Report

of the

Examination of

Fall Creek Mutual Insurance Company

Fall Creek, Wisconsin

As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, *Governor*
Theodore K. Nickel, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: ociinformation@wisconsin.gov
Web Address: oci.wi.gov

May 5, 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:

FALL CREEK MUTUAL INSURANCE COMPANY
Fall Creek, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Fall Creek 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 assistance in connection with the year-end close, assistance with the preparation of the annual statement, and tax return preparation. On November 23, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

The company was organized as a town mutual insurance company on January 18, 1875, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Fall Creek Farmers Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was one amendment to the articles of incorporation and no amendments to the bylaws. The articles of incorporation were amended to change the company’s number of directors to seven members from nine members.

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

Barron	Dunn
Buffalo	Eau Claire
Clark	Jackson
Chippewa	Trempealeau

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 on large farmowners’ policies and three years on all other policies with premiums payable on the advance premium basis. The company also charges a policy fee equal to $10 for HO-4 and personal property business, $20 for homeowner, dwelling fire, mobile fire, farm fire, hobby farm, and commercial business, and $30 for farmowner business. In addition, the company charges an installment fee of $3 per installment if premiums are not paid on an annual basis.

Business of the company is acquired through six agents, none of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All new business	14%
All renewals and endorsements	12

Agents have no authority to adjust losses. All losses (except dead cattle which are done by the company) are adjusted by Summit Adjusting Serivce. Adjusters receive $8.00 per hour for each loss adjusted plus $0.45 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 seven 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
Dennis Schacht	Farmer	Fall Creek, Wisconsin	2014
Darrel Reetz	Farmer	Osseo, Wisconsin	2013
Mark Zuber	Retired Ag Instructor	Eleva, Wisconsin	2013
Dean Solie	Retired Farmer	Augusta, Wisconsin	2012
Richard Anderson	Retired	Chippewa Falls, Wisconsin	2012
Cory Schalinske	Police Chief	Fall Creek, Wisconsin	2013
Peter Schumacher	Farmer	Elk Mound, Wisconsin	2012

Members of the board currently receive $40.00 for each meeting attended and $0.45 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
Dennis Schacht	President	$ 2,093
Darrel Reetz	Vice President	462
Mark Zuber	Secretary	820
Dean Solie	Treasurer	481
Jane Sather	Manager	47,793

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
Jane Sather, Chair
Dennis Schacht
Mark Zuber
Dean Solie

Forms & Rates Committee
Jane Sather, Chair
Dennis Schacht
Mark Zuber
Darrel Reetz
Richard Anderson

Inspection Committee
Jane Sather, Chair
Dennis Schacht
Mark Zuber
Richard Anderson

Audit Committee
Jane Sather, Chair
Dennis Schacht
Mark Zuber
Dean Solie

Underwriting Committee
Jane Sather, Chair
Dennis Schacht
Darrel Reetz
Mark Zuber
Dean Solie
Richard Anderson
Cory Schalinske
Peter Schumacher

Personnel Committee
Jane Sather, Chair
Dennis Schacht
Mark Zuber
Richard Anderson
Cory Schalinske

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	$545,057	1,310	$ 6,368	$2,776,875	$2,154,306
2009	560,915	1,328	202,795	2,676,923	2,089,169
2008	580,822	1,380	126,888	2,469,182	1,852,821
2007	556,893	1,403	87,493	2,423,305	1,788,066
2006	583,471	1,434	(89,304)	2,336,519	1,683,048
2005	538,564	1,465	(56,913)	2,305,486	1,709,738

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	Net
2010	$1,095,279	$540,842	$2,154,306	51%	25%
2009	1,101,183	549,413	2,089,169	53	26
2008	1,120,630	577,054	1,852,821	60	31
2007	1,105,320	570,627	1,788,066	62	32
2006	1,050,996	592,952	1,683,048	62	35
2005	996,749	564,788	1,709,738	58	33

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	$381,944	$234,682	$545,057	70%	43%	113%
2009	154,401	235,495	560,915	28	43	70
2008	318,873	218,595	580,822	55	38	93
2007	291,233	247,366	556,893	52	43	96
2006	485,800	255,280	583,471	83	43	126
2005	428,878	255,084	538,564	80	45	125

The company reported a net income in four of the five years under examination. During the period under examination, the company’s admitted assets increased by 20%, net premiums written decreased by 4%, policies in force decreased by 11% and surplus increased by 26%. The increase in admitted assets and surplus was due to the combination of positive investment results and the overall underwriting profitability of the company since the previous exam. The increase in net premiums written was due to the company’s efforts in insuring to value. The decrease of policies in force was a result of the nonrenewal of poor quality risks and a competitive insurance market.

