



**CAYUGA MUTUAL**  
INSURANCE COMPANY

**FINANCIAL STATEMENTS**

FOR THE YEAR ENDED DECEMBER 31, 2019

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## Independent Auditor's Report

To the Policyholders of Cayuga Mutual Insurance Company:

### *Opinion*

We have audited the financial statements of Cayuga Mutual Insurance Company (the "Company"), which comprise the statement of financial position as at December 31, 2019, and the statements of income (loss) and comprehensive income (loss), members' surplus and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Responsibilities of Management for the Financial Statements and Those Charged with Governance of the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material

misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Burlington, Ontario

February 20, 2020

*MNP LLP*

Chartered Professional Accountants

Licensed Public Accountants

<b>As at December 31</b>	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Cash and cash equivalents	3,278,289	4,377,258
Investments (Note 5)	23,356,557	19,741,249
Investment income accrued	78,342	91,636
Due from policyholders	2,941,134	2,630,282
Income taxes recoverable	231,328	550,995
Prepaid expenses and other assets	73,273	73,143
Due from reinsurers (Note 4)	9,623	275
Due from other insurers	159,560	141,993
Reinsurers' share of provisions for unpaid claims (Note 4)	2,424,814	2,028,142
Deferred policy acquisition expenses (Note 4)	589,000	529,000
Deferred income tax (Note 11)	-	90,853
Property and equipment (Note 13)	2,167,840	2,136,639
	35,309,760	32,391,465
<b>Liabilities</b>		
Provision for unpaid claims (Note 4)	9,113,094	8,811,056
Unearned premiums (Note 4)	6,006,731	5,438,535
Accounts payable and accrued liabilities	339,727	292,213
Provision for refund of premium	27,326	27,326
Deferred income tax (Note 11)	118,862	-
F.A.R.M. Funds due to Facility Association	114,872	98,402
Premiums paid in advance	5,011	-
	15,725,623	14,667,532
<b>Members' Surplus</b>		
Unappropriated members' surplus	19,584,137	17,723,933
	35,309,760	32,391,465

Signed on behalf of the Board by:

*Signed by Harold Meadows, Chair*

Director

*Signed by Mark Comley, Vice Chair*

Director

<b>For the year ended December 31</b>	<b>2019</b>	<b>2018</b>
<b>Unappropriated Members' Surplus</b>		
Opening balance	17,723,933	18,005,238
Comprehensive income (loss)	1,860,204	(281,305)
<b>Ending Balance</b>	<b>19,584,137</b>	<b>17,723,933</b>

<b>For the year ended December 31</b>	<b>2019</b>	<b>2018</b>
<b>Underwriting Operations</b>		
Gross premiums written	11,353,745	10,293,864
Less premiums ceded to reinsurers	1,489,843	1,413,099
Net premiums written	9,863,902	8,880,765
Less increase in reserve for unearned premiums	568,196	451,723
<b>Net Premiums Earned</b>	<b>9,295,706</b>	<b>8,429,042</b>
<b>Direct Losses Incurred</b>		
Gross claims and adjustment expenses (Note 10)	6,268,305	6,136,805
Reinsurers' share of claims and adjustment expenses	(677,217)	91,886
	5,591,088	6,228,691
<b>Fees, Commissions and Other Acquisition Expenses</b> (Note 8)	<b>1,070,774</b>	<b>990,592</b>
<b>Other Operating and Administrative Expenses</b> (Note 9)	<b>2,200,166</b>	<b>1,961,626</b>
<b>Total Expenses</b>	<b>8,862,028</b>	<b>9,180,909</b>
<b>Underwriting Income (Loss)</b>	<b>433,678</b>	<b>(751,867)</b>
<b>Net Investment Income and Other</b> (Note 6)	<b>2,116,904</b>	<b>303,972</b>
<b>Income (Loss) Before Income Taxes</b>	<b>2,550,582</b>	<b>(447,895)</b>
Provision (recovery) for income taxes (Note 11)	690,378	(166,590)
<b>Total Comprehensive Income (Loss) for the Year</b>	<b>1,860,204</b>	<b>(281,305)</b>

<b>For the year ended December 31</b>	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities</b>		
Net Income (Loss)	1,860,204	(281,305)
Adjustments for:		
Depreciation	134,474	119,630
Provision (recovery) for income taxes	690,378	(166,590)
Income taxes paid	(160,996)	(559,364)
(Gain) loss on disposal of property and equipment	(2,896)	1,520
Unrealized (gains) losses on investments	(1,451,784)	219,210
Changes in non-cash operating assets and liabilities		
Reinsurers' share of provisions for unpaid claims	(396,672)	943,668
Provision for unpaid claims	302,038	(759,326)
Unearned premiums	568,196	451,723
Accounts payable and accrued liabilities	63,984	27,271
Premiums paid in advance	5,011	(2,900)
Deferred policy acquisition expense	(60,000)	(54,000)
Receivables and other operating assets	(337,897)	(443,558)
	1,214,040	(504,021)
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(196,399)	(76,717)
Proceeds on disposal of property and equipment	33,620	5,000
Proceeds on sale of investments	28,620,657	14,878,627
Purchase of investments	(30,528,769)	(13,815,432)
Recognized (gains) losses on investments	(255,412)	1,553
Investment income accrued	13,294	3,721
	(2,313,009)	996,752
<b>(Decrease) Increase in Cash and Cash Equivalents</b>	(1,098,969)	492,731
<b>Opening Cash and Cash Equivalents</b>	4,377,258	3,884,527
<b>Closing Cash and Cash Equivalents</b>	3,278,289	4,377,258

## **1. Corporate Information**

Cayuga Mutual Insurance Company (the Company) is incorporated under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, liability, automobile and farmers' accident insurance in Ontario. The Company's head office is in Cayuga, Ontario.

