

Examination Warrant Number 19-00000-27200-R1

**Report of Examination of
Cambria County Mutual Insurance Company
Patton, Pennsylvania**

As of December 31, 2019

For Informational Purposes Only

Cambria County Mutual Insurance Company

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Harrisburg, Pennsylvania
September 23, 2021

Honorable Melissa L. Greiner
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 19-00000-27200-R1, dated July 15, 2019, an examination was made of

Cambria County Mutual Insurance Company, NAIC Code: 27200

a Pennsylvania domiciled, single-state, property and casualty mutual insurance company hereinafter referred to as the “Company.”

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department (“Department”) has performed an examination of the Company, which was last examined as of December 31, 2014. This examination covered the five-year period from January 1, 2015 through December 31, 2019.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners (“NAIC”) *Financial Condition Examiners Handbook* (“Handbook”).

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management’s compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Company’s financial statements.

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This examination report includes significant findings of fact, in accordance with 40 P.S. § 323.5(a), and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Company.

For each year of the examination period, the Company was exempt from filing an audited financial statement prepared by a certified public accountant by meeting the criteria outlined in 31 Pa. Code § 147.13(e).

HISTORY

The Company was incorporated on August 1, 1895, licensed by the Department and commenced business about that same date.

The Company is currently authorized to transact those classes of insurance described in 40 P.S. § 382 (b)(1) Property and Allied Lines, (b)(2) Inland Marine and Physical Damage, (c)(4) Other Liability, and (c)(6) Burglary and Theft.

MANAGEMENT AND CONTROL

SURPLUS REQUIREMENTS

The Company's minimum net worth requirement to conduct the business described above, pursuant to 40 P.S. § 386 is \$150,000 in minimum net worth. The Company has met all governing surplus requirements throughout the examination period.

INSURANCE HOLDING COMPANY SYSTEM

The Company is not part of a holding company system.

BOARD OF DIRECTORS

Management of the Company is vested in its Board of Directors ("Board"), which was comprised of the following members as of December 31, 2019:

Name and Address	Principal Occupation
Patrick W. Dumm Summerhill, Pennsylvania	Retired
Michael D. Gause Patton, Pennsylvania	Insurance Agent Hunter Insurance Agency
William F. Harteis Ebensburg, Pennsylvania	Retired

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Leroy J. Hoover Patton, Pennsylvania	Retired
William C. Itle Loretto, Pennsylvania	Dairy Farmer Vale Wood Farms
Gerald F. Leiden Patton, Pennsylvania	Farmer Leiden Farm
Martin J. Westrick Patton, Pennsylvania	Business Owner Westrick Supply Center
Robert J. Westrick Hastings, Pennsylvania	Retired
William A. Westrick Patton, Pennsylvania	Farmer Self-employed

Directors are elected at the Company's annual meeting and serve staggered three-year terms.

COMMITTEES

As of December 31, 2019, the following committees were appointed by the Board and serving in accordance with the Company's by-laws:

Executive Committee

Leroy J. Hoover
Gerry F. Leiden
Martin J. Westrick
Robert J. Westrick
William A. Westrick

Finance Committee

Leroy J. Hoover
Martin J. Westrick
William A. Westrick

OFFICERS

As of December 31, 2019, the following officers were appointed and serving in accordance with the Company's by-laws:

Name	Title
Robert J. Westrick	President
Gerald F. Leiden	Treasurer and Secretary
William C. Itle	Vice President

CORPORATE RECORDS

MINUTES

A compliance review of corporate minutes revealed the following:

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- The Annual Meetings of the Company's policyholders were held in compliance with its by-laws.
- The policyholders elect directors at such meetings; however, it is not clear which directors are elected to determine compliance with the by-laws.
- Quorums were present at all directors' meetings.
- The Company's officers were not clearly appointed at the Annual Organizational Meeting of the Board of Directors.
- There was no documentation that the Company's investment transactions are approved regularly by the Board or a committee thereof.
- All directors attend Board meetings regularly.
- The Company's Board minutes did not show approval of its reinsurance contracts.
- The Company's Board did not meet the required two times annually as stated in the by-laws during the period under examination.

It is recommended that the Company document its Policyholder, Board, and Board Committee minutes to support compliance with its by-laws or amend its by-laws to reflect its current practices.

ARTICLES OF AGREEMENT

There were no changes to the Company's Articles of Agreement during the examination period.

BY-LAWS

There were no changes to the Company's by-laws during the examination period. It appears that the Company does not maintain an updated version of its by-laws and has not submitted an updated version of its by-laws to the to the Department to notify that changes were made during the prior examination.

