ANNUAL STATEMENT INSTRUCTIONS
AND REFERENCE MANUAL

CHAPTER 380 RSMo.
MISSOURI MUTUAL INSURANCE COMPANIES

MISSOURI DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

TABLE OF CONTENTS

	Page
Introduction	1
Annual Statement Instructions	
Cover Sheet	3
Assets – Page 1	4
Liabilities – Page 1	5
Guaranty Fund – Page 1	6
Surplus Notes & Other Surplus Items – Page 1	6
Sources of Income – Page 2	7
Loss & Loss Adjustment Expenses – Page 3	9
Other Expenses – Page 4	10
Underwriting & Investment Exhibit – Page 5	11
Gain or Loss In Surplus – Page 5	11
Insurance Exhibit – Page 6	12
General Interrogatories – Page 6	12
Reinsurance Questionnaire – Page 6	12
Schedule A – Page 7	13
Schedule B – Page 8	13
Schedule D – Part 1, Page 9	14
Schedule D – Part 2, Page 10	14
Schedule N – Page 11	15
Reference Section	
Assets	17
Bonds	18
Stocks	18
Real Estate	19
Cash	22
Other Investments	24
Other Assets	25
Non-Admitted Assets	26
Liabilities	27
Losses Unpaid	27
Premium Basis v. Assessment Companies	28
Unearned Premium	29
Borrowed Money	30
Liability Write- Ins – Other Accrued Expenses	31
Premiums/Assessments	31
Investment Income	33
Other Insurance Income	35
Other Income	35

MISSOURI MUTUAL INSURANCE COMPANIES

INTRODUCTION

Missouri mutual property insurance companies are principally governed by Chapter 380 of the Missouri Statutes. This statute divides companies into Part I companies (Sections 380.011 to 380.151) and Part II companies (Sections 380.201 to 380.651). Part II companies are also referred to as "Extended Missouri Mutual Companies" in the statutes, as they have statewide authority to write insurance, whereas Part I companies write insurance in their home county and adjoining counties only.

This instruction manual attempts to identify and spell out those statutory property and casualty insurance principles that are generally accepted at the time of preparation of this manual. It must be understood that statutory property and casualty insurance accounting principles and practices cannot be stated with exact precision. While some of the accounting principles are primarily established by Missouri statutes (Section 380 RSMo.), the regulations (20 CSR 200-12) and rulings of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and guidance provided by the National Association of Insurance Commissioners (NAIC) must supplement these statutory principals. Statutory principles may also be established through practices permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

The annual statement form supplied to all Missouri mutual property insurance companies requires an accrual basis of reporting, whether or not company's records are normally maintained on a cash or accrual basis. The law does specify that Chapter 380 companies must report to the Director of insurance on a form prescribed by the director. Annual statement forms supplied to you and the supporting instruction manual do require a listing of all assets and all liabilities on an accrual basis.

STATUTORY ACCOUNTING PRACTICES (SAP)

In simplest terms, statutory accounting practices are those accounting principles or practices prescribed or permitted by an insurance department. These statutory accounting practices have been interspersed in the insurance laws, regulations and administrative rulings of the various states and in the instructions and footnotes to the annual statement.

This manual emphasizes the balance sheet because statutory accounting is primarily directed towards the determination of a company's financial condition on a specific date. In assessing financial condition, considerable emphasis is placed on the adequacy of a company's surplus. This emphasis on surplus is based on statutory requirements. State laws require that insurance companies maintain a minimum

surplus (Part II companies only). Surplus provides protection to policyholders against adverse operating results and permits a company to expand its premium writings.

Emphasis on the balance sheet does not diminish the significance of the underwriting and investment exhibit, statement of income. Net underwriting gain or loss, net investment gain or loss, other income, dividends to policyholders and federal income taxes incurred are included on the statement of income. These amounts are used to compute net income.

ANNUAL STATEMENT

Missouri Mutual Insurance Companies are required by Chapter 380 to file an annual financial statement. The annual statement is prepared on forms prescribed by the Director of the DIFP. The annual statement constitutes the primary financial report required by the DIFP.

SUMMARY

It must be understood that statutory Missouri mutual insurance accounting principles and practices cannot be stated with exact precision. Statutory accounting principles are primarily established by the insurance laws of each state and the regulations or rulings issued by each state insurance department. Statutory principles may also be established through practices permitted by an insurance department. This process makes total uniformity and absolute definitions impossible.

This manual attempts to identify and spell out those statutory accounting principles that are generally accepted at the time of preparation of this manual.

ANNUAL STATEMENT INSTRUCTIONS

COVER SHEET

The cover sheet of the Annual Statement should be completed and the information attested to by the President and Secretary of the company. Their signatures must be witnessed by a notary public.

The first address section should be the physical location of the Company home office. A P.O. Box should not be listed in this section.

Directors who are also officers of the Company should be listed in both the director and officer sections of the page.

You must check the appropriate box as to whether the mutual is operating under Chapter 380.011-.151 (Part I) or Chapter 380.201-.651 (Part 2).

Either the "Assessable" or "Non-Assessable" box should also be checked, based upon the Company's status at year-end.

PAGE ONE – ASSETS

Line 1 Bonds (Schedule D – Part 1)

- Enter total from Schedule D, Part 1, page 9, grand total of column 4.

Line 2 Stocks (Schedule D – Part 2)

- Enter total from Schedule D, Part 2, page 10, grand total of column 5. Ownership requires approval of DIFP.

Line 3 Mortgage Loans on Real Estate (Schedule B)

- Enter total from Schedule B, page 8, grand total of column 7.

Line 4 Real Estate – Book Value (Schedule A)

- Enter total from Schedule A, page 7, grand total of column 5. Requires approval of DIFP, if value is greater than 50% of policyholder surplus net of guaranty fund.

Line 5 Cash on Deposit (Schedule N)

- Enter total from Schedule N, page 11, grand total of column 4.

