

Report of Examination of

**Mennonite Mutual Aid Society**  
Bluffton, Ohio

As of December 31, 2012

## Table of Contents

<b>Subject</b>	<b>Page</b>
Salutation.....	1
Description of Company.....	1
Scope of Examination.....	1
Management and Control:	
Board of Directors.....	2
Officers.....	2
Insurance Holding Company System.....	3
Territory and Plan of Operations.....	3
Reinsurance:	
Assumed Reinsurance.....	3
Ceded Reinsurance.....	3
Significant Operating Results.....	3
Financial Statements:	
Statement of Assets, Liabilities, Surplus and Other Funds.....	4
Statement of Income .....	5
Statement of Changes in the Surplus Account.....	6
Notes to the Financial Statements:	
Investments.....	6
Unpaid losses.....	6
Conclusion.....	6
Subsequent Events.....	7
Acknowledgement.....	7

Columbus, Ohio

September 27, 2013

Honorable Mary Taylor  
Lt. Governor/Director  
State of Ohio  
Department of Insurance  
50 West Town Street  
Suite 300  
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), the Ohio Department of Insurance (“Department”) conducted an examination of

**Mennonite Mutual Aid Society**

an Ohio domiciled, mutual protective property company, hereinafter referred to as the “Company.”

**Scope of Examination**

The Department last examined the Company as of December 31, 2010. The Department’s current examination covers the period of January 1, 2011 to and including December 31, 2012.

The examination was conducted in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and Annual Statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

## Management and Control

### Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<u>Name</u>	<u>Principal Occupation</u>
George Bixler, Jr.	Administrator, Orvilla Inc. Retirement Center
Paul Bontrager	Principal, Yoder Insurance Agency
Daniel D. Fultz	Faculty, Bluffton University
Lori Goldsberry	Owner, Cleaning Business
David L. Lehman	President, Mennonite Mutual Insurance Company
David Moser	Farmer
John J. Saltzman, Jr.	Businessman
Morris Stutzman	Attorney, Logee, Hostetler, Stutzman, and Lehman

### Officers

As of the examination date, the following officers were serving in the designated positions:

<u>Name</u>	<u>Title</u>
John J. Saltzman, Jr.	President
Lori Goldsberry	Secretary
David Moser	Treasurer
Daniel D. Fultz	Vice President

## **Insurance Holding Company System**

The Company is a member of an insurance holding company system as defined in ORC Section 3901.32. The Company owns 100% of Swiss Mutual Insurance Agency, Inc.

## **Territory and Plan of Operations**

The Company is licensed to do business in the state of Ohio. Coverages written by the Company are primarily focused on fire, wind, and lightning. The Company's writings are concentrated in northwest Ohio.

## **Reinsurance**

### **Assumed Reinsurance**

The Company did not assume any reinsurance.

### **Ceded Reinsurance**

A 50% quota share agreement exists on all business written. The Company has a property per risk excess of loss agreement which provides coverage for losses above \$50,000 for each loss, each risk, subject to a limit of liability to the reinsurer of \$2,100,000 for each loss, each risk.

## **Significant Operating Results**

The Company reported the following net underwriting results during the examination period.

	<u>2012</u>	<u>2011</u>
Premiums earned	\$ 489,581	\$ 480,059
Losses incurred	773,297	40,760
Loss adjustment expenses incurred	0	0
Other underwriting expenses incurred	439,138	412,546
Net underwriting gain (loss)	<u>\$(722,854)</u>	<u>\$ 26,753</u>

## Financial Statements

### Statement of Assets, Liabilities, Surplus and Other Funds As of December 31, 2012

Preferred stocks, common stocks, and mutual funds	\$ 16,967
Real estate	67,866
Cash	<u>55,431</u>
Subtotal, cash and invested assets	<u>140,264</u>
Assessments or premiums in the course of collection	2,018
Earned but unbilled premiums	164,543
Electronic data processing equipment and software	340
Furniture and equipment	543
Receivables from parent, subsidiaries and affiliates	60,826
Unreimbursed reinsurance	<u>145,207</u>
Total assets	<u>\$ 513,741</u>
Taxes, licenses and fees	\$ 207
Ceded reinsurance premiums payable	<u>63,044</u>
Total liabilities	<u>63,251</u>
Surplus	<u>450,490</u>
Total liabilities and surplus	<u>\$ 513,741</u>