The Company is subject to rate regulation on the automobile business that it writes. Before automobile insurance rates can be changed, a rate filing is prepared as a combined filing for most Ontario Farm Mutuals. The rate filing must include actuarial justification for rate increases or decreases. All rate filings are approved or denied by the Financial Services Commission of Ontario. Rate regulation may affect the automobile revenues that are earned by the Company. The actual impact of rate regulation would depend on the competitive environment at the time.

These financial statements have been authorized for issue by the Board of Directors on February 20, 2020.

## **2. Basis of Presentation**

### **(a) Statement of Compliance**

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (the IASB).

### **(b) Basis of Measurement**

The financial statements have been prepared under the historical cost basis, as modified by the financial assets designated as fair value through profit or loss (FVTPL).

The Company presents its statement of financial position on a non-classified basis in order of liquidity, with a distinction based on expectations regarding recovery or settlement within twelve months after the balance sheet date (current) and more than twelve months after the balance sheet date (non-current), presented in the notes.

These financial statements are presented in Canadian dollars, which is also the Company's functional currency.

### **(c) Significant Accounting Judgments, Estimates and Assumptions**

The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements.

Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

## **2. Basis of Presentation (continued)**

### **(c) Significant Accounting Judgments, Estimates and Assumptions (continued)**

The areas involving critical judgments and estimates in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are:

- The calculation of unpaid claims, including the determination of the initial claim liability, the estimate of time until ultimate settlement and the performance of a liability adequacy test (Note 4); and
- The determination of the recoverability of deferred policy acquisition expenses (Note 4).
- The classification of financial assets at FVTPL, which includes assessing the business model within which the assets are held and whether the contractual terms of the assets are solely payments of principal and interest on the principal amount outstanding (Note 5).
- The Company applies the simplified approach as permitted by IFRS 9 for the expected credit loss (ECL) associated with financial assets. The simplified approach to the recognition of expected losses does not require the Company to track the changes in credit risk; rather, the Company recognizes a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.
- Management exercises judgement in estimating the provision for income taxes. Various tax laws are potentially subject to different interpretations by the Company and the relevant tax authority. In the event the Company's interpretations differ from those of tax authorities or the timing of realization is not as expected, the provision for income taxes may increase or decrease in future periods to reflect actual experience.
- Significant management judgement is also required to determine the deferred tax balances. Management is required to determine the amount of deferred tax assets and liabilities that can be recognized, based on their best estimate of the likely timing that the temporary difference will be realized, and of the likelihood that taxable profits will exist in the future.

## **3. Adoption of New Accounting Standards**

Accounting standards, interpretations and amendments effective for accounting years beginning on or after January 1, 2019 did not materially affect the Company's financial statements.

### **IFRS 16 Leases (IFRS 16)**

On January 1, 2019, the Company adopted IFRS 16 Leases (IFRS 16). IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting in IAS 17 - Leases ("IAS 17"), with the distinction between operating leases and finance leases being retained.

**3. Adoption of New Accounting Standards (continued)****IFRS 16 Leases (IFRS 16) (continued)****Recognition and Measurement**

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all the risks and rewards of ownership. Under IFRS 16, the Company recognizes right-of-use assets and lease liabilities for most leases. However, the Company has elected not to recognize right-of-use assets and lease liabilities for a lease of low value assets based on the value of the underlying asset when new or for short-term leases with a lease term of 12 months or less.

The adoption of IFRS 16 did not have a material impact on the Company's financial statements.

**IFRIC Interpretation 23 Uncertainty over Income Tax Treatments (IFRIC 23)**

IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation requires:

- An entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution;
- An entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and
- If it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The adoption of IFRIC 23 did not have a material impact on the Company's financial statements.

#### 4. Insurance Contracts

In accordance with IFRS 4, Insurance Contracts, the Company has continued to apply the accounting policies it applied in accordance with pre-changeover Canadian generally accepted accounting principles.

Balances arising from insurance contracts primarily include unearned premiums, provisions for unpaid claims and adjustment expenses, the Reinsurer's share of provisions for unearned premiums and unpaid claims and adjustment expenses and deferred policy acquisition expenses.

##### (a) Premiums and Unearned Premiums

Premiums written comprise the premiums on contracts incepting in the financial year. Premiums written are stated gross of commissions payable to agents and exclusive of taxes levied on premiums.