It is recommended that the Company produce and maintain a current version of its by-laws in accordance with 40 P.S. § 323.3(a). It is further recommended that the Company submit an updated version of the Company's by-laws to the Department.

SERVICE AND OPERATING AGREEMENTS

The Company is not party to any service or operating agreements.

REINSURANCE

CEDED

The Company's ceded premium for 2019 was \$38,765 which is approximately 62% of its direct written premium. The Company's net amount recoverable for reinsurance for year-end

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2019 was approximately \$135,000 which is 38.4% of its surplus. As of December 31, 2019, the Company had \$0 outstanding recoverables from its reinsurers.

As of December 31, 2019, the Company was party to two reinsurance contracts. Both contracts were with a group of reinsurers each assuming a certain percentage through the Company's reinsurance intermediary, Guy Carpenter & Company, LLC ("Guy Carpenter"). All reinsurers are licensed, qualified, or certified in Pennsylvania.

The listing of participating reinsurers and their percentages is provide below:

<u>Reinsurer</u>	<u>Share%</u>
American Agricultural Insurance Company	18.50%
Aspen Insurance UK Limited	2.30%
Berkley Insurance Company	14.00%
Employers Mutual Casualty Company	15.25%
Farmers Mutual Hail Insurance Company of Iowa	8.75%
Hannover Rück SE	6.50%
Partner Reinsurance Company of the U.S.	3.00%
Renaissance Reinsurance U.S. Inc.	4.00%
Swiss Reinsurance America Corporation	18.50%
The Toa Reinsurance Company of America	9.20%

Facultative Pro Rata

Effective January 1, 2019, the Company entered into a Facultative Pro Rata contract with a term of 1 year. The Company has a minimum retention of \$4,500, with a maximum cession of \$250,000, and covers all business classified as property.

Aggregate Excess of Loss

Effective January 1, 2019, the Company entered into an Aggregate Excess of Loss contract with a term of 1 year. The contract covers the Ultimate Net Loss over and above an initial Ultimate Net Loss equal to \$4.75 per \$1,000 of Average Net Fire Insurance in Force, subject to a limit of liability to the Reinsurer of \$15.00 per \$1,000 of Average Net Fire Insurance in Force.

The Company's reinsurance intermediary, Guy Carpenter, is licensed by the Department as required by 40 P.S. § 321.2(a). The Company has a properly executed written agreement with Guy carpenter in accordance with 40 P.S. § 321.3.

All reinsurance contracts contain the proper insolvency and arbitration clauses. Additionally, all contracts transfer risk as outlined in SSAP No. 62R.

ASSUMED

The Company did not assume any business during the examination period.

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TERRITORY AND PLAN OF OPERATION

The Company is licensed only in Pennsylvania and writes primarily in Cambria County. The largest net aggregate risk written by the Company is \$40,000. The Company writes three-year policies with multiple payment options.

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Written Premium	Percentage of Total
December 31, 2019				
Fire	\$ 56,796	\$ 35,952	\$ 20,844	87.8%
Allied lines	5,720	2,813	2,907	12.2%
Totals	<u>\$ 62,516</u>	<u>\$ 38,765</u>	<u>\$ 23,751</u>	<u>100.0%</u>

The Company markets its business through five part-time insurance producers; however, the Department only has record of two producer appointments.

It is recommended that the Company comply with 40 P.S. § 310.71(c) by notifying the Department of the appointment and termination of all of its producers.

SIGNIFICANT OPERATING RATIOS AND TRENDS

The underwriting ratios summarized below are shown on an earned/incurred basis, and encompass the five-year period covered by this examination.

	Amount	Percentage
Premiums earned	<u>98,858</u>	<u>100.0 %</u>
Losses incurred	82,888	83.8 %
Loss expenses incurred	10,442	10.6 %
Other underwriting expenses incurred	176,917	179.0 %
Net underwriting gain or (loss)	<u>(171,389)</u>	<u>(173.4)%</u>
Totals	<u>98,858</u>	<u>100.0 %</u>

The Company reported the following net underwriting, investment, and other gains or losses during the period under examination:

	2019	2018	2017	2016	2015
Admitted assets	\$ 351,830	\$ 379,226	\$ 431,221	\$ 438,846	\$ 457,674
Liabilities	\$ 33,455	\$ 30,779	\$ 32,048	\$ 37,359	\$ 25,406
Surplus as regards policyholders	\$ 318,375	\$ 348,447	\$ 399,173	\$ 401,487	\$ 432,268
Gross premium written	\$ 62,516	\$ 53,781	\$ 61,980	\$ 66,053	\$ 63,689
Net premium written	\$ 23,751	\$ 19,070	\$ 21,524	\$ 19,978	\$ 19,420
Underwriting gain/(loss)	\$ (46,898)	\$ (49,356)	\$ (12,586)	\$ (41,301)	\$ (21,248)
Investment gain/(loss)	\$ 9,780	\$ 8,457	\$ 4,883	\$ 6,833	\$ 7,496
Net income	\$ (37,118)	\$ (40,899)	\$ (7,703)	\$ (34,468)	\$ (13,752)

The Company has reported consistent declining results during the examination in both assets and surplus and has reported net underwriting losses in all five years of the examination period.

