Report

of the

Examination of

River Valley Mutual Insurance Company

Whitehall, Wisconsin

As of December 31, 2013

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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May 2, 2014

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, 2013, of the affairs and financial condition of:

RIVER VALLEY MUTUAL INSURANCE COMPANY
Whitehall, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

River Valley Mutual Insurance Company (RVMIC or the company) is the result of a merger between West Central Mutual Insurance Company (WCMIC) and Fountain City Mutual Insurance Company (FCMIC) on January 1, 2013, with West Central Mutual Insurance Company being the surviving entity. After the merger the surviving company changed its name to River Valley Mutual Insurance Company. The previous examination of West Central Mutual Insurance Company was made in 2008 as of December 31, 2007. The previous examination of Fountain City Mutual Insurance Company was made in 2010 as of December 31, 2009. The current examination covered the intervening time period of six years ending December 31, 2013, 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.

West Central Mutual Insurance Company was organized as a town mutual insurance company in 1871 and commenced business in February 1872 and was originally named Trempealeau County Farmers Mutual Fire Insurance Company. Fountain City Mutual Insurance Company was organized as a town mutual insurance company on May 16, 1874, and was originally named Fountain City Mutual Farmers Insurance Company.

The new articles of incorporation and bylaws became effective January 1, 2013, and reflect the company's name which is presently used. The restated articles of incorporation closely follow the articles of the two predecessor companies. The membership of the board of the new company is made up of all members of the previous town mutuals, with the exception of one member who was selected as the President and Chief Executive Officer of RVMIC. The articles allow the board to shrink by attrition from an initial membership of 15 directors to 9, with each of the predecessor companies to be represented by at least 4 directors (there are currently 14 members, with 1 member of the initial 15 resigning in 2013). See further discussion in the report under the section titled “Current Examination Results.” No changes have been made to the restated articles and bylaws since they became effective.

The merger maintained the relationship of the RVMIC to its wholly owned subsidiary insurance agency, West Central Insurance Services, Inc. The agency is further discussed in this report under the section titled “Affiliated Companies.” The company’s service area includes all eight counties that both predecessor mutuals had serviced: the two counties served by West Central and two served by Fountain City that were exclusive to them and the four new counties added to the northern part of the service area to add additional geographic diversification.

RVMIC retained the former employees of the predecessor town mutuals, and the two former managers became officers of RVMIC.

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:

Barron	Monroe
Buffalo	Pepin
Chippewa	Pierce
Clark	Rusk
Dunn	St. Croix
Eau Claire	Sawyer
Jackson	Trempealeau
LaCrosse	Vernon

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. Policy fees are charged to the policyholder and are retained by the company.

Business of the company is acquired through 71 agents, 1 of whom is a director of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
New and renewal business	15%

Agents do not adjust losses. The company has a salaried employee specifically for adjusting claims. It also uses an outside adjustor for some claims.

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 14 members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board are not being filled so that the number of board members will be reduced by attrition until the number of board members remaining reaches 9. Initially, following the merger, the board had 15 members consisting of all the currently serving members of the boards of the two town mutuals that were party to the merger.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Jeremy Anderson	Crop Farmer	Alma, WI	2016
Mark Denk	Farmer and Instructor	Mondovi, WI	2015
Melvin Berg	Dairy Farmer	Arcadia, WI	2016
Donald Hartung	Crop Farmer	Eau Galle, WI	2016
Dean Boehne	Tax Accountant	Strum, WI	2015
Daniel Lilla	Farmer	Trempealeau, WI	2015
Allen Bohac	Farmer	Alma Center, WI	2016
Gary Monson	Retired	Strum, WI	2017
Gary Bond	Commercial Bus Driver	Fountain City, WI	2017
Kevin Schroeder	Network Administrator	Whitehall, WI	2017
Mark Schultz	Crop Farmer	Alma, WI	2015
Harland Vold, Vice Chair	Retired	Osseo, WI	2017
William Weiss, Jr.	Realtor	Mondovi, WI	2017
Lee Wieland*, Chair	Agent	Arcadia, WI	2015

* Directors who are also agents are identified with an asterisk.

The Chair is paid a salary of $1,200, and the Vice Chair is paid a salary of $250. Members of the board currently receive $100 for each board meeting attended, $75 for each committee meeting, and are reimbursed at the IRS-approved rate for mileage.