Line 6 Other Investments

- Enter the book value of any other investments that have not been included on Schedule D, Schedule B, Schedule A or Schedule N.
- Investment in the E&O/D&O pool should be reported on this line.
- **The Company must attach a description of these items to the Annual Statement.**

Line 7 Premium/Assessments/Agents Balances Uncollected

- Enter total of agents balances due to the company for policy assessments/premiums or charges uncollected for policies financed.
- Include only premiums due to the Company as of the Annual Statement date. This includes polices with a premium due date of December 31 and prior, and only for those policies which have not yet been cancelled at December 31 due to non-payment of premium. Future installment premiums receivable should only be reported on this line if an offsetting unearned premium reserve is also reported on Line 4 “Unearned Premiums” of the Liabilities section of Page 1.

Line 8 Reinsurance Recoverable on Paid Losses

- Enter amounts due but uncollected from reinsurers for losses paid.

Line 9 Computer Equipment (Hardware Only)

- Enter book value net of depreciation of any computer equipment owned by the company.
- Only operating software (e.g. Windows) should be included in this amount. Non-operating software (e.g. claims and policy administration) should not be included in this amount.

Line 10 Federal Income Tax Recoverable

- Enter total amount of income tax refund due but not received.

Line 11 Interest Due and Accrued

- Enter total amount of interest accrued on investments owned by the company at the end of the accounting period.

- Include totals from Schedule B, Column 11, Schedule D – Part 1, Column 9.1, and Schedule N, Column 3.

Lines 12 – 15 Blank Lines – Asset Write-Ins

- Report any assets not included on lines 1 through 11.
- Most assets reported by the company should fall within the sections of line 1 through 11. As such, the balances reported in the write-in lines should be immaterial in most instances.
- Write-in assets should be liquid and the value of such assets should be readily determinable. If either of these requirements are questionable, the company should contact the DIFP to determine the admissibility of the assets.

Total Assets Sum of lines 1 through 15.

PAGE ONE – LIABILITIES, SURPLUS AND OTHER FUNDS

Line 1 Gross Losses Unpaid less Reinsurance Recoverable

- Enter amount of reserves for losses unpaid at end of accounting period in the first box.
- Enter amount of reinsurance recoverable on losses unpaid at the end of the accounting period (reported in the first box) in the second box.
- Enter the net amount (box one minus box two) in the line to the right.

Line 2 Gross Loss Adjustment Expense Unpaid less Reinsurance Recoverable

- Enter amount of reserves for loss adjusting expenses unpaid at end of accounting period in the first box.
- Enter amount of reinsurance recoverable on loss adjusting expenses unpaid at the end of the accounting period (reported in the first box) in the second box.
- Enter the net amount (box one minus box two) in the line to the right.

Line 3 Ceded Reinsurance Premium Payable

- Enter total of reinsurance premiums due to reinsurers but not yet paid at end of accounting period.

Line 4 Unearned Premium

- If applicable, enter total of premiums unearned on policies in force at end of accounting period.
- Technically, this line only applies to non-assessable companies which collect "premiums" rather than "assessments." However, as most assessable companies return a pro-rata share of assessments on cancelled policies, the reporting of an estimated "unearned assessment" on this line may provide a more realistic representation of a company's financial position.
- Additional guidance regarding unearned premium is included in the Reference Section, beginning on page 28 of this manual.

Line 5 Federal Income Tax Payable

- Enter total amount of income tax liability for the current and prior periods unpaid as of the end of the accounting period.

Line 6 Borrowed Money

- Enter book value of any notes or loans unpaid at end of accounting period.

Lines 7 – 9 Blank lines – Liability Write-Ins

- Report any liabilities not included on lines 1 through 6.

Total Liabilities Sum of Lines 1 through 9

Guaranty Fund (Chapter 380.271 – Financial Reinsurance Requirements)

Part I companies do not make an entry on this line. Part II companies should use the net in-force data entered on page 6 and the formula from section 380.271 to arrive at the required guaranty fund. Note that if a Company's net in-force for each line of business is less than $50,000,000, then the minimum $50,000 guaranty fund for each line of business applies. For net in-force greater that $50,000,000, the guaranty figure must be calculated.

Surplus Notes

Funds borrowed from other insurance companies should be shown on this line. These loans are subject to the provisions of 380.461 (Company May Borrow to Pay Losses – Assessment to Pay Loan). Surplus notes require prior approval of the Director of the DIFP.

Other Surplus

This category includes any other surplus funds not included in guaranty fund or surplus notes. This figure should equal total assets less the sum of total liabilities, guaranty fund and surplus notes.

Total Policyholder Surplus

The total of all surplus funds should be shown on the line. This figure should equal the sum of the guaranty fund, surplus notes and other surplus lines.

Total Liabilities and Surplus

Enter the sum of the "Total Liabilities" and the "Total Policyholder Surplus" lines.

PAGE TWO – SOURCES OF INCOME

The premiums reported in Sections 1 & 2 below should be separated by line of business as per section 380.261(Kinds of Insurance Company May Make). As with the assets and liability line items, income should also be reported on an accrual basis. Premium income should be recorded and reported as of the date it is legally due to the company, per the policy language (i.e., "due date", "policy effective date", etc).

Section 1 Direct Assessments/Premiums

Column 1 Direct Assessments/Premiums

- Enter gross direct assessments/premiums written during the year.
- The written amount reported should include both amounts collected and amounts due to the company as of December 31.

Column 2 Per Risk/Pro Rata Premium Ceded

- Enter amount paid to reinsurers for quota-share or pro rata reinsurance.
- The ceded amount reported should include both amounts paid during the year and amounts due to the reinsurer as of December 31.

Column 3 Refunds

- Enter amount of refund premiums/assessments made to policyholders.

Column 4 Net Direct Assessments/Premiums

- Enter the result of Column 1 less Columns 2 & 3.

Section 2 Assumed Assessments/Premiums

Column 1 Assumed Assessments/Premiums

- Enter gross assessments/premiums assumed from other companies through reinsurance transactions.
- The assumed amount reported should include both amounts collected and amounts due to the company as of December 31.

Column 2 Per Risk/Pro Rata Premium Ceded

- Enter amount of assessments/premiums assumed by the Company from other companies through reinsurance transactions and subsequently ceded (retroceded) to other companies.
- The ceded amount reported should include both amounts paid during the year and amounts due to the reinsurer as of December 31.

