six years, surplus decreased 29.2% to \$2,294,535 and admitted assets decreased 24.9% to \$3,197,235. The number of policyholders decreased, during the same period, by 244 members, or just over 10%, to 2,080 policyholders. Net premium written decreased 13.5% due to the decrease in policyholders and changes in underwriting guidelines.

In all years under examination the company has experienced an increase in underwriting expense ratios, from 38% in 2009 to 53% in 2015. The company has reported net income in two of the previous six years, with net income of \$48,298 and \$279,328 in 2010 and 2015, respectively. The Wisconsin town mutual industry as a whole experienced a net gain in 2016.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty with seven coverages. 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:	Either party may terminate the contract and/or its exhibits 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:

- | | |
|----------------------|---|
| Type of contract: | Exhibit AX1 Excess of Loss |
| Lines reinsured: | Liability |
| Company's retention: | \$10,000 each and every loss occurrence |
| Coverage: | 100% of each and every loss, including loss adjustment expense, subject to the maximum policy limits of: <ol style="list-style-type: none">\$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\$25,000 for medical payments, per person; \$25,000 per accident for personal lines |
| Reinsurance premium: | 50% of the company's net premium written
Annual deposit premium = \$114,089 |
- | | |
|----------------------|---|
| Type of contract: | Exhibit B1 First Surplus |
| Lines reinsured: | All property business |
| Company's retention: | \$1,000,000 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

Pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded |
| Reinsurance premium: | Pro rata share of all premiums and fees charged by the company corresponding to the amount of each risk ceded
Annual deposit premium = \$119,500 |

	Ceding commission:	Commission rate = 15%, plus 15% profit commission
3.	Type of contract:	Exhibit C1 First Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	\$75,000
	Coverage:	100% of each and every loss, including loss adjustment expense, in excess of \$75,000, subject to a limit of liability to the reinsurer of \$125,000
	Reinsurance premium:	6.00% of the company's net premiums in respect to the business covered Annual deposit premium = \$79,159
4.	Type of contract:	Exhibit C2 Second Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	\$200,000
	Coverage:	100% of each and every loss, including loss adjustment expense, in excess of \$200,000, subject to a limit of liability to the reinsurer of \$300,000
	Reinsurance premium:	4.25% of the company's net premiums in respect to the business covered Annual deposit premium = \$56,071
5.	Type of contract:	Exhibit C3 Third Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	\$500,000
	Coverage:	100% of each and every loss, including loss adjustment expense, in excess of \$500,000, subject to a limit of liability to the reinsurer of \$1,000,000
	Reinsurance premium:	2.00% of the company's net premiums in respect to the business covered Annual deposit premium = \$26,386
6.	Type of contract:	Exhibit D1 First Aggregate Excess of Loss
	Lines reinsured:	All business
	Company's retention:	70.0% of net premium written
	Coverage:	100% of each and every loss in excess of 70% of net premium written up to 140%, including loss adjustment expenses

Reinsurance premium:	12.75% of net written premium Annual deposit premium = \$182,760 Estimated attachment point = \$1,003,388
7. Type of contract:	Exhibit D2 Second Aggregate Excess of Loss
Lines reinsured:	All business
Company's retention:	140% of net premium written
Coverage:	100% of annual aggregate losses in excess of the retention, including loss adjustment expenses
Reinsurance premium:	5.5% of net written premium Annual deposit premium = \$78,838

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."

Arlington Mutual Fire Insurance Company
Statement of Assets and Liabilities
As of December 31, 2015

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in checking	\$ 91,989	\$	\$	\$ 91,989
Cash deposited at interest	1,720,413			1,720,413
Bonds	204,502			204,502
Stocks and mutual fund investments	907,698			907,698
Real estate	11,811			11,811
Premiums, agents' balances, and installments:				
In course of collection	51,917		918	50,999
Deferred and not yet due	125,345			125,345
Investment income accrued		2,589		2,589
Reinsurance recoverable on paid losses and LAE	6,435			6,435
Electronic data processing equipment	1,197			1,197
Fire dues recoverable	1,850			1,850
Reinsurance premium recoverable	57,935			57,935
Other expense-related:				
Reinsurance commission receivable	14,472			14,472
Furniture and fixtures	171		171	
Other nonadmitted assets:				
Prepaid expense	<u>3,137</u>	<u> </u>	<u>3,137</u>	<u> </u>
Totals	<u>\$3,198,872</u>	<u>\$2,589</u>	<u>\$4,226</u>	<u>\$3,197,235</u>

