REPORT OF EXAMINATION

OF THE

MENNONITE AID PLAN OF THE PACIFIC COAST

AS OF

DECEMBER 31, 2013

Filed April 23, 2015

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San Francisco, California
April 10, 2015

Honorable Dave Jones
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instructions, an examination was made of the

MENNONITE AID PLAN OF THE PACIFIC COAST

(hereinafter also referred to as the Company) at its home office located at 1110 J Street, Reedley, California 93654.

SCOPE OF EXAMINATION

We have performed our single-state examination of the Company. The previous examination of the Company was made as of December 31, 2009. This examination covers the period from January 1, 2010 through December 31, 2013. The examination was conducted in accordance with the National Association of Insurance Commissioners Financial Condition Examiners Handbook (Handbook). The Handbook requires the planning and performance of the examination to evaluate the Company's financial condition, to identify prospective risks, and to obtain information about the Company, including corporate governance, identification and assessment of inherent risks, and the evaluation of the system controls and procedures used to mitigate those risks. The examination also included an assessment of the principles used and the significant estimates made by management, as well as an evaluation of the overall financial statement presentation, and management's compliance with California Insurance Code Section 9080 et. al. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

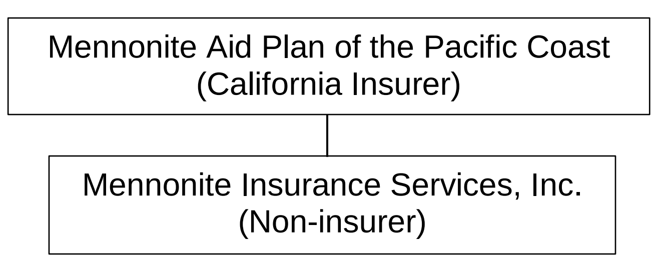
In addition to those items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas that require no further comment: corporate records; fidelity bonds and other insurance; pensions, stock ownership and insurance plans; growth of company; loss experience; and accounts and records.

COMPANY HISTORY

The Company was formed as a fraternal organization in 1922 to provide fire insurance for members of the Mennonite and Brethren in Christ churches. It was incorporated under the laws of the State of California on September 14, 1979 and received a Certificate of Exemption pursuant to California Insurance Code Section 9080.1 on July 2, 1954. Because of its statutory exemption, the Company is not subject to the majority of insurance laws pertaining to other California insurers. The Company is the only fraternal fire organization still operating in California.

MANAGEMENT AND CONTROL

The Company has a wholly-owned subsidiary, Mennonite Insurance Services, Inc. (MIS). Directors, officers, and employees of the Company hold the same positions with MIS. The following organizational chart depicts this relationship as of December 31, 2013:



The Company is managed by a fifteen-member board of directors who are elected annually. The following is a list of the directors and officers of the Company as of December 31, 2013:

Directors

Name and Location	Principal Business Affiliation
Janine Bergdahl Madera, California	High School Teacher
Jim Brandt Reedley, California	Retired
Jim Enns Clovis, California	Church Conference Treasurer
Alan Grantham Bellingham, Washington	Businessman
John Hochstetler Salem, Oregon	Business Owner Rickreall Farm Supply
Ira Kauffman Lebanon, Oregon	Retired
Dennis Langhofer Spokane, Washington	Retired
Larry Miller Clovis, California	Electrical Engineer
Paul Neufeld Wasco, California	Semi-retired Construction
LeAnne Quenzer Visalia, California	Nurse
Mike Schellenberg Reedley, California	Outreach Pastor
Bruce Shafer Tehachapi, California	Senior Vice President Cement Operations
Marianne Unruh Reedley, California	Fruit and Vegetable Broker
Alan Whaley Phoenix, Arizona	Pastor

Directors (continued)

Name and Location	Principal Business Affiliation
Ron Wiens San Jose, California	Business Owner Ron Wiens Machining

Principal Officers

Name	Title
Jim Brandt	President
Larry Miller	Secretary
Jim Enns	Chief Financial Officer/Board Treasurer
Paul Neufeld	Vice President

Expense Allocation

The Company's subsidiary, Mennonite Insurance Services, Inc. (MIS), has reimbursed the Company monthly for wages, rent, and overhead expenses since 2006. However, there is no written agreement between the Company and MIS to describe how these costs should be allocated between the two entities. As a best practice, the Company should have in place a written cost allocation agreement with MIS which describes how wages, rent, and payroll expenses are to be allocated between the two entities. In addition, the terms of the agreement should be approved by the board of directors of both entities.

