Culross Mutual Insurance Company Financial Statements

For the year ended December 31, 2009

Contents

Tel: 519 357 3231
Fax: 519 357 3230

www.bdo.ca

BDO Canada LLP
152 Josephine Street
P.O. Box 1420
Wingham Ontario N0G 2W0 Canada

Auditors' Report

To the Policyholders of
Culross Mutual Insurance Company

We have audited the balance sheet of Culross Mutual Insurance Company as at December 31, 2009 and the statements of operations and unappropriated members' surplus, comprehensive income (loss), accumulated other comprehensive income (loss) 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 the company as at December 31, 2009 and the results of its operations and the changes in its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

"BDO Canada LLP"

Chartered Accountants, Licensed Public Accountants

Wingham, Ontario
January 26, 2010

Culross Mutual Insurance Company
Balance Sheet

December 31	2009	2008
Assets		
Cash and short-term investments	**$ 1,499,713**	$ 201,031
Future income taxes	**7,681**	-
Accounts receivable (Note 3)	**1,287,420**	3,324,079
Long-term investments (Note 4)	**569,585**	655,887
Deferred policy acquisition expenses	**26,418**	52,928
Capital assets (Note 5)	**95,001**	199,953
	$ 3,485,818	$ 4,433,878
Liabilities		
Accounts payable and accrued liabilities	**$ 158,497**	$ 78,909
Unpaid claims (Note 6)	**1,580,768**	2,685,526
Unearned commissions	**198,533**	191,894
Provision for premium deficiency	**168**	7,367
Unearned premiums	**760,929**	735,633
Taxes payable	**12,222**	4,439
	2,711,117	3,703,768
Contingent liability (Note 14)		
Members' equity		
Unappropriated members' surplus	**765,460**	736,421
Accumulated other comprehensive income (loss)	**9,241**	(6,311)
	774,701	730,110
	$ 3,485,818	$ 4,433,878

On behalf of the Board:

______________________ Director

______________________ Director

The accompanying notes are an integral part of these financial statements.

Culross Mutual Insurance Company
Statement of Operations and Unappropriated Members' Surplus

For the year ended December 31	2009	2008
Revenue (Page 6)	$ 292,979	$ 288,776
Expenses (Page 6)	132,356	440,267
Underwriting income (loss)	160,623	(151,491)
Other Income		
Investment income (loss)	(37,522)	20,549
Sundry	1,013	(582)
	(36,509)	19,967
Income (loss) before other items	124,114	(131,524)
Writedown of FMFS and Factorcorp	-	120,000
Impairment loss (Note 5)	95,075	-
	95,075	120,000
Net income (loss) before taxes for the year	29,039	(251,524)
Income taxes (Note 10)- current	7,681	-
- future	(7,681)	-
Net income (loss) for the year	29,039	(251,524)
Unappropriated members' surplus		
Balance, beginning of year	736,421	987,945
Balance, end of year	$ 765,460	$ 736,421

The accompanying notes are an integral part of these financial statements.

Culross Mutual Insurance Company
Statement of Comprehensive Income (Loss)

For the year ended December 31		2009		2008
Net income (loss)	$	**29,039**	$	(251,524)
Other comprehensive income (loss)				
Change in unrealized gain/loss on available for sale securities		**19,859**		(27,795)
Net gain(loss) reclassified to income		**(4,307)**		-
		15,552		(27,795)
Comprehensive income (loss)	$	**44,591**	$	(279,319)

Culross Mutual Insurance Company
Statement of Accumulated Other Comprehensive Income (Loss)

December 31		2009		2008
Accumulated other comprehensive income, beginning of year	$	**(6,311)**	$	21,484
Other comprehensive income (loss)		**15,552**		(27,795)
Accumulated other comprehensive income (loss), end of year	$	**9,241**	$	(6,311)

The accompanying notes are an integral part of these financial statements.