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:	Either party may terminate as of January 1st by giving at least 90 days' written notice to the other party

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class AX1 Casualty Excess of Loss
	Lines reinsured:	All casualty or liability business
	Company's retention:	$2,500 each and every loss occurrence
	Coverage:	100% of each and every loss occurrence, including loss adjustment expense, in excess of the company's retention subject to the maximum policy limits of: a. $1,000,000 per occurrence, single limit 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 subject premium written Annual deposit premium = $96,600
2.	Type of contract:	Class B First Surplus
	Lines reinsured:	All property business
	Company's retention:	$300,000 for each occurrence
	Coverage:	If net retention is $300,000 or more on a risk, the company may cede on a pro rata basis, and the reinsurer is obligated to accept up to $800,000. If net retention is $300,000 or less on a risk, the company may cede on a pro rata basis, and the reinsurer is obligated to accept up to 50% of such risk.

	Reinsurance premium:	The pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each risk ceded
	Ceding commission:	Commission rate: 15% of the premium paid Profit commission: 15% of the net profit
3.	Type of contract:	Class C-1 First Layer of Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	$40,000 per loss per occurrence
	Coverage:	$70,000 excess of retention
	Reinsurance premium:	The rate in effect shall be determined by taking the sum of the four years' losses incurred by the reinsurer divided by the total of the net premiums written for the same period, multiplied by the factor 100/80ths. Current rate is 7.00%. Minimum rate = 7.00% Maximum rate = 17.50% Annual deposit premium = $47,132
4.	Type of contract:	Class C-2 Second Layer of Excess of Loss
	Lines reinsured:	All property business
	Company's retention:	$110,000 per loss per occurrence
	Coverage:	$190,000 excess of retention for each and every loss occurrence
	Reinsurance premium:	The rate for each annual period shall be determined by multiplying the rate by the company's Net Written Premium. The current rate is 5.0%. Annual deposit premium = $33,666
5.	Type of contract:	Class DE-1 First Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's retention:	75% of net premium written
	Coverage:	60% of annual aggregate losses, including loss adjustment expenses, exceeding 100% of net premium written and in excess of the company's retention.
	Reinsurance premium:	The rate for each annual period shall be determined by multiplying the rate by the company's Net Written Premium. The current rate is 6.45%.

		Minimum rate = 6.45% Maximum rate = 15.0% Annual deposit premium = $47,582 Estimated attachment point = $553,283
6.	Type of contract:	Class DE-2 Second Aggregate Excess of Loss Reinsurance
	Lines reinsured:	All business written by the company
	Company's retention:	75% of net premium written
	Coverage:	100% of annual aggregate losses, including loss adjustment expenses, exceeding 135% of net premium written and in excess of the company's retention.
	Reinsurance premium:	The rate for each annual period shall be determined by multiplying the rate by the company's Net Written Premium. The current rate is 3.00%. Rate = 3.00% Annual deposit premium = $22,131 Attachment point = 135.00%

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."

Fall Creek 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	86,288			86,288
Cash deposited at interest	938,477			938,477
Bonds	758,567			758,567
Stocks and mutual fund investments	702,301			702,301
Real estate	24,616			24,616
Premiums, agents' balances and installments:				
In course of collection	4,347		135	4,212
Deferred and not yet due	217,245			217,245
Investment income accrued		9,394		9,394
Reinsurance recoverable on paid losses and LAE	6,955			6,955
Electronic data processing equipment	6,787			6,787
Fire dues recoverable	136			136
Reinsurance premium recoverable	9,227			9,227
Other expense-related assets:				
Reinsurance commission receivable	10,600			10,600
Other nonexpense-related assets:				
Federal income tax recoverable	1,970			1,970
Furniture and fixtures	2,049		2,049	
Totals	$2,769,665	$9,394	$2,184	$2,776,875

Liabilities and Surplus

Net unpaid losses	$ 67,078
Unpaid loss adjustment expenses	5,300
Commissions payable	34,099
Unearned premiums	411,119
Reinsurance payable	70,606
Other liabilities:	
Expense-related:	
Accounts payable	96
Accrued salaries and wages	21,627
Nonexpense-related:	
Premiums received in advance	12,644
Total liabilities	622,569
Policyholders' surplus	2,154,306
Total Liabilities and Surplus	$2,776,875

