Report

of the

Examination of

Mt. Morris Mutual Insurance Company

Coloma, Wisconsin

As of December 31, 2011

TABLE OF CONTENTS

Page

I. INTRODUCTION 1
II. HISTORY AND PLAN OF OPERATION 3
III. MANAGEMENT AND CONTROL 5
IV. AFFILIATED COMPANIES 7
V. REINSURANCE 8
VI. FINANCIAL DATA 12
VII. SUMMARY OF EXAMINATION RESULTS 21
VIII. CONCLUSION 25
IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS 26
X. ACKNOWLEDGMENT 27
XI. SUBSEQUENT EVENTS 28

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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

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December 18, 2012

Honorable Theodore K. Nickel
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

MT. MORRIS MUTUAL INSURANCE COMPANY
Coloma, Wisconsin

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Mt. Morris Mutual Insurance Company (the company or Mt. Morris) was conducted in 2008 as of December 31, 2007. The current examination covered the intervening period ending December 31, 2011, and included a review of such 2012 transactions as deemed necessary to complete the examination.

The examination was conducted using a risk-focused approach in accordance with the NAIC Financial Condition Examiners Handbook, which sets forth guidance for planning and performing an examination to evaluate the financial condition and identify prospective risks of an insurer. This approach includes the obtaining of information about the company including corporate governance, the identification and assessment of inherent risks within the company, and the evaluation of system controls and procedures used by the company to mitigate those risks. The examination also included an assessment of the principles used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation and management’s compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations.

The examination consisted of a review of all major phases of the company's operations and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans
Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

In addition to auditing, the public accounting firm performs non-auditing services for the company, which includes bookkeeping assistance in connection with closing year-end financial records, assistance in preparing statement filings, and tax return preparation. On April 1, 2010, an exemption was granted by the Commissioner, pursuant to s. Ins 50.08 (5), Wis. Adm. Code, permitting the independent auditor to perform this non-audit work for the company.

II. HISTORY AND PLAN OF OPERATION

The company was organized in 1876 as Mt. Morris Norwegian Mutual Fire Insurance Company, a town mutual insurer. The name of the company was changed to Mt. Morris Mutual Insurance Company through subsequent amendments to its articles and bylaws. In 1997, the company filed for and was granted permission to be an assessable domestic mutual under ch. 611, Wis. Stat. In 2004, the company was granted permission to become a nonassessable domestic mutual under ch. 611, Wis. Stat. The company's home office is located in Richford; however, the mailing address is Coloma.

The company has been the acquiring party in a succession of mergers. The company absorbed all of the assets and assumed all of the liabilities of Aurora Mutual Fire Insurance Company on March 31, 1983; Arkdale Mutual Fire Insurance Company on January 1, 1990; Oakfield Mutual Insurance Company on January 1, 1998; and Wonewoc Farmers Mutual Insurance Company on September 1, 1999. These mergers were all with town mutual insurance companies.

The Pioneer Insurance Agency, Inc., began operations on September 1, 2002, doing business as the Mt. Morris Agency, authorized by the Mt. Morris directors. The Pioneer Insurance Agency, Inc., operated as a separate entity and provided the entry-level underwriting for a mono-line worker's compensation product available for Mt. Morris agents. Effective October 1, 2012, Mt. Morris sold the Pioneer Insurance Agency, Inc.

The company is only authorized to transact the business of insurance in Wisconsin. The major products marketed by the company include Farmowner Multiple Peril, Homeowner's Multiple Peril, Commercial Multiple Peril, Allied Lines and Fire. The company was approved to sell automobile insurance on a direct basis on December 29, 2006. The major products are marketed through 225 independent agencies and 900 agents of whom two are directors of the company. The company uses standard contract forms and commission schedules for its agents. The company compensates agents for the total annual premium written on the following basis:

Property Lines	15%
Liability Lines	15%
Property and Liability Combined Lines	10-13%*

∗ Combined lines: The company compensates agents for the total annual premium written on the following basis: 12% for Fire and Extended Coverage; 13% for Automobile; and 10% for Umbrella.