Column 3 Refunds

- Enter amount of refund premiums/assessments made to ceding companies.

Column 4 Net Direct Assessments/Premiums

- Enter the result of Column 1 less Columns 2 & 3.

Section 3 Catastrophe/Aggregate Excess of Loss Premiums Ceded

Enter reinsurance premiums paid during the year, as well as amounts due to the reinsurer at December 31, for catastrophe and aggregate excess of loss coverage.

Total Net Written Assessment/Premium

Enter the sum of the totals of Sections 1, 2 & 3.

Section 4 **Total Net Earned Assessment/Premium**

This section converts net written premium to net earned premium. Starting with the "Total Net Written Assessment/Premium" amount, the prior year's unearned premium balance (Previous Year Annual Statement Page 1, Liability Line 4) is added, while the current year's unearned premium balance (Current Year Annual Statement Page 1, Liability Line 4) is subtracted.

Section 5 **Investment Income**

The income from each type of investment should be shown in this section.

- Bonds – Schedule D – Part 1, Column 9.2
- Stocks – Schedule D – Part 2, Column 7.2
- Bank Deposits, Certificates of Deposit, Money Market Accounts – Schedule N, Column 2

Gain or Loss on Sale of Securities (Bonds/Stocks)

- Report gains or losses due to the sale of stocks & bonds realized as a result of market fluctuations between the purchase and disposition dates.

Total Investment Income

- Enter the total of interest and dividend income, plus or minus gain or loss on sale of securities.

Section 6 **Other Insurance Income**

Enter income derived for the year from other insurance activities.

- Service Charges/Membership Fees – include policy fees and other annual or one-time charges to policyholders that are not reported as premium.
- Bonus/Commission From Reinsurer – include such items such as contingent commissions paid by the reinsurer.
- Cooperative Agreement Income – include income from contracts under which the Company markets insurance products for other insurers and reinsurers**.** Such activity should be considered separate from other insurance activities for reporting purposes. The income reported here should be net of any expenses incurred by the Company relating to the income derived from this activity. For example, advertising expenses incurred by the company that are related to a cooperative agreement should be deducted from the cooperative agreement income, rather than reported on Line 12 "Advertising" of the "Other Expenses" section of Page 4.

Total Other Insurance Income

- Enter the total of all items in Other Insurance Income section.

Section 7 **Other Income**

Enter income that is not reported in the Sections 1 through 6. Note that all income reported in this section should be reported net of any expenses incurred by the Company relating to the activity from which the income is derived (See example in "Cooperative Agreement Income" above)

- Rental Income – For real estate, from Schedule A, Column 7 .
- Other Income – Any other income not reported in any other section.

Total Income

Enter sum of totals of sections 1 through 7.

PAGE THREE – LOSS AND LOSS ADJUSTMENT EXPENSES

Section 1a **Direct Losses Paid**

Column 1 Gross Paid Direct Losses
- Enter gross payments for losses on direct written business by line of business.

Column 2 Reinsurance Recovered
- Enter amount received from reinsurers for losses paid by line of business.

Column 3 Salvage
- Enter proceeds received for salvaged property by line of business.

Column 4 Net Direct Losses
- Enter the result of Column 1 less Columns 2 & 3.

Section 1b **Assumed Losses Paid**

Column 1 Gross Paid Assumed Losses
- Enter gross payments for losses on reinsurance assumed by line of business.

Column 2 Reinsurance Recovered
- Enter amount received on losses assumed and subsequently ceded (retroceded) to other companies by line of business.

Column 4 Net Assumed Losses
- Enter the result of Column 1 less Column 2.

Section 1c **Total Net Losses Paid**
Enter the Sum of the totals of Section 1a and 1b.

Section 1d **Net Losses Incurred**
This section converts paid losses to incurred losses by subtracting prior year-end outstanding losses and adding current year outstanding losses from current year paid losses. Prior year outstanding loss balance should be obtained from the prior year annual statement, Page 1, Liability Line 1. Current year outstanding loss balance should be obtained from the current year annual statement, Page 1, Liability Line 1.

Section 1e **Loss Adjustment Expenses (LAE) Paid**
Enter amounts paid in current year for loss adjustment expenses and reimbursement of such expenses received from the reinsurer in the respective lines.

Section 1f **Net Loss Adjusting Expenses (LAE) Incurred**
Subtract LAE reimbursed by reinsurer from LAE Paid.

Section 1g **Net Losses Incurred**
This section converts paid LAE to incurred losses by subtracting prior year-end LAE and adding current year outstanding LAE from current year LAE. Prior year outstanding LAE balance should be obtained from the prior year annual statement, Page 1, Liability Line 2. Current year outstanding LAE balance should be obtained from the current year annual statement, Page 1, Liability Line 2.

Section 1g **Net Loss Adjustment Expenses Incurred**
Enter the sum of line 1d and 1g.

PAGE FOUR – OTHER EXPENSES

Lines 1 – 20 Enter appropriate amounts. As with asset, liability and income line items, expenses should also be reported on an accrual basis. Expenses incurred December 31 or prior, but paid in the subsequent period should be recorded and reported as expenses in the current period. For example, if a payroll period ends December 31, 20X1, but payroll checks are not issued until January 2, 20X2, the associated payroll should be accrued and reported as an expense in the 20X1 Annual Statement. This rationale should be followed for all expense items.

Line 21 Enter amounts in blanks provided for expenses which are not reported in lines 1-20, 23 or 24. Enter description of expenses in blanks provided.

Line 22 Total Underwriting Expense
Enter the sum of lines 1 through 21.

Line 23 Investment Expense
Enter expenses incurred relating to investment activity.

Line 24 Interest Expense
Enter any interest expense incurred by the Company.

Total Expenses The sum of lines 22, 23 and 24.

PAGE FIVE – UNDERWRITING AND INVESTMENT EXHIBIT

Line 1 Enter Net Earned Premiums/Assessment Income from Page 2, Section 4.

Line 2 Enter Other Insurance Income from Page 2, Section 6.

Line 3 Enter Net Losses & LAE from Page 3 Line 1h.