The Company recognizes premium income evenly over the term of the insurance policy using the pro rata method. The portion of the premium related to the unexpired portion of the policy at the end of the fiscal year is reflected in unearned premiums (UEP). Changes in unearned premiums recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on net premiums earned for the two years follow:

<b>Unearned premiums (UEP)</b>	<b>2019</b>	<b>2018</b>
<b>Balance, beginning of the year</b>	5,438,535	4,986,812
Premiums written	11,353,745	10,293,864
Premiums earned during the year	(10,785,549)	(9,842,141)
<b>Balance, end of the year</b>	<b>6,006,731</b>	<b>5,438,535</b>

Pricing of property and liability policies are based on assumptions regarding trends and experience, to correctly match policy revenue with exposed risk. Automobile premiums are subject to approval by the Financial Services Commission of Ontario and therefore may result in a delay in adjusting the pricing to exposed risk.

The Company is exposed to a pricing risk to the extent that unearned premiums are insufficient to meet the related future policy costs. Evaluation is performed regularly to estimate future claims costs, related expenses, and expected profit in relation to unearned premiums. There was no premium deficiency at December 31, 2019 and 2018.

Amounts due from policyholders are measured at amortized cost less any impairment losses. These amounts are short-term in nature consisting of many policyholders and are not subject to material credit risk. Regular review of amounts outstanding is performed to ensure credit worthiness.

**4. Insurance Contracts (continued)**
**(b) Deferred Policy Acquisition Expenses**

Acquisition costs are comprised of agents' commissions, premium taxes and other incremental costs of acquiring and renewing policies. These costs are deferred and amortized over the terms of the related policies to the extent that they are recoverable from unearned premiums, after considering the related anticipated claims and expenses. Changes in deferred policy acquisition expenses recorded in statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on fees, commissions and other acquisition expenses for the two years follow:

<b>Deferred policy acquisition expenses</b>	<b>2019</b>	<b>2018</b>
<b>Balance, beginning of the year</b>	529,000	475,000
Acquisition costs incurred	1,131,462	1,010,754
Expensed during the year	(1,071,462)	(956,754)
<b>Balance, end of the year</b>	<b>589,000</b>	<b>529,000</b>
<b>Expected settlement</b>		
Within one year	589,000	529,000
More than one year	-	-
	<b>589,000</b>	<b>529,000</b>

Individual loss estimates are provided on each claim reported. In addition, provisions are made for adjustment expenses, claims development, changes in reported claims and for claims incurred but not reported, based on experience and business in force. The estimates are regularly reviewed and updated, and any resulting adjustments are included in current income.

Claim liabilities are carried on an undiscounted basis.

#### 4. Insurance Contracts (continued)

##### (c) Unpaid Claims and Adjustment Expenses

A summary of the Company's outstanding gross unpaid claims liabilities, related reinsurer's share of unpaid claims and the net insurance liabilities follows:

	December 31, 2019			December 31, 2018		
	Gross	Re- insurance	Net	Gross	Re- insurance	Net
Outstanding claims provision						
Long settlement term	1,344,307	246,648	1,097,659	1,518,207	131,870	1,386,337
Short settlement term	4,586,722	432,166	4,154,556	4,123,296	150,272	3,973,024
Facility Association and other residual pools	274,065	-	274,065	261,553	-	261,553
	6,205,094	678,814	5,526,280	5,903,056	282,142	5,620,914
Provision for claims incurred but not reported	2,908,000	1,746,000	1,162,000	2,908,000	1,746,000	1,162,000
	9,113,094	2,424,814	6,688,280	8,811,056	2,028,142	6,782,914

The ultimate cost of long settlement general liability claims is difficult to predict for several reasons. Claims may not be reported until many years after a policy expires. Changes in the legal environment can create further complications. Court decisions and federal and provincial legislation may dramatically increase the liability between the time a policy is written, and associated claims are ultimately resolved. For example, liability for exposure to toxic substances and environmental impairment, which did not appear likely or even exist when the policies were written, has been imposed by legislators and judicial interpretation. Tort liability has been expanded by some jurisdictions to cover defective workmanship. Provisions for such difficult-to-estimate liabilities are established by examining the facts of tendered claims and adjusted in the aggregate for ultimate loss expectations based upon historical experience patterns and current socioeconomic trends.

The Company must participate in industry automobile residual pools of business and recognizes a share of this business based on its automobile market share. The Company records its share of the assets, liabilities, revenue and expenses provided by the actuaries of the pools.

Changes in claim liabilities recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on claims and adjustment expenses for the two years follow:

**4. Insurance Contracts (continued)**
**(c) Unpaid Claims and Adjustment Expenses (continued)**

	2019	2018
Unpaid claim liabilities - beginning of year - net of reinsurance	6,782,914	6,598,572
Decrease in estimated losses and expenses, for losses occurring in prior years	(790,839)	(291,993)
Provision for losses and expenses on claims occurring in the current year	5,682,654	5,852,842
Payment on claims:		
Current year	(2,952,631)	(3,513,782)
Prior years	(2,033,818)	(1,862,725)
Unpaid claim liabilities - end of year - net	6,688,280	6,782,914
Reinsurer's share and subrogation recoverable	2,424,814	2,028,142
Balance, end of the year	9,113,094	8,811,056

**Claim development**

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The Company writes insurance primarily over a twelve-month duration. The most significant risks arise through high severity, low frequency events such as natural disasters or catastrophes. A concentration of risk may arise from insurance contracts issued in a specific geographic location since all insurance contracts are written in Ontario.