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PENDING LITIGATION

As of the date of this examination report, Company Management attested that the Company was not involved in any litigation and was not aware of any threatened litigation that could have a material adverse effect on its financial condition.

FINANCIAL STATEMENTS

The financial condition of the Company, as of December 31, 2019, and the results of its operations for the five-year period under examination, are reflected in the following statements*:

Comparative Statement of Assets, Liabilities, Surplus and Other Funds;

Comparative Statement of Income;

Comparative Statement of Capital and Surplus; and

Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Company's filed Annual Statements due to rounding errors.

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**Comparative Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31,**

	2019	2018	2017	2016	2015
Common stocks	\$ 206,735	\$ 210,945	\$ 162,989	\$ 154,664	\$ 147,352
Cash, cash equivalents, and short term investments	143,256	228,752	259,791	275,853	307,129
Subtotals, cash and invested assets	349,991	439,697	422,780	430,517	454,481
Investment income due and accrued	0	266	2,612	1,828	28
Premiums and agents' balances due	1,839	1,177	5,829	2,323	3,165
Amounts recoverable from reinsurers	0	(61,914)	0	4,178	0
Total	\$ 351,830	\$ 379,226	\$ 431,221	\$ 438,846	\$ 457,674
Losses	\$ 0	\$ 0	\$ 0	\$ 750	\$ 0
Other expenses	20,986	19,458	19,702	25,995	14,795
Taxes, licenses and fees	10	(245)	(34)	181	123
Unearned premiums	11,875	9,535	10,762	9,989	9,710
Ceded reinsurance premiums payable (net of ceding commissions)	584	2,031	1,618	444	651
Amounts withheld or retained by company for account of others	0	0	0	0	127
Total liabilities	33,455	30,779	32,048	37,359	25,406
Unassigned funds (surplus)	318,375	348,447	399,173	401,487	432,268
Surplus as regards policyholders	318,375	348,447	399,173	401,487	432,268
Totals	\$ 351,830	\$ 379,226	\$ 431,221	\$ 438,846	\$ 457,674

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Comparative Statement of Income For the Year Ended December 31,

	Underwriting Income		Investment Income		
	2019	2018	2017	2016	2015
Premiums earned	\$ 21,411	\$ 20,297	\$ 20,750	\$ 19,699	\$ 16,701
Deductions:					
Losses incurred	39,750	39,014	0	4,124	0
Loss expenses incurred	1,447	2,669	1,634	2,790	1,902
Other underwriting expenses incurred	27,112	27,970	31,702	54,086	36,047
Total underwriting deductions	68,309	69,653	33,336	61,000	37,949
Net underwriting gain or (loss)	(46,898)	(49,356)	(12,586)	(41,301)	(21,248)
Net investment income earned	10,714	8,457	6,213	6,833	7,496
Net realized capital gains or (losses)	(934)	0	(1,330)	0	0
Net investment gain or (loss)	9,780	8,457	4,883	6,833	7,496
Net income before dividends to policyholders and before federal and foreign income taxes	(37,118)	(40,899)	(7,703)	(34,468)	(13,752)
Net income	\$ (37,118)	\$ (40,899)	\$ (7,703)	\$ (34,468)	\$ (13,752)

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**Comparative Statement of Capital and Surplus
For the Year Ended December 31,**

	2019	2018	2017	2016	2015
Surplus as regards policyholders,					
December 31, previous year	\$ 348,447	\$ 399,173	\$ 401,487	\$ 432,268	\$ 455,199
Net income	(37,118)	(40,899)	(7,703)	(34,468)	(13,752)
Net unrealized capital gains or (losses)	7,046	(9,827)	5,389	3,687	(9,179)
Change in surplus as regards policyholder for the year	(30,072)	(50,726)	(2,314)	(30,781)	(22,931)
Surplus as regards policyholders,					
December 31, current year	\$ 318,375	\$ 348,447	\$ 399,173	\$ 401,487	\$ 432,268

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**Comparative Statement of Cash Flow
For the Year Ended December 31,**