Line 4 Enter Underwriting Expenses from Page 4 Line 22.

Line 5 Underwriting Income (Loss) – Enter the result of the sum of lines 1 & 2 less the sum of lines 3 & 4.

Line 6 Enter Investment Income from Page 2, Section 5.

Line 7 Enter Investment Expenses from Page 4, Line 23.

Line 8 Enter Interest Expense from Page 4, Line 24.

Line 9 Net Investment Income – Enter the result of Line 6 less the sum of Lines 7 & 8.

Line 10 Enter Other Income from Page 2, Section 7.

Line 11 Gross Profit or Loss – Enter sum of Lines 5 & 9.

Line 12 Federal Income Tax – Enter federal income tax incurred for the year.

Line 13 Net Profit or (Loss) – Enter the result of Line 11 minus Line 12.

PAGE FIVE – GAIN OR LOSS IN SURPLUS

Line 14 Beginning Policyholder's Surplus

- Enter the "Current Policyholders Surplus" from the prior year's annual statement, Page 5, Line 19. The current year's beginning policyholder surplus **MUST** equal the prior year's ending policyholder surplus.

Line 15 Enter Net Profit or (Loss) from Page 5, Line 13.

Lines 16-18 Enter and describe any adjustments to policyholder surplus. Such adjustments may include, but are not limited to: rounding, unrealized gains or losses on invested assets, change in non-admitted assets, change in accounting, or correction of prior year reporting errors.

Line 19 Enter Net of Lines 14 through 18

PAGE SIX – INSURANCE EXHIBIT

Gross In-Force Amount

- Gross In-Force is the total coverage written by the Company, or the sum of the policy limits of all policies effective at a specific date. If every piece of property insured by the Company sustained a total loss, this is the aggregate amount that would be owed to the insureds. This number does not consider the effect of reinsurance.
- Enter the Gross In Force by line of business.

Net In Force Amount

- Net In-Force is the total coverage written by the Company, or the sum of the policy limits of all policies effective at a specific date **less the portion of such in-force covered by the Company's reinsurance program.**
- If the Company's reinsurance program has an **unlimited aggregate stop-loss provision** (losses covered by reinsurer are not limited), then the Company's net in-force would equal the **aggregate attachment point**. The aggregate attachment point is the maximum amount at risk for the Company during that calendar year.
- If the Company's reinsurance program has an **aggregate stop-loss provision which is limited** (reinsurer's losses in excess of the attachment point are limited, with the Company being responsible for aggregate losses in excess of the limit), calculating net in-force becomes more complicated. One option to calculate an estimated net in-force figure under this scenario is to multiply the number of policies in-force times the per risk retention. This results in the estimated net losses the Company would be responsible for, as the reinsurer would be responsible for all losses in excess of the per risk retention. This figure will likely be conservative (higher than actual net in-force) as there are likely policies with limits that are under the per risk retention amount. To illustrate this calculation:

# of Policies In-Force		Per Risk Retention		Net In-Force
1,000	x	$50,000	=	$50,000,000

- Enter number of policies in-force at December 31 of the current year.
- Enter the Net In-Force by line of business.

PAGE SIX – GENERAL INTERROGATORIES

General Interrogatories

Answer all interrogatories. Use "N/A" response if a question is not applicable to the Company.

PAGE SIX – REINSURANCE QUESTIONNAIRE

Answer all questions and utilize "N/A" response if a question is not applicable to the Company. Attach a copy of the Reinsurance Schedule in effect at December 31 of the current year.

PAGE SEVEN – SCHEDULE A – REAL ESTATE

This schedule lists all real estate owned as of December 31. If no real estate is owned by the company, write "None" on this schedule. (Note that 20 CSR 200-12.020 – "Extended Missouri Mutual Companies' Approved Investments" – limits the investment in home office real estate to 50% of surplus in excess of the guaranty fund, without prior approval of the DIFP).

Column 1	Enter the size and location of lands or buildings owned by the company.
Column 2	Enter the date the real estate was acquired.
Column 3	Enter the amount of mortgage or other encumbrances on the real estate.
Column 4	Enter the actual cost of acquisition of real estate. (See footnote at bottom of Schedule A).
Column 5	Enter the book value of real estate less the amount of mortgage or other encumbrances.
Column 6	Enter total expenses for the year related to owning the property.
Column 7	Enter any income derived from ownership of the property (rents, etc.)

PAGE EIGHT – SCHEDULE B – MORTGAGE LOANS

This schedule lists all mortgages owned by the company as of December 31. If the company owns no mortgages, write "None" on this schedule. (Note that Section 380.471 RSMo – "Approved Investments" requires the value of the real estate to be twice that of the amount loaned by the company on the real estate).

Column 1	Enter control number (if any) assigned to mortgage by the company.
Column 2	Enter the city in which the mortgaged property is located.
Column 3	Enter the state in which the mortgaged property is located.
Column 4	Enter the type of property mortgaged (i.e. residential or commercial) and name of borrower.
Column 5	Enter effective date of mortgage.
Column 6	Enter rate of interest defined in the mortgage.
Column 7	Enter book value of mortgage net of accrued interest.
Column 8	Enter any adjustments to mortgage value.
Column 9	Enter value of property from most recent appraisal.
Column 10	Enter date of last appraisal
Column 11	Enter amount of accrued interest at December 31 of current year.

PAGE NINE – SCHEDULE D – PART 1 – BONDS

This schedule lists all bonds owned by the company as of December 31. If the company owns no bonds, write "None" on this schedule. (Note that Section 380.471 RSMo ("Approved Investments") and 20 CSR 200-12.020 ("Extended Missouri Mutual Companies' Approved Investments") apply to bond investments held by the Company)

Column 1	Enter the complete description of bonds owned.
Column 2	Enter the interest rate, and Enter the alphabetical letters of the months in which interest is paid. (Example: February and July = F – J)
Column 3	Enter the year and month of maturity.
Column 4	Enter the bond book value.
Column 5	Enter the bond par value.
Column 6	Enter the percentage used, when multiplied times the par value equals the market value.
Column 7	Enter the market value.
Column 8	Enter the actual amount paid to acquire the bond less any amount paid for accrued interest.
Column 9.1	Enter the amount of interest accrued as of December 31 of current year.
Column 9.2	Enter the amount of interest received by the company during the year.

