

Report
of the
Examination of
Yorkville and Mt. Pleasant Mutual Insurance Company
Union Grove, 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

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May 18, 2012

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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, 2011, of the affairs and financial condition of:

YORKVILLE AND MT. PLEASANT MUTUAL INSURANCE COMPANY
Union Grove, Wisconsin

and the following report thereon is respectfully submitted:

I. INTRODUCTION

The previous examination of Yorkville and Mt. Pleasant Mutual 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 was organized as a town mutual insurance company on June 17, 1874, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Yorkville & Mt. Pleasant Farmers Mutual Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there was no amendment to the articles of incorporation and three amendments to the bylaws. The amendments were in regards to adding a mandatory retirement age of 72 years for members of the board of directors and clarifying that the office of the Treasurer may be held by any other elected officer of the company and not just the Secretary as written in the previous 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: Kenosha, Milwaukee, Racine, and Walworth.

A review was made of the policy and application forms currently used by the company. The company issues approved policies with or without endorsements for terms of one year with premiums payable on the advance premium basis. The company also charges a policy fee equal to \$10 annually.

Business of the company is acquired through two agents, Alison Chizek and Lisa Johnson, who is also the manager, a director and an officer of the company. Alison Chizek is paid a commission at the rate of 7% of premium received on new and renewal policies. Lisa Johnson does not receive additional compensation for her services.

Lisa Johnson, Manager/Agent, has the authority to adjust losses up to \$5,000. She is not paid additional compensation or travel allowance for this responsibility. Losses in excess of \$5,000 are adjusted by the Adjusting Committee of the board of directors. When the company has an unusual number of claims, Thomas Whitley, a member of the Adjusting Committee, assists with the loss adjusting and is reimbursed \$80.00 for each loss adjusted. Outside adjusting services may be hired when needed.

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
Thomas Whitely	Retired	Union Grove, WI	2012
Linton Skewes	Farmer	Union Grove, WI	2014
Lisa Johnson*	Manager/Agent	Sturtevant, WI	2013
Kenneth Petersen	Farmer	Franksville, WI	2012
Thomas Borgardt	Retired	Sturtevant, WI	2014
W. Thomas Harmann	CPA	Union Grove, WI	2013
William Henderson	Farmer	Union Grove, WI	2014

* Directors who are also agents are identified with an asterisk.

Members of the board currently receive \$80 for each meeting attended and \$0.555 per mile for travel expenses. Mileage, food and parking expenses are reimbursed for attending the annual convention. In addition, board members, with the exception of the President, Secretary, and Treasurer, receive a base pay of \$200 annually.

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
Thomas Whitley	President/Treasurer	\$ 3,000
Linton Skewes	Vice President	500
Lisa Johnson	Secretary	24,000

Reported compensation is the total compensation paid by the insurer for the year and includes salary, commissions, director fees and rental income as applicable.

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. The committees at the time of the examination are listed below:

Adjusting Committee

Lisa Johnson
Thomas Whitley
Linton Skewes
Thomas Borgardt

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	\$103,207	449	\$ 22,114	\$1,710,843	\$1,618,804
2010	101,406	455	12,594	1,704,640	1,576,211
2009	101,491	450	24,963	1,623,011	1,529,268
2008	115,318	452	81,413	1,594,442	1,497,541
2007	113,957	464	(48,845)	1,586,338	1,500,453
2006	119,394	461	85,556	1,621,445	1,536,341

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 Net	Ratios Gross
2011	\$294,417	\$102,302	\$1,618,804	6%	18%
2010	292,584	102,794	1,576,211	7	19
2009	287,755	97,885	1,529,268	6	19
2008	279,453	117,653	1,497,541	8	19
2007	284,406	115,163	1,500,453	8	19
2006	281,995	111,194	1,536,341	7	18

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	\$ 40,088	\$70,229	\$103,207	39%	69%	107%
2010	59,360	71,729	101,406	59	70	128
2009	51,817	76,999	101,491	51	79	130
2008	42,986	75,167	115,318	37	64	101
2007	157,126	75,848	113,957	138	66	204
2006	37,650	58,210	119,394	32	52	84

Since the last examination, the company's gross premium volume slightly increased and the actual number of policies written remained stable. The company reported an increase in surplus over the five-year period. The 2011 increase was due to net income of \$22,114 and unrealized gains of \$20,479. The company reported net income in four of the last five years and a net loss of \$48,845 in 2007. The company reported underwriting losses in all years since the last exam with 2007 being the highest loss year with underwriting losses of \$119,017. The losses in 2007 were due to one large house fire and a 100 mile an hour wind shear and hail that damaged a number of large buildings, some of which were total losses. The company reached its stop loss coverage in that year.