Culross Mutual Insurance Company
Schedule of Revenue and Expenses

For the year ended December 31	2009	2008
Revenue		
Gross premiums written	**$ 1,515,539**	$ 1,465,190
Less reinsurance premiums cost	**1,232,247**	1,181,104
Net premiums written	**283,292**	284,086
Decrease (increase) in provision for unearned premiums	**(6,326)**	(10,337)
	276,966	273,749
Service charges	**16,013**	15,027
	$ 292,979	$ 288,776
Expenses		
Net claims incurred	**$ 146,507**	$ 217,664
Commissions paid	**241,361**	239,866
Salaries and directors' fees	**166,871**	146,310
Inspection of risks and loss prevention	**11,693**	15,599
Other expenses (see below)	**266,127**	203,045
	$ 832,559	$ 822,484
Commissions earned on quota share	**(700,203)**	(382,217)
	132,356	440,267
Other expenses		
Advertising	**$ 5,995**	$ 8,719
Amortization	**9,877**	11,617
Association fees	**9,862**	13,827
Assessments	**(4,593)**	(221)
Computer services	**53,141**	53,632
Educational seminars and conventions	**23,898**	4,263
Employee benefits	**26,064**	23,333
Occupancy costs	**31,607**	30,232
Postage and telephone	**6,844**	6,657
Printing, stationery and office	**14,150**	14,057
Professional fees	**74,530**	22,186
Provincial premium tax	**4,489**	3,260
Travel	**10,263**	11,483
	$ 266,127	$ 203,045

The accompanying notes are an integral part of these financial statements.

Culross Mutual Insurance Company
Statement of Cash Flows

For the year ended December 31	2009	2008
Cash provided by (used in)		
Operating activities		
Net loss for the year	**$ 29,039**	$ (251,524)
Adjustments to convert income (loss) to cash basis		
Write-down of FMFS and FactorCorp	**-**	120,000
Amortization of capital assets	**9,877**	11,617
Increase (decrease) in accounts payable	**79,588**	(15,627)
Increase (decrease) in income taxes	**102**	124
Increase (decrease) in provision for unpaid claims	**(1,104,758)**	751,331
Increase (decrease) in unearned premiums	**25,296**	43,387
Decrease in provision for unearned commission	**6,639**	11,568
Decrease in premium deficiency	**(7,199)**	(2,894)
Decrease (Increase) in accounts receivable	**2,036,659**	(313,759)
Decrease (increase) in deferred policy acquisition expense	**26,510**	(9,016)
(Gain) loss on investment	**3,963**	4,945
Impairment loss on capital assets	**95,075**	-
	1,200,791	350,152
Investing activities		
Sale of investments	**106,829**	350,000
Purchase of investments	**(8,938)**	(257,146)
Increase (decrease) in bank indebtedness	**-**	(241,975)
	97,891	(149,121)
Increase in cash during the year	**1,298,682**	201,031
Cash position, beginning of year	**201,031**	-
Cash position, end of year	**$ 1,499,713**	$ 201,031

The accompanying notes are an integral part of these financial statements.

1. Summary of Significant Accounting Policies

Nature of Business

The company is incorporated without share capital under the laws of Ontario and is subject to the Ontario Insurance Act. It is licensed to write property, auto and liability insurance in Ontario. The company's products are marketed through independent agents and brokers located throughout Ontario.

Premiums Earned and Deferred Policy Acquisition Expenses

Insurance premiums are included in income on a daily pro-rata basis over the life of the policies, when the policy amount has been set and collection is reasonably assured. Acquisition expenses related to unearned premiums, which expenses comprise commissions and premium taxes 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 deferral to its realizable value by giving consideration to claims and expenses expected to be incurred as the premiums are earned.

Capital Assets

Capital assets are recorded at cost. Rates of amortization applied to write-off the cost of property and equipment over their estimated lives are as follows:

Building	4%, straight line
Equipment	20%, straight line
Computer equipment	30%, straight line
Computer software	45%, straight line

Reinsurance Ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Estimates of the amounts recoverable from the reinsurer on unpaid claims and adjustment expenses are recorded as accounts receivable. 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.

1. Summary of Significant Accounting Policies (continued)

Income taxes

Income taxes are accounted for using the liability method. Future income taxes occur as a result of temporary differences arising between the carrying amount of assets and liabilities for financial statement purposes and their tax basis. Future income tax assets and liabilities are measured using the tax rates anticipated to apply in the periods in which the temporary differences are expected to be realized or settled. The company is responsible for income taxes on the portion of its income that relate to non-farm business.

Reserve for Unpaid Claims

Unpaid claims and related adjustment expenses are determined using cash-basis evaluations plus an amount for adverse development and are estimates of the ultimate cost of all insurance claims incurred to December 31, 2009.

The provision for unpaid claims represents the amounts needed to provide for the estimated cost of settling claims related to insured events (both reported and unreported) that have occurred on or before each balance sheet date. All provisions are periodically evaluated in light of emerging claim experience and changing circumstances. The resulting changes in estimates of the ultimate claim liability are reflected in current operations.

