Report

of the

Examination of

Sugar Creek Mutual Insurance Company

Elkhorn, Wisconsin

As of December 31, 2013

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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 16, 2014

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, 2013, of the affairs and financial condition of:

SUGAR CREEK MUTUAL INSURANCE COMPANY
Elkhorn, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Sugar Creek Mutual Insurance Company (Sugar Creek or the company) was made in 2009 as of December 31, 2008. The current examination covered the intervening time period ending December 31, 2013, 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 organized as a town mutual insurance company on February 1, 1873, under the provisions of the then existing Wisconsin Statutes. The original name of the company was The Farmers Mutual Fire Insurance Company of the Town of Sugar Creek. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used. On January 1, 2005, Union Mutual Fire Insurance Company merged with and into the company with the company remaining the surviving entity. 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:

Dane	Racine
Green	Rock
Jefferson	Walworth
Kenosha	Waukesha

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 does not charge any other fees to policyholders.

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

Type of Policy	**Compensation**
Fire and extended coverage	14%
Homeowner's/farmowner's/commercial	14
Liability	14

Agents are also paid additional compensation for renewal business based on the timeliness of the renewal process. An agent completing a month's renewal with 100% on time is paid $15 per renewal, 85% on time is paid $10 per completed on time renewal, and if less than

50% of the renewals are on time, a reduction to 12% of one year's commission is applied to each renewal which is late.

Agents do not have authority to adjust losses. Losses are primarily adjusted by an external company. The external company receives an hourly fee as compensation for each loss adjusted. The company's President/CEO and senior underwriter are authorized to adjust minor losses. The company's President/CEO reviews and approves all claims adjusted by others. All loss payments are reviewed by the claims committee.

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

Board of Directors

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

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

Name	Principal Occupation	Residence	Expiry
James Viney	President & CEO	Janesville, WI	2016
Robert Johnson	Auctioneer	Milton, WI	2016
Robert Agnew	Farmer/Semen Sales	Whitewater, WI	2016
Bruce Vander Veen	Farmer	Sharon, WI	2015
Robert Janes	Banker	Evansville, WI	2015
David Kyle	Farmer	Elkhorn, WI	2015
Gene Lauderdale	Farmer	Elkhorn, WI	2017
Donald Schmaling	Farmer	Delevan, WI	2017
Alex McQuillen	Farmer	Whitewater, WI	2017

Members of the board currently receive $200 for each meeting attended and travel expenses in accordance with IRS limits. The chairman receives $350 per board meeting, $200 per committee meeting, $200 per other meeting, plus travel expenses in accordance with IRS limits. The other board officers receive $250 per board meeting, $200 per committee meeting, $200 for other meetings and travel expenses in accordance with IRS limits. The company

President receives $200 for outside meetings/seminars and travel expenses in accordance with IRS limits.

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	2013 Compensation
Robert Agnew	Chairman	$ 3,156
Robert Janes	Vice-Chairman	2,420
Bruce Vander Veen	Secretary	1,834
David Kyle	Treasurer	1,456
James Viney	President & CEO	111,753

Reported compensation is the total compensation paid by the insurer for the year and includes salary, director fees and rental income as applicable. The President of the company is compensated a salary and does not receive board or committee compensation.

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/Inspection Committee
Robert Agnew
Robert Janes
Gene Lauderdale
James Viney

Finance Committee
David Kyle
Robert Janes
Robert Agnew
James Viney

Underwriting Committee
Bruce Vander Veen
Donald Schmaling
Robert Agnew
James Viney

Personnel Committee
Bruce Vander Veen
David Kyle
Robert Janes
Robert Agnew
James Viney

Business Planning Committee
Robert Janes
Robert Johnson
Alex McQuillen
James Viney
Robert Agnew

In addition for these committees, there is a Claims Committee which is comprised of all members of the board of directors.