	2019	2018	2017	2016	2015
Cash from Operations					
Premiums collected net of reinsurance	\$ 21,643	\$ 24,135	\$ 19,191	\$ 20,613	\$ 14,509
Net investment income	10,980	10,803	5,429	5,033	12,047
Total income	32,623	34,938	24,620	25,646	26,556
Benefit and loss related payments	103,111	(20,231)	(1,794)	10,342	1,902
Commissions, expenses paid and aggregate write-ins for deductions	25,330	28,425	38,209	42,828	21,407
Total deductions	128,441	8,194	36,415	53,170	23,309
Net cash from operations	(95,818)	26,744	(11,795)	(27,524)	3,247
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Stocks	83,227	0	19,998	952	0
Total investment proceeds	83,227	0	19,998	952	0
Cost of investments acquired (long-term only):					
Stocks	72,905	57,783	24,265	4,577	156,531
Total investments acquired	72,905	57,783	24,265	4,577	156,531
Net cash from investments	10,322	(57,783)	(4,267)	(3,625)	(156,531)
Cash from Financing and Miscellaneous Services					
Other cash provided (applied):					
Other cash provided or (applied)	0	0	0	(127)	(192)
Net cash from financing and miscellaneous sources	0	0	0	(127)	(192)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(85,496)	(31,039)	(16,062)	(31,276)	(153,476)
Cash and short-term investments:					
Beginning of the year	228,752	259,791	275,853	307,129	460,605
End of the year	\$ 143,256	\$ 228,752	\$ 259,791	\$ 275,853	\$ 307,129

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SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

NOTES TO FINANCIAL STATEMENTS

ASSETS

INVESTMENTS

As of December 31, 2019, the Company's invested assets were distributed as follows:

	Amount	Percentage
Common stocks	206,735	59.1 %
Cash	143,256	40.9 %
Totals	<u>349,991</u>	<u>100.0 %</u>

The Company's invested assets were distributed in mutual funds and various certificates of deposit ("CDs"). The Company also maintained savings and checking accounts.

During review of the Company's assets, it was noted that both Company's Certificates of Deposit ("CDs") were reported as cash, cash equivalents, and short term investments on Schedule E, Part 1. At least one of the CDs had a maturity of 66 months. Statement of Statutory Accounting Principles Number ("SSAP") 26 as well as the NAIC Annual Statement Instructions – Property and Casualty for the 2019 Reporting Year ("Annual Statement Instructions") require CDs with a maturity greater than one year at time of acquisition be reported under Schedule D Part 1 of the Annual Statement.

It is recommended that the Company ensure all CDs with maturities greater than 12 months from the date of acquisition are correctly reported in accordance with SSAP 26 and the Annual Statement Instructions.

According to 40 P.S. § 653b(b), a Company must have a written investment plan that is reviewed and approved by its Board annually. The investment plan shall include, at a minimum, a description of the investment strategy of the Company designed to provide for liquidity and diversity of its investment portfolio; however, while the Company does have an investment plan in place, the Company's investment plan does not appear to be reviewed or approved on an annual basis by the Board or address the diversity of its investment portfolio.

It is recommended that the Company comply with 40 P.S. § 653b(b) by reviewing its investment plan annually. It is further recommended that the Company address the diversity of its investment portfolio which is also a requirement of 40 P.S. § 653b(b).

The Company was following its investment policy at December 31, 2019.

LIABILITIES

LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

The Company reported reserves in the amount of \$0 for losses and \$0 for loss adjustment expenses (“LAE”) on its December 31, 2019 Annual Statement.

For each year during the period, the Company was exempt from the requirement to file an actuarial opinion on the adequacy of its loss reserves as provided in the NAIC *Annual Statement Instructions – Property and Casualty*. This exemption was granted annually to the Company in correspondence received from the Department.

Based on the procedures performed and the results obtained, the examination team obtained sufficient documentation to support the conclusion that the Company’s carried loss and LAE reserve amounts are reasonably stated as of December 31, 2019.

UNEARNED PREMIUM RESERVES

During the examiner’s review of material liabilities, the Company was unable to provide support for the calculation of the unearned premium value reported in the 2019 Annual Statement. The CPA noted that the value reported was determined using fifty percent of written premium.

SSAP 53 - Property Casualty Contracts - Premiums, paragraph 8 states:

One of the following methods shall be used for computation of the unearned premium reserve:

a. Daily pro rata method—Calculate the unearned premium on each policy—At the end of each period, the calculation is made on each item of premium to ascertain the unexpired portion and to arrive at the aggregate unearned premium reserve;

b. Monthly pro rata method—This method assumes that, on average, the same amount of business is written each day of any month so that the mean will be the middle of the month. For example, one-year premiums written during the first three months of the year have, at the end of the year, the following unearned fractions: January-1/24; February- 3/24; March-5/24.