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	2014 Compensation
Paul Rosenow	President & CEO	$60,000
Jean Reuter	Vice President &Treasurer	47,035
Ellen Koxlein	Secretary	57,957

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 allow for the formation of certain committees by the board of directors. Each committee shall consist of three or more directors and may include non-director officers as non-voting members. The committees at the time of the examination are listed below:

Executive/Compensation Committee
Daniel Lilla, Chair
Paul Rosenow *
Jean Reuter *
Ellen Koxlien *
Lee Wieland
Harlan Vold

Corporate Governance Committee
Don Hartung, Chair
Jeremy Anderson
Mark Denk

Claims Committee
Allen Bohac, Chair
Kevin Schroeder

Investment Committee
Mark Schulz, Chair
Gary Bond
Gary Monson
Paul Rosenow *
Jean Reuter *
Ellen Koxlien *

Audit Committee
Dean Boehne, Chair
William Weiss, Jr.
Melvin Berg

* non-director officers

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows. As discussed earlier, Fountain City Mutual Insurance Company merged with and into West Central Mutual Insurance Company on January 1, 2013. The surviving company changed its name to River Valley Mutual Insurance Company. The financial data and other key information presented in this report are for the combined companies.

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2013	$1,263,986	2,454	$(174,489)	$4,411,962	$3,005,296
2012	1,149,612	2,224	(491,643)	4,059,971	3,078,613
2011	1,099,893	2,166	203,327	4,973,941	3,949,268
2010	1,060,087	2,159	(37,549)	4,798,331	3,723,278
2009	1,074,801	2,194	215,063	4,727,122	3,645,267
2008	1,087,856	2,224	202,761	4,719,060	3,658,025

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	Writings Ratios Gross
2013	$2,106,720	$1,477,347	$3,005,296	49.2%	70.1%
2012	1,807,562	1,172,742	3,078,613	38.1	58.7
2011	1,735,916	1,112,115	3,949,268	28.2	44.0
2010	1,717,914	1,050,017	3,723,278	28.2	46.1
2009	1,735,456	1,067,561	3,645,267	29.3	47.6
2008	1,734,846	1,064,652	3,628,025	29.3	47.8

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

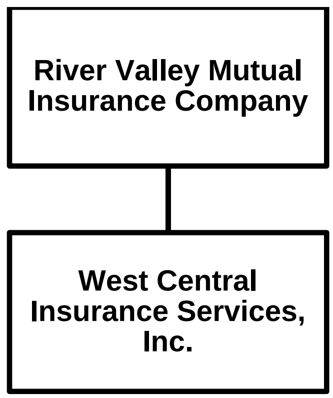
Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Premiums Earned	Loss Ratio	Expense Ratio	Com-posite Ratio
2013	$ 883,711	$721,416	$1,263,986	69.9%	48.8%	118.7%
2012	1,183,591	621,533	1,149,612	103.0	53.0	156.0
2011	444,034	600,864	1,099,893	40.4	54.0	94.4
2010	731,293	564,663	1,060,087	69.0	53.8	122.8
2009	500,335	553,707	1,074,801	46.6	51.9	98.5
2008	548,645	541,401	1,087,856	50.4	50.9	101.3

In the previous six years, on the combined basis, the company experienced four years of net operating losses and three years of net losses. The losses in 2012 resulted largely from one devastating hailstorm that came through the company's territory on May 2. The losses experienced in 2013 resulted from an unusually large number of large fire claims. The company has maintained and grown its policies in force, reaching the highest level in six years in 2013 at 2,454, up 10.3% since 2008. Surplus has declined by 17.8% since 2008; the decline coming principally in the past two years due to the unfavorable operating results.

II. AFFILIATED COMPANIES

River Valley Mutual Insurance Company is a member of a holding company system. It is the ultimate parent. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the affiliate follows the organizational chart.

Holding Company Chart
As of December 31, 2013



West Central Insurance Services, Inc.

West Central Insurance Services, Inc. (WCIS or the agency) was formed on October 17, 1994, for the purpose of marketing WCMIC's insurance products and for offering insurance products that the company does not write such as auto, worker's compensation, special events, and placing risks that the company chooses not to insure such as vacant properties and high-value dwellings. Using the agency, agents could write nearly all P&C policies their clients needed which improves their ability to retain business and qualify for multi-policy discounts that could not be obtained through the company alone. WCMIC acquired a block of policies from a former president of the company, and three more books of business were acquired over the years. There have been no additional acquisitions in recent years. WCMIC capitalized the agency at $20,000 and owned 100% of the stock. WCIS currently has 200 issued and outstanding shares of $100 par value common stock. After the merger RVMIC owns all issued and outstanding common stock of the agency. The board of directors for River Valley Mutual Insurance Company serve the same position with WCIS.

WCIS currently has a service agreement with RVMIC. According to the terms of the agreement RVMIC provides administrative services, including accounting, occasional data processing and staffing support services as well as any other services agreed upon by the parties. The agreement was entered into on January 1, 2014, for an initial one-year term and automatically renews for successive one-year terms unless terminated by either party by giving a 30-day written notice to the other party.