The above risk exposure is mitigated by diversification across a large portfolio of insurance. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements.

The estimation of claim development involves assessing the future behaviour of claims, taking into consideration the consistency of the Company's claim handling procedures, the amount of information available, characteristics of the line of business from which the claim arises and claims reporting patterns. In general, the longer the term required for the settlement of a group of claims the more variable the estimates. Short settlement term claims are those which are expected to be substantially paid within a year of being reported.

The tables below show how the Company's estimate of cumulative incurred claim cost for each accident year has changed at successive year ends and reconcile the cumulative claims to the amount appearing in the statement of financial position. An accident-year basis is the most appropriate for the business written by the Company.

4. Insurance Contracts (continued)

(c) Unpaid Claims and Adjustment Expenses (continued)

Gross claims	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Gross estimate of cumulative claims cost											
At the end year of claim	3,881,706	4,655,304	3,107,728	2,288,037	3,242,095	5,164,971	4,302,119	5,655,908	5,914,033	5,937,426	
One year later	3,217,534	4,365,617	2,709,257	2,342,650	3,557,239	4,262,827	4,110,404	5,483,918	5,441,128		
Two years later	2,811,686	4,260,809	2,359,264	2,379,817	3,784,434	3,860,173	4,080,671	5,478,201			
Three years later	3,796,471	4,582,198	2,300,603	2,473,178	4,410,717	3,740,272	4,364,722				
Four years later	3,774,179	4,340,685	2,303,577	2,365,056	4,496,383	3,760,118					
Five years later	3,750,574	4,708,831	2,243,497	2,380,696	4,459,113						
Six years later	3,753,150	4,646,087	2,216,829	2,288,215							
Seven years later	3,728,294	4,496,984	2,206,427								
Eight years later	3,728,294	4,496,984									
Nine years later	3,733,294										
Current estimate of cumulative claims costs	3,733,294	4,496,984	2,206,427	2,288,215	4,459,113	3,760,118	4,364,722	5,478,201	5,441,128	5,937,426	42,165,628
Cumulative payments	3,733,294	4,496,984	2,068,223	2,138,801	4,114,606	3,544,438	3,343,303	4,826,809	4,671,961	3,022,115	35,960,534
Outstanding claims	-	-	138,204	149,414	344,507	215,680	1,021,419	651,392	769,167	2,915,311	6,205,094
Outstanding claims 2009 and prior											-
Provision for claims incurred but not reported											2,908,000
<b>Total gross outstanding claims</b>											<b>9,113,094</b>

4. Insurance Contracts (continued)

(c) Unpaid Claims and Adjustment Expenses (continued)

Net of reinsurance	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Net estimate of cumulative claims cost											
At the end year of claim	3,109,352	3,895,258	2,831,563	2,288,037	3,037,078	4,484,971	4,302,119	5,570,244	5,852,842	5,682,654	
One year later	2,576,505	3,632,707	2,433,092	2,333,650	3,369,043	4,262,827	4,092,833	5,447,499	5,185,242		
Two years later	2,282,518	3,508,143	2,262,663	2,379,817	3,592,952	3,838,279	4,080,671	5,413,201			
Three years later	2,308,973	3,572,376	2,193,790	2,473,178	3,495,931	3,718,378	4,118,074				
Four years later	2,303,993	3,571,623	2,192,273	2,365,056	3,502,521	3,737,541					
Five years later	2,319,108	3,665,588	2,132,193	2,380,696	3,465,251						
Six years later	2,309,498	3,611,945	2,105,526	2,288,215							
Seven years later	2,291,687	3,584,807	2,095,123								
Eight years later	2,291,687	3,584,807									
Nine years later	2,292,187										
Current estimate of cumulative claims costs	2,292,187	3,584,807	2,095,123	2,288,215	3,465,251	3,737,541	4,118,074	5,413,201	5,185,242	5,682,654	37,862,295
Cumulative payments	2,292,187	3,584,807	2,081,303	2,138,801	3,120,744	3,522,544	3,343,303	4,826,809	4,472,886	2,952,631	32,336,015
Outstanding claims	-	-	13,820	149,414	344,507	214,997	774,771	586,392	712,356	2,730,023	5,526,280
Outstanding claims 2009 and prior											-
Provision for claims incurred but not reported											1,162,000
<b>Total net outstanding claims</b>											<b>6,688,280</b>

#### 4. Insurance Contracts (continued)

##### (c) Unpaid Claims and Adjustment Expenses (continued)

The risks associated with insurance contracts are complex and subject to several variables which complicate quantitative sensitivity analysis. The Company uses various techniques based on past claims development experience to quantify these sensitivities. This includes indicators such as average claim cost, amount of claims frequency, expected loss ratios and claims development.