New Accounting Pronouncements

Recent accounting pronouncements that have been issued but are not yet effective, and have a potential implication for the company, are as follows:

International financial reporting standards

The CICA plans to converge Canadian GAAP with International Financial Reporting Standards ("IFRS") over a transition period expected to end in 2011. The impact of the transition to IFRS on the company's financial statements has yet to be determined.

1. Summary of Significant Accounting Policies (continued)

Financial Instruments

The company utilizes various financial instruments. Unless otherwise noted, it is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments and the carrying amounts approximate fair values.

All transactions related to financial instruments are recorded on a settlement date basis.

Held-for-trading

This category is comprised of certain investments in equity and debt instruments, stand-alone derivatives, other than those designated as hedging items, and embedded derivatives requiring separation. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement. Transaction costs related to instruments classified as held-for-trading are expensed as incurred.
Cash and short term investments have been classified as held-for-trading.

Loans and receivables

These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They arise principally through the provision of goods and services to customers (accounts receivable), but also incorporate other types of contractual monetary assets. They are initially recognized at fair value and subsequently carried at amortized cost, using the effective interest rate method, less any provision for impairment. Transaction costs related to loans and receivables are expensed as incurred.
Accounts receivable have been classified as loans and receivables.

Available-for-sale investments

Non-derivative financial assets not included in the above category are classified as available-for-sale and comprise certain investments in equity instruments, including the company's investments in private companies. When they have a quoted market price in an active market, they are carried at fair value with changes in fair value recognized as a separate component of other comprehensive income. When they do not have a quoted market price in an active market, they are carried at cost. Where a decline in fair value is determined to be other than temporary, the amount of the loss is removed from other comprehensive income and recognized in the income statement. Transaction costs related to available-for-sale investments are expensed as incurred.
Long-term investments have been classified as available-for-sale.

December 31, 2009

1. Summary of Significant Accounting Policies (continued)

Other financial liabilities

Other financial liabilities includes all financial liabilities other than those classified as held-for-trading and comprise trade payables and other short-term monetary liabilities. These liabilities are initially recognized at fair value and subsequently carried at amortized cost using the effective interest rate method. Transaction costs related to other financial liabilities are expensed as incurred.

Accounts payable and accrued liabilities have been classified as other financial liabilities.

2. Cash and short-term investments

The company's bank accounts are held at one bank. The current account does not earn interest and the savings account earns interest at 0.25%.

3. Accounts Receivable

	2009	2008
Accrued interest	**$ 12,617**	$ 15,303
Agents' balances	**102,525**	100,705
Due from policyholders	**222,795**	206,753
Due (to)/from quota share	**(1,014,222)**	(28,531)
Due (to)/from quota share - Q/S Profit Commission	**304,274**	-
Reinsurer share of unearned premium	**567,148**	548,178
Amounts recoverable on unpaid claims	**1,349,787**	2,412,730
Amounts (payable) receivable on paid claims	**(280,609)**	35,628
Due from Auto Facility Association	**27,873**	35,803
Due (to)/from Reinsurer	**(4,768)**	(2,490)
	$ 1,287,420	$ 3,324,079

4. Long-term Investments

The cost, estimated fair values and carrying values of investments at December 31, 2009 were as follows:

	Cost	Fair Value	**2009 Carrying Value**	2008 Carrying Value
Available for Sale				
Debt securities				
Corporate	$ 5,000	$ 5,000	**$ 5,000**	$ 5,000
Common shares	1,075	1,075	**1,075**	1,075
Mutual funds	68,166	78,250	**78,250**	65,791
Term deposits	450,000	450,000	**450,000**	550,000
Farm Mutual Fixed Income Pooled Fund	35,165	34,322	**34,322**	32,349
Fire Mutual Guarantee Fund	938	938	**938**	1,672
	$ 560,344	$ 569,585	**$ 569,585**	655,887

For available-for-sale investments, the carrying values are equal to their fair values and the maximum exposure to credit risk would be the fair value as shown above.

Maturity profile for Bonds, Debentures and Term Deposits at December 31, 2009:

Within 1 year	Over 1 to 5 years	Over 5 years	Book Value
$ 105,000	$ 350,000	$ -	$ 455,000

The effective interest rate for bonds and debentures at December 31, 2009 was 4.3% (2008 - 4.1%).
The fair values of available for sale investments were determined by reference to public price quotations in an active market. The company has reviewed the value of the investments and has determined that there are no other-than-temporary declines in value.

