

Directors & Officers

Jerry Keunen, Chairman (905) 957-7476
Robert Young, Vice-Chairman (905) 765.6227
Kathryn Adie, General Manager

Walter Hyslop, Director (905) 679-6725
Charlie Snyder, Director (905) 765.2016
Bill Horvath, Director (905) 772.5584
Keith Shirton, Director (905) 774.4613
Allan Hedley, Director (905) 772.7855
Harold Meadows, Director (905) 772.1111
Mark Comley, Director (905) 317.0148

Agents & Brokers

Randy Bacher, Hamilton (905) 383.0161
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Doug Murphy, Cayuga (905) 772.7194
W. B. White o/a Ron Edwards (905) 765.5656

Office Staff

Kathryn Adie General Manager
Stephen Quinn Assistant Manager
Irene Huitema Underwriting Manager
Jim Noonan Claims Representative
Sandra Camilleri Claims Representative
Rosanne Belliveau Property Underwriter
Sandra Mason Assistant Property Underwriter
Danielle Neill Assistant Property Underwriter
Julie Mackey Administrative Assistant
Joan Little Reception/Accounting
Brent Zavitz Loss Prevention

Auditors

Millard, Rouse & Rosebrugh LLP, Brantford, Ontario



CAYUGA MUTUAL

INSURANCE COMPANY

EST. 1875

Annual Report

for the year ending
December 31, 2008

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Chairman's Message

There have been many changes during the past year at Cayuga Mutual. Our Management Team led by our General Manager Kathryn Adie now includes Assistant Manager Steve Quinn and Underwriting Manager Irene Huitema. Steve's responsibilities include consolidation of agent and loss prevention duties. We also welcome Danielle Neill in the property underwriting department.

We would like to extend congratulations to Allan Hedley for his election as Director serving the Group 5 companies on the OMIA board of directors, and to Kathryn Adie for receiving the OMIA Presidential Merit Award at the annual convention in March 2008.

A major project undertaken in 2008 and nearing completion is the launch of our new website and corporate logo. Our building remains the focus in the new logo, which we view as the heart of Cayuga Mutual Insurance Company.

We continue to offer new methods for you to make policy payments. VISA and Mastercard payments are gaining in popularity, internet banking and debit payments continue to grow. In addition to cash and cheque we are now able to accept pre-authorized payments.

Our legacy system has served us well but it is time to move to the mutual owned computer system. We hope this move will be transparent and that we will continue to be able to provide the same level of service to our policyholders as we have in the past.

We continue to provide the use of our community room without cost to non-profit organizations with approximately two dozen groups taking advantage of this opportunity.

In conjunction with Cayuga Mutual's 135th Anniversary year we will support Cayuga's 150th Anniversary Celebrations. Your Board of Directors are pleased to support the 1859 Heritage Dinner to be held on July 11th, 2009 at Ruthven as the kickoff to

Cayuga Mutual Insurance Company

Notes to the Financial Statements

For the year ended December 31, 2008

11. CAPITAL MANAGEMENT

The Company's objectives in managing its capital are to maintain financial stability for policyholders and meet regulatory requirements. Mutual insurance companies are regulated by the provisions of the Insurance Companies Act (ICA) and the Financial Services Commission of Ontario (FSCO).

The Company has a capital management process in place to monitor its capital. Reinsurance placed with Farm Mutual Reinsurance Plan and the Farm Mutual Guarantee Fund serve to protect capital and limit losses on any one claim (see Note 3). The Company meets its objectives for managing capital through management and Board monitoring and oversight of regulatory capital measures.

The Company's capital consists of retained earnings and accumulated other comprehensive income (loss). The Company's capital structure at December 31 was as follows:

	2008	2007
Retained earnings	11,581,044	11,744,583
Accumulated other comprehensive income (loss)	(863,434)	(115,118)
Total Capital	10,717,610	11,629,465

The Company is subject to an annual examination by the Financial Examination Committee, the results of which are reported to the Superintendent of Financial Institutions for Ontario. In its most recent examination report, the company was in compliance with regulatory expectations.

