Report

of the

Examination of

Darlington Mutual Insurance Company

Darlington, Wisconsin

As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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April 29, 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:

DARLINGTON MUTUAL INSURANCE COMPANY
Darlington, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

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

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

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

In addition to auditing, the public accounting firm performs non-auditing services for the company, including bookkeeping and preparation of tax returns and the town mutual annual statement. On December 27, 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 May 18, 1875, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Darlington 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 two amendments to the articles of incorporation and no amendments to the bylaws. Both of the changes to the articles of incorporation were related to the company’s business territory. In 2008, the company added to its business territory the following counties: Adams, Columbia, Lincoln, Marathon, Oneida, Portage and Vilas. In 2011, the company dropped the counties of Adams, Lincoln, Marathon, Oneida, Portage and Vilas and added the counties of Crawford, Dodge, Jefferson, Richland, Vernon and Walworth.

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	Green
Columbia	Iowa
Dane	Lafayette
Grant	Richland
Dodge	Vernon
Jefferson	Rock
Sauk	Walworth

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year with premiums payable on the advance premium basis. The company charges a policy administration fee of $20 per homeowner policy and $25 for all other policy types. The company also charges an annualized billing fee as follows: $4 for semiannual billing, $8 for quarterly billing and $12 for monthly billing.

Business of the company is acquired through 33 agents, 2 of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
Farmowner’s	15%
Homeowner’s	19
Commercial	19
Inland Marine	10
Liability	10

Agents have no authority to adjust losses. Losses are adjusted by MGW Insurance Services, Inc. Adjusters receive $49.00 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
Donald Tuescher	Electrician	Darlington, Wisconsin	2012
Steven Malone	President, Benton Bank	Benton, Wisconsin	2013
Steve Fleming	Banker	Darlington, Wisconsin	2012
Charles Kranz	Attorney	Darlington, Wisconsin	2014
Bruce Berget*	Farmer	Gratiot, Wisconsin	2014
Robert Stoflet**	Insurance Agent	Darlington, Wisconsin	2014
Tom Evenstad	Farmer	Darlington, Wisconsin	2012
Larry Teasdale	Auctioneer	Shullsburg, Wisconsin	2013
Herb Stone	Farmer	Mineral Point, Wisconsin	2013

* Directors who are also agents.
** Appointed at board of directors' meeting on March 2, 2011. Robert Stoflet is also an agent for the company.

Members of the board currently receive $100.00 for each meeting attended and $0.51 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
Donald Tuescher	President	$7,500
Charles Kranz	Vice-President	3,800
Herb Stone	Secretary/Treasurer	2,600

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
Donald Tuescher, Chair
Charles Kranz
Herb Stone
Bruce Berget
Kerry Black

Investments Committee
Donald Tuescher, Chair
Charles Kranz
Steve Malone
Herb Stone
Kerry Black

Executive Committee
Donald Tuescher, Chair
Charles Kranz
Bruce Berget
Herb Stone
Kerry Black

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	$811,163	1,472	$ (56,682)	$1,789,157	$ 988,083
2009	812,340	1,467	(201,502)	2,051,427	1,015,317
2008	811,606	1,462	(101,853)	1,981,047	1,194,771
2007	799,833	1,516	101,597	2,132,367	1,396,130
2006	875,129	1,627	120,409	2,184,048	1,291,852
2005	900,167	1,691	124,538	2,006,824	1,171,490

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
2010	$1,309,797	$833,163	$ 988,083	84.3%	132.6%
2009	1,245,892	829,340	1,015,317	81.7	122.7
2008	1,221,026	810,606	1,194,771	67.8	102.2
2007	1,237,817	748,833	1,396,130	53.6	88.7
2006	1,315,109	861,129	1,291,852	66.7	101.8
2005	1,416,320	912,167	1,171,490	77.9	120.9

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
2010	$476,517	$462,053	$811,163	59%	55%	114%
2009	734,238	419,752	812,340	90	51	141
2008	553,368	420,866	811,606	68	52	120
2007	377,455	420,398	799,833	47	56	103
2006	445,109	411,502	875,129	51	48	99
2005	440,727	420,196	900,167	49	46	95

During the period under examination, Darlington Mutual Insurance Company's assets decreased 10.8%, liabilities decreased 4.1%, and surplus decreased by 15.7%. The company has reported underwriting and net loss in the last three calendar years. Loss and underwriting expense ratios reached a particularly high level of 90% and 51%, respectively, in 2009, mostly due to severe weather events. The company's five-year average expense ratio is 53% as compared to the town mutual average of 45% for the same period. The commission rates on homeowner's and commercial business are higher than is typically paid by town mutual companies generally. During the period under examination, gross premium written and net premium written decreased by 7.5% and 8.7%, respectively. The company's policy count has decreased from 1,691 at year-end 2005 to 1,472 at year-end 2010.