The company's existing and new business renews on the anniversary of the original effective date. Renewal commissions are paid on a paid basis.

The following table is a summary of the net insurance premiums written by the company in 2011. The growth of the company is discussed in the "Financial Data" section of this report.

Line of Business	Direct Premium	Reinsurance Assumed	Reinsurance Ceded	Net Premium
Fire	$ 703,218	$0	$ 108,971	$ 594,247
Allied lines	947,090	0	146,762	800,328
Farmowners multiple peril	7,290,945	0	1,129,812	6,161,133
Homeowner's multiple peril	4,741,275	0	734,712	4,006,563
Commercial multiple peril	2,211,978	0	342,770	1,869,208
Other liability – occurrence	541,944	0	307,092	234,852
Private passenger auto liability	635,892	0	57,379	578,513
Commercial auto liability	159,179	0	14,363	144,816
Auto physical damage	619,214	0	55,874	563,340
Boiler and machinery	145,316	0	145,316	0
Total All Lines	$17,996,051	$0	$3,043,051	$14,953,000

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of nine members. Three directors are elected annually to serve a three-year term. Officers are elected at the board's annual meeting. The board members currently receive per diems for serving on the board.

Currently the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Robert Frank Hoefs Hillsboro, Wisconsin	Baker	2015
Robert Benish Sr. Hillsboro, Wisconsin	Farmer, Milk Hauler	2014
Myron William Ehrhardt* Oakfield, Wisconsin	Dairy Farmer	2012
Donald Hamerski* Plover, Wisconsin	Owner – Hamerski Farms	2015
Raymond Dobbins Hutchinson** Weyauwega, Wisconsin	Insurance Agent	2015
Robert Matthew Ebben Nekoosa, Wisconsin	Edward Jones Investments	2013
Glenn Long Thalacker Montello, Wisconsin	Retired Service Man for Wisc. Gas	2014
Norm Irvin Weiss Wautoma, Wisconsin	Retired Sheriff, County Board	2014
Jeffrey Todd Nichols Waukesha, Wisconsin	Attorney	2013
Greg William Walker** Berlin, Wisconsin	Insurance Agent – Walker Agency, Inc.	2013

* Myron Ernhardt has retired in 2012. The board has selected Donald Hamerski as a replacement director subsequent to the examination date.
** Indicates that the director is an agent for the company.

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office	2011 Compensation**
Daniel Otto Fenske	President / CEO	$100,009
Norm Irvin Weiss*	Secretary / Treasurer	20,315
Robert Frank Hoefs*	Chairman of the Board	20,315
Roberta Ann Galbraith	VP - Marketing and Agency Services	67,271
Cathy Edna Atkinson	VP - Claims	58,153
Connie Lynn Weber	VP - Operations	63,861
Danielle Marie Loeffler	VP - Policy Services	35,646

* Officers are elected members of the board of directors.
** Compensation includes officer and director fees, salary, and agent commissions; data is as reported on the Report of Executive 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 Committee
Glenn Thalacker, Chair
Robert Benish
Greg Walker
Cathy Atkinson – Staff

Building and Marketing Committee
Robert Benish, Chair
Robert Ebben
Jeffrey Nichols
Melissa Bittelman – Staff

Nomination Committee
Ray Hutchinson, Chair
Robert Hoefs

Rates and Evaluation Committee
Ray Hutchinson, Chair
Greg Walker
Danielle Loeffler – Staff

Auditing and Legal Committee
Jeffrey Nichols, Chair
Myron Ehrhardt*
Connie Weber – Staff