Cayuga Mutual Insurance Company

Notes to the Financial Statements

For the year ended December 31, 2008

10. FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (cont.)

In order to manage interest rate risk, the Company varies the maturity dates of bonds to avoid a significant number of bond maturities occurring at the same date. In addition, the Company avoids placing a significant amount of investment with a specific bond issuer.

The impact of an assumed 1% (100 basis point) decrease in interest rates on renewal of fixed rate investments maturing within the next twelve months would decrease investment income in the next twelve month period by approximately \$7,550.

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Company is exposed to other price risk through its holdings in common shares, preferred shares, mutual funds and pooled funds that are subject to changes in market prices. Fluctuations in the market value of these investments affect the carrying value of these securities causing changes in realized and unrealized gains and losses. Management monitors the ongoing performance of mutual and pooled funds monthly and ensures that investments are diversified by sector and geographically.

The Company's equity investments are concentrated as follows:

	2008	2007
Trimark Core Canadian Balanced Fund	81,765	96,225
Trimark Income & Growth Fund	902,619	982,941
Trimark Income Growth Fund Class A	13,654	16,425
Farm Mutual Canadian Equity Pooled Fund	1,254,768	2,006,046
Farm Mutual Canadian Fixed Income Pooled Fund	1,691,292	1,606,210
	3,944,098	4,707,847

It is estimated that an immediate hypothetical 5% decrease in market value of mutual and pooled funds would result in an unrealized loss of \$197,205 at December 31, 2008.

the weeklong birthday celebrations.

The higher than normal levels of rainfall resulted in property claims alone increasing by nearly \$1million over the prior year which is reflected in our results.

Your Board of Directors undertook a complete review of the company by-laws in 2008 as a program of professional development and to achieve compliance with new regulations. This major project is complete and the bylaws will be presented for approval at our Annual and Special Meeting on February 26th, 2009. This is your meeting and we invite you to attend.

Mutually Yours,

Jerry Keunen

Chairman of the Board of Directors

Notice of the Annual and Special General Meeting of the Cayuga Mutual Insurance Company

For the year ending December 31, 2008

TAKE NOTICE that an Annual and Special General Meeting of the Members of the Cayuga Mutual Insurance Company will be held at 10:30 a.m. on the 26th day of February, 2009, at the Corporation's Head Office at 23 King Street West, Cayuga, for the purposes of:

1. To receive and approve the Annual Financial Statement
2. To appoint an auditor.
3. To elect directors.
4. To consider and if thought fit, to adopt, with such amendments as may be made at the meeting, the amendments to the Corporation's By-law # 1 which were passed by the Board of Directors at their meeting on January 29, 2009. A summary of those amendments is attached. A full copy of By-law # 1 with the amendments incorporated is available for review by all members of the Corporation at the head office of the Corporation during regular business hours, or will be provided upon request.
5. To transact any such further business that may properly come before the meeting.

The directors whose terms expire are Jerry Keunen, Charlie Snyder, and Mark Comley all of whom are eligible for re-election. Any policyholder wishing to seek election or re-election as a director must file a nomination form with the Secretary of the Corporation at least ten (10) days in advance of the annual meeting.

Jerry Keunen
Chairman of the Board

Kathryn Adie, CIP
General Manager

Cayuga Mutual Insurance Company Notes to the Financial Statements

For the year ended December 31, 2008

10. FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT (cont.)

	No Fixed Maturity	< 1 Year	1-5 Years	> 5 Years	Total
Bonds & Debentures	-	767,975	3,899,115	3,435,627	8,102,717
Preferred Shares	86,360	-	-	-	86,360
Common Shares	500	-	-	-	500
Mutual & Pooled Funds	3,944,098	-	-	-	3,944,098
Total	4,030,958	767,975	3,899,115	3,435,627	12,133,675
Percentage of Total	33.2%	6.3%	32.1%	28.3%	

Farm Mutual Pooled Funds

The Company holds \$2,946,060 of Farm Mutual Pooled Funds at year end. On September 26, 2008, the Company was notified by the Farm Mutual Pooled Funds Investment Committee that redemption requests would not be processed by the trustee and custodian until further notice.

The administrator of the Farm Mutual Pooled Funds entered bankruptcy protection during the year. Due to the uncertainty surrounding the bankruptcy, the custodian of these funds has frozen any contributions or withdrawals by the unit holders. The funds continue to be managed according to the investment mandate, but no purchase or sale of the units will be allowed until the uncertainty is resolved.