Results of sensitivity testing based on expected loss ratios are as follows, shown gross and net of reinsurance and the impact on pre-tax income:

	Property		Auto		Liability	
	2019	2018	2019	2018	2019	2018
5% increase in loss ratios						
Gross	242,054	218,287	286,513	258,890	39,121	37,516
Net	201,585	187,808	230,576	203,875	32,625	29,769
5% decrease in loss ratios						
Gross	(242,054)	(218,287)	(286,513)	(258,890)	(39,121)	(37,516)
Net	(201,585)	(187,808)	(230,576)	(203,875)	(32,625)	(29,769)

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure the risk.

##### (d) Liability Adequacy Test

At each reporting date the Company performs a liability adequacy test on its insurance liabilities less deferred policy acquisition expenses to ensure the carrying value is adequate, using current estimates of future cash flows, considering the relevant investment return. If that assessment shows that the carrying amount of the liabilities is inadequate, any deficiency is recognized as an expense in profit and loss initially by writing down the deferred policy acquisition expense and subsequently by recognizing additional claims liability for claims provisions. As at December 31, 2019 the carrying amount of insurance liabilities less deferred policy acquisition expenses was adequate.

##### (e) Reinsurer's Share of Provisions for Unpaid Claims and Adjustment Expenses

The Company enters reinsurance contracts in the normal course of business in order to limit potential losses arising from certain exposures. Retention limits for the excess-of-loss reinsurance are set by product line. Reinsurance premiums are accounted for in the same period as the related premiums for the direct insurance business being reinsured. Reinsurance liabilities, comprised of premiums payable for the purchase of reinsurance contracts, are included in accounts payable and accrued liabilities and are recognized as an expense on the same basis as revenue of the underlying policies being reinsured.

**4. Insurance Contracts (continued)**
**(e) Reinsurer's Share of Provisions for Unpaid Claims and Adjustment Expenses (continued)**

The Company follows a policy of underwriting and reinsuring contracts of insurance which, in the main, limit the liability of the Company to an amount on any one claim of \$350,000 (2018 - \$350,000) in the event of a property claim, an amount of \$400,000 (2018 - \$350,000) in the event of an automobile claim and \$350,000 (2018 - \$350,000) in the event of a liability claim. For claims occurring prior to 2013 and amounts over the respective limits, there is a 10% retention to a specified maximum. The Company also obtained reinsurance which limits the Company's liability in the event of a series of claims arising out of a single occurrence. In addition, the Company has obtained stop loss reinsurance which limits the liability of all claims in a specific year to 80% (2018 - 80%) of gross net earned premiums for property and 100% (2018 - 100%) of gross net earned premiums for automobile and liability.

Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision and are in accordance with the reinsurance contracts. Although the Company has reinsurance arrangements, it is not relieved of its direct obligations to its policyholders and thus a credit exposure exists with respect to ceded insurance, to the extent that the reinsurer is unable to meet its obligations assumed under such reinsurance agreements.

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Company's method for establishing the related liability. Changes in due from reinsurer recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 follow:

<b>Reinsurer's share of provision for unpaid claims</b>	<b>2019</b>	<b>2018</b>
<b>Balance, beginning of the year</b>	2,028,142	2,971,810
New claims reserve	254,772	61,191
Change in prior year reserves	422,446	(160,211)
Submitted to reinsurer	(280,546)	(844,648)
<b>Balance, end of the year</b>	<b>2,424,814</b>	<b>2,028,142</b>
<b>Expected settlement</b>		
Within one year	432,166	150,272
More than one year	1,992,648	1,877,870
	<b>2,424,814</b>	<b>2,028,142</b>

Reinsurance is placed with Farm Mutual Re., a Canadian registered reinsurer. Management monitors the creditworthiness of Farm Mutual Re. by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract. At year-end, the Company reviewed the amounts owing from its reinsurer and determined that no allowance is necessary.

**4. Insurance Contracts (continued)**
**(e) Reinsurer's Share of Provisions for Unpaid Claims and Adjustment Expenses (continued)**

Changes in reinsurer's share of provision for unpaid claims recorded in the statement of financial position for the years-ended December 31, 2019 and 2018 and their impact on net premiums earned for the two years follow:

<b>Due from reinsurers</b>	<b>2019</b>	<b>2018</b>
<b>Balance, beginning of the year</b>	275	-
Submitted to reinsurer	280,546	844,648
Received from reinsurer	(271,198)	(844,373)
<b>Balance, end of the year</b>	<b>9,623</b>	<b>275</b>
<b>Expected settlement</b>		
Within one year	9,623	275
More than one year	-	-
	<b>9,623</b>	<b>275</b>

**(f) Refund of Premium**

At the discretion of the Board of Directors, the Company may declare a refund to its policyholders based on the premiums paid. This refund is recognized as a reduction of revenue in the period for which it is declared. There was no refund of premium declared for the years ended December 31, 2019 and 2018.

**5. Investments**
**(a) Recognition and Initial Measurement**

The Company recognizes debt instruments on the date on which they are originated. Equity instruments are recognized on the settlement date, which is the date that the asset is received by the Company. The instruments are initially measured at fair value.