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, 2012, continuous
Termination provisions:	Either the company or the reinsurer may terminate this contract of reinsurance and/or any of the attached exhibits as of 12:01 a.m. Central Standard Time, January 1, 2012, or any subsequent January 1, by giving to the other party at least 90 days' advance notice in writing.

The coverages provided under this treaty are summarized as follows:

- | | |
|----------------------|--|
| Type of contract: | Class A – Liability |
| Lines reinsured: | Nonproperty |
| Company's retention: | None |
| Coverage: | 100% of each and every loss, including loss adjustment expense, subject to the maximum policy limits of: <ol style="list-style-type: none">\$1,000,000 per occurrence, single limit or 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: | 100% of net premium written
Annual deposit premium is \$66,250 |
| Commission: | 15% of premium paid |
- | | |
|----------------------|--|
| Type of contract: | Class B First Surplus |
| Lines reinsured: | All property business |
| Company's retention: | \$300,000 |
| Coverage: | \$300,000 or less in respect to a risk; on a pro rata basis up to 50% of such risk

Over \$300,000 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 is 15% of the premium paid to the reinsurer Profit commission is 15% of the net profit
3. Type of contract:	Class C Excess of Loss
Lines reinsured:	All property business
Company retention:	\$30,000
Coverage:	100% of each and every loss in excess of \$30,000 up to \$70,000, 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: 15% Minimum rate: 6.0% Maximum rate: 17.0% Annual deposit premium: \$22,509
4. Type of contract:	Class C-2 Excess of Loss
Lines insured:	All property business
Company retention:	\$100,000
Coverage:	100% of any loss, including loss adjustment expense, in excess of the company's retention up to \$200,000
Reinsurance premium:	6.0% of net premium written Minimum annual premium: 75% of annual deposit premium Annual deposit premium: \$9,004
5. Type of contract:	Class D/E Stop Loss
Lines reinsured:	All property business
Company retention:	60% of net premium written
Coverage:	100% of annual aggregate losses in excess of the retention Estimated attachment point: \$150,059
Premium:	6.0% of net premium written Minimum annual premium: 75% of annual deposit premium Annual deposit premium: \$9,420

Current rate: 6%
Minimum rate: 6%
Maximum rate: 15%
Annual deposit premium: \$9,004

6. Type of contract: Class D/E 2 Second Layer Stop Loss
- Lines reinsured: All property business
- Company retention: 160% of net premium written
- Coverage: 100% of annual aggregate losses in excess of the retention
- Premium: 3.0% of net premium written
Minimum annual premium: 75% of annual deposit premium
Annual deposit premium: \$4,502
- Current rate: 3%
Annual deposit premium: \$4,502

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."

Yorkville and Mt. Pleasant Mutual Insurance Company
Statement of Assets and Liabilities
As of December 31, 2011

Assets	Ledger	Nonledger	Not Admitted	Net Admitted
Cash on hand	\$ 25	\$	\$	\$ 25
Cash in checking	50,381			50,381
Cash deposited at interest	1,017,284			1,017,284
Stocks and mutual fund investments	606,513			606,513
Premiums, agents' balances and installments:				
In course of collection	1,915			1,915
Deferred and not yet due	20,866			20,866
Investment income accrued		8,062		8,062
Fire dues recoverable	39			39
Other expense-related assets:				
Reinsurance commission receivable	<u>5,758</u>	<u> </u>	<u> </u>	<u>5,758</u>
Totals	<u>\$1,702,781</u>	<u>\$8,062</u>	<u>\$</u>	<u>\$1,710,843</u>

Liabilities and Surplus

Net unpaid losses	\$ 6,000
Unpaid loss adjustment expenses	250
Unearned premiums	68,633
Reinsurance payable	7,620
Payroll taxes payable (employer's portion)	282
Other liabilities:	
Expense-related:	
Accounts payable	73
Nonexpense-related:	
Premiums received in advance	<u>9,181</u>
Total liabilities	92,039
Policyholders' surplus	<u>1,618,804</u>
Total Liabilities and Surplus	<u>\$1,710,843</u>