Finance Committee
Robert Hoefs, Chair
Robert Ebben
Connie Weber – Staff

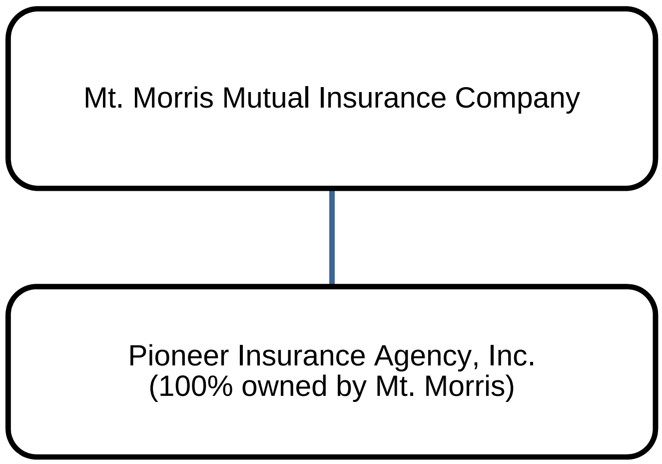
Personnel Committee
Glenn Thalacker, Chair
Norm Weiss
Robert Hoefs
Connie Weber – Staff

* Myron Ernhardt retired in 2012 as a member of the Auditing and Legal Committee. The board has not selected his replacement at the time of the examination.

IV. AFFILIATED COMPANIES

Mt. Morris Mutual Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates follows the organizational chart.

Organizational Chart
As of December 31, 2011



Pioneer Insurance Agency, Inc.

Pioneer Insurance Agency, Inc., provided property and casualty agency services for Mt. Morris and made available other insurance products not carried by Mt. Morris to policyholders. As of December 31, 2011, the unaudited financial statements of Pioneer Insurance Agency, Inc., reported assets of $147,454, liabilities of $119,718, and total equity of $27,736. Operations for 2011 resulted in a net loss of $15,172. The company sold the agency on October 1, 2012.

Agreements with Affiliates

The company provided some space at the Richford office to Pioneer Insurance Agency, Inc., and handled payroll, accounting and miscellaneous services. The companies filed consolidated tax returns. The companies relied on unwritten agreements for allocations of costs and services. The company's goal was to recover all costs incurred on behalf of the agency. The agency was not audited by an independent auditor, and Mt. Morris did not admit agency balances in its annual statement. The boards of the two companies were identical.

V. REINSURANCE

The company's reinsurance portfolio and strategy is described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

Ceding Contracts

1. Type: Multi-Line Excess of Loss Reinsurance Agreement

Reinsurer:

30.0%	Hannover Ruckversicherung AG
23.0	Catlin Underwriting, Inc., for and on behalf of Lloyd's Syndicate 2003
20.0	SCOR Reinsurance Company
12.0	TOA Reinsurance Company of America
10.0	American Agricultural Insurance Company
5.0	Employers Mutual Casualty Company
100.0%	Total

Scope: Homeowner's, Farmowners, Fire, Allied Lines, Inland Marine and Commercial, covering Property and Casualty Classes, including Automobile Liability

Retention: Property: $200,000, each and every risk, each occurrence
Casualty: $200,000, each and every loss occurrence
Auto Liability: $100,000, each and every loss occurrence

Coverage:

Property
Primary Property Layer
$800,000 for net loss each and every risk, each and every loss occurrence, not to exceed $2,400,000 for net loss as respects all risks in any one loss occurrence
Secondary Property Layer
$2,000,000 for net loss each and every risk, each and every loss occurrence, not to exceed $6,000,000 for net loss as respects all risks in any one loss occurrence

Casualty
$800,000 for net loss for each loss occurrence

Auto Liability
$900,000 for net loss for each loss occurrence

Casualty Contingency
$1,000,000 of net loss for each and every loss occurrence in excess $1,000,000 each and every loss occurrence

Premium: 11.382% of gross net premium earned; subject to an annual minimum premium of $1,354,879.