It was noted by the examiners that RVMIC has not filed proper notification to OCI for the agency service agreement as required by s. Ins 40.04 (2) (d), Wis. Adm. Code. See further discussion in the report under the section titled "Current Examination Results."

WCIS pays RVMIC a fee for the administrative services provided under the agreement in monthly installments on the first day of each month. The fee is adjusted annually or as needed to reflect the value of the administrative services provided by RVMIC. WCIS also pays rent monthly on the first business day of the month for the use of the agreed space for that current month. The rent can be adjusted annually in concurrence with the term of the agreement. In discussions with management, it was noted that WCIS was formerly charged a percentage of operating expenses of RVMIC; the allocation of expenses has more recently been based upon actual expenses attributable to WCIS, and the organizations have tried to separate all expenses between the company and the agency. Rent is assessed based upon the actual square footage that is attributable to use by WCIS.

In 2013, WCIS was charged $142,061 by RVMIC under the administrative services agreement, and RVMIC paid commissions of $94,811 to WCIS. As of December 31, 2013, WCIS's statutory equity was $387,265.

III. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty reviewed contained the 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.

The coverages provided under the treaty are summarized as follows:

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2014
Termination provisions:	At any January 1 by either party giving 90 days' prior written notice

The coverage provided under this treaty is summarized as follows:

1.	Type of contract:	Casualty Excess of Loss Reinsurance – Exhibit
	Lines reinsured:	All casualty or liability business written by the company
	Company's retention:	$10,000
	Coverage:	100% of each and every loss occurrence, including loss adjustment expense, in excess of the company's retention subject to the maximum policy limits of: a. $1,000,000 per occurrence, single limit, combined for bodily injury and property damage liability b. $1,000,000 split limits, in any combination of bodily injury and property damage liability c. $25,000 for medical payments, per person d. $25,000 for medical payments, per accident, for personal lines
	Reinsurance premium:	43.48% of the company's net premium
2.	Type of contract:	First Surplus Reinsurance – Exhibit B1
	Lines reinsured:	All property business written by the company
	Company's retention:	$500,000 When the company's first surplus liability in respect to a risk exceeds the retention, the company may cede on a pro rata basis and the reinsurer shall accept up to $2,000,000 of pro rata reinsurance coverage of such risk. Any single location which is in excess of $2,500,000 of property coverage, or otherwise beyond the terms, conditions, and limitations of the contract, may be submitted to the reinsurer for special acceptance.
	Coverage:	Pro rata share of each and every loss, including loss adjustment expense, corresponding to the amount of the

		risk ceded by the company as it bears to the company's gross liability on such risk
	Commission rate:	15%, plus 15% profit commission
3.	Type of contract:	First Per Risk Excess of Loss Reinsurance – Exhibit C1
	Lines reinsured:	All property business written by the company
	Company's retention:	$55,000
	Coverage:	100% of each and every loss, including loss adjustment expense, in excess of the retention up to the limit of $95,000
	Reinsurance premium:	6.00% of the company's net premium
4.	Type of contract:	Second Per Risk Excess of Loss Reinsurance – Exhibit C2
	Lines reinsured:	All property business written by the company
	Company's retention:	$150,000
	Coverage:	100% of each and every loss, including loss adjustment expense, in excess of the retention up to the limit of $350,000
	Reinsurance premium:	3.00% of the company's net premium
5.	Type of contract:	First Aggregate Excess of Loss Reinsurance – Exhibit D1
	Lines reinsured:	All business written by the company
	Company's retention:	70% of net premiums written; est. attachment point $1,237,613
	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 70% of net premium written (losses from 70% to 140% of net premium written)
	Reinsurance premium:	13.25% of the company's net premium
6.	Type of contract:	Second Aggregate Excess of Loss Reinsurance – Exhibit D2
	Lines reinsured:	All business written by the company
	Company's retention:	140% of net premiums written
	Coverage:	100% of all loss including loss adjustment expenses
	Reinsurance premium:	3.50% of the company's net premium

IV. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2013, 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."