The company has joined in a legal action commenced by the Farm Mutual Pooled Funds Investment Committee to resolve this matter.

(c) **Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Currency Risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange values. The Company is not significantly exposed to foreign exchange rate risk.

Interest Rate Risk

Interest rate risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk, as the majority of its investment portfolio is comprised of fixed income bonds and debentures that are held to maturity. Periodic changes in interest rates cause reinvestment yields to be different than the original yields on maturing bonds and debentures.

Cayuga Mutual Insurance Company

Notes to the Financial Statements

For the year ended December 31, 2008

10. FINANCIAL INSTRUMENT RISK EXPOSURE AND MANAGEMENT

The principal financial instruments from which financial instrument risk arises are trade accounts receivable, investments and accounts payable.

Risk Management

The Company's management and the Board of Directors identify and address risks facing the Company. There has been no significant change in the Company's risk management framework.

(a) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause a financial loss for the Company. The Company remains exposed to credit risk primarily through amounts receivable from policyholders and reinsurers and its investment portfolio.

The Company's credit exposure to any one individual policyholder is not material.

The Company monitors the financial condition of its reinsurer, Farm Mutual Reinsurance Plan Inc.

The majority of the Company's investment portfolio is invested in well-established, active and liquid markets. The Company's investment policy is to invest primarily in fixed income securities and requires that at the time of investment all fixed income securities have a minimum credit rating of A. Management monitors subsequent credit rating changes on a regular basis. See Note 5 (Investments) for additional information regarding the credit quality of investments, investments that are impaired and concentration of investments by issuer.

The Company's maximum exposure to credit risk for investments is the fair value carrying amount. The risk of significant loss for accounts receivable is considered remote.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet cash flow obligations as they come due.

The liquidity requirements of the Company's business have been met primarily by funds generated from operations, asset maturities and income and other returns received on securities. Cash provided from these sources is used primarily for claims and claim adjustment expenses payments and operating expenses. The timing and amount of catastrophe claims are inherently unpredictable and may create increased liquidity requirements. To manage its cash flow requirements, the Company maintains a portion of its invested assets in liquid securities.

Summary of Amendments to By-law #1

The numeric references herein correspond with the section numbers of the amended By-law # 1.

The following amendments are to bring the By-law into conformity with amendments made to the Insurance Act and the Corporations Act. (References herein to the Act refer to the Corporations Act.)

35. The Board of Directors may decide to identify the Manager as the President and the President and Vice-President to be identified as Chairperson and Vice-Chairperson, respectively.
- 40(b). The Board shall constitute an "Audit Review Committee" and a "Conduct Review Committee" and such other committees as are required by the Insurance Act or as deemed appropriate. The duties of these Committees will be as prescribed by the Regulations to the Insurance Act and the Board of Directors.
45. The Directors are to review investment policies no less than annually.

In addition, the following amendments are made:

4. Recognition that Trustee boards, partnerships or corporations may be members.
7. The annual meeting of the Members shall be held in accordance with the Act.
10. Notice for every annual, or special general meeting be given in accordance with the Act.
12. The Directors shall cause annual statements to be made available to members in accordance with the Act.
22. A member of a partnership, trustee board or corporate Member may be a Director.
23. Defines persons not eligible to be elected as Directors of the Corporation.
- 25(b). Provides that Directors may be removed from office by special resolution.
30. Defines methods of giving notice for meetings of Directors / provides that telephone or electronic meetings may be held / provides that the Manager shall be an "ex-officio" member of the Board.
33. Remuneration of Directors.
- 40(a). Defines Executive Committee
43. Minutes of Board meetings and Committee meetings to be open for inspection by Directors.
44. Withdrawals from bank accounts may be made electronically. The Board shall designate authorized persons.
52. The Board shall designate persons authorized to accept applications for insurance.
- 53/54. Claims shall be adjusted and settled in accordance with policies set by the Board.
55. Replace Section 53, dealing with refunds from surplus, to provide procedure for declaring refunds.

Various other housekeeping amendments which include such items as renumbering section numbers, amending references to sections of the Acts and various points of clarification and minor grammatical amendments.

