REPORT OF EXAMINATION
OF THE

MENNONITE AID PLAN OF THE PACIFIC COAST

AS OF
DECEMBER 31, 2009

Filed February 25, 2011

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San Francisco, California
December 3, 2010

Honorable Steve Poizner
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

The previous examination of the Company was made as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2009. The examination was conducted in accordance with the risk-focused examination process, which requires 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; officers, employees and agents welfare and pensions plans; growth of company; business in force by states; loss experience; accounts and records; and sales and advertising.

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 September 19, 1979. 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:

Mennonite Aid Plan of the Pacific Coast California Insurer
Mennonite Insurance Services, Inc. Non-insurer

The Company is managed by a fourteen-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, 2009:

Directors

Name and Residence	Principal Business Affiliation
Jim Brandt Dinuba, California	Agriculture Supplies
Jim Enns Clovis, California	Church Conference Treasurer
Janine Kroeker Bergdahl Madera, California	High School Teacher
Alan Grantham Bellingham, Washington	Businessman
John Hochstetler Salem, Oregon	Agriculture Supplies
Ira Kauffman Lebanon, Oregon	Retired
Dennis Langhofer Fresno, California	Teacher
Paul G. Neufeld Wasco, California	Construction semi-retired
LeAnne Quenzer Visalia, California	Nurse
Ron Peters Reedley, California	Agriculture
Don Shafer Pinion Springs, California	Retired
Vern Warkentin Reedley, California	Business Owner
Alan Whaley Phoenix, Arizona	Pastor

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

Principal Officers

Name	Title
Dennis Langhofer	President
Jim Enns	Secretary
Jim Brandt	Chief Financial Officer

Management Agreements

The Company and Mennonite Insurance Services, Inc. (MIS) entered into an intercompany operating agreement on May 1, 1996. Under the terms of this agreement, the Company rents its office building and equipment to MIS for a fee of $1,725 per month. MIS provides its employees to the Company and is reimbursed based on the proportional employment costs incurred. In addition, overhead costs are allocated to each company based on each company's proportional share of total revenue. In 2009 the Company paid $422,507 to MIS for its share of employment expenses.

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, 2009, the Company was licensed 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 2009, gross premiums written were $1.46 million. California and Oregon accounted for 86.4% and 9.0%, respectively, of gross premiums written during the year.

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

REINSURANCE

Assumed

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

Ceded

The following are the treaties in force as of December 31, 2009:

Type of Contract	Reinsurer's Name and Participation	Company's Retention	Reinsurer's Maximum Limits
Obligatory First Surplus Treaty	Arch Reinsurance Company - 20% part of 40% - Authorized Employers Mutual Casualty Company - 20% part of 40% - Authorized Harco National Insurance Company - 60% - Authorized	Pro-rata share equal to the ratio of the Company's gross liability ($45,000) to the amount of risk written. Risks below $45,000 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 $675,000 on any one risk.
Property Facultative Pro Rata Reinsurance	Arch Reinsurance Company - 37.5% - Authorized Lloyd's Syndicate #2987 BRT- 23% - Authorized Lloyd's Syndicate #1221- 10% - Authorized TOA Reinsurance Company - 15% - Authorized Employers Mutual Casualty Co - 9.5% - Authorized SCOR Reinsurance Company - 5% - 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.

Effective January 1, 2010, the Company's pro-rata retention under the Obligatory First Surplus Treaty was increased from $45,000 to $100,000.

FINANCIAL STATEMENTS

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

Statement of Financial Condition as of December 31, 2009

Underwriting and Investment Exhibit for the Year Ended December 31, 2009

Reconciliation of Surplus as Regards Policyholders, December 31, 2005 through December 31, 2009

Statement of Financial Condition
as of December 31, 2009

Assets	Ledger and Non-ledger Assets	Non-Admitted Assets	Net Admitted Assets	Notes
Bonds	$ 2,023,047	$	$ 2,023,047	
Common stocks	5,618,563	423,754	5,194,809	
Real estate	157,066		157,066	
Cash and short-term investments	1,043,600		1,043,600	
Aggregate write-ins for investments	230,837		230,837	
Investment income due and accrued	30,632		30,632	
Amounts recoverable from reinsurers	99,410		99,410	
Net deferred tax asset	93,473		93,473	
Electronic data processing equipment	8,614		8,614	
Furniture and equipment	4,705	4,705	0	
Receivable from parent, subsidiaries and affiliates	28,543		28,543	
Total assets	$ 9,338,490	$ 428,459	$ 8,910,031	
Liabilities, Surplus and Other Funds				
Losses and loss adjustment expenses			$ 2,787	(1)
Net deferred tax liability			248,707	
Unearned premiums			147,443	
Advance Premium			30,032	
Ceded reinsurance premiums payable			135,014	
Aggregate write-ins for liabilities			903	
Total liabilities			564,886	
Unassigned funds		$ 8,345,145		
Surplus as regards policyholders			8,345,145	
Total liabilities, surplus and other funds			$ 8,910,031	