Fall Creek Mutual Insurance Company
Statement of Operations
For the Year 2010

Net premiums and assessments earned		$ 545,057
Deduct:		
Net losses incurred	$ 327,964	
Net loss adjustment expenses incurred	53,980	
Net other underwriting expenses incurred	234,682	
Total losses and expenses incurred		(616,626)
Net underwriting gain (loss)		(71,569)
Net investment income:		
Net investment income earned	48,816	
Net realized capital gains (losses)	2,300	
Total investment gain (loss)		51,116
Other income (expense):		
Miscellaneous income	34,452	
Gain (loss) on disposal of fixed assets	0	
Total other income		34,452
Net income (loss) before federal income taxes		13,999
Federal income taxes incurred		7,631
Net Income (Loss)		$ 6,368

Fall Creek 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	$2,089,169	$1,852,821	$1,788,066	$1,683,048	$1,709,738
Net income	6,368	202,795	126,888	87,493	(89,304)
Net unrealized capital gain or (loss)	57,255	32,855	(60,200)	14,217	60,782
Change in nonadmitted assets	1,514	698	(1,933)	3,308	1,832
Surplus, End of Year	$2,154,306	$2,089,169	$1,852,821	$1,788,066	$1,683,048

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 obtain conflict of interest questionnaires from directors and key employees that include complete responses to the questions thereon.

   Action—Compliance.

2. Underwriting—It is again recommended that the company adopt: a checklist or guide for the inspection of each class of business the company writes (homeowner's, farmowner's, mobile home, etc.); a timeline (relative to renewal date) for the company to notify agents of renewal inspections to be performed, a deadline for the agent to perform each inspection, a procedure for the company to obtain an inspection if the agent does not meet the deadline to perform the inspection; and a procedure to ensure that information from the inspection report is evaluated before the statutory deadlines for notices of nonrenewal or changes in coverage to the policyholder.

   Action—Compliance.

3. Underwriting—It is recommended that the company train its agents regarding the use of its current building valuation manuals and have them document the valuation method used on each structure within the reporting forms for new and renewal inspections.

   Action—Compliance.

4. Investment Rule Compliance—It is recommended that the company report the correct investment rule designation for all securities pursuant to the Town Mutual Annual Statement Instructions.

   Action—Compliance.

5. Stocks and Mutual Fund Investments—It is recommended that the company accurately complete Schedule D, Section 1, Part 2, pursuant to Town Mutual Annual Statement Instructions.

   Action—Compliance.

6. Stocks and Mutual Fund Investments—It is recommended that the company sell its shares in the Fidelity Advisor Equity Growth Fund within 90 days of the adoption of this report to comply with s. Ins 6.20 (6) (d) 5, Wis. Adm. Code.

   Action—Compliance.

7. Electronic Data Processing Equipment—It is recommended that the company properly calculate depreciation on EDP equipment in accordance with the Town Mutual Annual Statement Instructions.

   Action—Compliance.

8. Amounts Withheld for Account of Others—It is recommended that the company properly report Amounts Withheld for Account of Others pursuant to Town Mutual Annual Statement Instructions.

   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	$ 250,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000

Type of Coverage	Coverage Limits
Insurance agents and brokers liability insurance:	
Limit for each claim	$1,000,000
Aggregate limit	1,000,000
Deductible each claim	2,500
Director and officers liability insurance:	
Limit per claim	3,000,000
Aggregate limit	3,000,000
Deductible each claim	10,000
Professional liability insurance:	
Limit per claim	3,000,000
Aggregate limit	3,000,000
Deductible each claim	10,000
Business owners:	
Building	230,100
Business personal property	30,000
Deductible $500	500
Liability and medical expenses	2,000,000
General aggregate	4,000,000
Medical expenses per person	5,000
Products/completed operations/aggregate	4,000,000
Damage to premises rented to the company in any one fire or explosion	50,000

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 underwriting 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, 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 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	$ 922,569
2.	Liabilities plus 33% of gross premiums written	984,011
3.	Liabilities plus 50% of net premiums written	892,990
4.	Amount required (greater of 1, 2, or 3)	984,011
5.	Amount of Type 1 investments as of 12/31/2010	1,833,016
6.	Excess or (deficiency)	$ 849,005

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$1,024,865**

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

Cash in company's office	$ 100
Cash deposited in banks—checking accounts	86,288
Cash deposited in banks at interest	938,477
Total	$1,024,865

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 at 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 17 deposits in 7 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 $24,376 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.25% to 2.58%. Accrued interest on cash deposits totaled $1,607 at year-end.

Book Value of Bonds **$758,567**

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, with a proper custodial agreement, by Waukesha State Bank.

Bonds were traced to the company's custodian report as of year-end 2010. 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.

The company has two bonds from the same issuer that, in total, exceed 3% of admitted assets. The company did not have prior approval from the Commissioner to exceed 3% of admitted assets from a single issuer. Therefore, it is recommended that the company refrain from investing in individual corporate issues that would exceed 3% of admitted assets without prior approval from the Commissioner per s. Ins 6.20 (6) (f) 1, Wis. Adm. Code.