PAGE TEN – SCHEDULE D – PART 2 – STOCKS

This schedule lists all stocks owned by the company as of December 31. If the company owns no stocks, Write "None" on this schedule. **Note that investment in stocks require prior approval from the DIFP, in accordance with Section 380.471 RSMo (Approved Investments).**

Column 1	Enter the complete description of stocks owned on December 31.
Column 2	Enter the number of shares of stock owned.
Column 3	Enter the book value. Most companies generally use the cost as book value.
Column 4	Enter the rate per share used to obtain the current market value.
Column 5	Enter the market value. This is the stock's admitted value.
Column 6	Enter the actual cost paid to acquire the stocks.
Column 7.1	Enter the amount of dividend which was declared but has not been received.

Column 7.2	Enter the amount of dividend received during the year.
Column 8	Enter the year the stock was acquired.

PAGE ELEVEN – SCHEDULE N - CASH

This schedule lists all balances in banks as shown by company records as of December 31. If the company has closed an account, this account should also be listed. The schedule has headings for the following types of cash accounts:

Cash on Hand (Petty Cash Fund)

- Funds held at the Company generally used to purchase supplies and make changed for customers.

Cash on Deposit – Checking Accounts

- Generally non-interest bearing operating or claim accounts. Company should indicate name of bank and use of account.

Savings Accounts

- Generally interest bearing accounts where excess funds are kept until needed to pay claims and expenses.

Money Market Account

- Generally interest bearing accounts where excess funds are kept until needed to pay claims and expenses. May or may not be FDIC insured. DIFP approval should be obtained prior to opening a money market account that is not FDIC insured.

Repurchase Agreements

- Agreements under which a Company may trade cash for interest-bearing securities for a specified period of time. Typically a Company may engage in overnight repurchase agreements, wherein the operating account balance is transferred to an interest-bearing account overnight. The balance is returned to the operating account prior to business hours the following day. The Company realizes interest income for the hours in which the funds were invested. The Company should obtain approval from the DIFP prior to investing in repurchase agreements.

Certificates of Deposit (CDs)

- The Company should list all CD's, the name of the issuer and any identifying numbers for the CD. The listing should be detailed by individual CD. If the space provided is not sufficient for all CD's held, the Company should attach a detailed listing of the CD's to the Annual Statement and summarize the listing in Schedule N, noting the attachement.

Column 1	Enter the name and address of the bank.
Column 2	Enter the amount of interest received by the company during the year.
Column 3	Enter the amount of interest accrued as of December 31.
Column 4	Enter the bank balance as of December 31.
Total	Enter the total of each column.

Companies should limit cash investments in any one financial institution to the $100,000 FDIC insurance limit, or obtain additional surety coverage for investments in excess of $100,000 in any institution. If the Company has additional surety coverage, a copy of the bond should be attached to the annual statement.

REFERENCE SECTION

ASSETS

Generally, assets are divided into two broad categories, “invested assets” and “other assets”.

Invested Assets

Investment of the companies’ excess funds must be approved by the board of directors, and accordingly shown in the minutes of their meetings. Missouri statutes are silent regarding the investments for Part I companies. However, Part II companies are limited to those investments which are authorized by Section 380.471. This section enumerates these investments:

1. Bonds of the United States.
2. Bonds of the State of Missouri.
3. Bonds of any county or municipality of this state.
4. Improvement bonds for street improvements in any city or town of this state.
5. Highway improvement bonds issued by any county.
6. Notes, bonds, debentures or other similar obligations issued by the federal land banks, federal intermediate credit banks, or banks for cooperatives or any other obligations issued pursuant to the act known as the Farm Credit Act of 1971.
7. Bonds issued by building and loan funds.
8. Mutual investment funds.
9. Mortgages, upon unencumbered real estate in this state or in any other state, provided the value of the real estate is twice that of the mortgage. (Mortgage amount cannot exceed 50 percent of property value.)
10. Certificates of deposit issued by any bank, savings and loan, or credit union, provided the amount is fully insured.
11. Loans to any other insurance company provided such amount shall not exceed an amount equal to 50 percent of the average annual income of the borrowing company during the last five year period.
12. Any other investment as may be approved by the director.

Thus, when completing the annual statement form, only authorized investments may be shown. Investment assets are shown on lines 1 through 6.

Other Assets

Other assets consist of assets needed for company operations and are shown on lines 7 through 15. Assets which do not fit any category listed on lines 7 through 11 should be written in on lines 12 to 15.

BONDS

Section 380.471 RSMo ("Approved Investments") and 20 CSR 200-12.020 ("Extended Missouri Mutual Companies' Approved Investments") apply to bond investments held by the Company. The statutes and/or regulations allow for unlimited investment in bonds issued by U.S. Government and Missouri municipalities. Investments in corporate bonds are limited to high quality bonds ("Aa3" or higher rating by Moody's / AA- or higher rating by Standard & Poors). In addition, no more than 5% of a company's assets may be invested in the corporate bonds of a single issuer, and no more than 20% of a company's assets may be invested in the aggregate in corporate bonds.

Bonds are obligations issued by business units, governmental units, and certain non-profit units, and certain non-profit units, and having a fixed schedule for one or more future payments of money. This definition includes commercial paper, negotiable certificates of deposit, repurchase agreements, and equipment trust certificates. Municipal and state bonds may be classified as general obligation bonds or special obligation bonds secured by revenue from a restricted source. Corporate bonds are either secured by a claim to mortgage assets or other specific collateral, or are unsecured. Such investments may be public issues or private placements. Bonds held for investment usually generate income to the investor. Their sale may result in capital gain or loss.

Bonds which pay interest at a rate greater than that which the market requires of similarly rated securities will sell at a "premium" above the face amount of the bond. Bonds with interest rates below the current market will sell at a "discount" from the face amount.

