

Report
of the
Examination of
Middleton Insurance Company
Middleton, Wisconsin
As of December 31, 2011

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Scott Walker, Governor
Theodore K. Nickel, Commissioner

Wisconsin.gov

May 24, 2012

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Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
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Commissioner:

In accordance with your instructions, an examination has been performed as of
December 31, 2011, of the affairs and financial condition of:

MIDDLETON INSURANCE COMPANY
Middleton, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Middleton Insurance Company (the company) was made in 2007 as of December 31, 2006. The current examination covered the intervening time period ending December 31, 2011, 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 assistance with complex transactions such as accounting for income taxes and compilation of the annual statement. On December 13, 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 4, 1876, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Middleton 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:

Columbia	Dane
Dodge	Grant
Green	Iowa
Jefferson	Lafayette
Rock	Sauk

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 \$15.00 annual policy fee for new and renewal policies and a \$3.00 fee for the choice of an installment method of payment.

Business of the company is acquired through 124 agents, none of whom are directors of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
All types of policies	15%

Agents have no authority to adjust losses. Losses are adjusted by outside providers with some adjusted by Steve Leadholm, Manager, who receives \$40.00 per hour for loss adjusting plus \$.50/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 six 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
David Goplin	Contractor	Oregon, WI	2015
Carl Chandler*	Agent	Blanchardville, WI	2013
Gerald Jensen	Farmer	Oregon, WI	2013
Carlton Hamre	Retired Farmer	Deforest, WI	2014
Jeff Notstad	Farmer	Cambridge, WI	2014
Samuel Stuessy	Farmer	Brooklyn, WI	2014
Tim Klongland**	Real Estate	Stoughton, WI	2012

* Directors who are also agents are identified with an asterisk. Carl Chandler was an agent for the company until January 15, 2012.

** Tim Klongland served as director as of year-end 2011 and retired in February of 2012.

Members of the board currently receive \$100.00 for each meeting attended and \$.50/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	2011 Compensation
Gerald Jensen	President	\$ 2,600
Dave Goplin	Vice-President*	500
Tim Klongland	Secretary/Treasurer*	1,143
Steve Leadholm	Manager	39,671**

* In February 2012 Carl Chandler was elected as Vice-President replacing Dave Goplin, and Dave Goplin was elected as Secretary/Treasurer replacing Tim Klongland.

** Represents consulting and adjusting fees paid to Schiffler & Company and Steve Leadholm.

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 - Loss Committee

Jeff Notstad, Chair
Samuel Stuessy
Gerald Jensen

Investment - Budget Committee

David Goplin, Chair
Carl Chandler
Carlton Hamre
Gerald Jensen

Growth of Company

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

Year	Net Premiums Earned	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
2011	\$678,589	1,416	\$(102,464)	\$2,411,608	\$1,881,043
2010	693,240	1,417	89,267	2,565,084	1,996,243
2009	690,194	1,424	102,178	2,465,519	1,867,982
2008	693,435	1,440	144,817	2,460,951	1,878,033
2007	710,482	1,510	256,580	2,302,707	1,667,842
2006	704,796	1,633	88,630	1,997,901	1,326,035

The ratios of gross and net premiums written to surplus as regards policyholders

since the previous examination were as follows:

Year	Gross Premiums Written	Net Premiums Written	Policyholders' Surplus	Writings Ratios Net	Gross
2011	\$ 998,245	\$684,880	\$1,881,043	36%	53%
2010	1,005,499	694,797	1,996,243	35	50
2009	989,343	684,586	1,867,982	37	53
2008	1,017,022	674,264	1,878,033	36	54
2007	1,039,284	704,005	1,667,842	42	62
2006	1,063,909	689,905	1,326,035	52	80

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
2011	\$497,284	\$322,890	\$678,589	73%	47%	120%
2010	315,384	336,934	693,240	45	48	94
2009	319,810	324,746	690,194	46	47	94
2008	298,615	327,928	693,435	43	49	92
2007	232,277	327,412	710,482	33	47	79
2006	409,913	308,957	704,796	58	45	103

The company reported a cumulative increase in surplus of 42% over the last five years. During 2011, the decrease in surplus was due to net loss of \$102,464 and unrealized losses of \$12,736.