Liabilities and Surplus

Net unpaid losses	\$ 46,649
Unpaid loss adjustment expenses	1,635
Commissions payable	49,576
Unearned premiums	727,456
Amounts withheld for the account of others	473
Other liabilities:	
Expense-related:	
Accounts payable	10,240
Accrued property taxes	3,554
Accrued salaries and wages	5,907
Nonexpense-related:	
Premiums received in advance	<u>57,210</u>
Total liabilities	902,700
Policyholders' surplus	<u>2,294,535</u>
Total Liabilities and Surplus	<u>\$3,197,235</u>

Arlington Mutual Fire Insurance Company
Statement of Operations
For the Year 2015

Net premiums and assessments earned		\$1,098,740
Deduct:		
Net losses incurred	\$309,238	
Net loss adjustment expenses incurred	86,137	
Net other underwriting expenses incurred	<u>504,241</u>	
Total losses and expenses incurred		<u>899,616</u>
Net underwriting gain (loss)		199,124
Net investment income:		
Net investment income earned	30,903	
Net realized capital gains (losses)	<u>(107)</u>	
Total investment gain (loss)		30,796
Other income (expense):		
Miscellaneous income		<u>49,406</u>
Net Income (Loss)		<u>\$ 279,328</u>

**Arlington Mutual Fire 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	\$1,977,446	\$2,128,814	\$2,359,634	\$2,818,706	\$3,289,065	\$3,239,449
Net income (loss)	279,328	(276,205)	(240,331)	(371,524)	(471,940)	18,912
Net unrealized capital gain or (loss)	37,366	122,476	12,327	(84,097)	(3,709)	23,799
Change in nonadmitted assets	<u>395</u>	<u>2,361</u>	<u>(2,816)</u>	<u>(3,451)</u>	<u>5,290</u>	<u>6,905</u>
Surplus, End of Year	<u>\$2,294,535</u>	<u>\$1,977,446</u>	<u>\$2,128,814</u>	<u>\$2,359,634</u>	<u>\$2,818,706</u>	<u>\$3,289,065</u>

Reconciliation of Policyholders' Surplus

No adjustments were made to surplus as a result of the examination. The amount of surplus 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. Underwriting—It is recommended that the company include the outside inspection reports in its policy files and document that the reports were reviewed by the office manager and, as warranted, by the adjustment committee.

Action—Compliance.

2. Investment Rule Compliance—It is recommended that the company continue to comply with the requirements of s. Ins 6.20 (6) (b) 6., Wis. Adm. Code, regarding the investment limitation in money market mutual funds.

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.

In accordance with the provisions of s. Ins 6.52, Wis. Adm. Code, a report shall be provided to the Commissioner by a company with respect to the appointment or election of any new director, trustee or officer elected or appointed within 15 days after such appointment or election. While reviewing the biographies of the current directors of the company, it was discovered that there were three biographies missing. These biographies were for the three most recently elected directors. It is recommended that the company report biographical data relating to officers and directors 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:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Errors and omissions on agents	3,000,000
Deductible	5,000
Professional liability directors and officers	
Company professional liability	3,000,000
Directors and officers	3,000,000
Deductible	10,000
Commercial liability	
General aggregate limit	2,000,000
Products aggregate limit	2,000,000
Personal and advertising limit	2,000,000
Each occurrence limit	2,000,000
Damage to premises	325,000
Medical limit per person	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.

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 computer is limited to people authorized to use the computer.

Company personnel back up the computers daily and the backed-up data is kept on-site in a fire-proof vault.

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 not developed, or was not able to produce upon request, a written business continuity plan. It is recommended that the company develop and the board of directors approve a formal written Disaster Recovery Plan to provide alternative plans and resources necessary for company business continuation in the event of significant business interruption, which should be filed with this office when completed.

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 not in compliance with these requirements. During the review by examiners, it was found that the custodial agreement between Arlington Mutual Fire Insurance Company and U.S. Bank is deficient in several safeguards as required by NAIC guidelines. It is recommended that the company amend the custodial agreement with U.S. Bank to contain satisfactory safeguards and controls consistent with the NAIC's Financial Condition Examiners Handbook. Under normal operating procedure of the company, non-negotiable evidences of investments are stored in a fire proof walk-in "safe" at the company office premises. During the examination, the company acknowledged custody of certain stock certificates but was unable to locate them. It is recommended that the company comply with s. Ins 13.05, Wis. Adm. Code, as regards to custody and control of its invested assets. It is further recommended that if the company is unable to locate its stock certificates after a thorough and diligent effort, it should seek to replace them.

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	\$1,202,700
2. Liabilities plus 33% of gross premiums written	1,440,952
3. Liabilities plus 50% of net premiums written	1,379,433
4. Amount required (greater of 1, 2, or 3)	1,440,952
5. Amount of Type 1 investments as of 12/31/2015	<u>2,020,614</u>
6. Excess or (deficiency)	<u>\$ 579,662</u>

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **\$1,812,402**

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

Cash in company's office	\$ 0
Cash deposited in banks—checking accounts	91,989
Cash deposited in banks at interest	<u>1,720,413</u>
Total	<u>\$1,812,402</u>

The company keeps no cash in the company's office.