Interest received during 2010 on bonds amounted to $35,069 and was traced to cash receipts records. Accrued interest of $7,787 at December 31, 2010, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$702,301**

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 a safety deposit box at a local bank or held, with a proper custodial agreement, by Waukesha State Bank.

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 $11,237 and were traced to cash receipts records. The company did not have any accrued dividends as of December 31, 2010.

Book Value of Real Estate **$24,616**

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 **$4,212**

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 **$217,245**

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 **$9,394**

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

Cash deposited at interest	$1,607
Bonds	7,787
Total	$9,394

Reinsurance Recoverable on Paid Losses and LAE **$6,955**

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 **$6,787**

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.

Fire Dues Recoverable **$136**

This asset represents the amount overpaid to the State of Wisconsin for 2010 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Reinsurance Premium Recoverable **$9,227**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2010. The examiners verified the balance directly with the reinsurer.

Reinsurance Commission Receivable **$10,600**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2010, under its contract with Wisconsin Reinsurance Corporation. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Federal Income Tax Recoverable **$1,970**

This asset represents the balance receivable at year-end for federal income taxes incurred prior to December 31, 2010. The examiners verified the balance by tracing it to its subsequent receipt.

Furniture and Fixtures **$0**

This asset consists of $2,049 of equipment and fixtures owned by the company as of 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.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$67,078**

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. 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	$186,470	$178,271	$8,199
Less: Reinsurance recoverable on unpaid losses	119,391	115,665	3,726
Net Unpaid Losses	$67,078	$ 62,606	$4,473

The above difference of $4,473 was not considered material for purposes of this examination and as a result no adjustment was made to surplus for the difference.

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 **$5,300**

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 the history of the amounts of claims incurred at year-end but unpaid and the related adjusting expenses.

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 **$34.099**

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

Unearned Premiums **$411,119**

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 **$70,606**

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. This amount consisted of a deferred reinsurance balance of $70,606 that was traced to the year-end deferred premium report supplied by the reinsurer.

Amounts Withheld for the Account of Others **$0**

This liability represents employee payroll deductions in the possession of the company at December 31, 2010. The company reported $21,627 in accrued salaries and wages. However, the company has failed to report amounts withheld for others to account for the payroll taxes on their Accrued Salaries and Wages. The balance of Amounts Withheld for Account of Others was not computed by the examination because any such adjustment would not be considered material for purposes of this examination. Accordingly, no adjustment was made to surplus for the difference. It is recommended that the company properly report Amounts Withheld for Account of Others pursuant to <u>Town Mutual Annual Statement Instructions</u>.

While the foregoing recommendation is worded identically to a recommendation made in the prior examination report for the company as of December 31, 2005, the problem identified at that time was different. The prior examination noted that the company was in the practice of incorrectly netting Amounts Withheld for the Account of Others against the accounts payable liability. The current examination noted that the company should compute and accrue a liability for state and federal withholdings associated with accrued salaries and wages.

Accounts Payable **$96**

This liability consists of amounts due to creditors for miscellaneous expenses at December 31, 2010. Supporting records and subsequent cash disbursements verified this item.

Accrued Salaries and Wages **$21,627**

This liability consists of the following accruals:

2010 payroll	$ 1,655
Vacation	3,217
Sick leave	16,755
Total	$21,627

The vacation and sick leave days were based on information provided by the company.

Premiums Received in Advance **$12,644**

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

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

The company reported a net income in four of the five years under examination. During the period under examination, the company's admitted assets increased by 20%, net premiums written decreased by 4%, policies in force decreased by 11%, and surplus increased by 26%. The increase in admitted assets and surplus was due to the combination of positive investment results and the overall underwriting profitability of the company since the previous exam. The increase in net premiums written was due to the company's efforts in insuring to value. The decrease of policies in force was a result of the nonrenewal of poor quality risks and a competitive insurance market.

The examination did not result in any changes to surplus. The company complied with the eight recommendations from the previous examination report. The current examination resulted in two recommendations. Areas of improvement recommended by this examination related to agency contracts, investment limitations, and accrual of a liability for state and federal withholdings associated with accrued salaries and wages.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Book Value of Bonds—It is recommended that the company refrain from investing in individual corporate issues that would exceed 3% of admitted assets without prior approval from the Commissioner per s. Ins 6.20 (6) (f) 1, Wis. Adm. Code.

2. Page 25 - Amounts Withheld for the Account of Others—It is recommended that the company properly report Amounts Withheld for Account of Others pursuant to Town Mutual Annual Statement Instructions.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Terry Lorenz
Examiner-in-Charge