Valuation

Bonds are generally valued at cost and are amortized under the valuation standards of the National Association of Insurance Commissioners and the Securities Valuation Office. Except for privately placed issues, cost cannot exceed the market value at the date of acquisition, including in each case brokerage and other related fees.

STOCKS

Stocks consist of an equity interest (ownership) in another company. Investment income generated from stocks consists of dividends paid by the stock issuer. Sale of stock may result in capital gain or loss, depending upon whether the market value of the stock increased or decreased from the acquisition date to the disposal date.

In accordance with Section 380.471 RSMo (Approved Investments), investment in stocks require prior approval from the DIFP.

Valuation

Stocks are generally valued at market value. Thus, if the market price of a stock held by a company increases during the period, the company's surplus increases as a result of an unrealized gain. Likewise, if the market price of a stock decreases during the period, the company's surplus decreases as a result of the unrealized loss. Proper Annual Statement reporting for stocks requires the market value to be reported on Page 1 Line 2 "Stocks" and the net unrealized gains and losses for the year to be reported as adjustments to surplus on Lines 16-18 in the "Gain or Loss in Surplus" section on Page 5 of the statement.

REAL ESTATE

20 CSR 200-12.020 ("Extended Missouri Mutual Companies' Approved Investments") applies to home office real estate investments held by the Company. The regulation limits a company's investment in home office real estate to 50% of surplus in excess of the guaranty fund. Investment in home office real estate in excess of this limit requires prior approval from the DIFP.

Cost

The cost of real estate acquired by purchase is the actual amount paid upon purchase, plus the costs incurred to place the real estate asset in usable condition. Elements of cost should also include brokerage fees, legal fees, demolition, clearing and grading, fees of architects and engineers, and any additional expenditures made for equipment and fixtures that are made a permanent part of the structure.

Cost should be reduced by any amounts received for sales of rights or privileges in connection with the property or by any cash recoveries received after acquiring title to the property.

Where more than one property is acquired at a group price, or where the cost includes both land and building, the price paid must be allocated among the assets purchased. This normally is done on the basis of relative values, which may be determined by appraisals made for insurance purposes, by assessed valuations made for property tax purposes, by independent appraisal, or by some other reasonable method such as the previous owner's percentage allocation or underwriting estimates. If property is purchased for other than cash, the acquired property should be recorded at the fair market value of such property.

Real estate is sometimes subject to encumbrances. There are generally two types of encumbrances, namely those assumed as part of the acquisition of the property and those contracted for concurrent with

or subsequent to the acquisition of the property. In the case of an encumbrance assumed as part of the acquisition of the property, the amount paid upon purchase is used in the determining "cost". In cases where the encumbrance is contracted for concurrent with or subsequent to the acquisition of the real estate, the amount of the encumbrance is ignored in determining "cost".

Book Value

In general, book value refers to amounts at which individual items are stated in books of account or in financial statements. For real estate that is occupied by the company, this would be cost, stated net of any encumbrance, plus additions and increases by adjustment, less retirements and decreases by adjustment, including depreciation. Encumbrances include mortgages and other related debt.

Market Value

Market value is the price that a property would bring in a competitive and open market under all conditions requisite to a fair sale, with the buyer and seller acting prudently and knowledgeably and assuming the price is not affected by any undue stimulus.

Appraised Value

An appraisal is an opinion of value for an adequately described property, as of a specific date, supported by the analysis of relevant data. To arrive at this value, three methods are used:

1. Market Data Approach – a comparative analysis of current sales prices of similar properties, after making necessary adjustments for any difference in the properties.

2. Cost Approach – an estimated value based on the cost of reproduction or replacement of the improvements less depreciation plus the value of the land. (Land value is usually determined by the market data approach.)

3. Income Approach – an estimated value based on the capitalization of income and productivity. It is concerned with the present value of future income.

In most appraisals, all three approaches ordinarily will have something to contribute. Each is used independently to reach an estimated value. Then, by applying to each separate value a weight proportionate to its merits in that particular instance, a conclusion is reached concerning one appropriate value; this procedure is known as correlation.

Statement Value

Real estate shall be shown net of any encumbrance. The instructions for the annual statement require that the admitted value of properties occupied by the company (home office real estate) shall not exceed actual costs, plus capitalized improvements, less normal depreciation. This formula is to apply whether the property is held directly or indirectly by the company.

Income Derived from Real Estate

In the annual statement, a company must include in both its income and expenses an amount for rent relating to its occupancy of its own buildings. This amount can be the estimated current market rental value of the space involved; or it can be the amount derived from consideration of the repairs, expenses, taxes, and depreciation incurred, plus interest added at an average fair rate on the book value of the company's investment in its home office buildings. The figure thus determined, being both charged to expenses and credited to income, has no effect either on the company's overall net income or surplus.

Depreciation and Amortization

The cost of property, other than land, should be depreciated over its estimated useful life. Useful life for buildings and improvements can best be obtained from contractors, appraisers, engineers, and manufacturers. Estimates published by the Internal Revenue Service can be helpful in the selection of useful life for specific assets. Depreciable life may at times be fixed by contract, such as in a leasehold investment.

A variety of depreciation methods is available, and a company should select the method that is most appropriate, provided, however, that the method is both systematic and rational. Depreciation methods in use include the straight-line method and accelerated methods, such as sum-of-the-years' digits and various declining balance methods.

Because real estate leasehold improvements revert to the lessor at the end of the lease, and the lessee receives benefits from the improvements only during the life of the lease, a leasehold improvement is subject to amortization over the lease life.

Repairs, Maintenance and Capital Improvements

Expenditures may be classified in two categories. As a general rule, expenditures for ordinary repairs that are necessary to put assets back into good operating condition, and for maintenance to keep them that way, are expensed as they are incurred.

Expenditures which add to or prolong the life of the property should be capitalized. In practice, most organizations establish a minimum capitalization amount. Individual expenditures below this minimum are expensed rather than capitalized to avoid capitalization of immaterial amounts.

Real Estate Taxes

Except for the development phase of a project, real and personal property taxes are charged against income. Real and personal property taxes are based upon the assessed valuation of property as of a given date, as determined by the laws of a state or other taxing authority. The proper accounting treatment must determine when the liability for real and personal property taxes should be accrued. Consistency of application from year to year in establishing this liability is the most important consideration.