River Valley Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2013

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 300	$	$	$ 300
Cash in checking	90,562			90,562
Cash deposited at interest	990,990			990,990
Bonds	556,569			556,569
Stocks and mutual fund investments	2,142,409			2,142,409
Real estate	273,893			273,893
Premiums, agents' balances and installments:				
In course of collection	7,534		850	6,684
Deferred and not yet due	240,233			
Investment income accrued		8,842		8,842
Reinsurance recoverable on paid losses and LAE	64,305			64,305
Electronic data processing equipment	30,849			30,849
Other expense-related assets:				
Reinsurance commission receivable	3,074			3,074
Due from agency	872			872
Other nonexpense-related assets:				
Federal income tax recoverable	2,380			2,380
Furniture and fixtures	13,327		13,327	
Other nonadmitted assets:				
Defined benefit overfunded plan asset	8,814		8,814	
Rent receivable	3,536		3,536	
Totals	$4,429,647	$8,842	$26,527	$4,411,962

River Valley Mutual Insurance Company
Statement of Assets and Liabilities (cont.)
As of December 31, 2013

Liabilities and Surplus

Net unpaid losses	$ 194,347
Unpaid loss adjustment expenses	6,900
Commissions payable	81,305
Fire department dues payable	2,510
Unearned premiums	904,693
Reinsurance payable	124,541
Amounts withheld for the account of others	10,405
Payroll taxes payable (employer's portion)	2,537
Other liabilities:	
Expense-related:	
Accounts payable	4,591
Accrued property taxes	6,730
Accrued vacation and sick pay	28,418
Pension liability payable	1,288
Nonexpense-related:	
Premiums received in advance	37,298
Security deposits	1,103
Total liabilities	1,406,666
Policyholders' surplus	3,005,296
Total Liabilities and Surplus	$4,411,962

River Valley Mutual Insurance Company
Statement of Operations
For the Year 2013

Net premiums and assessments earned		$1,263,986
Deduct:		
Net losses incurred	$737,917	
Net loss adjustment expenses incurred	145,794	
Net other underwriting expenses incurred	721,416	
Total losses and expenses incurred		1,605,127
Net underwriting gain (loss)		(341,141)
Net investment income:		
Net investment income earned	301	
Net realized capital gains (losses)	27,779	
Total investment gain (loss)		28,080
Other income (expense):		
Policy fees and miscellaneous income	138,572	
Total other income		138,572
Net income (loss) before federal income taxes		(174,489)
Federal income taxes incurred		
Net Income (Loss)		$ (174,489)

River Valley Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Six-Year Period Ending December 31, 2013

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:

	2013	2012	2011	2010	2009	2008
Surplus, beginning of year	$3,078,613	$3,949,268	$3,723,278	$3,645,267	$3,658,025	$3,306,518
Net income	(174,489)	(491,643)	203,327	(37,549)	215,063	202,761
Net unrealized capital gain or (loss)	109,592	(380,588)	21,811	115,917	(221,351)	147,248
Change in nonadmitted assets	(17,234)	1,576	852	(357)	(6,470)	1,498
Other gains and (losses) in surplus:						
Defined benefit overfunded plan asset	8,814					
Surplus, End of Year	$3,005,296	$3,078,613	$3,949,268	$3,723,278	$3,645,267	$3,658,025

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders’ surplus. The amount reported by the company as of December 31, 2013, is accepted.

V. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report of West Central Mutual Insurance Company as of December 31, 2007, and the action taken on them by the company are as follows:

1. Corporate Records—It is recommended that the board of directors' minutes indicate approval of investments purchased and sold at each board meeting following the purchase or sale of investments.

   Action—Compliance.

2. Corporate Records—It is recommended that the company develop a procedure for the annual review of agreements, procedures, and reports to see that they are current and that the company make changes as needed.

   Action—Compliance.

3. Conflict of Interest—It is recommended that directors disclose an agent appointment to a competing insurer as a potential conflict of interest.

   Action—Compliance.

4. Agency Operations—It is suggested that in the future the company avoid the appearance of violating ss. 612.18 and 611.60, Wis. Stat., as regards transactions with directors and officers by complying with the procedures and reporting requirements of these statutes.

   Action—Compliance.

5. Accounts and Records—It is recommended that the company have a proper policy register and other reports that have the correct effective date (and expiration date) in compliance with s. Ins 13.05, Wis. Adm. Code.

   Action—Compliance.

Comments and recommendations contained in the last examination report of Fountain City Mutual Insurance Company as of December 31, 2009, and the action taken on them by the company are as follows:

1. Corporate Records—It is recommended that the company record the number of policyholders present at policyholders' meetings in the meeting minutes to evidence that a quorum is present.

   Action—Compliance.

2. Conflict of Interest—It is recommended that the company retain a record of its conflict of interest forms.

   Action—Compliance.

Current Examination Results

Board Membership

The bylaws of the company prescribe that until the company's board membership falls to nine members by attrition, a minimum of four representatives of each former company be maintained on the board. This provision is unclear as to the time that the provision would no longer be effective. There is no apparent time limit for the continuance of the four-member requirement. It is recommended that the company amend its bylaws to have the representation provision sunset on a specific date.