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
2013	$1,139,806	1,724	$ 66,342	$7,723,312	$6,822,795
2012	1,189,125	1,803	239,089	7,617,861	6,616,567
2011	1,200,758	1,836	113,077	7,729,050	6,792,377
2010	1,158,876	1,854	(104,743)	7,802,317	6,776,903
2009	1,231,494	1,861	364,340	7,589,372	6,660,383
2008	1,197,223	1,904	258,908	7,158,264	6,242,701

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
2013	$1,675,546	$1,121,162	$6,822,795	16%	53%
2012	1,694,418	1,178,675	6,616,567	18	44
2011	1,717,627	1,221,663	6,792,377	18	59
2010	1,610,529	1,163,342	6,776,903	17	97
2009	1,702,953	1,231,816	6,660,383	18	14
2008	1,701,670	1,189,410	6,242,701	19	39

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
2013	$732,298	$608,096	$1,139,806	64%	54%	118%
2012	481,095	577,221	1,189,125	40	49	89
2011	694,878	560,616	1,200,758	58	46	104
2010	913,246	626,346	1,158,876	79	54	133
2009	281,007	553,516	1,231,494	23	45	68
2008	446,617	552,508	1,197,223	37	46	84

During the period under examination the company assets increased $565,048, or 7.9%, and policyholders’ surplus increased $580,094, or 9.3% over their 2008 balances.

The policies in force decreased from 1,904 to 1,724 for the period under examination contributing to a decrease in net premiums written from $1,189,410 to $1,121,162, or 6%. The company’s net investment income decreased in each of the five years from $116,767 in 2008 to $48,836 in 2013 reflecting a decrease in overall market interest rates in the last five-year period.

The company reported a net income in four of the five years under examination. The net loss and loss adjustment expense ratio was between 23% and 79% and the underwriting expense ratio was between 45% and 54% for the period. The company’s composite ratio was between 68% and 133% for the period under 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, 2014
Termination provisions:	Either party may terminate as of January 1st by giving at least 90 days' written notice to the other party

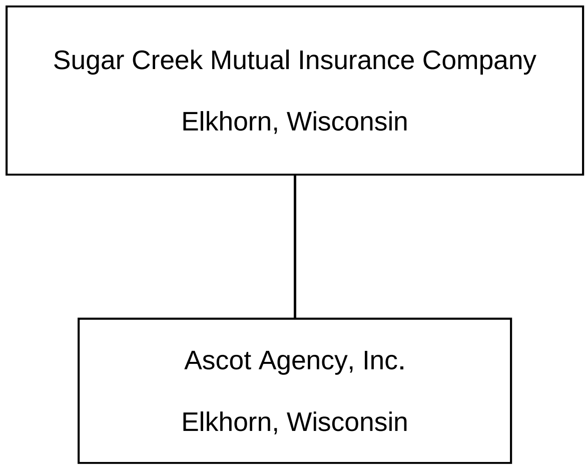
The coverages provided under this treaty are summarized as follows:

1.	Type of contract:	Class AX1 – Casualty Excess of Loss
	Lines reinsured:	All casualty and liability business
	Company's retention:	$5,000
	Coverage:	100% of each and every loss occurrence, including loss adjustment expenses, in excess of the company retention subject to the maximum policy limits of: a. $1,000,000 per occurrence, single limit, 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 casualty premium written for each and every policy issued Annual deposit premium: $162,480
2.	Type of contract:	Class B-1 – First Surplus
	Lines reinsured:	All property business
	Company's retention:	$600,000 per ceded risk
	Coverage:	Pro rata share of each and every loss, including loss adjustment expenses, corresponding to the amount of the risk ceded, up to $2,000,000
	Reinsurance premium:	The pro rata portion of all premiums, fees and assessments charged by the company corresponding to the amount of each ceded risk
	Ceding commission:	15%, plus 15% profit commission