Underwriting and Investment Exhibit
for the Year Ended December 31, 2009

Statement of Income

Underwriting Income:		
Premiums earned		$ 227,561
Deductions:		
Losses incurred	$ 12,389	
Loss expenses incurred	7,197	
Other underwriting expenses incurred	130,699	
Total underwriting deductions		150,285
Net underwriting gain		77,276
Investment Income:		
Net investment income earned	$ 117,919	
Net realized capital loss	(435,373)	
Net investment loss		(317,454)
Net income before federal income taxes		(240,178)
Federal income taxes incurred		111,319
Net loss		$ (128,859)

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2008		$ 7,407,135
Net income	$ (128,859)	
Change in net unrealized capital gains	1,615,853	
Change in net deferred income tax	(549,390)	
Change in nonadmitted assets	406	
Change in surplus as regards policyholders for the year		938,010
Surplus as regards policyholders, December 31, 2009		$ 8,345,145

Reconciliation of Surplus as Regards Policyholders
from December 31, 2005 through December 31, 2009

Surplus as regards policyholders, December 31, 2005, per Examination			$ 7,649,944
	Gain in Surplus	Loss in Surplus	
Net income	$ 892,485	$	
Change in net unrealized capital losses		276,191	
Change in net deferred income tax	93,904		
Change in nonadmitted assets		14,997	
Totals	$ 986,389	$ 291,188	
Net increase in surplus as regards policyholders			695,201
Surplus as regards policyholders, December 31, 2009, per Examination			$ 8,345,145

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Losses and Loss Adjustment Expenses

A review of 2009 losses paid through the end of June 30, 2010 indicated that the Company's reported loss and loss adjustment expense reserves at December 31, 2009, were deficient by a net total of $5,239. There were 13 claims with loss dates in 2009 that the Company did not establish a reserve for as of December 31, 2009. The Company explained that reserves were not established for the above claims because it had not received the claim reports from its independent claims adjuster at the examination date. No exam adjustment was made because the amount of the deficiency is immaterial. However, it is recommended that the Company develop procedures to ensure that loss reserves are properly established for all reported claims. Similar comments were made in the prior examination.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Financial Statement Items – Losses and Loss Adjustment Expenses (Page 10): It is recommended that the Company develop procedures to ensure that loss reserves are properly established for all reported claims.

Previous Report of Examination

Reinsurance – Ceded (Page 11): It was recommended that the reinsurance agreements be amended to remove the references to New York laws. The Company has complied with this recommendation.

Comments on Financial Statement Items – Cash (Page 11): It was recommended that the Company escheat immediately those unclaimed checks that have been outstanding for more than three years to the State of California as required under the California Unclaimed Property Law.

The Company has made filings with the State Controller as required under the California Unclaimed Property Law. The Company has complied with this recommendation.

Comments on Financial Statement Items – Losses and Loss Adjustment Expenses (Page 11): It was recommended that the Company establish loss reserves for all reported claims. The Company has not complied with this recommendation.

Comments on Financial Statement Items – Unearned Premiums (Page 11): It was recommended that the Company exclude advance premiums from the current year written premiums and unearned premium reserve and set up a separate liability for advance premiums. The Company has complied with this recommendation.

Comments on Financial Statement Items – Provision for Reinsurance (Page 11): It was recommended that the Company establish a provision for unauthorized reinsurance for reinsurers that do not meet the requirements for granting credit for reinsurance as outlined in California Insurance Code Sections 922.4 and 922.5. The Company did not have any unauthorized reinsurers as of the examination date and so no provision for unauthorized reinsurance was necessary.

ACKNOWLEDGEMENT

The assistance and cooperation of the officers and employees of the Company and its CPA during the course of this examination is acknowledged.

Respectfully submitted,

/s/

Maria Angeles
Examiner-In-Charge
Insurance Examiner
Department of Insurance
State of California