Report

of the

Examination of

Bloomington Farmers Mutual Insurance Company

Bloomington, Wisconsin

As of December 31, 2010

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
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October 28, 2011

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2010, of the affairs and financial condition of:

BLOOMINGTON FARMERS MUTUAL INSURANCE COMPANY
Bloomington, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Bloomington Farmers Mutual Insurance Company (the company) was made in 2006 as of December 31, 2005. The current examination covered the intervening time period ending December 31, 2010, and included a review of such subsequent transactions deemed essential to complete this examination.

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

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

In addition to auditing, the public accounting firm performs extensive non-auditing services for the company, such as bookkeeping and financial information systems design and implementation, among other matters. On December 3, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on April 11, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Bloomington 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 and no amendments to the bylaws.

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

Crawford	Lafayette
Grant	Monroe
Green	Richland
Iowa	Sauk
La Crosse	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 or three years with premiums payable on the advance premium basis. The company also charges a policy fee equal to $20 for homeowners and commercial dwelling policies and $30 for farmowner policies.

Business of the company is acquired through 14 agents, 4 of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	**Compensation**
All Lines of Business	12%

Agents have authority to adjust losses up to $10,000. Losses in excess of $10,000 require two agents to adjust. Outside adjustors are used for larger and more complex claims. Adjusters receive $12.60 per hour for each loss adjusted plus $0.50 per mile for travel allowance.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

Board of Directors

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

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

Name	Principal Occupation	Residence	Expiry
Oscar Peterson *	Manager	Woodman, Wisconsin	2012
James Leamy	Farmer	Bloomington, Wisconsin	2014
Charles Raisbeck	Farmer	Bloomington, Wisconsin	2014
David Smith *	Farmer	Mt. Hope, Wisconsin	2013
Ronald Leeser *	Farmer	Lancaster, Wisconsin	2012
James Hampton *	Farmer	Glen Haven, Wisconsin	2013
Thomas Friar	Banker	Lancaster, Wisconsin	2012
William Neises	Farmer	Bloomington, Wisconsin	2014
David Meoska	Farmer	Bagley, Wisconsin	2013

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

Members of the board currently receive $100 for each meeting attended and $0.50 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	2010 Compensation
James Leamy	President	$ 4,237.71
Chris Raisback	Vice-President	1,933.66
Oscar Peterson	Secretary/Treasurer	77,838.18

The Secretary/Treasurer is also employed by the company as the office manager. The salary received from the manager's contract is included in the Secretary/Treasurer's compensation in the table above. All amounts in the table above include agent commissions, if applicable.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. Each year during the examination period, all directors were appointed to the Adjusting Committee, with the President of the company serving as the committee chair.

Growth of Company

The growth of the company since the previous examination as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2010	$1,093,175	1,862	$ 81,310	$2,298,918	$1,199,308
2009	1,006,807	1,873	(159,869)	2,190,864	1,042,977
2008	1,015,622	1,877	(119,167)	2,259,976	1,204,321
2007	983,325	1,898	10,541	2,438,823	1,394,923
2006	1,097,929	1,931	254,706	2,367,741	1,342,352
2005	1,048,112	1,976	85,447	2,043,689	1,012,691

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 Gross	Writings Ratios Net
2010	$1,789,361	$1,127,356	$1,199,308	94%	150%
2009	1,696,886	1,019,832	1,042,977	98	163
2008	1,663,704	1,001,600	1,204,321	83	139
2007	1,673,494	991,449	1,394,923	71	120
2006	1,656,691	1,068,589	1,342,352	80	124
2005	1,657,966	1,086,543	1,012,691	107	164

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

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
2010	$ 693,997	$362,586	$1,093,175	86%	32%	96%
2009	1,019,783	348,458	1,006,807	154	34	135
2008	886,120	366,964	1,015,622	65	37	124
2007	759,277	347,269	983,325	70	35	112
2006	460,354	348,191	1,097,929	36	33	75
2005	656,982	342,597	1,048,112	62	32	94

Policyholders' surplus increased 11.8%, from $1,012,691 as of December 31, 2005, to $1,131,744 as of December 31, 2010, as determined by this examination. During the period under examination, the loss ratio ranged from 36% to 154%, while the expense ratio fluctuated from 32% to 37%. The company had a positive net income in three out of the past five years. The two years in which there was net loss was due to heavy storm losses being incurred by the company.