**Statement of Income  
For the Year Ending December 31, 2012**

Underwriting Income

Gross assessments/premiums earned	\$ 490,968
Less: Return assessments/premiums earned	<u>1,387</u>
Net assessments/premiums earned	<u>489,581</u>

Deductions

Losses incurred	773,297
Other underwriting expenses incurred	438,841
Miscellaneous expense	<u>297</u>
Total underwriting deductions	<u>1,212,435</u>
Net underwriting loss	<u>(722,854)</u>

Investment Income

Net investment income earned	1,154
Net realized capital gains	<u>27,667</u>
Net investment gain	<u>28,821</u>

Other Income

Management fees	<u>38,826</u>
Total other income	<u>38,826</u>

Net loss	<u><u>\$ (655,207)</u></u>
----------	----------------------------

Surplus Account

Surplus as regards policyholders, December 31, 2011	<u>\$1,129,772</u>
Net loss	(655,207)
Change in non-admitted assets	<u>(24,076)</u>
Change in surplus as regards policyholders for the year	<u>(679,283)</u>
Surplus as regards policyholders, December 31, 2012	<u><u>\$ 450,489</u></u>

## Statement of Changes in the Surplus Account

	<u>2012</u>	<u>2011</u>
Surplus, beginning of the year	\$1,129,772	\$1,068,071
Net income (loss)	(655,207)	64,287
Change in non-admitted assets	<u>(24,076)</u>	<u>(2,586)</u>
Net change surplus during the year	<u>(679,283)</u>	<u>61,701</u>
Surplus, end of the year	<u>\$ 450,489</u>	<u>\$1,129,772</u>

### Notes to Financial Statements

#### Investments

The Company's investments were in compliance with ORC Section 3925.08 and valued in accordance with the relevant Statements of Statutory Accounting Principles and the NAIC Securities Valuation Office.

#### Unpaid Losses

During the current financial examination conducted by the Department, it was noted that the Company did not establish a liability for Unpaid Losses on its Annual Statement as of December 31, 2012. At the time of this examination, subsequent claims payments in 2013 with dates of loss incurred of 2012 or before totaled \$92,660.

### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2012, and is summarized as follows:

Total Admitted Assets	<u>\$ 513,741</u>
Liabilities	63,251
Surplus	<u>450,490</u>
Total Liabilities and Surplus	<u>\$ 513,741</u>

### Subsequent Events

On April 9, 2013, the Department approved the affiliation of the Company and Mennonite Mutual Insurance Company (“MMIC”). As of January 1, 2013, all of the net losses and net premiums of the Company were transferred to MMIC with the Company receiving a ceding commission on the transferred business. The companies now share common management and members of the Boards of Directors.

Additionally, at the time of the affiliation, the Company entered into a quota share reinsurance transaction with MMIC whereby MMIC assumed 100% of the retained losses and LAE expenses of the Company in return for 100% of the direct premiums of the Company.

### Acknowledgement

In addition to the undersigned, David Finkler, CPA, CFE, CISA, AES and Louis Radecky, CPA (Inactive), CFE participated in this examination.

Respectfully,

  
\_\_\_\_\_  
Nicholas J. Kostoff, CPA, CFE  
Examiner-In-Charge  
Ohio Department of Insurance

  
\_\_\_\_\_  
David A. Cook, CFE  
Assistant Chief Examiner  
Ohio Department of Insurance

**Verification**

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2012.

*[Signature]* 10/8/13  
Examiner-In-Charge Date

*[Signature]* 10/8/13  
Assistant Chief Examiner Date

State of Ohio

County of Franklin

Personally appeared before me the above named Nicholas J. Kostoff personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 8 day of October, 2013.

*Kimberly Ann Lowry*  
(Notary Public)  
3-28-2016  
My Commission Expires

**KIMBERLY ANN LOWRY**  
**NOTARY PUBLIC • STATE OF OHIO**  
Recorded in Franklin County  
My commission expires Mar. 28, 2016

State of Ohio

County of Franklin

Personally appeared before me the above named David A. Cook personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 8 day of October, 2013.

*Kimberly Ann Lowry*  
(Notary Public)  
3-28-2016  
My Commission Expires

**KIMBERLY ANN LOWRY**  
**NOTARY PUBLIC • STATE OF OHIO**  
Recorded in Franklin County  
My commission expires Mar. 28, 2016