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 Corporation
Effective date:	January 1, 2011
Termination provisions:	January 1, 2007, or any subsequent January 1, by either party providing at least 90 days' advance notice in writing

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A – Casualty Excess of Loss Reinsurance
	Lines reinsured:	Nonproperty
	Company's retention:	$5,000 in respect to each and every loss occurrence
	Coverage:	100% of each and every loss, including loss adjustment expense in excess of net retention of $5,000; limited to $1,000,000 per occurrence
	Reinsurance premium:	55% of subject net premium written
2.	Type of contract:	Class B – First Surplus
	Lines reinsured:	Property
	Company’s retention:	When the company’s net retention is $750,000 or more in respect to a risk, the company may cede on a pro rata basis up to $800,000. When the company’s retention is $750,000 or less in respect to a risk, the company may cede on a pro rata basis up to 50% of such risk.
	Coverage:	The pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of risk ceded
	Reinsurance premium:	The pro rata portion of all premiums, fees and assessments charged by the company
	Ceding commission:	15% of premium paid to reinsurer plus 15% of net profit of the reinsurer

3.	Type of contract:	Class C-1 – Excess of Loss Reinsurance
	Lines reinsured:	Property
	Company's retention:	$60,000
	Coverage:	100% of each and every loss in excess of $60,000 up to $100,000, including loss adjustment expense
	Reinsurance premium:	Based on the prior four years' losses incurred by the reinsurer under the contract, subject to the minimum rate of 6.5% of net premiums written and a maximum rate of 15.0% of net premiums written The rate for the current annual period is 8.79%
4.	Type of contract:	Class C-2 – Excess of Loss Second Layer
	Lines reinsured:	Property
	Company's retention:	$160,000
	Coverage:	100% of each and every loss in excess of $160,000 up to $340,000, including loss adjustment expense
	Reinsurance premium:	6% of net premiums written, subject to a minimum annual premium of $57,113
5.	Type of contract:	Class C-3 – Excess of Loss Third Layer
	Lines reinsured:	Property
	Company's retention:	$500,000
	Coverage:	100% of each and every loss in excess of $500,000 up to $250,000, including loss adjustment expense
	Reinsurance premium:	2% of net premiums written, subject to a minimum annual premium of $19,038
6.	Type of contract:	Class D/E 1 – Stop Loss
	Lines reinsured:	All business written
	Company's retention:	62% of net premium written
	Coverage:	100% of each and every loss in excess of 62% of net premium written up to 120% 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 is 7.63%

		Minimum rate = 6.5% Maximum rate = 10.0% Annual deposit premium = $80,526
7.	Type of contract:	Class D/E 2 – Stop Loss
	Lines reinsured:	All business written
	Company's retention:	120% of net premium written
	Coverage:	100% of annual aggregate losses, including loss adjustment expenses, in excess of the retention
	Reinsurance premium:	4% of net premiums written, subject to a minimum annual premium of $42,216

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."

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

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 100	$	$	$ 100
Cash in checking	43,990			43,990
Cash deposited at interest	327,429			327,429
Bonds	693,903			693,903
Stocks and mutual fund investments	358,771			358,771
Real estate	43,747			43,747
Premiums, agents' balances and installments:				
In course of collection	12,815			12,815
Deferred and not yet due	199,533			199,533
Investment income accrued		8,757		8,757
Reinsurance recoverable on paid losses and LAE	76,340			76,340
Electronic data processing equipment	1,478			1,478
Other nonexpense related assets:				
Federal income tax recoverable	22,294			22,294
Furniture and fixtures	4,322		4,322	
Totals	$1,784,722	$8,757	$4,322	$1,789,157

Liabilities and Surplus

Net unpaid losses	$ 109,000
Unpaid loss adjustment expenses	500
Commissions payable	46,000
Fire department dues payable	325
Unearned premiums	573,000
Reinsurance payable	22,362
Amounts withheld for the account of others	1,391
Payroll taxes payable (employer’s portion)	1,939
Other liabilities:	
Expense-related:	
Accounts payable	4,495
Accrued salaries	2,027
Nonexpense-related:	
Premiums received in advance	39,413
Payable to WAMIC	622
Total liabilities	801,074
Policyholders' surplus	988,083
Total Liabilities and Surplus	$1,789,157

Darlington Mutual Insurance Company
Statement of Operations
For the Year 2010

Net premiums and assessments earned		$ 811,163
Deduct:		
Net losses incurred	$428,113	
Net loss adjustment expenses incurred	48,404	
Net other underwriting expenses incurred	462,053	
Total losses and expenses incurred		938,570
Net underwriting gain (loss)		(127,407)
Net investment income:		
Net investment income earned	19,275	
Net realized capital gains (losses)	3,378	
Total investment gain (loss)		22,653
Other income (expense):		
Installment fees	48,072	
Total other income		48,072
Net income (loss) before policyholder dividends and before federal income taxes		(56,682)
Net income (loss) before federal income taxes		(56,682)
Federal income taxes incurred		0
Net Income (Loss)		$ (56,682)