II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and complied with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Company
Effective date:	January 1, 2011, continuous
Termination provisions:	Either party may terminate the contract and/or its exhibits as of any subsequent January 1 by giving to the other party at least 90 days' advance notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class AX1 Excess of Loss
	Lines reinsured:	Liability
	Company's retention:	$5,000 per loss
	Coverage:	100% of each and every loss, including loss adjustment expense, subject to the maximum policy limits of: a. $1,000,000 per occurrence, single limit or 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; $25,000 per accident
	Reinsurance premium:	60% of the company's gross premium written Annual deposit premium = $160,800
2.	Type of contract:	Class B1R First Surplus
	Lines reinsured:	All property business
	Company's retention:	When the company's net retention is $500,000 or more, the company may cede on a pro rata basis up to $800,000. When the net retention is $500,000 or less, the company may cede up to 50% of such risk. The company shall also retain a per loss retention equal to 10% of the loss and loss adjusting expenses otherwise recoverable hereunder.
	Coverage:	Pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded

	Reinsurance premium:	Pro rata portion of all premiums corresponding to the amount of each risk ceded
	Ceding commission:	15% of all liability premium paid 15% of net profit of the reinsurer
3.	Type of contract:	Class C1 First Per Risk Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	$60,000
	Coverage:	100% of each and every loss in excess of $60,000 up to $150,000, including loss adjustment expense
	Reinsurance premium:	Based on the sum of the prior four years' losses plus current year's losses divided by the total of net premium written for the same four years times 100/80 Current rate = 6.50% Minimum = 6.50% Maximum = 20.00% Annual deposit premium = $95,592
4.	Type of contract:	Class C2 Second Per Risk Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	$150,000
	Coverage:	100% of each and every loss in excess of $150,000 up to $350,000, including loss adjustment expense
	Reinsurance premium:	4.5% of subject net premium written Annual deposit premium = $66,179
5.	Type of contract:	Class DE1 First Aggregate Excess of Loss
	Lines reinsured:	All business
	Company's retention:	62% of net premium written Estimated attachment point $978,264
	Coverage:	100% of each and every loss in excess of 68% of net premium written up to 62% of net premium written

	Reinsurance premium:	Sum of the reinsurer's losses for the eight 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 eight annual periods times 100/80 The current rate = 11.41% Minimum rate = 7.0% Maximum rate = 20.0% Annual deposit premium = $180,032
6.	Type of contract:	Class DE2 Second Aggregate Excess of Loss
	Lines reinsured:	All business
	Company's retention:	130% of net premium written.
	Coverage:	100% of the amount by which the aggregate of the company's net losses, including loss adjustment expenses, exceed the retention
	Reinsurance premium:	3% of net premium written Annual deposit premium = $47,335

III. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2010, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

Bloomington Farmers Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2010

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 150	$	$	$ 150
Cash in checking	4,033			4,033
Cash deposited at interest	833,944			833,944
Bonds	351,748			351,748
Stocks and mutual fund investments	758,942			758,942
Real estate	8,169			8,169
Premiums, agents' balances and installments:				
In course of collection	18,210			18,210
Deferred and not yet due	266,662			266,662
Investment income accrued		6,806		6,806
Reinsurance recoverable on paid losses and LAE	19,216			19,216
Other nonexpense-related assets:				
Federal income tax recoverable	31,038			31,038
Furniture and fixtures	211	0	211	0
Totals	$2,292,323	$6,806	$211	$2,298,918

Liabilities and Surplus

Net unpaid losses	$ 155,000
Unpaid loss adjustment expenses	5,000
Commissions payable	36,000
Fire department dues payable	250
Unearned premiums	727,319
Reinsurance payable	93,162
Other liabilities:	
Expense related:	
Accounts payable	2,400
Accrued property tax	1,450
Policy buyout	32,310
Nonexpense related:	
Premiums received in advance	46,719
Total liabilities	1,099,610
Policyholders' surplus	1,199,308
Total Liabilities and Surplus	$2,298,918

Bloomington Farmers Mutual Insurance Company
Statement of Operations
For the Year 2010

Net premiums and assessments earned		$1,093,175
Deduct:		
Net losses incurred	$661,735	
Net loss adjustment expenses incurred	32,262	
Net other underwriting expenses incurred	362,586	
Total losses and expenses incurred		1,056,583
Net underwriting gain (loss)		$36,592
Net investment income:		
Net investment income earned		20,655
Other income (expense):		
Policy fees		45,163
Net income (loss) before federal income taxes		102,410
Federal income taxes incurred		21,100
Net Income (Loss)		$ 81,310