5. Capital Assets

			2009	2008
	Cost	**Accumulated amortization**	**Net book value**	Net book value
Land	**$ 35,427**	**$ -**	**$ 35,427**	$ 130,502
Building	**246,921**	**187,347**	**59,574**	69,451
Equipment	**52,067**	**52,067**	**-**	-
Computers	**71,340**	**71,340**	**-**	-
Software	**45,042**	**45,042**	**-**	-
	$ 450,797	**$ 355,796**	**$ 95,001**	$ 199,953

During the year a total impairment loss of $95,075 was recognized. This impairment loss is due to the fact that the soil of the additional lot which is owned by the company was found to be contaminated and the costs to restore the lot exceed the fair value of the land. The land has therefore been written down to $0, resulting in an impairment loss of $79,092. The land and building which is being used for the company's office, which had a net carrying value of $110,983, was appraised at a fair value of $95,000. Therefore, the land and building has been written down to its fair value, resulting in an impairment loss of $15,983.

6. Unpaid claims

Scope

The determination of the provision for unpaid claims and adjustment expenses and the related reinsurers' share requires the estimation of two major variables or quanta being development of claims and reinsurance recoveries.

The provision for unpaid claims and adjustment expenses and related reinsurers' share are estimates subject to variability, and the variability could be material in the near term. The variability arises because all events affecting the ultimate settlement of claims have not taken place and may not take place for some time. Variability can be caused by receipt of additional claim information, changes in judicial interpretation of contracts, or significant changes in severity or frequency of claims from historical trends. The estimates are principally based on the Company's historical experience. Methods of estimation have been used which the Company believes produce reasonable results given the current information.

Assumptions

Claim development

Uncertainty exists on reported claims in that all information may not be available at the reporting date, therefore, the claim cost may rise or fall at some date in the future when the information is obtained. In addition, claims may not be reported to the Company immediately, therefore, estimates are made as to the value of claims incurred but not yet reported, a value which may take some months to finally determine. In order to determine the liability, assumptions are developed considering the characteristics of the class of business, the historical pattern of payments, the amount of data available and any other pertinent factors.

Reinsurance recoveries

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts. Estimates of the amounts recoverable from the reinsurer on unpaid claims and adjustment expenses are recorded as accounts receivable. 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.

Future investment income

The Company does not have a policy of specifically matching its investment cash flows to claims payment patterns.

6. **Unpaid Claims** (continued)

Comments and assumptions for specific claims categories

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 have created 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 socio-economic trends.

The Company assumes business from other insurers pursuant to quota share, facultative and excess of loss reinsurance agreements and there can be extended lags between the date of occurrence and the date the Company is notified of the claim. Further, the claims handling procedures of this book of business are not under direct control of the Company, thus the estimates of claims liabilities may fluctuate more than the average of the Company's own business.

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 liabilities provided by the actuaries of the pools.

Line of Business Segmentation

	2009		2008	
	Gross	**Ceded**	Gross	Ceded
General liability	**$ 241,409**	**$ 205,163**	$ 591,451	$ 545,056
Automobile	**1,263,919**	**1,088,044**	1,954,167	1,762,743
Property	**75,440**	**56,580**	139,908	104,931
	$ 1,580,768	**$ 1,349,787**	$ 2,685,526	$ 2,412,730

7. Bank Loan

The company has a revolving line of credit with interest payable at the bank's prime interest rate plus 2.375% and is due on demand. At December 31, 2009 the balance outstanding on this line of credit was $NIL (2008 - $160,000). At December 31, 2009 the remaining credit available on this line of credit was $200,000 (2008 - $40,000.)

8. 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 the first $30,000 plus 10% of any excess on any one claim in the event of a property, liability or auto claim up to a maximum of $1,000,000. The company cedes 75% of premiums written and recovers 75% of losses from its reinsurer under its quota share treaty.

In addition, the company has obtained reinsurance with a retention level of $75,000 plus 5% of any excess to protect itself against certain catastrophic losses.

9. Rate Regulation

The company's automobile insurance rates are subject to approval by Financial Services Commission of Ontario (FSCO). Application for automobile rate increases are presented to FSCO by the Farm Mutual Reinsurance Plan on behalf of members of OMIA. FSCO approves these rates based on information submitted.

10. Income Taxes

(a) The Company is taxable on the portion of its income that is attributable to non-farm premiums. For 2009, the non-farm percentage is 57.5% (2008 - 55.7%).