The company experienced an increase in losses due to three regional wind and hailstorms on April 3rd, June 8th, and July 11th. Unrealized gains on Wisconsin Reinsurance Corporation stock over the last five years were \$44,528, a 6.8% increase in value. Policies in force have decreased by 13.3% over the last five years; however, gross and net premiums earned have remained fairly stable for the same period due to rate increases and increases in the value of insured buildings.

II. REINSURANCE

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

1. Type of contract: Class A Casualty Excess of Loss
Reinsurer: Wisconsin Reinsurance Corporation
Effective date: January 1, 2012, continuous
Lines reinsured: Liability
Company's retention: \$8,000
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: 50% of net premium written
Annual deposit premium: \$71,000
Termination provisions: 60-day advance notice requirement in the event that either party wishes to terminate the contract
2. Type of contract: Class B First Surplus
Lines reinsured: All property business
Company's retention: \$350,000
Coverage: \$350,000 or less in respect to a risk; on a pro rata basis up to 50% of such risk

Over \$350,000 in respect to a risk; on a pro rata basis up to \$800,000

Pro rata portion of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded

Premium: Pro rata portion of all premiums corresponding to the amount of each risk ceded

- Ceding commission: Commission allowance: 15% of the premium paid
Profit commission: 15% of the net profit
3. Type of contract: Class C Excess of Loss
- Lines reinsured: All property business
- Company retention: \$50,000
- Coverage: 100% of each and every loss in excess of \$50,000 up to \$100,000, including loss adjustment expense
- Reinsurance premium: Sum of the preceding four years' losses incurred (paid plus outstanding) by the reinsurer, divided by the total of the net premiums written for the same period, multiplied by the factor 125%
- Current rate is 5%
- Annual deposit premium: \$36,238
4. Type of contract: Class C-2 Excess of Loss
- Lines reinsured: All property business
- Company retention: \$150,000
- Coverage: 100% of any loss, including loss adjustment expense, in excess of the company's retention up to \$200,000
- Reinsurance premium: 2.75% of net premium written
Minimum annual premium: 75% of annual deposit premium
Annual deposit premium: \$19,931
5. Type of contract: Class D/E Stop Loss
- Lines reinsured: All property business
- Company retention: Losses equal to 67.5% of net premium written
- Coverage: 100% of the amount by which the aggregate net losses, including loss adjustment expenses, exceed the retention up to 62.5% of net premium written
- Premium: Sum of the preceding eight years' losses incurred by the reinsurer, of the business year just completed, divided by the total of the net premiums written for the same period multiplied by 125%
- Current rate is 5.0%
- Annual deposit premium: \$39,788
6. Type of contract: Class D/E-2 Stop Loss
- Lines reinsured: All property business

Company retention:	Losses equal to 130% of net premium written
Coverage:	100% of annual aggregate losses, including loss adjustment expenses, in excess of the retention
Premium:	2.5% of net premiums written, subject to a minimum annual premium of \$19,894

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, 2011, 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."

Middleton Insurance Company
Statement of Assets and Liabilities
As of December 31, 2011

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash in company's office	\$ 100	\$	\$	\$ 100
Cash deposited in checking account	110,944			110,944
Cash deposited at interest	1,183,532			1,183,532
Stocks and mutual fund investments	960,207			960,207
Premiums, agents' balances and installments:				
In course of collection	31,783			31,783
Deferred and not yet due	108,637			108,637
Investment income accrued		4,610		4,610
Reinsurance recoverable on paid losses and LAE	280			280
Electronic data processing equipment	5,079			5,079
Fire dues recoverable	156			156
Other expense-related assets:				
Reinsurance commission receivable	3,849			3,849
Other nonexpense-related assets:				
Federal income tax recoverable	2,265			2,265
Miscellaneous receivable	166			166
Other nonadmitted assets:				
Prepaid assets	<u>524</u>	<u>0</u>	<u>524</u>	<u>0</u>
Totals	<u>\$2,407,522</u>	<u>\$4,610</u>	<u>\$524</u>	<u>\$2,411,608</u>

Middleton Insurance Company
Statement of Assets and Liabilities (cont.)
As of December 31, 2011