3.	Type of contract:	Class C-1 – Excess of Loss – First Layer
	Lines reinsured:	All property business
	Company's retention:	$100,000 per loss per occurrence
	Coverage:	$100,000 excess of retention including loss adjusting expenses
	Reinsurance premium:	The rate for each annual period shall be determined by multiplying the rate by the company's net written premium Current rate is 9.14% Annual deposit premium: $123,603
4.	Type of contract:	Class C-2 – Excess of Loss – Second Layer
	Lines reinsured:	All property business
	Company's retention:	$200,000 per loss per occurrence
	Coverage:	$400,000 excess of retention including loss adjustment expenses for each and every 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 3.50% Annual deposit premium: $47,331
5.	Type of contract:	Class D-1 – First Aggregate Excess of Loss
	Lines reinsured:	All business written by the company
	Company's retention:	75% of net premium written
	Coverage:	65% of the amount by which the aggregate of the company's losses, including loss adjustment expenses, exceeding 75% of net premium written (losses from 75% to 140% of net premium written)
	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 5.90% Annual deposit premium: $72,888
6.	Type of contract:	Class D-2 – Second Aggregate Excess of Loss
	Lines reinsured:	All business written by the company
	Company's retention:	140% of net premium written
	Coverage:	100% of annual aggregate losses, including loss adjustment expenses, exceeding 140% 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 premium written The current rate is 2.50% Annual deposit premium: $30,885

III. AFFILIATED COMPANIES

The company is a member of a holding company system. It is the ultimate parent. The organizational chart below depicts the company's relationship with the affiliate in the group. A brief description of the affiliate follows the organizational chart.



Ascot Agency, Inc. (the agency) was created by four directors of the company in 1989 for the purpose of providing complementary coverages not available through the company. In 1999, the agency was purchased by the company for a total of $1,800 ($300 per share), with the company holding 100% of the outstanding shares.

The agency writes noncompeting business to policyholders. Major lines of business written include auto, crop, life and health insurance. Crop business was discontinued in 2014. As of December 31, 2013, the agency's unaudited financial statement reported assets of $9,600, liabilities of $0, and equity of $9,600. Operations for 2013 produced a net income of $183. The agency's equity balance is reported on the company's financial statements as nonadmitted assets. Sugar Creek provides all of the administrative and management services necessary for the agency through a service agreement. In 2013, the agency paid the company $600 per month for services provided under this agreement.

IV. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2013, 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."

Sugar Creek Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2013

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	$ 150	$	$	$ 150
Cash in checking	89,903			89,903
Cash deposited at interest	807,409			807,409
Bonds	2,538,694			2,538,694
Stocks and mutual fund investments	3,887,795			3,887,795
Real estate	117,795			117,795
In course of collection	10,417			10,417
Deferred and not yet due	163,039			163,039
Investment income accrued		29,429		29,429
Reinsurance recoverable on paid losses and LAE	16,116			16,116
Electronic data processing equipment	8,570			8,570
Fire dues recoverable	293			293
Reinsurance premium recoverable	1,780			1,780
Other expense-related assets:				
Reinsurance commission receivable	4,710			4,710
Other nonexpense-related assets:				
Federal income tax recoverable	47,410			47,410
Furniture and fixtures	4,348		4,348	
Other nonadmitted assets:				
Investment in Ascot Agency, Inc.	9,625		9,625	
Totals	$7,707,856	$29,429	$13,973	$7,723,312

Liabilities and Surplus

Net unpaid losses	$ 91,409
Unpaid loss adjustment expenses	600
Commissions payable	37,857
Unearned premiums	701,131
Other liabilities:	
Expense-related:	
Accounts payable	16,080
Director and agent fees and expenses payable	2,138
Accrued wages	4,122
Nonexpense-related:	
Premiums received in advance	47,180
Total liabilities	900,517
Policyholders' surplus	6,822,795
Total Liabilities and Surplus	$7,723,312

Sugar Creek Mutual Insurance Company
Statement of Operations
For the Year 2013

Net premiums and assessments earned		$1,139,806
Deduct:		
Net losses incurred	$665,413	
Net loss adjustment expenses incurred	66,885	
Net other underwriting expenses incurred	608,096	
Total losses and expenses incurred		1,340,394
Net underwriting gain (loss)		(200,588)
Net investment income:		
Net investment income earned	48,836	
Net realized capital gains (losses)	172,914	
Total investment gain (loss)		221,750
Other income (expense):		
Billing and late fees	7,842	
Policy fees	44,638	
Total other income		52,480
Net income (loss) before federal income taxes		73,462
Federal income taxes incurred		7,300
Net Income (Loss)		$ 66,342

Sugar Creek Mutual Insurance Company
Reconciliation and Analysis of Surplus as Regards Policyholders
For the Five-Year Period Ending December 31, 2013