(b) The company has not recorded in its financial statements the full income tax benefit of losses of other years in the amount of $551,309.The amount recorded is equivalent to current years' provision. These losses are available to reduce taxable income in future years and, if not utilized, will expire as follows:

2010	$160,399
2026	15,730
2028	375,180
	$551,309

	2009	2008
Current income taxes	**$ 7,681**	$ -
Future income taxes	**(7,681)**	-
	$ -	$ -

December 31, 2009

11. Capital Management

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. Reinsurance is utilized to protect capital from catastrophic losses as the frequency and severity of these losses are inherently unpredictable. To limit their potential impact, catastrophe coverage limits Culross Mutual Insurance Company's exposure to $75,000 plus 5% of the remaining loss. The $75,000 net retained amount represents approximately 9% of the company's capital. For the purpose of capital management, the company has defined capital as members' equity excluding accumulated other comprehensive income.

The regulators measure the financial strength of property and casualty insurers using a minimum capital test (MCT). The regulators generally expect 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. The regulator indicates that the company should produce a minimum MCT ratio of 150%. The regulator has the authority to request more extensive reporting and can place restrictions on the company's operations if deemed necessary.

12. Financial Instrument Risk Management

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The company is exposed to this risk relating to its debt holdings in its investment portfolio and the reliance on reinsurers to make payment when certain loss conditions are met.

The company's investment policy puts limits on the bond portfolio including portfolio composition limits, issuer type limits, bond quality limits, and other general guidelines. All fixed income portfolios are measured for performance on a quarterly basis and monitored by management on a monthly basis.

Reinsurance is placed with FMRP, a Canadian registered reinsurer. Management monitors the creditworthiness of FMRP by reviewing their annual financial statements and through ongoing communications. Reinsurance treaties are reviewed annually by management prior to renewal of the reinsurance contract.

Accounts receivables are short-term in nature and are not subject to material credit risk.

The maximum exposure to investment credit risk and concentration of this risk is outlined in Note 3.

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

12. Financial Instrument Risk Management (continued)

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of market factors. Market factors include three types of risk: currency risk, interest rate risk, and equity risk.

Our 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. Diversification techniques are utilized to minimize risk. The Policy limits the investment in any one corporate issuer to a maximum of 30% of the Company's investment portfolio. The Policy also limits the investment in any one sector to a maximum of 30% of the Company's investment portfolio.

A) Currency risk

Currency risk relates to the company operating in different currencies and converting non Canadian earnings at different points in time at different foreign exchange levels when adverse changes in foreign currency exchange rates occur. The company was not operating in different currencies during the year and therefore currency risk is minimal.

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

B) Interest rate risk

Interest rate risk is the potential for financial loss caused by fluctuations in fair value or future cash flows of financial instruments because of changes in market interest rates.

The company is exposed to this risk through its interest bearing investments (GICs and debt securities).

Historical data and current information is 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. There are no occurrences where interest would be charged on liabilities, therefore, little protection is needed to ensure the fair market value of assets will be offset by a similar change in liabilities due to an interest rate change.

The objective and policies and procedures for managing interest rate risk is to diversify the GIC portfolio in such a way that the GICs are a portfolio laddered over a number of years. A portion of the GIC portfolio would come due each year and be reinvested. This helps to protect the company from fluctuations in the interest rates.

12. Financial Instrument Risk Management (continued)

At December 31, 2009, a 1% move in interest rates, with all other variables held constant, would not have a material impact on the market value of debt securities.

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

C) Equity risk

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The company is exposed to this risk through its equity holdings within its investment portfolio.

The company's portfolio includes equity-based mutual funds which may hold Canadian stocks with fair values that move with the Toronto Stock Exchange Composite Index and United States stocks with fair values that move with the S&P 500 Index. A 10% movement in the stock markets with all other variables held constant would have an estimated affect on the fair values of the company's equity holdings of $7,825. For mutual fund units that the company did not sell during the period, the change would be recognized in the asset value and in other comprehensive income. For mutual fund units that the company did sell during the period, the change during the period and changes prior to the period would be recognized as net realized gains in income during the period.

Liquidity 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. Our current liabilities arise as claims are made. We do not have material liabilities that can be called unexpectantly at the demand of a lender or client. We have 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. Liquidity risks are also managed through cash flow matching of assets and liabilities and an available credit capacity of $200,000.

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

13. Subsequent Events

On January 1, 2010 Culross Mutual Insurance Company amalgamated with Germania Farmers' Mutual Fire Insurance Company and will operate as Germania Mutual Insurance Company.

14. Contingent Liability

The company and certain of its officers and directors have been named as defendants in an action for damages and costs allegedly sustained by the plaintiffs. Management expects such actions to be resolved with minimal damages or expense in excess of the amounts accrued.Amounts accrued have been charged as an investment expense.