Bloomington Farmers Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2010

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	2010	**2009**	**2008**	**2007**	**2006**
Surplus, beginning of year	$1,042,977	$1,204,321	$1,394,923	$1,342,352	$1,012,691
Net income	81,310	(159,869)	(119,167)	10,541	254,706
Net unrealized capital gain or (loss)	66,967	(8,469)	(78,429)	37,765	68,591
Change in nonadmitted assets	8,054	6,994	6,994	4,265	6,364
Surplus, End of Year	$1,199,308	$1,042,977	$1,204,321	$1,394,923	$1,342,352

Reconciliation of Policyholders' Surplus

A reconciliation of the policyholders' surplus as reported by the company in its filed annual statement and as determined by the examination is detailed in the following schedule:

Item	Increase	Decrease	
Policyholders' surplus per December 31, 2010, annual statement			$1,199,308
Net unpaid losses	$0	$67,566	
Total	$0	$67,566	
Decrease to surplus per examination			67,566
Policyholders' Surplus per Examination			$1,131,742

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. Accounts and Records—It is recommended that that company complete Schedule H of the annual statement according to the annual statement instructions.

   Action—Compliance

2. Book Value of Bonds—It is recommended that the company complete the annual statement investment schedules according to the annual statement instructions.

   Action—Compliance

3. Stocks and Mutual Fund Investments—It is recommended that the company sell its shares of the Davis Opportunity Fund A to comply with s. Ins 6.20 (6) (d) 5, Wis. Adm. Code.

   Action—Compliance

4. Net Unpaid Losses—It is recommended that the company update changes to a claim's loss reserve in a timely manner.

   Action—Compliance

5. Premiums Received in Advance—It is suggested that the company contact the software vendor and resolve the issue so that the system can generate an accurate advance premium report.

   Action—Compliance

6. Accounts Payable—It is suggested that the company report all accruals of which it is aware at year-end on the balance sheet.

   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-employee dishonesty	$ 250,000
Forgery or alteration	250,000
Securities	250,000
Trading loss	250,000
Computer systems	250,000
Worker's compensation	
Employee injury	Statutory
Employee liability	
Bodily injury by accident (each accident)	500,000
Bodily injury by disease (each employee)	500,000
Bodily injury by disease (policy limit)	500,000
Property coverage	
Commercial structure	93,000
Business personal property (replacement cost)	25,000
Liability coverage	
Liability and medical expenses	500,000
Medical expenses per person	10,000
Fire legal liability (any one fire or explosion)	100,000
Professional liability	
Insurance company professional liability	1,000,000
Directors and officers	1,000,000
ICPL and D&O maximum aggregate for policy period	1,000,000
Excess liability	
General aggregate limit	1,000,000
Products/completed operations aggregate	1,000,000
Each occurrence limit	1,000,000

Underwriting

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.

The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and renewal business is inspected by committee members who are independent of the risk under consideration and review.

Claims Adjusting

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

Accounts and Records

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

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

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2010.

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

EDP Environment

Company personnel were interviewed with respect to the company’s electronic data processing environment. Access to the computer 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.

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	$1,399,610
2.	Liabilities plus 33% of gross premiums written	1,690,099
3.	Liabilities plus 50% of net premiums written	1,663,288
4.	Amount required (greater of 1, 2, or 3)	1,690,099
5.	Amount of Type 1 investments as of 12/31/2011	1,201,116
6.	Excess or (deficiency)	$ (488,983)

The company does not have sufficient Type 1 investments. The company may not acquire new Type 2 investments until it has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$838,127**

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

Cash in company's office	$ 150
Cash deposited in banks—checking accounts	4,033
Cash deposited in banks at interest	833,944
Total	$838,127

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

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a local bank. Verification of the checking account balance was made by obtaining a confirmation directly from the depository and reconciling the amount shown thereon to company records.

Cash deposited in banks represents the aggregate of 21 deposits in 10 depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2010 totaled $17,514 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 1.000% to 3.550%. Accrued interest on cash deposits totaled $1,799 at year-end.

Book Value of Bonds **$351,748**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2010. Bonds owned by the company are held by the company’s custodian.

Bonds were verified by review of the custodian’s year-end statement of the company's investments. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2010 on bonds amounted to $4,669 and was traced to cash receipts records. Accrued interest of $5,007 at December 31, 2010, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$758,942**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2010. Stocks owned by the company are located in the company’s safe.

Stock certificates were physically examined by the examiners. Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2010 on stocks and mutual funds amounted to $10,074 and were traced to cash receipts records. There were no accrued dividends as of December 31, 2010.

Book Value of Real Estate **$8,169**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2010. The company's real estate holdings consisted of the home office.

