Report

of the

Examination of

Arlington Mutual Fire Insurance Company

Arlington, Wisconsin

As of December 31, 2009

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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June 17, 2010

Honorable Sean Dilweg
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, 2009, 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 2005 as of December 31, 2004. The current examination covered the intervening time period ending December 31, 2009, and included a review of such subsequent transactions deemed essential to complete this examination.

The “Summary of Examination Results” contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was organized as a town mutual insurance company on 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 were no amendments to the articles of incorporation nor to the bylaws.

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

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 three years with premiums payable on the advance premium basis. The company does not charge any other fees to policyholders.

Business of the company is acquired through 18 agents, 2 of whom are directors of the company and 1 who is an employee. 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 a sliding fee based on the amount of the gross loss. Claims under $25,000 are paid at a flat rate, from $279 to $930, depending on the amount of the claim being adjusted. Claims over $25,000 are 3.5% of the gross loss; over $50,000 are 3% of the gross loss; $75,000 is 2.5% of gross loss. A mileage and drive time fee is paid over 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	Expiry
James Attoe*	Agent/Farmer	Poynette, Wisconsin	2010
Jerome Breunig	Farmer	Waunakee, Wisconsin	2010
Darrell Schoeneberg	Farmer	Poynette, Wisconsin	2010
Harold Patton	Retired School Teacher	Dane, Wisconsin	2011
Thomas Manke	Farmer	Arlington, Wisconsin	2011
Roger Reible	Farmer	Arlington, Wisconsin	2011
Jane Jensen*	Insurance Agent	Arlington, Wisconsin	2012
Marvin Jameson	Retired Insurance Agent	Rio, Wisconsin	2012
Paul Kronberg	Farmer	Arlington, Wisconsin	2012

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $100.00 for each meeting attended and $0.505 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	2009 Compensation
Thomas Manke	President	$8,110**
Roger Reible	Vice President	900.
Jane Jensen	Secretary and Treasurer	77,280*
Teri Kryra	Manager	42,000***

* Includes $31,785 in commission.
** New President as of January 2010.
*** New manager started in May 2010.

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

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee
Thomas Manke—Chair
Roger Reible
Jim Attoe
Jane Jensen

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
2009	$1,106,836	2,324	$ 122,052	$4,257,196	$3,239,449
2008	1,142,910	2,397	(342,556)	4,076,169	3,165,285
2007	1,216,481	2,519	206,762	4,576,274	3,481,038
2006	1,092,992	2,554	(153,751)	4,499,140	3,254,564
2005	1,039,105	2,577	115,856	4,477,588	3,372,176
2004	975,540	2,606	(4,850)	4,331,349	3,208,347

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

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios	
				Net	Gross
2009	$1,694,899	$1,101,869	$3,239,449	34%	52%
2008	1,750,222	1,099,971	3,165,285	35	55
2007	1,812,022	1,218,525	3,481,038	35	52
2006	1,781,453	1,128,294	3,254,564	35	55
2005	1,706,408	1,079,874	3,372,176	32	51
2004	1,597,163	1,008,562	3,208,347	31	50

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
2009	$ 621,876	$421,768	$1,106,836	56%	38%	94%
2008	1,170,852	422,792	1,142,910	102	38	141
2007	672,579	440,537	1,216,481	55	36	91
2006	957,887	421,749	1,092,992	88	37	125
2005	605,390	392,995	1,039,105	58	36	95
2004	683,901	379,592	975,540	70	38	108

Over the past five years, surplus increased less than 1% to $3,239,449 and admitted assets decreased less than 2% to $4,257,196. The number of policyholders decreased, during the same period, by 18 to 2,234 policyholders. Net premium written increased 9.25% due to rate increases and the increased property value. In all years under examination the company has maintained an underwriting expense ratio of 37%, below the industry average for all Wisconsin town mutual's of 43%. The company has had a net loss and loss adjustment expense ratio over the industry average in all years under examination. The company experienced net losses of $342,556 and $153,751 in 2008 and 2006, respectively. The Wisconsin town mutual industry as a whole experienced a net loss in 2008.