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 25 deposits in 16 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 \$17,708 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.5% to 2.81%. Accrued interest on cash deposits totaled \$1,574 at year-end.

Book Value of Bonds **\$204,052**

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 located in a custodial account with U.S. Bank.

The year-end 2015 custodial account statement was reviewed 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 \$6,361 and was traced to cash receipts records. Accrued interest of \$1,015 at December 31, 2015, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **\$907,698**

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 custodial account with U.S. Bank, with the exception of stock holdings in NAMIC Insurance Company, Inc. (NAMIC) and Wisconsin Reinsurance Corporation (WRC), which are held by the company in certificate form. The company was unable to locate the WRC and NAMIC stock certificates at the time of the examination.

The year-end 2015 custodial statement was reviewed 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 \$34,071 and were traced to cash receipts records. There were no accrued dividends at December 31, 2015.

Book Value of Real Estate **\$11,811**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2015. The company's real estate holdings consisted of a commercial office building located at 203 Main Street, Arlington, Wisconsin.

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 depreciation method.

Premiums, Agents' Balances in Course of Collection **\$50,999**

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 record verified the accuracy of this asset.

Premiums Deferred and Not Yet Due **\$125,345**

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 **\$2,589**

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

Cash deposited at interest	\$1,574
Bonds	<u>1,015</u>
Total	<u>\$2,589</u>

Reinsurance Recoverable on Paid Losses and LAE **\$6,435**

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 **\$1,197**

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.

Fire Dues Recoverable **\$1,850**

This asset represents the amount overpaid to the state of Wisconsin for 2015 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 **\$57,935**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2015. The examiners verified the balance directly with the reinsurer.

Reinsurance Commission Receivable **\$14,472**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2015, based on the profitability of the business ceded under its contract with Wisconsin Reinsurance Corporation. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Furniture and Fixtures **\$0**

This asset consists of \$171 of office furniture and fixtures, net of depreciation, 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 **\$46,649**

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. To the actual paid loss figure was added an estimated amount for 2015 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	\$266,294	\$250,327	\$15,967
Less: Reinsurance recoverable on unpaid losses	<u>219,645</u>	<u>213,789</u>	<u>5,856</u>
Net Unpaid Losses	<u>\$ 46,649</u>	<u>\$ 36,538</u>	<u>\$10,111</u>

The above difference of \$10,111 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 **\$1,635**

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 based on 8% of the total gross property liability unpaid.

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 **\$49,576**

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

Unearned Premiums **\$727,456**

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.

Amounts Withheld for the Account of Others **\$473**

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.

Accounts Payable **\$10,240**

This liability represents miscellaneous company liabilities that were incurred prior to December 31, 2015, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accrued Property Taxes **\$3,554**

This liability represents the company's portion of tax due to Columbia County. This is based on an estimate of previous taxes. All real estate taxes are paid in arrears.

Accrued Salaries and Wages **\$5,907**

This liability consists of the accruals for wages as of December 31, 2015. The examiners reviewed the company's wage calculation and found the liability to be reasonably stated.

Premiums Received in Advance

\$57,210

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

The examination resulted in four recommendations. The company was in compliance with all recommendations made on the previous examination. No adjustments to surplus or reclassifications of account balances were made.

Since the prior examination, surplus decreased 29.2% to \$2,294,535 and admitted assets decreased 24.9% to \$3,197,235. The number of policyholders decreased during the same period by 244 members, or just over 10%, to 2,080 policyholders. Net premium written decreased 13.5% due to the decrease in policyholders and changes in underwriting guidelines. The company is well capitalized, and after implementing changes to underwriting guidelines, Arlington Mutual Fire Insurance Company earned a net income of \$279,328 in 2015, following four years of net losses from operations.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Corporate Records—It is recommended that the company report biographical data relating to officers and directors in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.
2. Page 17 - Business Continuity Plan—It is recommended that the company develop and the board of directors approve a formal written Disaster Recovery Plan to provide alternative plans and resources necessary for company business continuation in the event of significant business interruption, which should be filed with this office when completed.
3. Page 18 - Invested Assets—It is recommended that the company amend the custodial agreement with U.S. Bank to contain satisfactory safeguards and controls consistent with the NAIC's Financial Condition Examiners Handbook.
4. Page 18 - Invested Assets—It is recommended that the company comply with s. Ins 13.05, Wis. Adm. Code, as regards to custody and control of its invested assets. It is further recommended that if the company is unable to locate its stock certificates after a thorough and diligent effort, it should seek to replace them.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

James Lindell
Examiner-in-Charge