Report

of the

Examination of

River Falls Mutual Insurance Company

River Falls, Wisconsin

As of December 31, 2010

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State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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August 11, 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:

RIVER FALLS MUTUAL INSURANCE COMPANY
River Falls, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of River Falls Mutual Insurance Company (the company) was made in 2005 as of December 31, 2004. 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.

The company was originally organized as a town mutual insurance company on July 1, 1876, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the River Falls Mutual Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation or 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: Dunn, Pepin, Pierce, and St. Croix.

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 also charges a policy fee of $20 for each policy and $3 for each installment.

Business of the company is acquired through four agents, one of whom is an employee and director of the company. Non-employee agents are presently compensated for their services as follows:

Type of Policy	Compensation
New business	15%
Renewal business	15%

One employee has authority to adjust losses up to $5,000 as part of his job. He is paid the current IRS travel rate for travel allowance ($0.555 since July 1, 2011) for adjustment travel. Losses in excess of this amount are adjusted by independent adjusters.

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
Richard Ruemmele	Loan Officer	Prescott, WI	2014
Thomas Sitz	Dev. Auth. Loan Rep.	River Falls, WI	2012
Jeffrey Dusek *	Company Manager	River Falls, WI	2012
Timothy Wiff	Grain and Livestock Farmer	Spring Valley, WI	2013
Steven Brand	Dairy Farmer	Ellsworth, WI	2013
Jeff Holst	Livestock and Crop Farmer	Hager City, WI	2013
Gerald Williams	Farmer	River Falls, WI	2014

Directors who are also agents are identified with an asterisk.

Members of the board currently receive $125.00 for each evening meeting or $150.00 for each daytime meeting attended and $0.555, the current IRS mileage rate, 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
Richard Ruemmele	President	$ 2,040
Thomas Sitz	Vice-President	900
Jeffrey Dusek	Secretary-Treasurer, Manager	78,146

Reported compensation is the total compensation paid by the insurer for the year and includes salary and director fees 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	Executive Committee	Investment Committee
Steven Brand	Richard Ruemmele	Thomas Sitz
Gerald Williams	Thomas Sitz	Jeff Holst
Timothy Wiff	Jeffrey Dusek	Richard Ruemmele

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	$562,092	828	$(185,028)	$2,966,337	$2,324,388
2009	556,444	820	268,478	$2,975,526	2,469,436
2008	557,660	820	169,332	$2,906,080	2,297,264
2007	574,748	830	153,191	$2,685,087	2,082,354
2006	559,964	852	127,890	$2,620,454	1,863,894
2005	534,138	890	153,655	$2,304,221	1,672,494
2004	531,820	913	183,885	$1,980,400	1,422,387

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	$1,122,931	$566,411	$2,324,388	24%	48%
2009	1,065,580	534,338	2,469,436	22	43
2008	1,089,744	571,967	2,297,264	25	47
2007	1,106,200	575,399	2,082,354	28	53
2006	1,131,009	560,672	1,863,894	30	61
2005	1,172,904	546,656	1,672,494	33	70
2004	1,120,346	520,569	1,422,387	37	79

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	$640,000	$168,776	$562,092	114%	30%	144%
2009	194,618	166,396	556,444	35	31	66
2008	270,087	176,117	557,660	48	31	79
2007	311,218	168,519	574,748	54	29	83
2006	317,335	165,193	559,964	57	29	86
2005	271,830	150,841	534,138	51	28	78
2004	236,247	152,078	531,820	44	29	74

The company has consistently kept its expense ratio very low compared with the average expense ratio of other town mutuals. The low expense ratio contributed to eight straight years of profitable underwriting prior to 2010 when two severe storm-related events caused the company to incur significant losses. Even though the company had these losses in 2010, the company’s 2010 surplus was still greater than that of 2008 and 63% greater than the company’s surplus as of the last examination.

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:	As of any January 1 by either party giving 90 days' prior written notice

The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class A Casualty Excess of Loss
	Lines reinsured:	All liability (nonproperty) business
	Company's retention:	$2,500 for each and every loss occurrence
	Coverage:	Loss and loss adjustment expense in excess of the company's retention up to the following maximum policy limits: $1,000,000 – per occurrence, single limit, combined for bodily injury and property damage liability $1,000,000 – split limits, in any combination of bodily injury and property damage liability $25,000 – for medical payments, per person; $25,000 per accident
	Reinsurance premium:	60% of the premium written for each and every policy of the business covered
2.	Type of contract:	Class B First Surplus
	Lines reinsured:	All property business written by the company
	Company's retention:	When the company's net retention is $450,000 or more, the company may cede on a pro rata basis up to $800,000. When the net retention is $450,000 or less, the company may cede up to 50% of such risk. The company shall also retain a per loss retention equal to 10% of the loss and loss adjusting expenses otherwise recoverable hereunder.
	Coverage:	Pro rata share of each and every loss, including loss adjustment expense, corresponding to the amount of the risk ceded
	Reinsurance premium:	Pro rata of all premiums, fees and assessments corresponding to each of the risk ceded