Commissions: None

Effective date: January 1, 2012

Termination:	January 1, 2013; special termination provision allows the company the ability for earlier termination in the case of specific circumstances as outlined in the contract

2. Type: Umbrella Liability Quota Share Reinsurance Agreement

Reinsurer:

30.0%	Hannover Ruckversicherung AG
23.0	Catlin Underwriting, Inc., for and on behalf of Lloyd's Syndicate 2003
20.0	SCOR Reinsurance Company
12.0	TOA Reinsurance Company of America
10.0	American Agricultural Insurance Company
5.0	Employers Mutual Casualty Company
100.0%	Total

Scope:	Business written and classified by the company as umbrella liability
Retention:	5.0% of the first $1,000,000 each and every loss, each and every policy
Coverage:	**Section A** 95.0% of the first $1,000,000 each and every loss, each and every policy **Section B** 100.0% of the next $2,000,000 each and every loss, each and every policy
Premium:	**Section A** 95% of the company's net subject written premium **Section B** 100% of the company's net subject written premium
Commissions:	A ceding commission of 27.50% of the company's net subject written premium ceded to the reinsurers for the business covered
Effective date:	January 1, 2012
Termination:	January 1, 2013; special termination provision allows the company the ability for earlier termination in the case of specific circumstances as outlined in the contract

3. Type: Property Catastrophe Excess of Loss Reinsurance Agreement

Reinsurer:

1st Layer

7.5%	Amlin Bermuda
5.0	Employers Mutual Casualty Company
30.0	R+V Versicherung AG
20.0	SCOR Reinsurance Company
10.0	Shelter Reinsurance Company
15.0	Lloyd's Syndicate 2001
5.0	Lloyd's Syndicate 958
7.5	Toa Reinsurance Company of America
100.0%	Total

2nd Layer

7.5%	Amlin Bermuda
5.0	Employers Mutual Casualty Company
27.5	R+V Versicherung AG
20.0	SCOR Reinsurance Company
10.0	Shelter Reinsurance Company
15.0	Lloyd's Syndicate 2001
7.5	Lloyd's Syndicate 958
7.5	Toa Reinsurance Company of America
100.0%	Total

3rd Layer

7.5%	Amlin Bermuda
5.0	Employers Mutual Casualty Company
27.5	R+V Versicherung AG
20.0	SCOR Reinsurance Company
10.0	Shelter Reinsurance Company
15.0	Lloyd's Syndicate 2001
7.5	Lloyd's Syndicate 958
7.5	Toa Reinsurance Company of America
100.0%	Total

Scope: Property, including Automobile Physical Damage

Retention: $700,000 each and every loss occurrence

Coverage:

1st Layer
$1,300,000 net loss each and every loss occurrence
$2,600,000 net loss for all loss occurrences under this layer during the term of this agreement

2nd Layer
$2,000,000 net loss each and every loss occurrence
$4,000,000 net loss for all loss occurrences under this layer during the term of this agreement

3rd Layer
$4,000,000 net loss each and every loss occurrence
$8,000,000 net loss for all loss occurrences under this layer during the term of this agreement

Premium:

1st Layer
The company shall pay the reinsurer the greater of $441,600 or 4.973% of gross net earned premium

2nd Layer
The company shall pay the reinsurer the greater of $420,000 or 4.730% of gross net earned premium

3rd Layer
The company shall pay the reinsurer the greater of $64,000 or 0.721% of gross net earned premium

Commissions: None

Effective date: January 1, 2012

Termination:	January 1, 2013; special termination provision allows the company the ability for earlier termination in the case of specific circumstances as outlined in the contract

4. Type: Property Aggregate Excess of Loss Reinsurance Agreement

Reinsurer:	50.0%	Arch Reinsurance Company
	50.0	Farmers Mutual Hail Insurance Company of Iowa
	100.0%	Total

Scope:	Property, including Automobile Physical Damage
Retention:	85% of the company's net subject earned premium for the term of this agreement, subject to a minimum of $6,751,000
Coverage:	$2,000,000
Premium:	The company shall pay the reinsurer the greater of $560,000 or 7.04% of gross net earned premium
Commissions:	None
Effective date:	January 1, 2012
Termination:	January 1, 2013; special termination provision allows the company the ability for earlier termination in the case of specific circumstances as outlined in the contract