Cayuga Mutual Insurance Company

FINANCIAL STATEMENTS

For the year ended December 31, 2008

Index

	Page
Auditors' Report.....	6
Financial Statements	
Balance Sheet	7
Statement of Retained Earnings	8
Statement of Accumulated Other Comprehensive Income	8
Statement of Comprehensive Income	8
Statement of Income	9
Schedule of Expenses.....	10
Statement of Cash Flows	11
Notes to the Financial Statements	12-22

Cayuga Mutual Insurance Company

Notes to the Financial Statements

For the year ended December 31, 2008

8. REFUND OF PREMIUMS PAYABLE

	2008	2007
Refund of Premiums Payable - beginning of year	283,723	8,783
Paid to policyholders	(235,124)	(60)
	48,599	8,723
Prior year over provision	(48,599)	-
Current year provision for refund of premiums	-	275,000
Refund of Premiums Payable - end of year	-	283,723

9. INCOME TAXES

Under provisions in the Canadian Income Tax Act, the company is responsible for income taxes on the portion of its income that relates to non-farm business. The portion of income in respect of the insurance of farm property or the residences of farmers is exempt from income tax under Section 149(1)(t) of the Canadian Income Tax Act.

The provision for income taxes reported differs from the amount computed by applying the Canadian Statutory rate to income before income taxes for the following reasons:

	2008	2007
Income tax expense (recovery) before under-noted items	(76,642)	377,307
Tax adjustments		
Farm Income exemption	19,852	(114,270)
Non-deductible and other items	6,518	(22,504)
Income tax expense (recovery)	(50,272)	240,533
Prior year tax adjustment	4,229	-
Future income tax expense (benefit)	19,733	(50,036)
Provision For (Recovery of) Income Taxes	(26,310)	190,497

During the year the company made income tax payments totalling \$166,014 (2007 - \$14,275)

Income taxes included in OCI:

The amounts included in the statement of comprehensive income as at December 31, 2008 are shown net of the following, tax expense (benefit):

Tax impact on:

	2008	2007
Change in unrealized gains and losses		
fixed income - mutual and pooled funds	(45,148)	(927)
equities - mutual and pooled funds	(171,222)	(30,739)
Total income tax expense (benefit) included in OCI	(216,370)	(31,666)

Cayuga Mutual Insurance Company

Notes to the Financial Statements

For the year ended December 31, 2008

6. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2008	2007
Land - Cayuga	311,093	-	311,093	329,136
Building	1,579,075	188,168	1,390,907	1,430,459
Parking Lot	44,937	30,200	14,737	17,590
Office furniture & equipment	306,472	194,124	112,348	132,920
Automotive equipment	82,186	47,402	34,784	34,616
Computer equipment	172,880	116,729	56,151	77,468
	<u>2,496,643</u>	<u>576,623</u>	<u>1,920,020</u>	<u>2,022,189</u>

Automotive equipment amortization has been allocated to specific expense categories as follows:

Adjusting expenses:	\$1,820 (2007 - \$2,599)
Prevention expenses:	\$ NIL (2007 - \$3,397)

7. PENSION PLAN

The company participates in the OMIA Pension Plan. The pension plan has a defined benefit, best five years, option available to employees. This option is funded by employee and employer contributions at levels determined by the Plan Actuaries. The pension fund uses the accrued benefit actuarial method and best estimate assumptions in valuing pension obligations for the defined benefit portion.

The most recent actuarial valuation using this method and these assumptions was made as of December 31, 2006. Pension plan assets were valued at market related values.

The amount contributed by the company for 2008 was \$48,844 (2007 - \$33,198) to cover its obligations for current service under the defined benefit option of the plan.

Since the company makes up for any funding deficits and discontinues contributions when there is a funding surplus as a result of an actuarial valuation, no accrued assets or liabilities of the defined benefit plan are included in the financial position.