	Ceding commission:	Commission allowance: 15% of subject premium paid Profit commission: 15% of subject net profit
3.	Type of contract:	Class C-1 First Layer Excess of Loss
	Lines reinsured:	All property business written by the company
	Company's retention:	$50,000 for each and every risk resulting from one loss occurrence
	Coverage:	100% of any loss, including loss adjustment expenses, in excess of $50,000 up to a maximum of $75,000 in respect to each and every loss occurrence
	Reinsurance premium:	The rate in effect shall be determined by taking the sum of the 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 100/80ths, subject to a maximum rate of 20.00% and a minimum rate of 6.00% The current effective rate is 6.44% The current annual deposit premium is $49,038, subject to a minimum premium of 75% ($36,780) of deposit premium
4.	Type of contract:	Class C-2 Second Layer Excess of Loss
	Lines reinsured:	All property business written by the company
	Company's retention:	$125,000 for each and every loss occurrence
	Coverage:	100% of any loss, including loss adjustment expenses, in excess of $100,000 for each and every risk resulting from one loss occurrence up to a maximum of $325,000 in respect to each and every loss occurrence
	Reinsurance premium:	4.50% of the current subject net premiums written Annual deposit premium: $34,266 Annual minimum premium: 75% ($25,700)
5.	Type of contract:	Class D/E – 1 First Layer Aggregate Stop Loss
	Lines reinsured:	All property and nonproperty business written by the company
	Company's retention:	75% of net premiums written. Estimated attachment point $623,319.
	Coverage:	100% of net losses, including loss adjustment expenses, of annual aggregate losses exceeding 75% of net premium written and in excess of the company's retention
	Reinsurance premium:	The rate for each annual period is subject to a maximum rate of 17.50% and a minimum rate of 8.95%

	Current rate: 8.95% Annual deposit premium: $74,383 Annual minimum premium: 75% ($55,787)

6. Type of contract: Class D/E – 2 Second Layer Aggregate Stop Loss

Lines reinsured:	All property and nonproperty business written by the company
Company's retention:	140% of net premiums written
Coverage:	100% of net losses, including loss adjustment expenses, of annual aggregate losses exceeding 140% of net premium written and in excess of the company's retention
Reinsurance premium:	Rate: 3.50% Annual deposit premium: $29,088 Annual minimum premium: $21,816

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."

River Falls 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	47,201			47,201
Cash deposited at interest	842,561			842,561
Bonds	1,128,259			1,128,259
Stocks and mutual fund investments	741,982			741,982
Premiums, agents' balances and installments:				
In course of collection	12,173		3,319	8,854
Deferred and not yet due	142,235			142,235
Investment income accrued		14,370		14,370
Reinsurance recoverable on paid losses and LAE	22,872			22,872
Electronic data processing equipment	3,118			3,118
Other expense-related assets:				
Reinsurance commission receivable	13,139			13,139
Other nonexpense-related assets:				
Federal income tax recoverable	1,646			1,646
Furniture and fixtures	1,491		1,491	
Totals	$2,956,777	$14,370	$4,810	$2,966,337

Liabilities and Surplus

Net unpaid losses	$ 121,260
Unpaid loss adjustment expenses	21,300
Fire department dues payable	451
Unearned premiums	435,688
Reinsurance payable	36,337
Payroll taxes payable (employer's portion)	229
Other liabilities:	
Expense-related:	
Accounts payable	5,980
Nonexpense-related:	
Premiums received in advance	20,704
Total liabilities	641,949
Policyholders' surplus	2,324,388
Total Liabilities and Surplus	$2,966,337

River Falls Mutual Insurance Company
Statement of Operations
For the Year 2010

Net premiums and assessments earned		$ 562,092
Deduct:		
Net losses incurred	$578,054	
Net loss adjustment expenses incurred	61,946	
Net other underwriting expenses incurred	168,776	
Total losses and expenses incurred		808,776
Net underwriting gain (loss)		(246,684)
Net investment income:		
Net investment income earned	41,000	
Net realized capital gains (losses)	9,451	
Total investment gain (loss)		50,451
Other income (expense):		
Administrative fees	19,131	
All other	2,185	
Total other income		21,316
Net income (loss) before federal income taxes		(174,917)
Federal income taxes incurred		10,111
Net Income (Loss)		$(185,028)