Darlington 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	$1,015,317	$1,194,771	$1,396,130	$1,291,852	$1,171,490
Net income	(56,682)	(201,502)	(101,853)	101,597	120,409
Net unrealized capital gains or (losses)	31,162	20,522	(101,033)	1,108	6,954
Change in nonadmitted assets	(1,714)	1,526	1,527	1,573	(7,001)
Net change in policyholders' surplus	(27,234)	(179,454)	(201,359)	104,278	120,362
Surplus, End of Year	$ 988,083	$1,015,317	$1,194,771	$1,396,130	$1,291,852

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2010, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Conflict of Interest—It is recommended that the company have the appropriate persons complete the conflict of interest questionnaire on an annual basis in compliance with the directive of the Commissioner.

   Action—Compliance.

2. EDP Procedures—It is recommended that the company establish procedures to require the use of individual passwords in order to limit access to its computers.

   Action—Compliance.

3. Investments—It is recommended that the company comply with s. 610.23, Wis. Stat., and s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

   Action—Compliance.

4. Investments—It is again recommended that the company make no additional Type 2 investments until the company meets the required amount of Type 1 investments, pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

   Action—Compliance with this recommendation was deemed acceptable for this examination. See the section of this report captioned, “Investment Rule Compliance.”

Current Examination Results

Corporate Records

The minutes of the annual meetings of policyholders and meetings of the board of directors and committees thereof were reviewed for the period under examination and also for the subsequent period. Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

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

Conflict of Interest

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

Fidelity Bond and Other Insurance

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

Type of Coverage	Coverage Limits
Fidelity bond	$ 250,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Combined professional and D&O liability	2,000,000
Business owners	
Building	128,000
Personal property	33,000

Underwriting

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

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

Claims Adjusting

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

Accounts and Records

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

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

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

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

EDP Environment

Company personnel were interviewed with respect to the company’s electronic data processing environment. Access to the computers is limited to people authorized to use the computers.

Company personnel back up the computers daily and the backed-up data is kept off-site. The company has manuals documenting the use of its software and outlining the steps to complete specific tasks. The manuals assist in the continuity of operations by providing instructions for seldom-used applications or when staff turnover occurs. The examination determined that the level of documentation contained in the manuals was reasonable.

Business Continuity Plan

A business continuity plan identifies steps to be performed by the 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	$1,101,074
2.	Liabilities plus 33% of gross premiums written	1,233,307
3.	Liabilities plus 50% of net premiums written	1,217,656
4.	Amount required (greater of 1, 2, or 3)	1,233,307
5.	Amount of Type 1 investments as of 12/31/2010	1,121,319
6.	Excess or (deficiency)	$ (111,988)

The company does not have sufficient Type 1 investments.

In a letter dated November 20, 2000, the company was granted an exemption by the Commissioner that permitted it to invest up to 30% of its admitted assets in common stock and common stock mutual funds without regard to the sufficiency of its Type 1 investments. In a letter dated August 9, 2007, the Commissioner rescinded the exemptions provided by the November 20, 2000, letter. However, the August 9, 2007, letter continued the company’s ability to invest up to 30% of its invested assets in common stock and common stock mutual funds as a modification of s. Ins 6.20 (6) (d) 3. a-c, Wis. Adm. Code. The remaining provisions of s. Ins 6.20(6), Wis. Adm. Code, are not modified and additions to Type 2 assets, including reinvestment of interest, dividends or other income from existing Type 2 assets are prohibited unless the company has sufficient Type 1 assets as contemplated by s. Ins 6.20 (6) (d), Wis. Adm. Code.

In 2010, the company purchased a Type 2 stock mutual fund. It was noted that from 2006 through 2009 the company had sufficient Type 1 investments. Losses experienced in the course of 2010 led to a deficiency in Type 1 investments as of December 31, 2010. The examination determined that the company acted in compliance with the investment rule for town mutual insurers in its purchase of the Type 2 stock mutual fund during 2010. However, it will be necessary for the company to address the Type 1 asset deficiency noted in its annual statement as of December 31, 2010, and as confirmed by this examination. It is recommended that the company make no additional Type 2 investments, including reinvestment of interest, dividends, or other income from existing Type 2 assets, until the company meets the required amount of Type 1 investments pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

ASSETS

Cash and Invested Cash **$371,519**

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

Cash in company's office	$ 100
Cash deposited in banks—checking accounts	43,990
Cash deposited in banks at interest	327,429
Total	$371,519

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 two accounts maintained in two banks. Verification of checking account balances was made by obtaining confirmations directly from the depositories and reconciling the amounts shown thereon to company records.