Liabilities and Surplus

Net unpaid losses	\$ 27,994
Unpaid loss adjustment expenses	3,400
Commissions payable	30,878
Unearned premiums	427,317
Reinsurance payable	20,139
Amounts withheld for the account of others	585
Other liabilities:	
Expense-related:	
Accounts payable	613
Accrued property tax	2,620
Accrued salaries and wages	1,944
Nonexpense-related:	
Premiums received in advance	<u>15,075</u>
Total liabilities	530,565
Policyholders' surplus	<u>1,881,043</u>
Total Liabilities and Surplus	<u>\$2,411,608</u>

**Middleton Insurance Company
Statement of Operations
For the Year 2011**

Net premiums and assessments earned		\$ 678,589
Deduct:		
Net losses incurred	\$449,830	
Net loss adjustment expenses incurred	47,454	
Net other underwriting expenses incurred	<u>322,890</u>	
Total losses and expenses incurred		<u>820,174</u>
Net underwriting gain (loss)		(141,585)
Net investment income:		
Net investment income earned	17,564	
Net realized capital gains (losses)	<u>119</u>	
Total investment gain (loss)		17,683
Other income (expense):		
Miscellaneous income	<u>23,931</u>	
Total other income		<u>23,931</u>
Net income (loss) before federal income taxes		(99,971)
Federal income taxes incurred		<u>2,493</u>
Net Income (Loss)		<u><u>\$(102,464)</u></u>

Middleton Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2011

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:

	2011	2010	2009	2008	2007
Surplus, beginning of year	\$1,996,243	\$1,867,982	\$1,878,033	\$1,667,842	\$1,326,035
Net income	(102,464)	89,267	102,178	144,817	256,580
Net unrealized capital gain or (loss)	(12,736)	38,584	(111,332)	58,343	71,195
Change in nonadmitted assets	<u>0</u>	<u>410</u>	<u>(897)</u>	<u>7,031</u>	<u>14,032</u>
Surplus, End of Year	<u>\$1,881,043</u>	<u>\$1,996,243</u>	<u>\$1,867,982</u>	<u>\$1,878,033</u>	<u>\$1,667,842</u>

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2011, is accepted.

IV. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

The prior examination resulted in no adverse comments or recommendations.

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.

During the review of a prior year's annual meeting minutes it was noted that a quorum of ten members was not present for one annual meeting. It is recommended that the company establish that a quorum of ten members exists at annual meetings, or defer the annual meeting, as stated in its articles of incorporation.

Biographical data relating to company officers and directors has 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	\$ 120,000
Worker's compensation:	
Employee injury	statutory
Employee liability:	
General aggregate	2,000,000
Liability and medical expense	1,000,000
Fire damage limit	1,000,000
Insurance company professional liability	1,000,000
Directors & officers professional liability	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. New applications and renewal business is inspected by Steve Leadholm, Manager.

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, 2011.

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. Additional file back-up is performed daily by an outside vendor. 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.

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	\$ 830,565
2. Liabilities plus 33% of gross premiums written	859,986
3. Liabilities plus 50% of net premiums written	873,005
4. Amount required (greater of 1, 2, or 3)	873,005
5. Amount of Type 1 investments as of 12/31/2011	<u>1,294,476</u>
6. Excess or (deficiency)	<u>\$ 421,471</u>

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **\$1,294,576**

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

Cash in company's office	\$ 100
Cash deposited in banks—checking accounts	110,944
Cash deposited in banks at interest	<u>1,183,532</u>
Total	<u>\$1,294,576</u>

Cash in the 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 confirmations directly from the depository and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 12 deposits in 10 depositories. Deposits were verified by direct correspondence with the respective depositories. Interest received during the year 2011 totaled \$19,494 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.80% to 3.65%. Accrued interest on cash deposits totaled \$4,610 at year-end.

Stocks and Mutual Fund Investments **\$960,207**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2011. Stocks owned by the company are located in the company's safety deposit box.

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 2011 on stocks and mutual funds amounted to \$6,481 and were traced to cash receipts records.