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, 2010
Termination provisions:	Either party may terminate the contract as of January 1, 2011, or any subsequent January 1, by giving to the other party at least 90 days' advance notice in writing.

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Excess of Loss
	Lines reinsured:	All liability (nonproperty) business
	Company's retention:	$5,000 for each and every loss occurrence. The reinsurer may permit the company to adjust property damage losses that fall within the company's net loss retention.
	Coverage:	Loss and loss adjustment expense in excess of the company's retention up to the following maximum policy limits: $1,000,000 – per occurrence, single limit, combined for bodily injury and property damage liability. $1,000,000 – split limits, in any combination of bodily injury and property damage liability. $5,000 – for medical payments, per person; $25,000 per accident.
	Reinsurance premium:	55% for each and every policy of the business covered
	Annual deposit premium	$173,250
2.	Type of contract:	Class B First Surplus
	Lines reinsured:	All property business written by the company
	Company's retention:	The company may cede on a pro rata basis and the reinsurer shall accept up to $800,000 of reinsurance of such risk. When the risk is less than the retention, the company may cede on a pro rata basis and the reinsurer shall accept up to 50% of reinsurance of such risk.
	Coverage:	The reinsurer shall be liable for the pro rata portion 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
	Reinsurance premium:	Pro rata off all premiums, fees and assessments corresponding to each of the risk ceded
	Ceding commission	Commission allowance: 15% of the premium paid Profit commission: 15% of the net profit
3.	Type of contract:	Class C-1 (Excess of Loss)
	Lines reinsured:	All property business written by the company
	Company's retention:	$60,000 for each and every loss occurrence
	Coverage:	100% of any loss, including loss adjustment expenses, in excess of $60,000 up to a maximum of $120,000 per risk.
	Reinsurance premium:	The rate in effect shall be determined by taking the sum of the reinsurer's losses for the four annual periods immediately preceding the annual period prior to the current annual period divided by the total of the company's net written premium for the same four annual periods multiplied by the factor of 100/80ths, subject to a maximum rate of 15% and a minimum rate of 6% The current effective rate is 7.06% The current deposit premium is $98,353
4.	Type of contract:	Class C-2 Second layer (Excess of Loss)
	Lines reinsured:	All property business written by the company
	Company's retention:	$180,000 for each and every loss occurrence up to $320,000
	Coverage:	100% of any loss, including loss adjustment expenses, in excess of $180,000 for each and every risk up to a maximum of $320,000 per risk
	Reinsurance premium:	4.5% of the current net premiums written Deposit premium: $62,690 Minimum premium: 75% of the annual deposit premium.
5.	Type of contract:	Class C-3 Third Layer Excess of Loss
	Lines reinsured:	All property business written by the company
	Company's retention:	$500,000 for each and every loss occurrence up to $500,000
	Coverage:	100% of any loss, including loss adjustment expenses, in excess of $500,000 for each and every risk up to a maximum of $500,000 per risk
	Reinsurance premium:	2% of the current net premiums written

		Deposit premium: $27,862 Minimum premium: 75% of the annual deposit premium
6.	Type of contract:	Class D/E1 First Aggregate Excess of Loss
	Lines reinsured:	Property and nonproperty
	Company's retention:	Annual aggregate losses, including loss adjustment expenses, up to 70% of the company's net premium written; subject to minimum retention of $800,000
	Coverage:	100% of annual aggregate losses, including loss adjustment expenses, exceeding 70% of net premium written and in excess of the company's retention
	Reinsurance premium:	The company shall pay a premium calculated by multiplying the current rate (6%) by the company's net written premium for the business covered by this exhibit and subject to a minimum annual premium which shall be 75% of the annual deposit premium Deposit premium: $92,091
7.	Type of contract:	Class D/E1 Second Aggregate Excess of Loss
	Lines reinsured:	Property and nonproperty
	Company's retention:	Equal to not less than the attachment point, 120% multiplied by net written premium for the annual period
	Coverage:	100% of annual aggregate losses, including loss adjustment expenses, exceeding 120% of net premium written
	Reinsurance premium:	The rate of each annual period shall be determined by multiplying the rate by the next premium written Current rate is 3% Annual deposit premium is $45,953