**(b) Classification and Subsequent Measurement**

The Company classifies its investments as FVTPL, which includes both debt and equity instruments and evaluates their performance on a fair value basis in accordance with a documented investment strategy and the instruments are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

The debt and equity instruments are subsequently measured at fair value where the net gains and losses, including any interest or dividend income and foreign exchange gains and losses, are recognized in profit or loss.

**(c) Derecognition**

The Company derecognizes investments when the contractual rights to the cash flows from the investment expires or the Company transfers the investment. On derecognition, the difference between the carrying amount at the date of derecognition and the consideration received is recognized in profit or loss.

**5. Investments (continued)**
**(d) Risks**

The following table provides fair value information of investments by type of security and issuer.

	2019	2018
GIC's	100,000	125,000
Bonds issued by		
Federal	10,826,618	-
Provincial	-	5,424,747
Municipal	-	858,092
Corporate	4,900,889	6,768,703
	15,727,507	13,051,542
Equity investments		
Canadian	2,877,049	2,053,071
US	4,629,760	4,489,391
	7,506,809	6,542,462
Other investments		
Fire mutual guarantee fund	22,241	22,245
<b>Total investments</b>	<b>23,356,557</b>	<b>19,741,249</b>

The Company is exposed to credit risk relating to its debt holdings in its investment portfolio.

The Company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, aggregate issuer limits, corporate sector limits and general guidelines for geographic exposure. The Company's policy requires that funds be invested in bonds and debentures of Federal, Provincial or Municipal Government and corporations rated A or better. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

The maximum exposure to investment credit risk is the fair value of investments.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure credit risk.

Liquidity risk is the risk that the Company will not be able to meet all cash outflow obligations as they come due. The Company mitigates this risk by monitoring cash activities and expected outflows. The Company's current liabilities arise as claims are made. The Company does not have material liabilities that can be called unexpectedly at the demand of a lender or client. The Company has no material commitments for capital expenditures and there is no need for such expenditures in the normal course of business. Claim payments are funded by current operating cash flow including investment income.

**5. Investments (continued)**
**(d) Risks (continued)**

The Company holds a portion of its investment portfolio in cash and short-term investments.

Maturity profile of bonds held is as follows:

<b>Maturity of GIC's &amp; Bonds:</b>	<b>Within 1 year</b>	<b>2 to 5 years</b>	<b>6 to 10 years</b>	<b>Over 10 years</b>	<b>Total</b>
December 31, 2019	11,419,685	-	4,407,822	-	15,827,507
Percent of Total	72%	0%	28%	0%	
December 31, 2018	125,000	907,701	10,791,509	1,352,332	13,176,542
Percent of Total	1%	7%	82%	10%	

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure liquidity risk.

Market factors that will impact the fair value of investments include three types of risk: currency risk, interest rate risk and equity risk.

The Company's investment policy operates within the guidelines of the Insurance Act. An investment policy is in place and its application is monitored by the Board of Directors.

The Company is exposed to interest rate risk through its interest-bearing investments (GICs and Bonds).

Historical data and current information are used to profile the ultimate claims settlement pattern by class of insurance, which is then used in a broad sense to develop an investment policy and strategy. However, because a significant portion of the Company's assets relate to its capital rather than liabilities, the value of its interest rate-based assets exceeds its interest rate-based liabilities. As a result, generally, the Company's investment income will move with interest rates over the medium to long-term, with short-term interest rate fluctuations creating unrealized gains or losses in investment income.

The Company is exposed to currency risk through its portfolio of Canadian and US stocks. At December 31, 2019, a 1% movement in the foreign exchange rate, with all other variables held constant, could have an estimated effect on the fair values of the Company's foreign equities and cash of \$46,926 (2018 - \$45,748). This change would be recognized in profit or loss through investment income.

The Company's equity portfolio includes Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index. At December 31, 2019, a 10% movement in the stock market, with all other variables held constant, could impact the fair value of common equities by \$752,905 (2018 - \$706,987). This change would be recognized in profit or loss through investment income.

At December 31, 2019 a 1% move in interest rates, with all other variables held constant, could impact the fair value of bonds by \$250,227 (2018 - \$591,885). This change would be recognized in profit or loss through investment income.

**5. Investments (continued)**
**(d) Risks (continued)**

The Company's investment policy limits investment in preferred and common shares to a maximum of 25% of total assets.

Equities are monitored by the board of directors and holdings are adjusted following each quarter to ensure the investments portfolio remains in compliance with the investment policy.

There have been no significant changes from the previous year in the exposure to risk or policies, procedures and methods used to measure market risk.

**(e) Fair Value Measurement**

The following table provides an analysis of investments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<b>December 31, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Cash and cash equivalents	3,278,289	-	3,278,289
Bonds	-	15,727,507	15,727,507
Equities	7,506,809	-	7,506,809
GIC's	100,000	-	100,000
Guarantee Fund	-	22,241	22,241
<b>Total</b>	<b>10,885,098</b>	<b>15,749,748</b>	<b>26,634,846</b>

<b>December 31, 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Total</b>
Cash and cash equivalents	4,377,258	-	4,377,258
Bonds	-	13,051,542	13,051,542
Equities	6,542,462	-	6,542,462
GIC's	125,000	-	125,000
Guarantee Fund	-	22,245	22,245
<b>Total</b>	<b>11,044,720</b>	<b>13,073,787</b>	<b>24,118,507</b>

There were no transfers between any levels of the fair value hierarchy for the years ended December 31, 2019 and 2018.