5. Type: Boiler and Machinery Semi-Automatic Reinsurance Agreement

Reinsurer:	The Travelers Indemnity Company
Scope:	Equipment breakdown
Retention:	None
Coverage:	$100,000,000 for any one equipment breakdown (EB)
Premium:	100% of the Boiler and Machinery gross written premium for covered locations or policies
Commission:	32% ceding commission
Effective date:	April 1, 2008
Termination:	By either party by providing a 90-day written notice

VI. 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. Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

Mt. Morris Mutual Insurance Company
Assets
As of December 31, 2011

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$ 7,589,391	$ 0	$ 7,589,391
Stocks:			
Preferred stocks	1,921,437		1,921,437
Common stocks	3,626,739	27,737	3,599,002
Real estate:			
Occupied by the company	187,948		187,948
Cash, cash equivalents, and short-term investments	1,438,072		1,438,072
Investment income due and accrued	121,825		121,825
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection	91,390	1,666	89,724
Deferred premiums, agents' balances, and installments booked but deferred and not yet due	3,657,286		3,657,286
Reinsurance:			
Amounts recoverable from reinsurers	2,159,280		2,159,280
Net deferred tax asset	653,884		653,884
Electronic data processing equipment and software	625,269	623,468	1,801
Furniture and equipment, including health care delivery assets	2,636	2,636	
Receivable from parent, subsidiaries, and affiliates	2,710		2,710
Total Assets	$22,077,867	$655,507	$21,422,360

Mt. Morris Mutual Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2011

Losses		$ 1,684,716
Loss adjustment expenses		607,226
Commissions payable, contingent commissions, and other similar charges		888,632
Other expenses (excluding taxes, licenses, and fees)		69,411
Taxes, licenses, and fees (excluding federal and foreign income taxes)		98,550
Current federal and foreign income taxes		413,397
Unearned premiums		8,675,149
Advance premium		157,552
Ceded reinsurance premiums payable (net of ceding commissions)		447,048
Amounts withheld or retained by company for account of others		855
Total liabilities		13,042,536
Unassigned funds (surplus)	$8,379,824	
Surplus as regards policyholders		8,379,824
Total Liabilities and Surplus		$21,422,360

Mt. Morris Mutual Insurance Company
Summary of Operations
For the Year 2011

Underwriting Income		
Premiums earned		$14,455,641
Deductions:		
Losses incurred	$9,482,996	
Loss adjustment expenses incurred	840,627	
Other underwriting expenses incurred	4,438,026	
Total underwriting deductions		14,761,649
Net underwriting gain (loss)		(306,008)
Investment Income		
Net investment income earned	604,731	
Net realized capital gains (losses)	354,219	
Net investment gain (loss)		958,950
Other Income		
Net gain (loss) from agents' or premium balances charged off	25,219	
Finance and service charges not included in premiums	171,415	
Write-ins for miscellaneous income:	(3,907)	
Total other income		192,727
Net income (loss) before dividends to policyholders and before federal and foreign income taxes		845,670
Net income (loss) after dividends to policyholders but before federal and foreign income taxes		845,670
Federal and foreign income taxes incurred		2,049
Net Income		$ 843,621

Mt. Morris Mutual Insurance Company
Cash Flow
For the Year 2011

Premiums collected net of reinsurance			$15,074,256
Net investment income			614,402
Miscellaneous income			192,729
Total			15,881,387
Benefit- and loss-related payments		$11,519,999	
Commissions, expenses paid, and aggregate write-ins for deductions		5,396,366	
Federal and foreign income taxes paid (recovered)		(509,790)	
Total deductions			16,406,575
Net cash from operations			(525,188)
Proceeds from investments sold, matured, or repaid:			
Bonds	$ 468,000		
Stocks	3,254,663		
Total investment proceeds		3,722,663	
Cost of investments acquired (long-term only):			
Bonds	794,171		
Stocks	2,238,006		
Total investments acquired		3,032,177	
Net cash from investments			690,486
Cash from financing and miscellaneous sources:			
Other cash provided (applied)		69,573	
Net cash from financing and miscellaneous sources			69,573
Reconciliation:			
Net change in cash, cash equivalents, and short-term investments			234,871
Cash, cash equivalents, and short-term investments:			
Beginning of year			1,203,201
End of Year			$ 1,438,072