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 **$18,210**

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 **$266,662**

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 **$6,806**

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

Cash deposited at interest	$1,799
Bonds	5,007
Total	$6,806

Reinsurance Recoverable on Paid Losses and LAE **$19,216**

The above asset represents recoveries due to the company from reinsurance on losses and loss adjusting expenses which were paid on or prior to December 31, 2010. A review of year-end accountings with the reinsurer verified the above asset.

Federal Income Tax Recoverable **$31,038**

The above asset represents the amount of federal income tax recoverable that the company expected to receive as of December 31, 2010. A review of the federal income tax form and other documentation verified the balance. The federal income tax recoverable balance appears to be reasonable.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$155,000**

This liability represents losses incurred on or prior to December 31, 2010, that remained unpaid as of that date. The examiners reviewed the reasonableness of this liability by totaling actual loss payments made subsequent to December 31, 2010, with incurred dates in 2010 and prior years. To the actual paid loss figure was added an estimated amount for 2010 and prior losses remaining unpaid at the time of the examination. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	Company Estimate	Examiners' Development	Difference
Incurred but unpaid losses	$331,328	$325,442	$ 5,886
Incurred but not reported (IBNR) reserves	2,967	76,241	(73,274)
Less: Reinsurance recoverable on unpaid losses	179,295	179,117	178
Net Unpaid Losses	$155,000	$222,566	$(67,566)

The above reserve deficiency of $(67,566) was considered material for purposes of this examination and is reflected in the section of this report entitled, “Reconciliation of Policyholders’ Surplus.” Review of year-to-date claims paid indicated payment for a number of 2010 insured claims which were apparently not reported by the insured until 2011, which accounted for the deficiencies in reserves noted above. It is recommended that the company establish its incurred but not reported (IBNR) reserves so as to more reasonably anticipate IBNR development.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and claims that were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses **$5,000**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2010, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is derived from conversations and estimations from their accountants.

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 **$36,000**

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

Fire Department Dues Payable **$250**

This liability represents the fire department dues payable to the State of Wisconsin as of December 31, 2010.

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

Unearned Premiums **$727,319**

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 **$93,162**

This liability consists of amounts due to the company's reinsurer at December 31, 2010, relating to transactions which occurred on or prior to that date.

Class AX1	$14,129
Class B1	15,040
Class B1	(5,938)
Class C1	13,140
Class C2	3,616
Class D1	15,813
Class D2	5,388
	$61,188
Deferred Premium	37,616
Deferred Commission	(5,642)
Total	$93,162

Accounts Payable **$2,400**

This liability represents miscellaneous company liabilities that were incurred prior to December 31, 2010, which had not yet been paid. Supporting records and subsequent cash disbursements verified this amount was fairly stated.

Accrued Property Taxes **$1,450**

This liability represents the estimated amount of property taxes owed at year-end to the local government. Due to the modest size of the balance, testing was limited to a review of the subsequent disbursement. It was determined that the estimate for this liability was reasonable.

Policy Buyout **$32,310**

This liability relates to the commissions owed to a retired board member, who was also an agent, which was established in fiscal 2008. This liability is being paid out over a five-year period at the rate of $1,114 a month or $13,370 a year until paid off. Review of supporting documentation verified this amount was fairly stated.

Premiums Received in Advance **$46,719**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2010. The examiners reviewed 2010 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

Bloomington Farmers Mutual Insurance Company is a town mutual insurer with an authorized territory of ten counties. The company has been in business over 137 years providing property and liability insurance to its policyholders.

The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2005, when policyholders' surplus was last verified by examination, to December 31, 2010:

Policyholders' surplus, December 31, 2005	$1,012,691
Unrealized capital gains	86,425
Financial examination adjustment as of December 31, 2010	(67,566)
Net income	67,521
Change in nonadmitted assets	32,671
Policyholders' surplus, December 31, 2010	$1,131,742

Policyholders' surplus increased 11.8%, from $1,012,691 as of December 31, 2005, to $1,131,742 as of December 31, 2010, as determined by this examination. During the period under examination, the loss ratio ranged from 36% to 154%, while the expense ratio fluctuated from 32% to 37%. The company had a positive net income in three out of the past five years. The two years in which there was net loss was due to heavy storm losses being incurred by the company.

The company complied with the six recommendations from the prior examination. The current examination resulted in one recommendation. Area of improvement recommended by the current examination included reserving for incurred but not reported losses. There were no reclassifications of balance sheet items as a result of this examination, but there was an adjustment of $(67,566) to net unpaid losses, which resulted in a corresponding decrease to policyholders' surplus.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Net Unpaid Losses—It is recommended that the company establish its incurred but not reported (IBNR) reserves so as to more reasonably anticipate IBNR development.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Richard A. Onasch
Examiner-in-Charge