Premiums, Agents' Balances in Course of Collection **\$31,783**

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 **\$108,637**

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 **\$4,610**

Interest due and accrued on the various assets of the company at December 31, 2011, consists of the following:

Cash deposited at interest	<u>\$4,610</u>
Total	<u>\$4,610</u>

Reinsurance Recoverable on Paid Losses and LAE **\$280**

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, 2011. A review of year-end accountings with the reinsurer verified the above asset.

Electronic Data Processing Equipment **\$5,079**

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2011. A review of receipts and other documentation verified the balance. Non-operating system software was properly nonadmitted.

Fire Dues Recoverable **\$156**

This asset represents the amount overpaid to the State of Wisconsin for 2011 fire dues. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated. The actual amount paid was verified to the cash disbursement records.

Reinsurance Commission Receivable **\$3,849**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2011. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Federal Income Tax Recoverable **\$2,265**

The above asset represents the amount of federal income tax recoverable that the company expected to receive as of December 31, 2011. A review of the federal income tax form and other documentation verified the balance. The federal income tax recoverable balance appears to be reasonable.

Miscellaneous Receivable **\$166**

The above asset represents the amount receivable from its leaseholder for shared expenses paid by the company for various maintenance services, utilities and property taxes. A review of the terms of the agreement with the leaseholder verified the above asset.

Prepaid Assets **\$0**

This asset consists of \$524 in prepaid assets as of December 31, 2011. 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 **\$27,994**

This liability represents losses incurred on or prior to December 31, 2011, 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, 2011, with incurred dates in 2011 and prior years. To the actual paid loss figure was added an estimated amount for 2011 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	\$69,902	\$61,804	\$8,098
Less: Reinsurance recoverable on unpaid losses	<u>41,909</u>	<u>42,285</u>	<u>(376)</u>
Net Unpaid Losses	<u>\$27,994</u>	<u>\$24,519</u>	<u>\$3,475</u>

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 **\$3,400**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2011, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is a combination of case file LAE reserves and an estimate developed by the company's CPA.

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 **\$30,878**

This liability represents the commissions payable to agents as of December 31, 2011. The examiners reviewed the company's subsequent commission payments and found the liability to be reasonably stated.

Unearned Premiums **\$427,317**

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 and adjusting for unearned premium held by the reinsurer.

Reinsurance Payable **\$20,139**

This liability consists of amounts due to the company's reinsurer at December 31, 2011, relating to transactions which occurred on or prior to that date.

Liability	\$(1,917)
Class C1	(560)
Class C2	(304)
Class D1	(652)
Class D2	<u>(326)</u>
	(3,759)
Deferred Premium	28,115
Deferred Commission	<u>(4,217)</u>
Total	<u>\$20,139</u>

Amounts Withheld for the Account of Others **\$585**

This liability represents employee payroll deductions in the possession of the company at December 31, 2011. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **\$613**

This liability represents unpaid utilities and service bills of the company at December 31, 2011. Supporting records and subsequent cash disbursements verified this item.

Accrued Property Taxes **\$2,620**

This liability represents the payable at year-end incurred prior to December 31, 2011, per the lease agreement, for Middleton Insurance Company's share of 2011 property taxes. The

examiners reviewed the terms of the lease agreement and found the liability to be reasonably stated.

Accrued Salaries and Wages **\$1,944**

This liability represents the employee payroll amount due at December 31, 2011.

Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **\$15,075**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2011. The examiners reviewed 2011 premium and cash receipt records to verify the accuracy of this liability.

V. CONCLUSION

Middleton Insurance Company is a town mutual insurer with an authorized territory of ten counties. The company has been in business for over 135 years providing property and liability insurance to its policyholders.

The company reported assets of \$2,411,608, liabilities of \$530,565 and policyholders' surplus of \$1,881,043 at year-end 2011. Surplus increased 42% over the previous five-year period. The company reported underwriting gains in four of the five years under examination, with only 2011 resulting in losses due to three regional wind and hailstorms.

Policies in force have decreased by 13.3% over the last five years; however, gross and net premiums earned have remained stable for the same period due to rate increases and increases in the value of insured buildings.

The current examination of the company resulted in one recommendation, regarding a quorum at annual meetings.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Corporate Records—It is recommended that the company establish that a quorum of ten members exists at annual meetings, or defer the annual meeting, as stated in its articles of incorporation.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

James Lindell
Examiner-in-Charge