Millard, Rouse & Rosebrugh LLP

Chartered Accountants
P.O. Box 367, 96 Nelson Street
Brantford, Ontario N3T 5N3
Telephone: (519) 759-3511
Facsimile: (519) 759-7961

Auditors' Report

To the Policyholders of
Cayuga Mutual Insurance Company

We have audited the balance sheet of Cayuga Mutual Insurance Company as at December 31, 2008 and the statements of income, comprehensive income, retained earnings, accumulated other comprehensive income and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of Cayuga Mutual Insurance Company as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Millard, Rouse & Rosebrugh LLP

January 13, 2009

CHARTERED ACCOUNTANTS
LICENSED PUBLIC ACCOUNTANTS

Cayuga Mutual Insurance Company

Balance Sheet

As at December 31	2008	2007
Assets		
Cash	900,190	640,930
Bond, debentures and marketable securities (Note 5)	12,133,675	13,702,486
Investment income accrued	99,004	98,962
Premiums outstanding	692,706	596,287
Income taxes recoverable	217,586	-
Prepaid expenses	75,765	53,594
Due from reinsurers and others	439,430	365,806
Reinsurance recoverable on unpaid claims	2,233,008	1,750,377
Deferred policy acquisition expenses	256,430	267,184
Future income taxes	287,323	90,686
Property, Plant and Equipment (Note 6)	1,920,020	2,022,189
	19,255,137	19,588,501
Liabilities		
Provision for unpaid claims	5,817,263	4,856,808
Unearned premiums	2,306,146	2,224,359
Accounts payable and accrued liabilities	217,530	169,829
Income taxes payable	-	225,436
FARM Funds due to Facility Association	162,856	172,516
Refund of premiums payable (Note 8)	-	283,723
Premiums paid in advance	33,732	26,365
	8,537,527	7,959,036
Equity		
Retained earnings	11,581,044	11,744,583
Accumulated other comprehensive income (loss)	(863,434)	(115,118)
	10,717,610	11,629,465
	19,255,137	19,588,501

Approved on behalf of the Board of Directors

Mark Comley

Director

Charlie Snyder

Director

See accompanying notes

Cayuga Mutual Insurance Company

Notes to the Financial Statements

For the year ended December 31, 2008

5. INVESTMENTS (cont.)

(a) Stocks and Other Invested Assets

	2008			2007		
	Cost Amount	Fair Value Carrying Amount	Difference	Cost Amount	Fair Value Carrying Amount	Difference
Stocks						
Canadian Common	500	500	-	46,300	46,300	-
Canadian Preferred	86,360	86,360	-	69,860	69,860	-
Mutual Funds	1,230,366	998,038	(232,328)	1,117,534	1,095,591	(21,943)
Pooled Funds	3,834,186	2,946,060	(888,126)	3,746,081	3,612,256	(133,825)
Total Stocks and Other Invested Assets	5,151,412	4,030,958	(1,120,454)	4,979,775	4,824,007	(155,768)

(b) Bonds, Debentures and GICs

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
GICs	683,000	683,000	30,000	30,000
Federal	1,516,808	1,688,982	2,178,866	2,232,451
Provincial	2,570,278	2,726,919	3,393,093	3,477,605
Municipal	2,146,986	2,219,989	2,056,843	2,099,278
Corporate - A or better	1,172,388	1,189,197	1,170,848	1,173,285
Other	13,257	13,257	48,829	48,829
Total Stocks and Other Invested Assets	8,102,717	8,521,344	8,878,479	9,061,448

(c) Investment Income

Investment income for the year ended December 31, 2008 was derived from the following:

	2008	2007
AFS Securities		
dividend income	7,699	30,735
interest income	93,237	64,460
capital gains distributions	-	242,126
HTM interest income	440,322	418,220
Realized gain (loss) on maturity of HTM	(2,723)	(9,679)
Gain on sale of investments	25,899	90
Impairment of financial assets	(90,300)	(24,000)
	474,134	721,952

Cayuga Mutual Insurance Company

Notes to the Financial Statements

For the year ended December 31, 2008

3. UNDERWRITING POLICY

The company follows the policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the company to a maximum amount on any one claim of \$175,000 in the event of a property claim, an amount of \$60,000 in the event of a liability claim, and an amount of \$150,000 in the event of an automobile claim.

In addition, the company has obtained catastrophe reinsurance having no upper limit, which limits the company's liability in the event of a series of claims arising out of a single occurrence.