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, 2009, 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, 2009

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in checking	$ 193,870	$	$	$ 193,870
Cash deposited at interest	1,803,016			1,803,016
Bonds	388,652			388,652
Stocks and mutual fund investments	1,578,437			1,578,437
Real estate	22,459			22,459
In course of collection	65,012		2,681	62,331
Deferred and not yet due	129,043			129,043
Investment income accrued		10,394		10,394
Reinsurance recoverable on paid losses and LAE	46,319			46,319
Electronic data processing equipment	4,330			4,330
Fire dues recoverable	118			118
Reinsurance commission receivable	5,909			5,909
Federal income tax recoverable	12,318			12,318
Furniture and fixtures	1,789		1,789	
Other nonadmitted assets:				
Software	8,440		8,440	
Totals	$4,259,712	$10,394	$12,910	$4,257,196

Liabilities and Surplus

Net unpaid losses	$ 150,351
Unpaid loss adjustment expenses	12,116
Commissions payable	33,409
Unearned premiums	758,041
Reinsurance payable	11,467
Amounts withheld for the account of others	2,665
Payroll taxes payable (employer's portion)	1,074
Other liabilities:	
Expense-related:	
Accounts payable	5,069
Nonexpense-related:	
Premiums received in advance	43,555
Total liabilities	1,017,747
Policyholders' surplus	3,239,449
Total Liabilities and Surplus	$4,257,196

Arlington Mutual Fire Insurance Company
Statement of Operations
For the Year 2009

[Net premiums and assessments earned		$1,106,836
Deduct:		
Net losses incurred	$554,783	
Net loss adjustment expenses incurred	67,093	
Net other underwriting expenses incurred	421,768	
Total losses and expenses incurred		1,043,644
Net underwriting gain (loss)		63,192
Net investment income:		
Net investment income earned		58,860
Net income (loss) before federal income taxes		122,052
Net Income (Loss)		$ 122,052

Arlington Mutual Fire Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2009

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:

	2009	2008	2007	2006	2005
Surplus, beginning of year	$3,165,285	$3,481,038	$3,254,564	$3,372,176	$3,208,347
Net income	122,052	(342,556)	206,763	(153,751)	115,856
Net unrealized capital gain or (loss)	(51,289)	21,400	34,596	33,909	52,854
Change in nonadmitted assets	3,401	5,403	(14,885)	2,230	(4,881)
Surplus, End of Year	$3,239,449	$3,165,285	$3,481,038	$3,254,564	$3,372,176

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2009, 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. Reinsurance—It is again recommended that the company properly disclose its net exposure to its largest risk in the General Interrogatories of future annual statements.

   Action—Compliance.

2. Underwriting—It is again recommended that the company establish and follow a formal inspection procedure for new and renewal business, and it is suggested that the photographs of insured risks be included as part of the procedure.

   Action—Compliance.

3. Accounts and Records—It is recommended that the company properly segregate the duties of signing checks and handling cash from those of performing the accounting functions and reconciling month-end bank balances in accordance with s. Ins 13.05 (4), Wis. Adm. Code.

   Action—Compliance.

4. Reinsurance Recoverable on Paid Losses and LAE—It is recommended that the company establish proper controls to ensure that the loss bordereau reports are filed correctly and timely with the reinsurer.

   Action—Compliance.

5. Net Unpaid Loses—It is recommended that the company maintain a loss register which supports its transactions and account balances and that the information of the claim files be periodically reconciled with the loss register.

   Action—Compliance.

6. Net Unpaid Loses—It is recommended for the third time that the company adopt procedures for timely settlement of claims in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

   Action—Compliance.