Yorkville and Mt. Pleasant Mutual Insurance Company
Statement of Operations
For the Year 2011

Net premiums and assessments earned		\$103,207
Deduct:		
Net losses incurred	\$ 35,754	
Net loss adjustment expenses incurred	4,334	
Net other underwriting expenses incurred	<u>70,229</u>	
Total losses and expenses incurred		<u>110,317</u>
Net underwriting gain (loss)		(7,110)
Net investment income:		
Net investment income earned	38,459	
Net realized capital gains (losses)	<u>(14,866)</u>	
Total investment gain (loss)		23,593
Total other income		<u>5,631</u>
Net income (loss) before federal income taxes		22,114
Federal income taxes incurred		<u>0</u>
Net Income (Loss)		<u>\$ 22,114</u>

**Yorkville and Mt. Pleasant Mutual 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	\$1,576,211	\$1,529,268	\$1,497,541	\$1,500,453	\$1,536,341
Net income	22,114	12,594	24,963	81,413	(48,845)
Net unrealized capital gain or (loss)	20,479	34,349	6,764	(84,325)	12,957
Change in nonadmitted assets	0	0	0	0	0
Change in surplus notes	0	0	0	0	0
Other gains and (losses) in surplus:	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Surplus, End of Year	<u>\$1,618,804</u>	<u>\$1,576,211</u>	<u>\$1,529,268</u>	<u>\$1,497,541</u>	<u>\$1,500,453</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

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

1. Investment Rule Compliance—It is recommended that the company comply with the requirements of s. Ins 6.20 (6) (b) 2., Wis. Adm. Code, regarding the permitted investments in one financial institution.

Action—Compliance

2. Unpaid Loss Adjusting Expense—It is recommended that the company establish an adequate loss adjustment expense for all property losses.

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	\$ 100,000
Worker's compensation:	
Employee injury	Statutory
Employee liability:	
Each accident	100,000
Each employee	100,000
Policy limit	500,000
Commercial liability (umbrella):	
Each occurrence	1,000,000
Completed operations aggregate	2,000,000
Commercial excess liability	
General aggregate	1,000,000
Product-completed operations aggregate	1,000,000
Each occurrence	1,000,000
Combined professional liability	
Per claim	2,000,000
Aggregate limit	2,000,000
Errors and omissions	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. All new applications and renewal business are inspected by Lisa Johnson, Manager/Agent. The company started taking pictures in 2010 as part of standard underwriting procedure. All commercial and farm policies are required to have liability coverage that can be obtained from the company or from other insurers. Coverage for roofs is on an actual cash value basis limited to 30% of the property value listed on the policy; homeowner coverage is on a replacement cost basis; and dwellings coverage is on an actual cash value basis if not owner occupied, otherwise they are covered under replacement cost. The company requires policyholders to follow manufacturer's specifications when installing wood burner stoves or other add-on heaters in order to provide coverage.

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 not fully 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 company did not maintain all purchase receipts for Certificates of Deposit purchased or rolled over during the period under review. It is recommended that the company comply with s. Ins 13.05 (4) (f), Wis. Adm. Code, by maintaining all accounting records in such detail that verification can be made to source documents supporting each transaction.

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 not audited annually by an outside public accounting firm; it is exempt from the audit requirement due to low premium volume. A CPA firm does prepare the annual statement.

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 by a security log in.

Company personnel back up the computers daily and the backed-up data is kept on-site in a fireproof file. Full back up is done at the end of the week and monthly and then taken off-site. The company has manuals documenting the use of its software and outlining the steps to complete specific tasks. The manuals assist in the continuity of operations by providing

instructions for seldom-used applications or when staff turnover occurs. The examination determined that the level of documentation contained in the manuals was reasonable.

Business Continuity Plan

A business continuity plan identifies steps to be performed by a company in the event of business interruptions including, but not limited to, the inability to access its computer, the loss of information on its computer, the loss of a key employee, or the destruction of its office building. The company has developed a business continuity plan. The company's business continuity plan appears to be adequate.

Invested Assets

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least two officers, directors or employees of the company.

The company is not fully in compliance with these requirements. The company owns 1,500 shares of Intel Corporation common stock with a market value of \$36,375 as of December 31, 2011, that were neither held in bearer form nor under a proper custodial agreement. It is recommended that the company comply with s. 610.23, Wis. Stat., by executing proper custodial agreements containing satisfactory safeguards and controls in accordance with the NAIC examiners handbook.