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:	
Each accident	500,000
Each employee	500,000
Policy limit	500,000
Property and liability	
Buildings	640,500
Business personal property	112,500
Liability and med expenses	1,000,000
Other than products	2,000,000
Products aggregate	2,000,000
Auto liability	2,000,000
D&O coverage	
Each claim	2,000,000
Aggregate coverage	2,000,000

The coverages carried by the company appear adequate.

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 a company inspector. Also, agents are to do inspections of property every three years.

Agency Operations

The company established an agency, West Central Insurance Services, Inc., which was described in the section of this report entitled "Affiliated Companies." Establishing this agency subjected the company to ch. Ins 40, Wis. Adm. Code, Insurance Holding Company System Regulation. In accordance with ch. Ins 40, Wis. Adm. Code, the company is required to make certain filings in relation to this subsidiary. This includes the annual registration statement, Form B, the summary registration statement, Form C, and any other filings which may be required by administrative rule. The company has made the appropriate Form B and C holding company filings since the last examination but has not made a Form D report to OCI for the service agreement with the agency. According to s. Ins 40.04 (2) (d), Wis. Adm. Code, all management or service contracts between affiliated companies must be reported to the commissioner at least 30 days before the company enters into the contract. It is recommended that the company make a Form D holding company filing to this office for the service agreement with WCIS and file an additional notice for any changes made to the agreement as required by s. Ins 40.04 (2) (d), Wis. Adm. Code.

Claims Adjusting

The company has an adjusting committee, but it does not consist of at least three directors as required by s. 612.13 (4), Wis. Stat. The current committee has only two members. The function of this committee is to adjust or supervise the adjustment of losses. It is recommended that the company appoint a third member to the adjusting committee to be in compliance with s. 612.13 (4), Wis. Stat.

Accounts and Records

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

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

The company is still in the process of merging two separate data systems that were maintained by WCMIC and FCMIC prior to the merger. For this reason, a number of the reports provided for this examination included two separate items which consisted of policies formerly written by the two mutuals that were merged. Management assured the examiners that it is working toward consolidation.

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, 2013.

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 computer system daily and the backed-up data is kept on an external stand-alone computer hard drive while also simultaneously backing up to external hard drive (EHD) cartridges on a daily rotating basis.

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. If access to the computers is not available, computer file access repairs would be performed by the company's vendor. The vendor has the capability and resources to get the company back up and running in a limited amount of time with spare servers on hand and the ability to set up virtual private networks for employees to work from home or a different physical location. The company successfully preformed a test of the backup system in April 2014 when the external hard drive data was copied to another server offsite to test the integrity and functionality of a restoration if the need arises. Computer system backup file testing information is monitored by the computer vendor and if an unsuccessful backup is detected it is dealt with immediately upon notification. In the event the office in Whitehall is unusable, the Fountain City branch office is available with space for temporary office headquarters and is wired for computer access to the WAN. 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 securities are held under a custodial agreement with a bank. 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	$1,706,666
2.	Liabilities plus 33% of gross premiums written	2,101,884
3.	Liabilities plus 50% of net premiums written	2,145,340
4.	Amount required (greater of 1, 2, or 3)	2,145,340
5.	Amount of Type 1 investments as of December 31, 2013	1,735,360
6.	Excess or (deficiency)	$ (409,980)

The company does not have sufficient Type 1 investments. It is suggested that in order to increase its Type 1 investments the company consider having the wholly owned insurance agency dividend a portion of its equity to the company and invest this dividend in Type 1 investments.

On April 23, 2013, the company was granted an exception to the limitation imposed by s. Ins 6.20 (6) (d) 3., Wis. Adm. Code, which limits the company's investment in common and preferred stock and convertible securities, including Wisconsin Reinsurance Corporation (WRC) stock, to 25% of admitted assets. OCI approved the company's request for an increase in the limit of the company's investments in equity mutual funds, common and preferred stock, including the WRC stock, and convertible securities, to 45% of admitted assets. See further discussion in the report under the section titled "Subsequent Events."

ASSETS

Cash and Invested Cash **$1,081,852**

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

Cash in company's office	$ 300
Cash deposited in banks—checking accounts	90,562
Cash deposited in banks at interest	990,990
Total	$1,081,852

Cash in the company's office at year-end represents the company's petty cash fund. A physical count was not made by the examiners during the course of the examination as this amount was not considered material.

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

Cash deposited in banks represents the aggregate of 13 deposits in 6 depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates. Interest received during the year 2013 totaled $14,816 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.150% to 1.910%. Accrued interest on cash deposits totaled $4,380 at year-end.