4. REINSURANCE CEDED

The company cedes reinsurance to another insurer in order to limit the maximum loss through the spreading of risks. Reinsurance ceded does not relieve the company of primary liability as the originating insurer. All reinsurance is placed with Farm Mutual Reinsurance Plan Inc.

5. INVESTMENTS

The fair value of the company's investment portfolio by financial instrument classification at December 31 is as follows:

	2008			2007		
	Classified as AFS	Classified as HTM	Total Carrying Value	Classified as AFS	Classified as HTM	Total Carrying Value
Bonds, debentures and GICs	-	8,102,717	8,102,717	-	8,878,479	8,878,479
Preferred shares	86,360	-	86,360	69,860	-	69,860
Common shares	500	-	500	46,300	-	46,300
Other invested assets - mutual & pooled funds	3,944,098	-	3,944,098	4,707,847	-	4,707,847
Total investments	4,030,958	8,102,717	12,133,675	4,824,007	8,878,479	13,702,486

Cayuga Mutual Insurance Company

Statement of Retained Earnings

For the year ended December 31	2008	2007
Balance - Beginning of Year	11,744,583	10,753,369
Net Income (Loss)	(163,539)	991,214
Balance - End of Year	11,581,044	11,744,583

Statement of Accumulated Other Comprehensive Income

For the year ended December 31	2008	2007
Balance - Beginning of Year	(115,118)	(24,955)
Other Comprehensive Income (Loss)	(748,316)	(90,163)
Balance - End of Year	(863,434)	(115,118)

Statement of Comprehensive Income

For the year ended December 31	2008	2007
Net Income (Loss)	(163,539)	991,214
Other Comprehensive Income (Loss) Available for Sale		
Change in Unrealized Gains and Losses		
- fixed income - mutual and pooled funds	(153,189)	(2,640)
- equities - mutual and pooled funds	(595,127)	(87,523)
Total Other Comprehensive Income (Loss)	(748,316)	(90,163)
Comprehensive Income (Loss)	(911,855)	901,051

See accompanying notes

Cayuga Mutual Insurance Company

Statement of Income

For the year ended December 31	2008	2007
Underwriting Operations		
Gross Premiums written less rebates & cancellations	5,619,315	5,397,905
Less: Premiums paid reinsurance	1,034,113	1,027,025
Increase in reserve for unearned premiums	81,787	126,755
	1,115,900	1,153,780
Net Premiums Earned	4,503,415	4,244,125
Expenses		
Claims Expenses		
Claims less reinsurance recoveries	2,841,566	1,489,973
Adjusting expenses (net)	514,038	374,721
Commissions paid (net)	534,176	512,967
	3,889,780	2,377,661
Salaries, Fees & Travelling Expenses - Page 9	590,212	499,445
Other Expenses - Page 9	722,378	698,281
Total Expenses	5,202,370	3,575,387
Underwriting Income (Loss)	(698,955)	668,738
Investment and Other Income		
Interest on bonds, debentures & bank balances	533,559	482,680
Dividend income	7,699	30,735
Realized gain (loss) on maturity of investments and bond amortization	(2,723)	(9,679)
Gain on sale of investment	25,899	90
Write-down of investment to net realizable value	(90,300)	(24,000)
Capital gains dividends from Mutual Funds	-	242,126
Loss on disposal of equipment and property	(4,324)	-
Other income and expense (net)	(9,303)	(3,066)
Refund of Surplus - Farm Mutual Reinsurance Plan	-	69,087
Investment and Other Income	460,507	787,973
Income (Loss) Before Refund of Premiums and Income Taxes	(238,448)	1,456,711
Refund of premiums (Note 8)	(48,599)	275,000
Income (Loss) Before Income Taxes	(189,849)	1,181,711
Provision for income taxes (Note 9)	(26,310)	190,497
Net Income (Loss)	(163,539)	991,214

See accompanying notes

Cayuga Mutual Insurance Company

Notes to the Financial Statements

For the year ended December 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