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	\$ 392,039
2. Liabilities plus 33% of gross premiums written	189,197
3. Liabilities plus 50% of net premiums written	143,190
4. Amount required (greater of 1, 2, or 3)	392,039
5. Amount of Type 1 investments as of 12/31/2011	<u>1,067,665</u>
6. Excess or (deficiency)	<u>\$ 675,626</u>

The company has sufficient Type 1 investments. The company was granted an exception to hold up to 40% of assets in common stocks, preferred stocks and mutual funds. The company has been Type 1 sufficient for the last 10 years.

ASSETS

Cash and Invested Cash **\$1,067,690**

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

Cash in company's office	\$ 25
Cash deposited in banks—checking accounts	50,381
Cash deposited in banks at interest	<u>1,017,284</u>
Total	<u>\$1,067,690</u>

Cash in company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

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

Cash deposited in banks represents the aggregate of 14 deposits in 6 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 2011 totaled \$24,664 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 0.15% to 4.4%. Accrued interest on cash deposits totaled \$2,140 at year-end.

Stocks and Mutual Fund Investments **\$606,513**

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 with the exception of one stock are stored in a safety deposit box at a local bank. The company owns shares of stock of the Intel Corporation that were not issued in bearer form.

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 not fully in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments

made by town mutual insurers. Further discussion and a recommendation on this topic are included in the section titled "Invested Assets."

Dividends received during 2011 on stocks and mutual funds amounted to \$14,517 and were traced to cash receipts records. Accrued dividends of \$5,922 at December 31, 2011, were checked and allowed as a nonledger asset.

Premiums, Agents' Balances in Course of Collection **\$1,915**

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 **\$20,866**

This asset represents modal premium installments (such as monthly, quarterly, etc.) that are not yet due. A review of a sample from the company's detailed list of deferred premiums verified the accuracy of this asset.

Investment Income Accrued **\$8,062**

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

Cash deposited at interest	\$2,140
Stocks and mutual funds	<u>5,922</u>
Total	<u>\$8,062</u>

Fire Dues Recoverable **\$39**

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 **\$5,758**

The above asset represents the amount of reinsurance commissions that the company expected to receive as of December 31, 2011, 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.

LIABILITIES AND SURPLUS

Net Unpaid Losses

\$6,000

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	\$8,843	\$7,992	\$851
Less: Reinsurance recoverable on unpaid losses	<u>2,843</u>	<u>2,843</u>	<u>0</u>
Net Unpaid Losses	<u>\$6,000</u>	<u>\$5,149</u>	<u>\$851</u>

The above difference of \$851 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 contain sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

Unpaid Loss Adjustment Expenses

\$250

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 an estimate.

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.

Unearned Premiums **\$68,633**

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. The examiners tested unearned premium using supporting records and cash receipts to verify this item.

Reinsurance Payable **\$7,620**

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. This payable consists of additional reinsurance owed under the Class B-First Surplus contract. Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

Payroll Taxes Payable **\$282**

This liability represents the company's portion of payroll taxes incurred prior to December 31, 2011, which had not yet been paid. Supporting records and subsequent cash disbursements verified this item.

Accounts Payable **\$73**

This liability consists of amounts due for office and miscellaneous expenses as of December 31, 2006. Supporting records and subsequent cash disbursements verified this item.

Premiums Received in Advance **\$9,181**

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

Yorkville and Mt. Pleasant Mutual Insurance Company is a town mutual insurer that has been in business for 137 years providing property and liability insurance to its policyholders. The examination accepted the company's reported assets of \$1,710,843, liabilities of \$92,039, and policyholders' surplus of \$1,618,804 at year-end 2011. The company's financial position has strengthened since the prior examination.

There were two recommendations made as a result of this examination which are summarized in the subsequent section.

VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 16 - Accounts and Records—It is recommended that the company comply with s. Ins 13.05 (4) (f), Wis. Adm. Code, by maintaining all accounting records in such detail that verification can be made to source documents supporting each transaction.
2. Page 17 - Invested Assets—It is recommended that the company comply with s. 610.23, Wis. Stat., by executing proper custodial agreements containing satisfactory safeguards and controls in accordance with the NAIC examiners handbook.

VII. ACKNOWLEDGMENT

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

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

Respectfully submitted,

Raymond Kangogo
Examiner-in-Charge