7. Net Unpaid Loses—It is recommended for the third time that the agents of the company provide information on all claim activity reported, adjusted and settled on a weekly basis. In addition, it is suggested that the company develop a form containing all the information required by s. Ins 13.05 (3) (f), Wis. Adm. Code, so that agents report claims in a uniform and timely manner to the company. This information then should be periodically reconciled with the loss register.

   Action—Compliance.

8. Commissions Payable—It is recommended that the premium and loss information utilized to calculate the contingent commissions due to agents agree with the property premium and loss information reported on the annual statement.

   Action—Compliance.

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

Conflict of Interest

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

Fidelity Bond and Other Insurance

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

Type of Coverage	Coverage Limits
Fidelity bond	$ 200,000
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	2,000,000
Deductible	5,000
Professional liability directors and officers	
Company professional liability	3,000,000
Directors and officers	3,000,000
Deducible	5,000
Commercial liability	
General aggregate limit	1,000,000
Products aggregate limit	1,000,000
Personal and advertising limit	1,000,000
Each occurrence limit	1,000,000
Damage to premises	100,000
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 prior examination recommended that the company establish a formal inspection procedure. The company has adopted a formal inspection procedure for both new and renewal business. The inspections for new and renewal business are now handled by an outside inspection service. However, at the time of the examination, there was no follow-up by the company regarding the inspection reports. During the fieldwork, the company amended their procedure where all reports will be reviewed and compared to the policy by the office manager. If any problems or concerns exist on a particular risk, it will be bought to the adjusting committee for review and resolution. 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.

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. The prior examination also noted numerous documentation problems due to inadequate accounting controls and procedures over its accounts and records. Due to the implementation of the company's new computer system, accounting controls and documentation of cash accounts and records, premium records and claim history have significantly improved. 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, 2009.

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

EDP Environment

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

The company has electronic manuals documenting the use of its software and outlining the steps to complete specific tasks. The manuals assist in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs.

Business Continuity Plan

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

Invested Assets

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

(1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and

(2) Any insurer may acquire and hold securities in bearer form.

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

> Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

Investment Rule Compliance

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

1.	Liabilities plus $300,000	$1,317,747
2.	Liabilities plus 33% of gross premiums written	$1,577,064
3.	Liabilities plus 50% of net premiums written	$1,568,682
4.	Amount required (greater of 1, 2, or 3	$1,577,064
5.	Amount of Type 1 investments as of 12/31/2009	$3,141,527
6.	Excess or (deficiency)	$1,564,463

The company has sufficient Type 1 investments.

Under s. Ins 6.20 (6) (b) 6, Wis. Adm. Code, town mutual insurers are limited to investing 10% of admitted assets in money market mutual funds. The investment rule prescribes that a town mutual shall divest of any investment which does not comply with the rule within three years of its noncompliance, unless the Commissioner permits a longer period or requires a shorter period. On March 25, 2009, OCI had notified the company they had an investment in a money market mutual fund in excess of the limitation and requested the company notify OCI within 90 days as to how the situation had been corrected. OCI received no response. During the 2009 annual statement review conducted in February and early March 2010, it was again noted the company had investment in a money market mutual fund, with a statement value of $786,490, which was not in compliance with the 10% of admitted assets limit. OCI corresponded with the company on February 19, 2010, and again on March 15, 2010, on this issue. The company complied with the limitation on March 22, 2010, by moving $525,000 out of this money market mutual fund. Subsequently, they used the funds to invest in Certificates of Deposits.

During the examination the issue was discussed with the Secretary/Treasurer, who oversees the investments of the company. They were now in compliance with the investment limitation, but 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.

ASSETS

Cash and Invested Cash **$1,996,886**

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

Cash deposited in banks—checking accounts	$ 193,870
Cash deposited in banks at interest	1,803,016
Total	$1,996,886

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 34 deposits in 23 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 2009 totaled $56,117 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.85% to 5.1%. Accrued interest on cash deposits totaled $6,007 at year-end.