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:

	2013	2012	2011	2010	2009
Surplus, beginning of year	$6,616,567	$6,792,377	$6,776,903	$6,660,383	$6,242,701
Net income	66,342	239,089	113,077	(104,743)	364,340
Net unrealized capital gain or (loss)	139,157	(415,480)	(94,824)	220,241	61,012
Change in nonadmitted assets	729	581	(2,779)	1,022	(7,670)
Other gains and (losses) in surplus					
Surplus, End of Year	$6,822,795	$6,616,567	$6,792,377	$6,776,903	$6,660,383

Reconciliation of Policyholders' Surplus

The examination resulted in no adjustments to policyholders’ surplus. The amount reported by the company as of December 31, 2013, is accepted.

V. 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. Invested Assets—It is recommended that the company update its custodial agreement to reflect the custodian's name change.

   Action—Compliance

2. Invested Assets—It is recommended that the company develop a formal investment plan to comply with the requirements of s. Ins 6.20 (6) (h), Wis. Adm. Code.

   Action—Compliance

3. Accounts Payable—It is recommended that the company set up accruals for payroll, payroll taxes, and amounts withheld for others that were not paid at year-end.

   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	$ 500,000
Deductible	$5,000
Worker's compensation:	
Employee injury	Statutory
Ascot Agency, Inc., E&O:	
Each claim	1,000,000
Deductible	5,000
Property and liability	
Buildings	376,900
Business personal property	28,605
Rental value	1,500
Liability and med expenses	1,000,000
Other than products	1,000,000
Products aggregate	1,000,000
D&O coverage	
Each claim	6,000,000

Underwriting

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

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

Claims Adjusting

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

Accounts and Records

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

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

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2013.

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. Such 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	$1,200,517
2.	Liabilities plus 33% of gross premiums written	1,453,447
3.	Liabilities plus 50% of net premiums written	1,461,098
4.	Amount required (greater of 1, 2, or 3)	1,461,098
5.	Amount of Type 1 investments as of December 31, 2013	3,606,888
6.	Excess or (deficiency)	$2,145,790

The company has sufficient Type 1 investments.

ASSETS

Cash and Invested Cash **$897,462**

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

Cash in company's office	$ 150
Cash deposited in banks—checking accounts	89,903
Cash deposited in banks at interest	807,409
Total	$897,462

Cash in company's office at year-end represents the company's petty cash fund. The petty cash fund was considered not to be a material balance.

The examination review of the company's listing of outstanding checks noted that the company had checks that date back to 2007. Section 177, Wis. Stat., states that property that has been unclaimed for more than five years after it became payable shall be presumed abandoned. Further, abandoned property is to be reported to the State Treasurer's Office before November 1 of each year for the preceding calendar year. In discussions with company personnel, it was confirmed that the company has not filed abandoned property reports with the state as required by s. 177, Wis. Stat. It is recommended that the company file abandoned property reports with the State Treasurer's Office as required by s. 177, Wis. Stat., and maintain copies of these filings.

Cash deposited in banks subject to the company's check and withdrawal consists of two accounts maintained in two banks. Verification of checking account balances was made by obtaining confirmations directly from the depositories and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of 24 deposits in 11 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 2013 totaled $8,383 and was verified to company cash records. Rates of interest earned on cash deposits ranged from .15% to 2.25%. Accrued interest on cash deposits totaled $1,159 at year-end.

Book Value of Bonds **$2,538,694**

The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2013. Bonds owned by the company are held by the custodian, Comerica Bank.

The examiners traced the 2013 annual statement balance to the custodial statement account. Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2013 on bonds amounted to $108,888 and was traced to cash receipts records. Accrued interest of $28,270 at December 31, 2013, was checked and allowed as a nonledger asset.

Stocks and Mutual Fund Investments **$3,887,795**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2013. Stocks owned by the company are held by the custodian, Comerica Bank.

Stock and mutual fund investments were verified by direct confirmation from the custodian. 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 2013 on stocks and mutual funds amounted to $58,010 and were traced to cash receipts records.

Book Value of Real Estate **$117,597**

The above amount represents the company's investment in real estate, net of depreciation, as of December 31, 2013. The company's real estate holdings consisted of its home office building and land.