Book Value of Bonds **$556,569**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2013. Bonds owned by the company are held under a custodial agreement with a bank.

Bonds were traced to the company’s investment custodial account 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 not in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

The company's bond portfolio includes four securities with floating rates, including three securities with interest rates that are based upon year-over-year changes in the Consumer Price Index. The floating rates cause the cash flows of the securities to be unpredictable because the interest payments are based on specified variables such as market or consumer indexes, rates, or other variables. The floating rates can be subject to wide fluctuation based on changing economic conditions or other circumstances.

Town mutual insurers are considered restricted insurers under s. 620.03 (1), Wis. Stat., and s. Ins 6.20 (6) (a), Wis. Adm. Code, and, as such, are subject to limitation over their investments. This office has imposed and may impose additional special investment restrictions for town mutual insurers if the investment creates additional risk which may compromise their financial position and ability to pay policyholders' claims in full and in a timely manner. Furthermore, pursuant to s. 620.04 (1), Wis. Stat., this office may impose reasonable and temporary restrictions upon the investments of an individual insurer, including prohibition or divestment of a particular asset. This office concludes that the company's investment strategy presents an unreasonable amount of risk to the company and is not appropriate for a town mutual insurance company at this time. The basis for this conclusion and the company's action required by this office is described below.

The risk that the market for trading these securities may not necessarily exist or be maintained in the future is substantially exacerbated by the very small size of the variable rate corporate debt issues that the company has purchased. Large issues tend to trade more frequently than small issues and investors may have greater awareness about a larger issue because it is widely held and analyzed. An issue size of $250 million represents an approximate lower boundary for a bond issue to attract significant institutional interest when liquidity is a concern. For example, the minimum par amount outstanding for a bond issue's inclusion in the Barclays U.S. Corporate Index is $250 million. The minimum par amount outstanding for a bond issue's inclusion in the Barclays U.S. Floating Rate Note Index is $300 million. A review of the company's variable rate corporate bond portfolio revealed that three of the bonds had the par amounts outstanding ranging from $25,000,000 to $45,000,000.

The objectives of investment regulations as defined in s. 620.01, Wis. Stat., include, in part, to provide for the safety of principal and, to the extent consistent therewith, maximum yield and growth, and to provide sufficient liquidity to avoid the necessity in reasonably expected circumstances for selling assets at undue sacrifice. The interest rate on some of these bonds could drop to 0% for a prolonged period of time, which could significantly impair the value of the bond and prevent the company from earning a reasonable return on their investment. There also may not be a trading market for the security rendering the investment illiquid. In the event that the company may need to dispose of the bond in order to pay claims, there may be no readily available market. It is recommended that, if the company invests in any variable rate corporate debt security, such security must have the following characteristics:

a. the reference for setting the interest rate must be a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
b. the interest rate must have a floor in excess of zero percent; and
c. the total outstanding principal amount of the security at the time of issuance must equal or exceed $250 million.

For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:

a. may assume that any U.S. Dollar London Interbank Offered Rate will exceed zero percent; and
b. may invest in a security that specifies some increment of interest in excess of a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and
d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate of a single specified duration, unless such increment is expressed as a percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable).

It is recommended that the board of directors modify its written investment policy to specify, in accordance with the instructions included in this report, acceptable characteristics of the investments in variable rate corporate debt securities and provide this office with a copy of the revised investment policy within 60 days of the adoption of this report.

Interest received during 2013 on bonds amounted to $10,285 and was traced to cash receipts records. Accrued interest of $4,462 at December 31, 2013, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$2,142,409**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2013. Stocks owned by the company are held under a custodial agreement with a bank and located in the company's office in the case of Namico, Wisconsin Reinsurance Corporation, and West Central Insurance Services, Inc., stock.

Stock certificates held by the company were physically examined by the examiners, and financial advisor's and custodial statements were examined for confirmation of stocks and mutual funds held under the custodial agreement. Stock and mutual fund purchases and sales for the period under examination were checked to financial advisor's statements. 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 2013 on stocks and mutual funds amounted to $20,080 and were traced to cash receipts records. There were no accrued dividends at December 31, 2013.

Book Value of Real Estate **$273,893**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2013. The company's real estate holdings consisted of its home office building in Whitehall and the office building in Fountain City.

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 **$6,684**

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 **$240,233**

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 **$8,842**

Interest due and accrued on the various assets of the company at December 31, 2013, consists of the following:

Cash at interest	$4,380
Bonds	4,462
Total	$8,842

Reinsurance Recoverable on Paid Losses and LAE **$64,305**

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, 2013. A review of year-end accountings with the reinsurer and reconciliation of reinsurance received verified the above asset.