Book Value of Bonds **$388,652**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2009. Bonds owned by the company are held under a custodial agreement with a trust company.

Bonds held with the investment custodian were confirmed to year-end custodian statement detail. 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 2009 on bonds amounted to $17,703 and was traced to cash receipts records. Accrued interest of $10,394 at December 31, 2009, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$1,578,437**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2009. Stocks owned by the company are located in the company's vault and mutual funds with the company's investment custodian.

Stock certificates held by the company were verified by obtaining the company's CPA workpapers evidencing physical examination. Stocks held by the custodian were verified by obtaining the company's CPA confirmations and broker statements. 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, except as noted in the previous section of this report titled "Investment Rule Compliance."

Dividends received during 2009 on stocks and mutual funds amounted to $35,218 and were traced to cash receipts records.

Book Value of Real Estate **$22,459**

The above amount represents the company's investment in real estate, net of depreciation as of December 31, 2009. The company's real estate holdings consisted of the building they are located in which they share and lease the other half to the US Postal Service.

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 **$62,331**

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 **$129,043**

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 **$10,394**

Interest due and accrued on the various assets of the company at December 31, 2009, consists of the following:

Bonds	$ 4,387
CDs	6,007
Total	$10,394

Reinsurance Recoverable on Paid Losses and LAE **$46,319**

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, 2009. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **$4,330**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2009. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Fire Dues Recoverable **$118**

This asset represents the amount overpaid to the state of Wisconsin for 2009 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 Commission Receivable **$5,909**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2009, based on the profitability of the business ceded under its contract with the reinsurer. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Federal Income Tax Recoverable **$12,318**

The above asset represents the amount of federal income tax recoverable that the company expected to receive as of December 31, 2009. A review of the federal income tax form and other documentation verified the balance. The federal income tax balance appears reasonable

Furniture and Fixtures **$0**

This asset consists of $1,789 of furniture and fixtures owned by the company at December 31, 2009. 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 **$150,351**

This liability represents losses incurred on or prior to December 31, 2009, 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, 2009, with incurred dates in 2009 and prior years. To the actual paid loss figure was added an estimated amount for 2009 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	$333,899	$324,896	$ (9,003)
Less: Reinsurance recoverable on unpaid losses	183,548	200,549	17,001
Net Unpaid Losses	$150,351	$127,167	$(23,184)

The above difference of $23,184 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 **$12,116**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2009, 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 **$33,409**

This liability represents the commissions payable to agents as of December 31, 2009. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Unearned Premiums **$758,041**

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 **$11,467**

This liability consists of amounts due to the company's reinsurer at December 31, 2009, relating to transactions which occurred on or prior to that date. Subsequent cash disbursements and reinsurance accounting verified the amount of this liability.

Amounts Withheld for the Account of Others **$2,665**

This liability represents employee payroll deductions in the possession of the company at December 31, 2009. Supporting records and subsequent cash disbursements verified this item.

Payroll Taxes Payable **$1,074**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2009, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$5,069**

This liability represents miscellaneous company liabilities that were incurred prior to December 31, 2009, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **$43,555**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2009. The examiners reviewed 2009 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

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

The prior examination also noted numerous documentation problems due to inadequate accounting controls and procedures over its accounts and records. Due to the implementation of the company's new computer system, accounting controls and documentation of cash accounts and records, premium records and claim history have significantly improved.

Since the prior examination, surplus remained steady; increasing less than 1% to \$3,239,449 and admitted assets decreased less than 2% to \$4,257,196. The number of policyholders decreased during the same period by 18, to 2,234. Net premium written increased 9.25% due to rate increases and the increased property value. The company is well capitalized, with surplus of \$3,239,449 and has shown improvements over the previous five-year period due to the installation of improved accounting controls and procedures.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 17 - 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.

2. Page 20 - 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.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Linda L. Meinholz
Examiner-in-Charge