TERRITORY AND PLAN OF OPERATION

The Company operates under a Certificate of Exemption pursuant to California Insurance Code (CIC) Section 9080.1 which authorizes it to write fire insurance and provide extended coverage for other types of losses as allowed under CIC Section 9095.

As of December 31, 2013, the Company was authorized to write insurance in the states of California and Oregon, and wrote on a surplus lines basis in the states of Arizona and Washington. During 2013, direct premiums written were $1.42 million. California and Oregon accounted for 84.7% and 9.2%, respectively, of direct premiums written during the year and the remaining 6.1% of premiums were written in Arizona and Washington.

Business is produced by its wholly-owned subsidiary, Mennonite Insurance Services, Inc. (MIS). There are six licensed agents at MIS. New business is acquired through referrals, contacting potential clients from church directories and advertisement.

REINSURANCE

Assumed

The Company's Certificate of Exemption does not allow it to assume reinsurance.

Ceded

Reinsurance treaties in force as of December 31, 2013 are as follows:

Type of Contract	Reinsurer's Name and Participation	Company's Retention	Reinsurer's Maximum Limits
Obligatory First Surplus Treaty	Berkley Insurance Company - 12.5%. Employers Mutual Casualty Company - 51.67%. Farmers Mutual Hail Insurance Company of Iowa - 17.5%. Kentucky Farm Bureau Mutual Insurance Company - 9.17%. Motorists Mutual Insurance Company - 9.16%. *Note: All the reinsurers listed above are authorized.*	Pro-rata share equal to the ratio of the Company's gross liability ($150,000) to the amount of risk written. Risks below $150,000 are 100% retained by the Company.	Reinsurer is liable for pro-rata share of losses in excess of the Company's pro-rata retention, subject to a maximum of $750,000 on any one risk.

Type of Contract	Reinsurer's Name and Participation	Company's Retention	Reinsurer's Maximum Limits
Property Facultative Pro Rata Reinsurance	Allied World Reinsurance Company - 20% - Authorized. American Agricultural Insurance Company - 13.75% - Unauthorized. Hannover Ruckversicherung AG - 7.5% - Certified. Employers Mutual Casualty Company - 32.5% - Authorized. Farmers Mutual Hail Insurance Company of Iowa - 8.75% - Authorized. The Toa Reinsurance Company of America - 16.5% - Authorized. Transatlantic Reinsurance Company - 1% - Authorized.	Cessions to the contract is limited to an amount equal to 56 times the Company's net retention plus the amount ceded to the Company's working reinsurance contracts, subject to a minimum net retention of $45,000 and to a maximum cession of $2.5 million on any one risk covered.	Maximum cession of $2.5 million on any one risk covered. Amounts in excess of $2.5 million are approved on a case-by-case basis from facultative reinsurers.

FINANCIAL STATEMENTS

The following financial statements are included in this report of examination:

Statement of Financial Condition as of December 31, 2013

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Reconciliation of Surplus as Regards Policyholders, December 31, 2009 through December 31, 2013

Statement of Financial Condition
as of December 31, 2013

Assets	Ledger and Non-ledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Bonds	$ 3,353,862	$	$ 3,353,862	
Common stocks	7,549,307	423,754	7,125,553	
Real estate	186,596		186,596	
Cash and short-term investments	749,758		749,758	
Aggregate write-ins for invested assets	15,000		15,000	
Investment income due and accrued	43,765		43,765	
Amounts recoverable from reinsurers	106,294		106,294	
Current federal and foreign income tax recoverable and interest	64,835		64,835	
Electronic data processing equipment	10,824		10,824	
Furniture and equipment	1,436	1,436	0	
Receivable from parent, subsidiaries and affiliates	17,043		17,043	
Total assets	$ 12,098,720	$ 425,190	$ 11,673,530	

Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 13,672	(1)
Net deferred tax liability			667,998	
Unearned premiums			271,149	
Advance Premium			28,671	
Ceded reinsurance premiums payable			106,894	
Amounts withheld or retained by company for account of others			9,419	
Aggregate write-ins for liabilities			36	
Total liabilities			1,097,839	
Unassigned funds		$ 10,575,691		
Surplus as regards policyholders			10,575,691	
Total liabilities, surplus and other funds			$ 11,673,530	