Electronic Data Processing Equipment **$30,849**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2013. A review of receipts and other documentation verified the balance.

Reinsurance Commission Receivable **$3,074**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2013, 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.

Due from Agency **$872**

The above asset represents the amount due from the wholly owned agency, West Central Insurance Services, Inc., described above in "Affiliated Companies." A review of the agency's accounts verifies that the amount reported was for a computer purchased for the agency and was shown as a payable by the agency.

Federal Income Tax Recoverable **$2,380**

This asset represents the balance receivable at year-end for federal income taxes incurred prior to December 31, 2013. The examiners reviewed the reconciliation of the 2013 income tax calculation to verify the accuracy of this asset.

Furniture and Fixtures **$0**

This asset consists of $13,327of furniture and fixtures owned by the company at December 31, 2013. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

Defined Benefit Overfunded Plan Asset **$0**

This asset represents the $8,814 held in the Defined Benefit Plan that overfunded the plan accruals. This plan had applied to Fountain City Mutual Insurance Company employees and accruals were frozen effective June 30, 2013. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

Rent Receivable **$0**

This asset represents $3,536 due to the company as of December 31, 2013, under a lease it had with a former tenant that had occupied a portion of the home office building. The recovery of the amount is being pursued through small claims and is properly treated as a nonadmitted asset, thus the balance shown above is $0.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$194,347**

This liability represents losses incurred on or prior to December 31, 2013, 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, 2013, with incurred dates in 2013 and prior years. To the actual paid loss figure was added an estimated amount for 2013 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	$601,611	$566,099	$35,512
Less: Reinsurance recoverable on unpaid losses	407,263	386,500	20,763
Net Unpaid Losses	$194,348	$179,599	$14,749

The above difference of $14,749 was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss, when a proof of loss is required by company policy. 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, when required, were properly signed.

Unpaid Loss Adjustment Expenses **$6,900**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2013, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is by taking 10% of the estimated unpaid loss adjustment expenses. The company uses its in-house adjustor for claims adjusting, in most cases.

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 **$81,305**

This liability represents the commissions payable to agents as of December 31, 2013. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Fire Department Dues Payable **$2,510**

This liability represents the fire department dues payable to the state of Wisconsin as of December 31, 2013.

The examiners reviewed the company's fire department dues calculation and found it to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Unearned Premiums **$904,693**

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 **$124,541**

This liability consists of amounts due to the company's reinsurer at December 31, 2013, relating to transactions which occurred on or prior to that date.

Casualty Excess AXS	$ 34,180
First Surplus B1	20,496
Facultative Excess FXS	10
First C1	18,928
Second C2	9,464
First Aggregate D1	28,786
Second Aggregate D2	12,675
	$124,540

Subsequent cash disbursements, reinsurance accountings, and letters from Wisconsin Reinsurance Corporation concerning reinsurance premium billings verified the amount of this liability.

Amounts Withheld for the Account of Others **$10,405**

This liability represents employee payroll deductions in the possession of the company at December 31, 2013. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$2,537**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2013, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$4,591**

This liability represents accrued expenses on utilities, advertising, office supplies and other miscellaneous operating expenses at year-end. Supporting records and subsequent cash disbursements verified this item.

Accrued Property Taxes **$6,730**

This liability represents the amount of 2013 property taxes that are unpaid as of December 31, 2013. The balance includes taxes on both real property and personal property. The accrued amount was traced to the 2013 property tax bills.

Accrued Vacation and Sick Pay **$28,418**

This liability represents the employees' accumulated sick leave earned prior to December 31, 2013, and accrued wages for the last two days of December 2013. Supporting sick leave and wage accrual records were used to verify these items.

Pension Liability Payable **$1,288**

This liability represents the employer matching 3% of an employee's gross wage contribution portion to the company's SIMPLE IRA plan for December 2013. The examiners reviewed the fund manager's invoice for the month and the Employee Handbook which details the benefit that is available to company employees to verify the accuracy of this liability.

Premiums Received in Advance **$37,298**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2013. The examiners reviewed a 2013 prepaid premium report and cash receipt records to verify the accuracy of this liability.

Security Deposits **$1,103**

This liability represents the deposit held for the lease of space in the home office building that is occupied by a bakery/restaurant. The examiners reviewed the lease which calls for a security deposit of $1,470, of which $367 is still unpaid by the tenant.

VI. CONCLUSION

River Valley Mutual Insurance Company is the result of a merger of West Central Mutual Insurance Company and Fountain City Mutual Insurance Company, effective January 1, 2013. The company offers property and liability coverage in a 16-county area in western Wisconsin. WCMIC had been in business since 1871 and FCMIC since 1873.