**6. Net Investment Income and Other**

	<b>2019</b>	<b>2018</b>
Interest income	345,385	413,476
Dividend income	121,679	187,553
Change in fair value of investments	1,708,880	(234,742)
Gain (loss) on disposal of property and equipment	2,896	(1,520)
Other income and expenses (net)	(61,936)	(60,795)
	2,116,904	303,972

The effective investment yield for 2019 is 8.67% (2018 – 1.24%)

**7. Capital Management**

For the purpose of capital management, the Company has defined capital as members' surplus.

The Company's objectives with respect to capital management are to maintain a capital base that is structured to exceed regulatory requirements and to best utilize capital allocations.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators require property and casualty companies to comply with capital adequacy requirements. This test compares a Company's capital against the risk profile of the organization. The risk-based capital adequacy framework assesses the risk of assets, policy liabilities and other exposures by applying various factors that are dependent on the risks associated with the Company's assets. Additionally, an interest rate risk margin is included in the MCT by assessing the sensitivity of the Company's interest-sensitive assets and liabilities to changes in interest rates. The regulator indicates that the Company should produce a minimum MCT of 150%. As at December 31, 2019 the Company has exceeded this minimum. The regulator has the authority to request more extensive reporting and can place restrictions on the Company's operations if the Company falls below this requirement and deemed necessary.

**8. Fees, Commissions and Other Acquisition Expenses**

	<b>2019</b>	<b>2018</b>
Commissions and other	1,043,657	968,012
Corporation premium tax	27,117	22,580
	1,070,774	990,592

**9. Other Operating and Administrative Expenses**

	<b>2019</b>	<b>2018</b>
Advertising	44,048	103,493
Computer expenses	402,778	275,624
Bureaus and associations	168,375	143,779
Loss prevention expenses (net)	125,891	96,431
Postage and office expenses	87,540	68,197
Professional fees	38,753	45,401
Salaries, benefits and directors fees	1,006,138	916,028
Travel expenses	90,663	71,095
Occupancy expenses	179,188	180,490
Other	56,792	61,088
	2,200,166	1,961,626

**10. Salaries, Benefits and Director Fees**

	<b>2019</b>	<b>2018</b>
Underwriter salaries and benefits	270,990	274,843
Sales salaries and commissions	1,043,657	968,012
Other salaries, benefits and director fees	1,277,100	1,136,264
	2,591,747	2,379,119

Included in claims expenses were salary costs of \$446,915 (2018 - \$405,553).

**11. Incomes Taxes**

Income tax expense is comprised of current and deferred tax. Current and deferred tax are recognized in net income.

Reasons for the difference between tax expense for the year and the expected income taxes based on the statutory tax rate of 26.50% (2018 – 26.50%) are as follows:

	<b>2019</b>	<b>2018</b>
Income (loss) for the year before taxes	2,550,582	(447,895)
Expected taxes based on statutory rate of 26.50%	675,904	(118,692)
Non-taxable dividends	(9,961)	(28,151)
Other non deductible expenses	2,510	2,944
Over provision in prior years	21,925	(22,595)
Other	-	(96)
Total Current and Deferred Tax Expense	690,378	(166,590)

	<b>2019</b>	<b>2018</b>
Current income tax expense	480,663	(145,931)
Deferred income tax expense	209,715	(20,659)
Total Current and Deferred Tax Expense	690,378	(166,590)

**12. Fire Mutuals Guarantee Fund and Financial Guarantee Contracts**

The Company is a member of the Fire Mutuals Guarantee Fund ("the Fund"). The Fund was established to provide payment of outstanding policyholders' claims if a member company becomes bankrupt. As a result, the Company may be required to contribute assets to their proportionate share in meeting this objective.

This exposure represents a financial guarantee contract. The Company accounts for financial guarantee contracts in accordance with IFRS 4, Insurance Contracts.

**13. Property and Equipment**

Property and equipment are initially recorded at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment losses, except for land which is not depreciated. Depreciation is recognized in net income and is provided over the estimated useful lives of the assets, using the straight-line method (years) or declining-balance method (percentage).