- (d) **Premiums Earned and Deferred Policy Acquisition Expenses**
Insurance premiums are included in income on an annual pro-rata basis over the life of the policies. Acquisition expenses related to unearned premiums, which expenses comprise commissions, premium taxes, association fees and certain identified business development costs, are deferred and amortized to income over the periods in which the premiums are earned. The method followed in determining the deferred acquisition expenses limits the amount of the deferral to its realizable value by giving consideration to claims and expenses expected to be incurred as the premiums are earned. Premium deficiencies arising as a result of anticipated future claims and expenses exceeding unearned premiums are recognized by writing off any unamortized deferred policy acquisition expenses to the extent required.
- (e) **Unpaid Claims**
The provision for unpaid claims represents an estimate for the full amount of all costs including investigation and the projected final settlement of claims incurred prior to the balance sheet date. These estimates of future loss activity are necessarily subject to uncertainty and are selected from a wide range of possible outcomes. These provisions are adjusted up or down as additional information affecting the estimated amounts becomes known during the course of claims settlement. All changes in estimates are recorded as incurred claims in the current period.
- (f) **Reinsurance Ceded**
Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Unearned premiums on business ceded are recorded as deductions from unearned premiums. Estimates of amounts recoverable from the reinsurer on unpaid claims and adjustment expenses are recorded as an asset.

A contingent liability exists with respect to reinsurance ceded which could become a liability of the company in the event that the reinsurer might be unable to meet its obligations under the reinsurance agreements.
- (g) **Property, Plant and Equipment and Amortization**
Property, plant and equipment are stated at historical cost. Amortization is provided for in the accounts at rates reflecting the estimated useful lives of the assets as follows:
- | | |
|--------------------------------|---|
| Building | annual rate of 2.5% straight line basis |
| Parking lot | annual rate of 10% straight line basis |
| Office furniture and equipment | 20% declining balance method |
| Automotive equipment | 30% declining balance method |
| Computer equipment | straight line basis over a 5 year term |
- (h) **Future Income Taxes**
The company follows the liability method of accounting for income taxes. Under this method, future income tax assets are recognized based on the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax basis, using the enacted income tax rates for the years in which the differences are expected to reverse.

Cayuga Mutual Insurance Company

Notes to the Financial Statements

For the year ended December 31, 2008

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

impaired, the accumulated fair value adjustments recognized in AOCI are transferred to the income statement and, accordingly, a corresponding adjustment (net of income taxes) is made to OCI. A provision for impairment for equity instruments and debt securities classified as AFS is established when there is objective evidence that the investment is impaired and the impairment is other than temporary. A provision for impairment for loans and receivables classified as AFS is established when there is objective evidence that the company will not be able to collect all amounts due according to their original terms. Equity investments that are classified as AFS and do not have a quoted price in an active market are recorded at cost.

The Company has classified all stocks, mutual and pooled funds as AFS.

Held to Maturity (HTM) Financial Assets

HTM financial assets have fixed or determinable payments and management has the positive intention and ability to hold them to maturity. These assets are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method. A provision for impairment of debt securities classified as HTM is established when there is objective evidence of impairment and the impairment is other than temporary. The investment will be written down to its fair value.

The Company has classified all bonds and debentures as HTM.

Held for Trading (HFT) Financial Assets and Liabilities

HFT financial assets and liabilities are carried at fair value on the balance sheet from the settlement date and changes in fair values are recorded in net income. HFT financial assets and liabilities are purchased or incurred with the intention of generating profits in the near terms (classified as HFT) or are designated as such by the company.

The Company has classified cash as HFT.

Loans and Receivables

Financial assets classified as loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest rate method.

Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified or designated as HFT. For other financial instruments, transaction costs are expensed on initial recognition.

(c) Fair Value

The fair value of financial instruments, such as accounts receivable, accounts payable and accrued liabilities and customer deposits are determined to approximate their recorded value due to their short term maturity.

The fair value of bonds, debentures, mutual funds and marketable securities is based on quoted market values as at year end.