The previous examination of WCMIC was as of December 31, 2007, and of FCMIC as of December 31, 2009. Since 2008, the company's assets declined 6.5% from $4.7 million to $4.4 million, while liabilities increased by 32.5% from $1.1 million to $1.4 million. Surplus declined by 17.9% from $3.7 million in 2008 to $3.0 million in 2013.

Policy counts have increased by 10.3% from 2,224 in 2008 to 2,454 in 2013. In the past six years, the company has had net losses three of the six years. Gross and net premiums increased during the period 2008 to 2013, with gross premiums increasing 21.4% to $2.1 million in 2013, and net premiums increasing 38.8% to $1.5 million. The company had significant underwriting losses in 2012 due to a severe hailstorm and experienced higher than usual fire losses in 2013.

The company complied with the seven recommendations from the previous examinations of both predecessor companies. The current examination report has five recommendations and one suggestion and made no adjustment to surplus. The company currently has an unclear bylaw provision regarding board representation of the former companies. The company is not in compliance with the requirements of the investment rule in that it has insufficient Type 1 investments in its portfolio. The company also does not comply with the membership requirements of the adjusting committee in that it has only two members while statutes and its bylaws require it to have at least three members. The company currently invests in three variable rate securities that OCI considers to be inappropriate for town mutuals. The company has not filed proper notification for the service agreement with its agency subsidiary with OCI as required by s. Ins 40.04 (2) (d), Wis. Adm. Code.

VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Board Membership—It is recommended that the company amend its bylaws to have the representation provision sunset on a specific date.

2. Page 20 - Agency Operations—It is recommended that the company make a Form D holding company filing to this office for the service agreement with WCIS and file an additional notice for any changes made to the agreement as required by s. Ins 40.04 (2) (d), Wis. Adm. Code.

3. Page 20 - Claims Adjusting—It is recommended that the company appoint a third member to the adjusting committee to be in compliance with s. 612.13 (4), Wis. Stat.

4. Page 23 - Investment Rule Compliance—It is suggested that in order to increase its Type 1 investments the company consider having the wholly owned insurance agency dividend a portion of its equity to the company and invest this dividend in Type 1 investments.

5. Page 26 - Book Value of Bonds—It is recommended that, if the company invests in any variable rate corporate debt security, such security must have the following characteristics:

   a. the reference for setting the interest rate must be a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
   b. the interest rate must have a floor in excess of zero percent; and
   c. the total outstanding principal amount of the security at the time of issuance must equal or exceed $250 million.

   For the avoidance of any doubt, in investing in any variable rate corporate debt security, the company:

   a. may assume that any U.S. Dollar London Interbank Offered Rate will exceed zero percent; and
   b. may invest in a security that specifies some increment of interest in excess of a U.S. Dollar London Interbank Offered Rate of a single specified duration; and
   c. may invest in a security that is leveraged relative to a U.S. Dollar London Interbank Offered Rate of a single specified duration, provided that there is no basis point reduction in the index provided by the interest rate formula (for example, 125% of the 3-month U.S. Dollar London Interbank Offered Rate is acceptable, while 125% of the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable); and
   d. may not invest in a security that specifies some increment of interest less than a U.S. Dollar London Interbank Offered Rate of a single specified duration, unless such increment is expressed as a percentage of the index (for example, 80% of the 3-month U.S. Dollar London Interbank Offered

Rate is acceptable, while the 3-month U.S. Dollar London Interbank Offered Rate minus 0.10% is not acceptable).

6. Page 27 - Book Value of Bonds—It is recommended that the board of directors modify its written investment policy to specify, in accordance with the instructions included in this report, acceptable characteristics of the investments in variable rate corporate debt securities and provide this office with a copy of the revised investment policy within 60 days of the adoption of this report.

VIII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Richard B. Janosik
Examiner-in-Charge

IX. APPENDIX – SUBSEQUENT EVENTS

The company has 21,584 shares of common stock of Wisconsin Reinsurance Corporation (WRC stock). Subsequent to December 31, 2013, the value of WRC stock increased by approximately $26 per share. This increase was confirmed by the annual audit of the December 31, 2013, financial statement of Wisconsin Reinsurance Corporation. It is anticipated that the value of the company's equity portfolio will exceed the 45% limitation granted to the company on its investment in equity mutual funds, common and preferred stock, and convertible securities. It is expected that the company will evaluate its current investment allocation, develop appropriate measures and inform OCI of its plans. Appropriate measures include, but are not limited to, selling a portion of equity holdings and reinvesting all dividends and proceeds from the sale of stock and mutual funds into Type 1 investments.