Mt. Morris Mutual Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2011

Assets		$21,422,360
Less liabilities		13,042,536
Adjusted surplus		8,379,824
Annual premium:		
Lines other than accident and health	$14,953,000	
Factor	20%	
Compulsory surplus (subject to a minimum of $2 million)		2,990,600
Compulsory Surplus Excess (or Deficit)		$ 5,389,224
Adjusted surplus (from above)		$ 8,379,824
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum factor of 110%)		4,186,840
Security Surplus Excess (or Deficit)		$ 4,192,984

Mt. Morris Mutual Insurance Company
Analysis of Surplus
For the Five-Year Period Ending December 31, 2011

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2011	**2010**	**2009**	**2008**	**2007**
Surplus, beginning of year	$7,048,922	$7,581,021	$6,471,035	$7,906,096	$7,562,044
Net income	843,621	(485,156)	213,816	(764,620)	317,537
Change in net unrealized capital gains/losses	(273,619)	267,406	761,046	(1,026,902)	(69,868)
Change in net deferred income tax	(188,422)	(28,707)	(568,606)	1,236,813	217,330
Change in non-admitted assets	94,069	(285,642)	703,730	(880,352)	(120,947)
Surplus, End of Year	$8,379,824	$7,048,922	$7,581,021	$6,471,035	$7,906,096

Mt. Morris Mutual Insurance Company
Insurance Regulatory Information System
For the Five-Year Period Ending December 31, 2011

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2011**	**2010**	**2009**	**2008**	**2007**
#1	Gross Premium to Surplus	215%	237%	185%	202%	186%
#2	Net Premium to Surplus	178	198	158	172	161
#3	Change in Net Premiums Written	7	16	7	-12	25
#4	Surplus Aid to Surplus	0	0	0	0	0
#5	Two-Year Overall Operating Ratio	100*	99	95	93	93
#6	Investment Yield	4.1	4.2	3.3	3.8	4
#7	Gross Change in Surplus	19	-7	17	-18*	5
#8	Change in Adjusted Surplus	19	-7	17	-18*	5
#9	Liabilities to Liquid Assets	64	66	57	59	55
#10	Agents' Balances to Surplus	1	1	4	2	1
#11	One-Year Reserve Development to Surplus	-23	-3	-3	1	-6
#12	Two-Year Reserve Development to Surplus	-12	-3	1	-5	7
#13	Estimated Current Reserve Deficiency to Surplus	1	-17	4	16	-14

Ratio No. 5 measures the company's profitability over the previous two-year period. The exceptional results in 2011 were due to frequent and severe storms, an unfavorable combination. The largest contributors to the increase in claim activity were from two tornados that struck Adams and Merrill counties in April 2011.

Ratio No. 7 measures the company's gross change in surplus. Ratio No. 8 measures the company's change in adjusted surplus. The exceptional results in 2008 were due to one wind/hail storm in the state that impacted the company's catastrophe reinsurance program and another storm with loss totals near the company's catastrophe attachment level. The company was also plagued by a high frequency of large residential/tenant occupied fires. Another contributing factor included reduced investment returns due to the mortgage crisis. In 2008 the company surplus declined from $7,906,096 to $6,471,035. However in 2009, the company bounced back from the unfortunate prior year and added over $1,109,000 into surplus.