Cash deposited in banks at interest represents the aggregate of seven deposits in six 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 $12,390 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.2% to 3.45%. Accrued interest on cash deposits totaled $960 at year-end.

Book Value of Bonds **$693,903**

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 under a custodial agreement with a bank.

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

Interest received during 2010 on bonds amounted to $33,823 and was traced to cash receipts records. Accrued interest of $7,797 at December 31, 2010, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$358,771**

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 office or held as mutual funds.

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 $9,859 and were traced to cash receipts records. There were no accrued dividends as of December 31, 2010.

Book Value of Real Estate **$43,747**

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 its home office building.

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 **$12,815**

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 **$199,533**

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 **$8,757**

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

Cash deposited at interest	$ 960
Bond	7,797
Total	$8,757

Reinsurance Recoverable on Paid Losses and LAE **$76,340**

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

Electronic Data Processing Equipment **$1,478**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2010. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Furniture and Fixtures **$0**

This asset consists of $4,322 of office equipment and furniture owned by the company at December 31, 2010. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

Federal Income Taxes Recoverable **$22,294**

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

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

LIABILITIES AND SURPLUS

Net Unpaid Losses **$109,000**

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	$340,383	$330,709	$ (9,674)
Less: Reinsurance recoverable on unpaid losses	230,865	232,097	1,232
Net Unpaid Losses	$109,518	$ 98,612	$(10,906)

The above difference of $(10,906) 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 not properly signed.

The company does not use proof of loss forms as part of its claim settlement procedures. It is recommended that the company establish a reasonable threshold claim amount that would require a proof of loss form to be completed and signed by the insured.

Unpaid Loss Adjustment Expenses **$500**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2010, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is based on a review of the actual cost for outside and internal adjusters on all outstanding claims at year-end.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

Commissions Payable **$46,000**

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 **$325**

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 **$573,000**

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 **$22,362**

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 A- Liability	$ 219
Class B- First Surplus	9,476
Class C-1	4,442
Class C-2	2,655
Class C-3	968
Class D-1	3,144
Class D-2	1,458
Total	$22,362

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Amounts Withheld for the Account of Others **$1,391**

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

Payroll Taxes Payable **$1,939**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2010, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **$4,495**

This liability represents the expense-related amount due at December 31, 2010. Supporting records and subsequent cash disbursements verified this item.

Accrued Salaries **$2,027**

This liability represents the employee payroll amount due at December 31, 2010. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **$39,413**

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.

Payable to WAMIC **$622**

This liability represents an amount due to the Wisconsin Association of Mutual Insurance Companies at December 31, 2010. Supporting records verified this item.

V. CONCLUSION

Darlington Mutual Insurance Company is a town mutual insurer with an authorized territory of 14 counties. The company has been in business for 136 years providing property and liability insurance to its policyholders.

Policyholders' surplus has decreased from $1,171,490 as of year-end 2005 to $988,083 as of year-end 2010. This represents a decrease of 15.7% during the period under examination. The following schedule summarizes the cumulative increases and decreases to surplus from December 31, 2005, to December 31, 2010:

Policyholders' surplus, December 31, 2000	$1,171,490
Net income (loss)	(138,031)
Net unrealized capital gains (losses)	(41,287)
Change in nonadmitted assets	(4,089)
Policyholders' surplus, December 31, 2005	$ 988,083

During the period under examination, Darlington Mutual Insurance Company's assets decreased 10.8%, liabilities decreased 4.1%, and surplus decreased by 15.7%. The company has reported underwriting and net loss in the last three consecutive calendar years. Loss and underwriting expense ratios reached a particularly high level of 90% and 51%, respectively, in 2009, mostly due to severe weather events. The company's five-year average expense ratio was 53% as compared to the town mutual average of 45% for the same period. The commission rates on homeowner's and commercial lines of business are higher than is typically paid by town mutual companies. During the period under examination, gross premium written and net premium written decreased by 7.5% and 8.7%, respectively. The company's policy count has decreased from 1,691 at year-end 2005 to 1,472 at year-end 2010.

The company complied with the four recommendations from the previous examination report. The current examination resulted in two recommendations. Areas of improvement recommended by this examination included acting to restore the level of Type 1 investments and implementing a proof of loss form for claims above a reasonable threshold amount. There were no adjustments or reclassifications to the balance sheet as a result of this examination.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 18 - Investment Rule Compliance—It is recommended that the company make no additional Type 2 investments, including reinvestment of interest, dividends, or other income from existing Type 2 assets, until the company meets the required amount of Type 1 investments pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

2. Page 24 - Net Unpaid Losses—It is recommended that the company establish a reasonable threshold claim amount that would require a proof of loss form to be completed and signed by the insured.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Ana Careaga
Examiner-in-Charge