			<b>2019</b>	
	<b>Depreciation rate</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Land		819,725	-	819,725
Building	40 years	1,648,361	641,420	1,006,941
Parking lot	15 years	44,937	44,937	-
Automotive equipment	30%	167,681	60,136	107,545
Furniture and equipment	20%	483,805	429,083	54,722
Computer equipment	5 years	627,562	448,655	178,907
		3,792,071	1,624,231	2,167,840

			<b>2018</b>	
	<b>Depreciation rate</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Land		819,725	-	819,725
Building	40 years	1,648,361	599,754	1,048,607
Parking lot	15 years	44,937	44,937	-
Automotive equipment	30%	134,606	52,764	81,842
Furniture and equipment	20%	481,116	415,738	65,378
Computer equipment	5 years	520,831	399,744	121,087
		3,649,576	1,512,937	2,136,639

#### **14. Pension Plan**

The Company participates in a multi-employer defined benefit pension plan (The Retirement Annuity Plan for Employees of the Ontario Mutual Insurance Association and Member Companies, "the plan"), however, sufficient information is not available to use defined benefit accounting. Therefore, the Company accounts for the plan as if it were a defined contribution plan, recognizing contributions as an expense in the year to which they relate.

Each member company has signed an Ontario Mutual Insurance Association Pension Plan Agreement. Eligible employees participate in the defined benefit plan. The defined benefit plan specifies the amount of the retirement benefit to be received by the employee based on the number of years the employee has contributed and his/her final average earnings. The Company is one of several employers that participates in the plan and the financial information provided to the Company based on the contractual agreements is insufficient to reliably measure the Company's proportionate share in the plan assets and liabilities on defined benefit accounting requirements.

The Company contributes 14.55% (2018 – 14.55%) of employee earnings and funds the excess defined benefit based on the Company's percentage of pensionable earnings as calculated by the Pension Plan actuaries. The Pension Plan agreement states that the Company is responsible for its share of any deficit as a result of any actuarial valuation or cost certificate. The minimum funding requirement is the solvency valuation amount determined by the Pension Plan actuary on the valuation dates prescribed by the Pensions Benefit Act. In the event of a wind-up, voluntary withdrawal or bankruptcy, either by the Company or the group, the Company is responsible for its portion of all expenses and deficit related to such.

The amount contributed to the plan for 2019 was \$64,016 (2018 - \$68,377). The contributions were made for current service and these have been recognized in comprehensive income. The Company had a 1.12% share of the total contributions to the Plan in 2019.

An actuarial valuation of the Pension Plan as at January 1, 2018 showed a going-concern surplus position. The next actuarial valuation to be filed under the Pension Benefit Act will be as of December 31, 2019.

Expected contributions to the plan for the next annual reporting period amount to \$65,427, which is based on payments made to the multi-employer plan during the current fiscal year.

The defined benefit plan has been closed to future eligible employees effective July 1, 2013. The Company and all current employees who are accruing benefits under the defined benefit plan continue to contribute to the defined benefit plan according to the existing terms of the agreement.

Future eligible employees are enrolled in the defined contribution plan. The Company's obligation with respect to this plan is to make specified monthly contributions based on a percentage of employee's eligible earnings. The amount contributed to the plan for 2019 was \$79,669 (2018 - \$72,167) and this has been recognized in comprehensive income.

## 15. Related Party Transactions

The Company entered the following transactions with key management personnel, which are defined by IAS 24, Related Party Disclosures, as those persons having authority and responsibility for planning, directing and controlling the activities of the Company, including directors and management:

	2019	2018
Compensation		
Management salaries and director's fees	251,338	245,823
Total pension and other post-employment benefits	25,607	24,973
	276,945	270,796
Premiums	74,073	74,765
Claims paid	7,816	13,310

Amounts owing to and from key management personnel at December 31 are \$nil (2018 - \$nil) and \$4,761 (2018 - \$3,061) respectively. The amounts are included in due from policyholders and accounts payable and accrued liabilities on the statement of financial position.

## 16. Standards, Amendments and Interpretations Not Yet Effective

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting years beginning after January 1, 2020 or later.

The Company has not yet determined the extent of the impact of the following new standards, interpretations and amendments, which have not been applied in these financial statements:

In May 2017, the IASB issued IFRS 17, Insurance Contracts, which will replace IFRS 4, Insurance Contracts. IFRS 17 sets out the requirements for the recognition, measurement, presentation and disclosures of insurance contracts a company issues and reinsurance contracts it holds. IFRS 17 introduces new measurement models depending on the nature of the insurance contracts. IFRS 17 requires entities to measure insurance contract liabilities on the balance sheet as a total of:

- The fulfilment cash flows – the current estimates of amounts that the company expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
- The contractual service margin – the future profit for providing insurance coverage.

The future profit for providing insurance coverage is recognized in profit or loss over time as the insurance coverage is provided. IFRS 17 also requires the Company to distinguish between groups of contracts expected to be profit making and groups of contracts expenses to be onerous. The Company is required to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and discount rates.

**16. Standards, Amendments and Interpretations Not Yet Effective (continued)**

The Company is currently in the planning phase of this project which includes assessing the financial statement impact of adopting IFRS 17, identifying potential business impacts, developing a detailed project plan, assessing resource requirements, and providing training to staff. The adoption of IFRS 17 is a significant initiative for the Company supported by a formal governance framework, for which resources are being dedicated to ensuring proper implementation.

The new standard is effective for annual periods beginning on or after January 1, 2022. IFRS 17 will affect how the Company accounts for its insurance contracts and how it reports financial performance in the statement of income. The company is currently assessing the impact that IFRS 17 will have on its financial statements.