Growth of Mt. Morris Mutual Insurance Company

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2011	$21,422,360	$13,042,536	$8,379,824	$ 843,621
2010	20,419,165	13,370,243	7,048,922	(485,156)
2009	18,674,060	11,093,039	7,581,021	213,816
2008	16,260,888	9,789,853	6,471,035	(764,620)
2007	18,823,862	10,917,766	7,906,096	317,537

Year	Gross Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2011	$14,389,514	$12,036,904	$14,455,641	71.4%	29.7%	101.1%
2010	13,448,682	11,373,306	12,908,623	79.9	30.4	110.4
2009	11,660,377	9,960,058	11,459,197	64.7	30.9	95.6
2008	11,044,687	9,401,977	10,721,024	74.6	30.4	105.1
2007	12,374,327	10,777,667	10,238,332	66.7	26.8	93.6

The company's operating results have fluctuated over the past five years. The company has reported net income in three of the last five years. The underwriting expense ratio has varied between 26.8% reported in 2007 and 30.9% reported in 2009. The net loss ratio has fluctuated from 64.7% to 79.9%, due in part to differences in weather-related claims and changes in the reinsurance program from year to year.

Admitted assets have increased 14% to $21.4 million, while liabilities have increased 19% to $13 million since year-end 2007. Surplus increased 6% to $8.4 million during the same period. Gross premiums written have increased 16% to $14.4 million and net premiums written have increased 12% to $12 million in the last four years. The company's ratio of gross written premium to surplus increased from 186% in 2007 to 215% in 2011.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2011, of $8,379,824 is accepted.

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 13 specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Information Technology—It is suggested that the security policy would be more effective if it was segregated from items that are not security related and the company reviewed and documented its controls over logical access to its applications and data.

   Action—Compliance.

2. Information Technology—It is recommended the company periodically test its disaster recovery plan.

   Action—Partial compliance; see comments in the "Summary of Current Examination Results."

3. Information Technology—It is recommended that the company execute an agreement with ROC which identifies the rights and responsibilities of the parties.

   Action—Noncompliance; see comments in the "Summary of Current Examination Results."

4. Information Technology—It is recommended that the company create a secure computer with limited physical access.

   Action—Compliance.

5. Information Technology—It is suggested that the company have an appropriate fire extinguisher in its computer room.

   Action—Compliance.

6. Information Technology—It is recommended that the company strengthen its IT control environment as specifically described in the management letter dated January 20, 2009.

   Action—Compliance.

7. Financial Management—It is suggested that the company develop a budget that is updated at least annually for both the next fiscal year and for following years to help the company see how well it is meeting its goals as it sells a more complex mix of policies and increases in size.

   Action—Compliance.

8. Fidelity Bond Coverage—It is suggested that the company regularly review and increase their fidelity bond coverage to continually match the levels recommended by the NAIC Financial Condition Examiners Handbook.

   Action—Compliance.

9. Fidelity Bond Coverage—It is recommended that the company change the provisions of the fidelity bond to either provide blanket coverage for all employees or identify and cover all executives and employees who are in a fiduciary or other position of trust, updating the list of covered employees each year.

   Action—Compliance.

10. Investments—It is recommended that the company keep/obtain a copy of all broker's advices and file these in the individual security folders in a timely fashion.

    Action—Compliance.

11. Investments—It is recommended that the company report callable bonds on Schedule D - Part 1 of the annual statement in accordance with the NAIC Annual Statement Instructions - Property and Casualty.

    Action—Compliance.

12. Advance Premium—It is again recommended that the company report only premiums received for policies with effective dates beginning in the next year in its year-end advance premium balance.

    Action—Compliance.

13. Affiliated Agreements—It is recommended that the company obtain current written agreement for its consolidated tax return and any other services between it and Pioneer Insurance Agency.

    Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Information Technology

The prior examination report noted that the company did not test its disaster recovery plan. To ensure that the plan can be effectively executed, the plan must be periodically tested. The testing should include both restoration of the hardware and continuity of operations. The prior examination report made a recommendation that the company periodically test its disaster recovery plan.

During this review it was noted that the company had a real-life disaster (48-hour power outage) in September 2011, implemented its disaster recovery plan, and successfully recovered with no interruption of service or loss of data. However, recovery from a real disaster is not the same as a periodic test of a disaster recovery plan. The company could not provide evidence of testing the disaster recovery plan. It is recommended that the company test its IT disaster recovery and operations business continuity plans at least annually according to the guidance provided in the management letter dated October 14, 2013, and document performance of the tests.