Underwriting and Investment Exhibit for the Year Ended December 31, 2013

Statement of Income

Underwriting Income:		
Premiums earned		$ 400,557
Deductions:		
Losses incurred	$ 124,911	
Loss expenses incurred	10,487	
Other underwriting expenses incurred	332,880	
Total underwriting deductions		468,278
Net underwriting loss		(67,721)
Investment Income:		
Net investment income earned	$ 110,618	
Net realized capital gains	396,115	
Net investment gain		506,733
Net income before dividends to policyholders and before federal income taxes		439,012
Policyholder dividends		133,067
Net income before federal income taxes		305,945
Federal income taxes incurred		39,018
Net income		$ 266,927

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2012		$ 9,658,430
Net income	$ 266,927	
Change in net unrealized capital gains	969,106	
Change in net deferred income tax	(319,540)	
Change in nonadmitted assets	768	
Change in surplus as regards policyholders for the year		917,261
Surplus as regards policyholders, December 31, 2013		$ 10,575,691

Reconciliation of Surplus as Regards Policyholders
from December 31, 2009 through December 31, 2013

	Gain in Surplus	Loss in Surplus	
Surplus as regards policyholders, December 31, 2009 per Examination			$ 8,345,145
Net income	$ 1,413,359	$	
Change in net unrealized capital gains	1,233,209		
Change in net deferred income tax		419,291	
Change in nonadmitted assets	3,269		
Total gains and losses	$ 2,649,837	$ 419,291	
Net increase in surplus as regards policyholders for the examination period			2,230,546
Surplus as regards policyholders, December 31, 2013, per Examination			$ 10,575,691

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A review of the Company's 2013 claims paid through the end of October 31, 2014 indicated that the Company's reported loss and loss adjustment expense reserves at December 31, 2013 were sufficient.

A review was made of the Company's calculation of ceded loss reserves. It was observed that the Company classified its losses into "Known Losses" and "Estimated Losses" and treated each differently when calculating the ceded loss reserves and retained loss reserves.

The Known Losses are established for claims which the Company has received the claim adjuster's reports whereas the Estimated Losses are established for claims whereby the claims have been reported to the Company but it has not received the claim adjuster's reports. Nevertheless, the reported gross loss reserves for either type of losses represent the Company's best estimate of loss for each claim it has received, which is consistent with Statement of Statutory Accounting Principle (SSAP) No. 55, paragraphs 4 and 10.

The Company calculates the ceded and the retained loss reserves for the Known Losses in accordance with the terms of its reinsurance contract. However, for the Estimated Losses, the ceded and retained loss reserves are calculated by multiplying the total gross reserves on the Estimated Loss by an "Average Loss %."

Per SSAP No. 62, paragraph 18, "Reinsurance recoverables shall be recognized in a manner consistent with the liabilities (including estimated amounts for claims incurred but not reported) relating to the underlying reinsured contracts. Assumptions used in estimating reinsurance recoverables shall be consistent with those used in estimating the related liabilities." Accordingly, the Company should compute its ceded loss reserves (and corresponding retain loss reserves) in accordance with the reinsurance contract and apply the same method for all loss reserves.

The Company's ceded loss reserve and retained loss reserve for those claims classified as the Estimated Losses were recalculated in accordance with the terms in the reinsurance contract and it was determined that the ceded loss reserves were overstated by $3,382, resulting in the retained loss reserves being understated by the same amount. Since the amount involved is not material, no examination adjustment was made. It is recommended that the Company computes its ceded and retained loss reserves in accordance with the reinsurance contracts and apply the same method for all loss reserves subject to the reinsurance program.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Management and Control – Expense Allocation (Page 4): It is recommended that the Company put in place a written cost allocation agreement with its subsidiary, Mennonite Insurance Services, Inc., which describes how wages, rent, and payroll expenses are to be allocated between the two entities. In addition, the terms of the agreement should be approved by the board of directors of both entities.

Comments on Financial Statement Items (Pages 10) – It is recommended that the Company computes its ceded and retained loss reserves in accordance with the reinsurance contracts and apply the same method for all loss reserves subject to the reinsurance program.

Previous Report of Examination

Comments on Financial Statement Items – Losses and Loss Adjustment Expenses (Page 10): It was recommended that the Company develops procedures to ensure that loss reserves are properly established for all reported claims. The Company has complied with this recommendation.

ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and assistance extended by the Company's officers and employees and its Certified Public Accountant during the course of this examination.

Respectfully submitted,

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Sam Chiu, CFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California