River Falls Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Six-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	2005
Surplus, beginning of year	$2,469,436	$2,297,264	$2,082,354	$1,863,894	$1,672,494	$1,422,387
Net income	(185,028)	268,478	169,332	153,191	127,890	153,655
Net unrealized capital gain or (loss)	39,504	(98,414)	51,652	63,089	58,515	96,151
Change in nonadmitted assets	476	2,108	(6,074)	2,180	4,995	301
Surplus, End of Year	$2,324,388	$2,469,436	$2,297,264	$2,082,354	$1,863,894	$1,672,494

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. EDP Equipment—It is recommended that the company properly calculate depreciation on EDP equipment in accordance with SSAP No. 16.

   Action—Compliance

2. EDP Equipment—It is recommended that the company properly calculate depreciation on leasehold improvements in accordance with SSAP No. 19 and report leasehold improvements as a separate line item.

   Action—Partial compliance; see "Electronic Data Processing Equipment" below.

3. Net Unpaid Losses—It is again recommended that the company ensure that all proof of loss statements be signed by the claimant. In addition, it is again recommended that the company date-stamp documentation supporting losses claimed as evidence that the company is responding to claims in a timely manner.

   Action—Compliance

4. Premiums Received in Advance—It is recommended that the company adjust for installment payments for policies with effective dates prior to year-end which are reported as advance premium.

   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." One of the agents that the company has a contract with is Jeff Dusek of the Dusek Agency. Mr. Dusek is the manager of the company and compensated by means of a salary. The company does not pay any commission to Mr. Dusek or his agency. The agency exists for the convenience of the company in writing flood or auto policies in conjunction with its policy. The policies are effectively written directly by the company though they report that they were written by the Dusek Agency in reporting.

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
Workers compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	500,000
Each employee	500,000
Business liability	
Per occurrence	1,000,000
Aggregate	2,000,000
Business auto	1,000,000
Commercial umbrella	1,000,000
Business property	43,042
Prof. liability/D&O	2,000,000

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. During a review of policy folders, the examiners noted that there was either nothing to show that any inspections had been done recently or that the inspection reports had been removed from the folders. The examiners were told that the inspection process has been more comprehensive than that for which the company has been able to provide documentation, but inspections have no value if they are not used to update policies. It is recommended that the company maintain complete inspection documents including pictures for all new policies and scheduled renewal inspections.

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 supervise the adjustment of losses.

Accounts and Records

The examiners' review of the company's records indicated that the company is generally 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.

It was noted during the examination that some policyholders would pay a single check to the company for the policy written by the company and policies written by the same agent for other companies for auto liability. The company would then pay the agent for the overpayment and the agent would pay the other insurer. It is recommended that the company no longer accept payments for other insurance companies so that all cash receipts and cash funds of the company are at all times kept separate and distinct from any personal, agency or other funds in accordance with s. Ins 13.05 (4) (a), Wis. Adm. Code.

It was noted during the examination that the company had not filed a report with Wisconsin for certain unclaimed property that had been held by the company for more than five years. It is recommended that the company file unclaimed property reports with the state of Wisconsin as required by ch. 177, Wis. Stat.

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 both off-site and on-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	$ 941,949
2.	Liabilities plus 33% of gross premiums written	1,012,516
3.	Liabilities plus 50% of net premiums written	925,155
4.	Amount required (greater of 1, 2, or 3)	1,012,516
5.	Amount of Type 1 investments as of 12/31/2010	2,118,706
6.	Excess or (deficiency)	$1,106,190

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$889,862**

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

Cash in company's office	$ 100
Cash deposited in banks—checking accounts	47,201
Cash deposited in banks at interest	842,561
Total	$889,862

Cash in company's office at year-end represents the company's petty cash fund.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in one 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 18 deposits in 10 depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of original certificates and/or passbooks. Interest received during the year 2010 totaled $19,241 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.15% to 3.26%. Accrued interest on cash deposits totaled $1,314 at year-end.

Book Value of Bonds **$1,128,259**

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 the auspices of a custodian who holds them in trust.

Bonds were not physically inspected by the examiners. Bond purchases and sales for the period under examination were checked to the custodian’s reports. 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 $53,665 and was traced to cash receipts records. Accrued interest of $13,056 as of December 31, 2010, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$741,982**

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 safe.

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

Dividends received during 2010 on stocks and mutual funds amounted to $2,092 and were traced to cash receipts records. There were no accrued dividends as of December 31, 2010.