The prior examination report noted that the company received IT services from Remote Operations Company (ROC). The company's agreements were signed invoices and not a contract. However, an agreement such as this does not enumerate the rights and responsibilities of the parties under the contract. Clauses that would be expected in this type of an IT services agreement would include confidentiality, ownership of data, indemnification, and responsibility to buy insurance coverage for losses arising from acts or omissions of the service provider. The company should be aware that losses arising from actions of service providers are generally covered through a rider on its own business insurance if the service provider does not have this coverage. The recommendation in the prior report stated that the company must execute an agreement with ROC which identifies the rights and responsibilities of the parties.

During this review, it was noted that the company's form of the agreement with ROC has not changed since the prior examination. The company's agreements continue to be signed invoices and not a contract. The deficiencies as noted in the prior examination are still present. The company has failed to address the issue regarding the execution of an agreement with ROC as required by the prior examination recommendation. It is again recommended that the company execute an agreement with ROC which identifies the rights and responsibilities of the parties.

A recommendation was made in the prior examination report which included a corresponding management letter, dated January 20, 2009, recommending the company strengthen its IT control environment. The company complied with the recommendations in the 2009 letter; however, during the current examination it was noted that the company should strengthen its IT control environment in certain areas that were related to, but not specifically identified, in the 2009 management letter. It is recommended that the company strengthen its IT control environment as described in the management letter dated October 14, 2013.

Unclaimed Property

The company reported its liability for unclaimed property as part of the amounts withheld or retained by company for account of others balance on the annual statement. According to the NAIC Annual Statement Instructions - Property and Casualty, uncashed checks that are pending escheatment to a state are to be reported as a part of the write in for liabilities balance on the annual statement.

It is recommended that the company report its unclaimed property balance as a write in for liabilities in accordance with NAIC Annual Statement Instructions - Property and Casualty.

VIII. CONCLUSION

The current examination of Mt. Morris Mutual Insurance Company resulted in no adjustments to surplus or reclassification. The examination resulted in four recommendations, one of which is repeated from the previous exam. The recommendations related to the company's information technology processes and the unclaimed property.

Overall, the company's operating results have been positive over the past five years. Operations resulted in net income in three of the last five years, but the company suffered an underwriting loss in three years primarily due to frequent and severe storms. The company has experienced increases in premium volume and surplus over of the past five years.

The company has shown a record of growth over the past five years. The company's surplus has primarily paralleled this growth pattern. The company writes only in the state of Wisconsin, with policyholders in all 72 counties.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 23 - Information Technology—It is recommended that the company test its IT disaster recovery and operations business continuity plans at least annually according to the guidance provided in the management letter dated October 14, 2013, and document performance of the tests.

2. Page 24 - Information Technology—It is again recommended that the company execute an agreement with ROC which identifies the rights and responsibilities of the parties.

3. Page 24 - Information Technology—It is recommended that the company strengthen its IT control environment as described in the management letter dated October 14, 2013.

4. Page 24 - Unclaimed Property—It is recommended that the company report its unclaimed property balance as a write in for liabilities in accordance with NAIC Annual Statement Instructions - Property and Casualty.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
John Litweiler	Insurance Financial Examiner
Thomas Houston	IT Specialist
Jerry DeArmond	Reserve Specialist

Respectfully submitted,

Rauf Mirza
Examiner-in-Charge

XI. APPENDIX – SUBSEQUENT EVENTS

Subsequent to the examination date further information became known concerning a fire claim incurred in 2006. The company was involved in investigation of the causes of the fire of the insured property. The results of this investigation played a part in the arson conviction and subsequent imprisonment of a person insured by the company. The arson conviction was overturned in March of 2013. As of the date of the release of this report, management does not believe that any potential future judgment against the company, net of insurance and reinsurance coverage, will have material impact on the financial position of the company.