It is recommended that the Company calculate and report its unearned premium reserve consistent with SSAP 53.

COMMISSIONS PAYABLE

During a review for unrecorded liabilities, it was noted that the commissions payable liability is not being correctly classified on the Liabilities, Surplus and Other Funds page of the Annual Statement. As of December 31, 2019, the commissions payable was reported under Line 5 - Other Expenses. In accordance with the NAIC's Annual Statement Instructions, the liability for commissions related to policies written in the reporting year, but paid subsequent should be

reported under Liabilities, Surplus and Other Funds, Line 4 - Commissions Payable, Contingent Commissions and Other Similar Charges.

It was also noted that the amount reported on the 2019 Annual Statement was an estimate in the amount of \$4,250. The actual amount of commissions related to the month of December 2019 was \$4,298 which was recorded on January 2, 2020. The amount was known in sufficient time that it should not have been estimated on the Annual Statement.

It is recommended that the Company comply with the Annual Statement Instructions in reporting its Commissions Payable under the appropriate line on the Liabilities, Surplus and Other Funds page.

It is also recommended that the Company's Annual Statement accurately reflect values of liabilities known or reasonably known at the time of its preparation.

SUBSEQUENT EVENTS

The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the Company. As such, the Department will continue to monitor and share information with the Company as appropriate related to COVID-19 developments.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendations:

1. It was recommended that the Company adhere to its by-laws and have the Board of Directors meet at least twice annually.

The Company has not complied with this recommendation so it will be reiterated in the Current Examination.

2. It was recommended that the Company produce and maintain a current version of its by-laws in accordance with 40 P.S. § 323.3(a) and submit an updated version of all changes made to the Department.

The Company has not complied with this recommendation so it will be reiterated in the Current Examination.

3. It was recommended that cash and surplus amounts reported on the balance sheet should be reduced by \$42,000 in the Company's financial statements as a result of

the examination for the year ending December 31, 2014 (Not noted during this examination).

Based on confirmation of the current examination's assets, the Company appears to have complied with this recommendation.

CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

- 1. It is recommended that the Company document its Policyholder, Board, and Board Committee minutes to support compliance with its by-laws or amend its by-laws to reflect its current practices (see "Minutes", page 4).*
- 2. It is recommended that the Company produce and maintain a current version of its by-laws in accordance with 40 P.S. § 323.3(a) and submit an updated version of all changes made to the Department (see "By-laws", page 4).*
- 3. It is recommended that the Company comply with 40 P.S. § 310.71 (c) by notifying the Department of the appointment and termination of all of its producers (see "Territory and Plan of Operations", page 6).*
- 4. It is recommended that the Company ensure all CDs with maturities greater than 12 months from the date of acquisition are correctly reported in accordance with SSAP 26 and the Annual Statement Instructions (see "Investments", page 12).*
- 5. It is recommended that the Company comply with 40 P.S. § 653b(b) by reviewing the investment policy annually and addressing the diversity of its investment portfolio (see "Investments", page 12).*
- 6. It is recommended that the Company calculate and report its unearned premium reserve consistent with SSAP 53 (see "Unearned Premium Reserves, page 13).*
- 7. It is recommended that the Company comply with the Annual Statement Instructions in reporting its Commissions Payable under the appropriate line on the Liabilities, Surplus and Other Funds page (see "Commissions Payable, page 14).*

It is also recommended that the Company's Annual Statement accurately reflect values of liabilities known or reasonably known at the time of its preparation (see "Commissions Payable, page 14).

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CONCLUSION

As a result of this examination, the financial condition of Cambria County Mutual Insurance Company, as of December 31, 2019, was determined to be as follows:

	Amount	Percentage
Admitted assets	351,830	100.0 %
Liabilities	33,455	9.5 %
Surplus as regards policyholders	318,375	90.5 %
Total liabilities and surplus	351,830	100.0 %

Since the previous examination, made as of December 31, 2014, the Company's assets decreased by \$115,623, its liabilities increased by \$21,201, and its surplus decreased by \$136,824.

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This examination was conducted by Elizabeth McGarry, CFE.

Respectfully submitted,



Matthew C. Milford, CFE
Director
Bureau of Financial Examinations



Shannon Hopkins (Nov 19, 2021 13:05 EST)

Shannon Hopkins, CFE
Examination Manager



Elizabeth McGarry, CFE
Examiner-in-Charge

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.

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