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 $10,417

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 $163,039

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 $29,429

Interest due and accrued on the various assets of the company at December 31, 2013, consists of the following:

Cash at Interest	$ 1,159
Bonds	28,270
Total	$29,429

Reinsurance Recoverable on Paid Losses and LAE $16,116

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, 2013. A review of year-end accountings with the reinsurers verified the above asset.

Electronic Data Processing Equipment $8,570

The above balance consists of computer hardware and operating system software, net of depreciation as of December 31, 2013. A review of receipts and other documentation verified the balance.

Fire Dues Recoverable **$293**

This asset represents the amount overpaid to the state of Wisconsin for 2013 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 **$1,780**

The asset represents the amount of reinsurance premium that the company had overpaid as of December 31, 2013. The examiners verified the balance directly with the reinsurers.

Reinsurance Commission Receivable **$4,710**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2013, under its contract with reinsurers. A review of the terms of the reinsurance agreement and year-end accountings with the reinsurer verified the above asset.

Federal Income Taxes Recoverable **$47,410**

This asset represents the amount of federal income tax recoverable the company expected to receive as of December 31, 2013. A review of the company’s federal income tax filing verified the above asset.

Furniture and Fixtures **$0**

This asset consists of $4,348 of furniture and fixtures owned by the company at December 31, 2013. In accordance with annual statement requirements, this amount has been reported as a nonadmitted asset, thus the balance shown above is $0.

Investment in Ascot Agency, Inc. **$0**

This asset of $9,625 represents the unaudited value of the company’s subsidiary agency as of December 31, 2013. The company has nonadmitted this assets, thus the balance shown is $0.

LIABILITIES AND SURPLUS

Net Unpaid Losses **$91,409**

This liability represents losses incurred on or prior to December 31, 2013, 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, 2013, with incurred dates in 2013 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	$573,396	$517,943	$55,453
Less: Reinsurance recoverable on unpaid losses	481,987	470,947	11,040
Net Unpaid Losses	$ 91,409	$ 46,996	$44,413

The above difference of $44,413 was not considered material for purposes of this examination.

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

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

Unpaid Loss Adjustment Expenses **$600**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2013, but which remained unpaid as of year-end. The methodology used by the company in establishing this liability is through an estimation of unpaid loss adjustment expenses relative to net unpaid losses at year-end.

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

Commissions Payable **$37,857**

This liability represents the commissions payable to agents as of December 31, 2013. The examiners reviewed the company's commission calculation and found the liability to be reasonably stated.

Unearned Premiums **$701,131**

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.

Accounts Payable **$16,080**

This liability represents an accrual for general expenses incurred prior to December 31, 2013, which had not yet been paid. In addition, an accrual for deferred compensation expense for paid time off and vacation time earned, but not used, is included in this amount. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **$47,180**

This liability represents the total premiums received prior to year-end for policies with effective dates after December 31, 2013. The examiners reviewed 2013 premium and cash receipt records to verify the accuracy of this liability.

Director and Agent Fees and Expenses Payable **$2,138**

This liability represents accrued expenses and reimbursements to company personnel and the board of directors as of year-end. Supporting records and subsequent cash disbursements verified this liability.

Accrued Wages **$4,122**

This liability represents the accrued wages and salaries payable that were earned prior to year-end. Supporting records and subsequent cash disbursements verified this liability.

VI. CONCLUSION

Sugar Creek Mutual Insurance Company is a town mutual insurer with an authorized territory of eight counties. The company has been in business for more than 141 years providing property and liability insurance to its policyholders.

The company reported assets of $7,723,312, liabilities of $900,517 and policyholders' surplus of $6,822,795 at year-end 2013. The company reported a net income in four of the five years under examination. Surplus increased 9.3% over the previous five-year period.

The company has complied with all three recommendations from the previous examination. The current examination resulted in one recommendation summarized in the following section.

VII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Cash and Invested Cash—It is recommended that the company file abandoned property reports with the State Treasurer's Office as required by s. 177, Wis. Stat., and maintain copies of these filings.

VIII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Brian Jeremiason
Examiner-in-Charge