Cayuga Mutual Insurance Company

Schedule of Expenses

For the year ended December 31

2008

2007

Salaries, Fees and Travelling Expenses

Salaries	269,439	200,381
Directors' fees and benefits	102,179	90,509
Professional fees	82,150	68,387
Travelling expenses	63,519	52,580
Canada pension plan and staff benefits	65,787	82,153
Employment insurance premiums	7,138	5,435
	<u>590,212</u>	<u>499,445</u>

Other Expenses

Advertising	38,640	34,550
Postage and telephone	37,911	39,393
Printing, stationery and office supplies	72,232	70,936
Corporation premium tax	11,574	10,874
Association fees	23,037	19,904
Insurance	18,468	13,653
Other administrative expense	125,115	99,044
Computer expenses	135,945	115,690
Building expenses	81,116	79,485
Amortization	112,300	105,839
Fire prevention expenses (net)	66,040	108,913
	<u>722,378</u>	<u>698,281</u>

See accompanying notes

Cayuga Mutual Insurance Company

Statement of Cash Flows

For the year ended December 31	2008	2007
Cash Flows from Operating Activities		
Net Income (Loss)	(163,539)	991,214
Adjustments to convert income to a cash basis:		
Amortization	114,120	111,835
Future income tax (benefit)	19,733	(50,036)
(Increase) Decrease in reinsurance recoverable on unpaid claims	(482,631)	(732,798)
Increase (Decrease) in provision for unpaid claims	960,455	542,887
Increase (Decrease) in unearned premiums	81,787	126,755
Increase (Decrease) in accounts payable, accrued liabilities and other operating payables	(471,118)	458,032
Increase (Decrease) in premiums paid in advance	7,367	6,431
(Increase) Decrease in deferred policy acquisition expenses	10,754	(1,272)
(Increase) Decrease in receivables and other operating assets	(409,842)	184,363
Write-down of investment to net realizable value	90,300	24,000
Loss on disposal of equipment and property	4,324	-
Gain on sale of investment	(25,899)	-
Amortization of bond discounts and premiums	2,723	9,679
	(261,466)	1,671,090
Cash Flows from Investing Activities		
Purchase of property, plant and equipment	(37,918)	(91,657)
Proceeds from disposal of equipment and property	21,643	-
Sale of investments	2,228,095	1,003,000
Purchase of investments	(1,691,094)	(2,494,920)
	520,726	(1,583,577)
Net Increase in Cash and Cash Equivalents	259,260	87,513
Opening Cash and Cash Equivalents	640,930	553,417
Closing Cash and Cash Equivalents	900,190	640,930

See accompanying notes

Cayuga Mutual Insurance Company

Notes to the Financial Statements

For the year ended December 31, 2008

Cayuga Mutual Insurance Company is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property and automobile insurance in Ontario.

1. CHANGES IN ACCOUNTING POLICIES

On January 1, 2008, the company adopted the following new Canadian Institute of Chartered Accountants (CICA) Handbook Sections: Section 1535 "Capital Disclosures", Section 3862 "Financial Instruments - Disclosures" and Section 3863 "Financial Instruments - Presentation".

Section 1535 requires the Company to disclose information about its capital and how it is managed. It requires the disclosure of qualitative and quantitative information about the Company's objectives, policies and processes for managing capital and whether the Company has complied with any externally imposed capital requirements.

Sections 3862 and 3863 replace Section 3861 "Financial Instrument - Disclosure and Presentation". The new sections revise and enhance the disclosure requirements for financial instruments. The objective of the new sections is to provide information about the Company's exposure to risks arising from financial instruments and how these risks are managed.

Section 3862 requires the qualitative and quantitative disclosure of the nature and extent of risks, including credit, liquidity and market risk, arising from financial instruments to which the Company is exposed. There was no effect on the comparative financial statements as a result of adopting the new standards.

Future Accounting Changes

The Accounting Standards Board (AcSB) has issued an exposure draft proposing the harmonization of Canadian Generally Accepted Accounting Principles (GAAP) with International Financial Reporting Standards (IFRS) by January 1, 2011. The Company is actively monitoring the transition to IFRS and is analyzing the impact that IFRS will have on its financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the company conform with those generally accepted in Canada and comply with the requirements for filing with the Financial Services Commission of Ontario.

(a) Measurement

Financial statements are based on representations that may require estimates to be made in anticipation of future transactions and events and include measurement that may, by their nature, be approximations.

(b) Financial Assets

Available for Sale (AFS) Financial Assets

AFS financial assets with quoted prices in an active market are carried at fair value on the balance sheet from the settlement date. Any changes in fair values are recorded, net of income taxes, in other comprehensive income (OCI) until the financial asset is disposed of or has become other than temporarily impaired. When the asset is disposed of, or has become