The preferred basis for determining the liability and charges for real and personal property taxes should be established at the time of purchase. A practical aspect of the legal liability for these taxes must be considered when title to property is transferred during the taxable year, whereby the date of personal obligation generally controls. Adjustments for property taxes paid or accrued are frequently incorporated in agreements covering the sale of the real estate and determined between the buyer and seller's obligations. Once established, this liability can be applied consistently throughout the ownership of the property.

CASH

Cash is defined as a negotiable medium of exchange free of any restrictions and available for any ordinary business purpose. Cash ordinarily consists of money, negotiable money orders, bank drafts and checks, and balances on deposit with banks after any outstanding items have been deducted. Two principal characteristics of cash are its general acceptability and availability for use in business transaction and in the payment of debts, and its use as the accounting measure for all other items.

A general rule to follow in classifying a particular asset as cash is that the asset must be a medium of exchange that a bank will accept for deposit and allow an immediate credit to the depositor's account. Also classified as cash for financial statement purposes, although not falling with the above description of cash, are temporary investments in the form of savings accounts and nonnegotiable certificates of deposit in qualified banks and trust companies and money market bank accounts.

Cash on Hand

Generally, because of the manner in which an insurance business is conducted, the only true cash (money) in a company's office will consist of petty cash funds. Petty cash funds in the company's principal or any

official branch office and under the control of the company are normally allowed as admitted assets. Most states require that petty cash funds must be in the complete control of the company.

Also classified as cash on hand for financial statement purpose, and usually allowed as admitted assets if acceptable by banks for deposits, are negotiable checks, bank drafts, cashier's checks, money orders, and certified checks which are in the process of being deposited.

Cash on Deposit

Cash on deposit includes demand deposits and nonnegotiable temporary investments in banks, savings and loan associations and trust companies that are in the form of savings accounts, demand certificates of deposit, and funds in transit at the statement date, to such banks and trust companies. Cash on deposit is allowed as an admitted asset. All funds listed as being in transit at statement date must be credited to the account by the bank within a certain number of days that follow the statement date.

Demand Deposits

Demand deposits are funds on deposit with banks, savings and loans, and savings banks. They are subject to immediate withdrawal and are classified as cash. The various states prescribe procedure that insurance companies must adopt for the issuance of checks/drafts from demand deposit accounts. Among other things, these procedures deal with authorized signatures, facsimile signatures, and verification/reconciliation requirements.

Savings Deposits

These are interest-earning accounts in which the depositor is required (or may at any time be required) by the bank to give notice in writing not less than 30 days before a withdrawal is to be made. Banking regulations provide that banks may waive the requirement of notice if the waiver applies to all depositors having the same provision of notice.

The general banking practice today is to waive this 30 day notice, with balances withdrawable at any time during banking hours. Interest usually is earned from date of deposit to date of withdrawal, and is credited periodically to the account.

Demand Certificates of Deposit

Demand certificates of deposit (CD's) usually are issued in designated amounts; they have a fixed maturity date and a fixed interest rate to maturity. They can, however, be redeemed prior to maturity but, in some instances, with an interest penalty. Demand CD's are classified as cash as long as they are nonnegotiable.

Income from Bank Deposits

Income consists of the interest that is earned on interest bearing bank deposits and on demand certificates of deposit. Earned interest consists of interest that is collected during the period, plus due or accrued interest at the end of the period, minus due or accrued interest at the beginning of the period.

The amount allowed as an admitted asset for due or accrued interest is the interest or dividend due and payable, but not credited, on deposits in banks and trust companies or on accounts with savings and loan associations.

The accrued interest on savings accounts is admissible because, if the deposit was withdrawn at the statement date, interest would be paid to the date of withdrawal. Accrued interest on demand CD's may be wholly or partially not admitted in some states, as interest is payable at maturity, and, if the certificates are redeemed early, an interest penalty may be assessed. The certificate must be examined to determine the status of accrued interest. If the certificate were to be redeemed before maturity, and the interest would be payable, the accrued interest may be admitted but not in an amount that exceeds the amount receivable if redeemed prior to maturity. The maximum amount of accrued interest that may be admitted on a certificate which provides for an interest penalty for early redemption is based upon reduced interest rate.

Money Market Account

A segregated interest bearing account with a commercial banking institution, which accounts pay depositors interest at rates established by the institution.

Money Market Mutual Fund

Shares in the diversified, open end investment company, organized under the Investment Company Act of 1940, which company invests solely in money market instruments (i.e., Short Term Debt Instruments with maturities less than one year).

OTHER INVESTMENTS

Any investment asset not shown above in line 1 through 5 is shown on line 6, "Other Investments". For Part II companies, any investment listed here must have prior approval of the director.

Investment Income Due

Income due represents certain amounts of income which are legally owed to the company as of the statement date but have not yet been received. These amounts are to be considered as earned in the annual statement.

Income due which is of doubtful collectibility should either not be accrued or should be treated as nonadmitted. On certain bonds in default, the company should not report interest due because the association value of the bond includes such interest.

Accrued Investment Income

Income accrued represents interest that would be collectible if the obligation were to mature as of the statement date. Again, this type of investment income is considered earned.

OTHER ASSETS

Agents' Balances or Uncollected Premiums/Assessments

Agents' balances or uncollected premiums/assessments represent insurance premiums/assessments due from an agent, a policyholder, or an insurance company. The amount receivable includes the unpaid premiums/assessments for policies written by the insurance company, as well as the amount receivable according to the contract terms for reinsurance premium/assessments assumed.

Uncollected premiums/assessments from an agent represent those premiums/assessments due the company from an agent based on the agent's contract with the company to write insurance, to collect the necessary premiums/assessments, and to remit the collected premiums/assessments net of commissions.

Uncollected premiums/assessments from a policyholder, however, represent premiums/assessments due the company from a policyholder which may have been directly solicited either by an agent or by the company. The company will send "direct billing" to the policyholder and the policyholder will remit the premiums/assessments directly to the company. If an agent has solicited the premiums/assessments, the company, after receiving payment from the policyholder, will then either send the agent a check or otherwise credit the agent's account for his uncollected commission. Uncollected premiums/assessments due from other insurance companies usually represent reinsurance assumed.