Premiums, Agents' Balances in Course of Collection **$8,854**

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 **$142,235**

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 **$14,370**

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

Cash at interest	$ 1,314
Bonds	13,056
Total	$14,370

Reinsurance Recoverable on Paid Losses and LAE **$22,872**

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 **$3,118**

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.

The examiners noted that $2,588 of the reported assets in this line item were identified in the book asset detail as leasehold improvements. In the prior examination, it was recommended that the company use the proper depreciation period for leasehold improvements and that it report them on the proper line. The company is now correctly using the proper leasehold improvement depreciation rate but is still reporting leasehold improvements wrongly on the Annual Statement. This amount was not considered material for this examination. It is recommended that the company report leasehold improvements separately as nonadmitted assets in the Annual Statement.

Reinsurance Commission Receivable **$13,139**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2010, based on the profitability of the business ceded 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.

Furniture and Fixtures **$0**

This asset consists of $1,491 of office equipment 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 Tax Recoverable **$1,646**

The above asset represents recoveries due to the company from estimated tax payments made in 2010. A review of the company's tax filing verified the above asset.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$121,260**

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	$160,569	$236,665	$(76,096)
Less: Reinsurance recoverable on unpaid losses	39,309	62,458	(23,259)
Net Unpaid Losses	$121,260	$174,097	$(52,837)

The above difference of $52,837 was not considered material for purposes of this examination. Even though this was not a material difference, the examination showed that a number of open claims had not had reasonable estimates of reserves for losses made by year-end. It is recommended that the company routinely review reserves to verify that they are reasonable and consistent with other loss settlements in weather-related multiple-claim situations and that the company make as informed an updated estimate as possible for continuing open claims.

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 generally contained sufficient investigatory data and documentation to verify settlement payments, but reserve estimates were not always.
3. Proofs of loss were properly signed.

The examination also noted that the company allows some claims to remain open for long periods of time, even for a number of years, without settlement while the company waits for information from the claimant or for the insured to repair covered damages. This practice may be interpreted to be an unfair settlement policy by failure to initiate and conclude claim investigations with all reasonable dispatch. This may also increase the company's exposure to additional loss sustained on damaged and unrepaired property. It is recommended that the company follow up with the claimant 30 days after the initial request for estimates and otherwise adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

Unpaid Loss Adjustment Expenses $21,300

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 is a pro rata estimate based on current year LAE and losses along with known but unpaid LAE.

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.

Fire Department Dues Payable $451

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 $435,688

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 **$36,337**

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. A supporting invoice and subsequent cash disbursement verified this item.

Payroll Taxes Payable **$229**

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 **$5,980**

This liability represents current bills that had not been paid by the end of the year. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **$20,704**

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

The company reported assets of $2,966,337, liabilities of $641,949 and policyholders' surplus of $2,324,388 at year-end 2010. The assets and policyholders' surplus reached all-time highs during the examination period because the company has kept its underwriting costs low and operations have been very efficient. Gross premium written has been stable at $1,122,931 since the prior examination six years ago and net premium written has increased 8.8% to $566,411 in that period. The company has reported positive net income in five of the last six years.

There were six recommendations as a result of this examination, none of which were repeated from the previous examination. Recommendations pertained mainly to record keeping and reporting requirements of the company.

There were no adjustments to policyholders' surplus as a result of the examination.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 15 - Underwriting—It is recommended that the company maintain complete inspection documents including pictures for all new policies and scheduled renewal inspections.

2. Page 16 - Accounts and Records—It is recommended that the company no longer accept payments for other insurance companies so that all cash receipts and cash funds of the company are at all times kept separate and distinct from any personal, agency or other funds in accordance with s. Ins 13.05 (4) (a), Wis. Adm. Code.

3. Page 16 - Accounts and Records—It is recommended that the company file unclaimed property reports with the state of Wisconsin as required by ch. 177, Wis. Stat.

4. Page 21 - Electronic Data Processing Equipment—It is recommended that the company report leasehold improvements separately as nonadmitted assets in the Annual Statement.

5. Page 22 - Net Unpaid Losses—It is recommended that the company routinely review reserves to verify that they are reasonable and consistent with other loss settlements in weather-related multiple-claim situations and that the company make as informed an updated estimate as possible for continuing open claims.

6. Page 23 - Net Unpaid Losses—It is recommended that the company follow up with the claimant 30 days after the initial request for estimates and otherwise adopt procedures for timely settlement of claims, in compliance with s. Ins 6.11 (3) (a) 2, Wis. Adm. Code.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

David Jensen
Examiner-in-Charge