Under agency billing or direct billing, the uncollected premiums/assessments can be shown net of commission or, if the commission is not netted, a corresponding liability is reflected.

NONADMITTED ASSETS

Because, in many respects, the statutory balance sheet is presented on a conservative basis, certain assets (which may have a recognized value in noninsurance corporations) are accorded no value and thus reduced the reported surplus of the insurance company. Some assets may be nonadmitted because they do not conform to the laws and regulations of the state, and other assets may be nonadmitted because they are not readily convertible to liquid assets. Changes in the amount of nonadmitted assets are charged or credited directly to surplus.

In general, authorized investments that are within the limitations of the laws and regulations of the state are considered to be admitted assets. Investments exceeding the limitations, or those of questionable quality, may be nonadmitted.

The following examples are nonadmitted assets:

Excess of Book Value over Market Value of Securities: In keeping with the concept of presenting the balance sheet on a conservative basis, the unrealized loss on mutual funds and impaired bonds reduces the admitted asset value on the annual statement.

Deposits in Suspended Depositories (Less the Estimated Recoverable Amount):
The amounts on deposit in excess of what can be reasonably estimated as recoverable are nonadmitted.

Agent's Balances or Uncollected Premiums/Assessments over Three Months Due:
The statutes of most states require that agent's balances or uncollected premiums over three months due be nonadmitted because of the uncertainty of collection. The over three months rule does not apply to amounts due from solvent insurance companies provided the assuming insurer maintains sufficient reserves as to the ceding insurer to apply the principles of offset accounting or the ceding insurer is licensed and in good standing in the state of the assuming insurer's domicile.

Equipment, Furniture and Supplies: The company may record furniture and equipment as a ledger asset, depreciate it, and nonadmit it in the exhibit of assets in the statutory financial statements, or the company may expense the furniture and equipment when it is purchased. Supplies are normally expensed when purchased.

LIABILITIES

LOSSES UNPAID

This chapter will discuss the recognition, valuation and estimation of unpaid losses.

Recognition

Even though there are many methods of estimating unpaid losses, the underlying goal is to have unpaid losses reflect the liability outstanding for losses that have occurred as of the report date. Losses are recognized as they occur and not as they are reported to the company. Because of this basis of recognition, unpaid losses are grouped in (1) reported and (2) incurred but not reported (IBNR). Reported losses are those of which the company has been notified. The incurred but not reported losses are those losses that have occurred but have not yet been reported to the company. As a practical matter, losses which have been reported to the company but not yet entered into the system may be included as IBNR.

Valuation

Generally, a company is required to determine what the value of its claims will be when they are ultimately settled.

Estimation of Reported Losses Unpaid

Unpaid losses for claims that have been reported may be determined in many ways. One way is for the claim to be assigned to an individual who estimates the value of the claim as needed facts are gathered.

Shown below are three examples of methods of calculating unpaid losses which use information that may be maintained on an accident or report year basis. If historical information is maintained and used by accident year, then the unpaid losses must be split from the total. If report year data is used, the result is an unpaid loss figure for reported claims and IBNR unpaid losses must be estimated separately.

Reported losses may be estimated based on paid loss patterns for particular lines or coverages. This method determines the pattern of prior year's paid losses as they relate to ultimate losses. A percentage of paid losses to ultimate losses is calculated at each stage of development. This percentage is then divided into the paid losses for other years in the same stage of development to determine the estimated ultimate loss dollars. The paid losses are then subtracted from the ultimate loss dollars to determine the required unpaid loss amounts. The sum of these amounts for all open years is the total unpaid losses. This method, as is the case with respect to any method based in whole or part on past experience, is only

reliable to the extent there is sufficient volume of similar loss claims in prior years. In addition, changing trends and factors affecting a company's loss liability, such as inflation and trends in jury awards, must always be carefully considered and reflected. Special problems, such as changeovers from a tort to a no-fault system, require special consideration and treatment in estimating unpaid losses.

Another means of establishing unpaid losses is to estimate ultimate loss counts and estimate the average ultimate cost of a claim. These two estimates are then multiplied by each other to establish an ultimate cost. Paid losses to date are subtracted from this ultimate cost figure to arrive at unpaid losses.

Some of the other methods that may be used include frequency and severity analysis and projection of loss ratios.

The foregoing are examples of the many general methods in use. Also, in practice, there are many variations to these methods. Some companies use a combination of methods to establish their unpaid losses. For example, for liability losses that require a great deal of time to settle, average unpaid loss amounts may be assigned until adequate information is compiled. Then the individual case estimate methods may be used.

Incurred but Not Reported Losses

With reported losses representing the liabilities for reported claims, the company must also record a liability for losses that are incurred but not reported.

Whatever methods are selected for establishing unpaid losses, the goal should always be reserve adequacy.

PREMIUM BASIS COMPANIES AND ASSESSMENT COMPANIES

Many companies have not set up an unearned premium reserve in the past because they are an assessable mutual insurance company. This provision in itself does not necessarily mean your company need not maintain an unearned premium reserve.

The Articles of Incorporation and By-laws should state the basis under which you are conducting business. You may choose to do business strictly on an assessments basis, or strictly on a premium basis, or on a premium plus assessment basis.

If the Articles of Incorporation decree the company to be strictly an assessable company and all of your policy jackets and declaration sheets state this, no unearned premium reserve is required, although, as a good business practice, the DIFP recommends that all mutuals set up an unearned premium reserve.

It is the interpretation of the DIFP that companies which have in their Articles of Incorporation the stipulation that a "premium" charge be made, an unearned premium reserve should be maintained. The fact that this policy is an assessable policy does not invalidate the need of an unearned premium reserve.

UNEARNED PREMIUMS

At the expiration of an insurance contract or policy, the entire premium has been earned. At any point, prior to expiration, the company is required to establish a pro rata portion of the premium as a liability to cover the remaining policy term. The company's total unearned premium reserve represents the unearned premium liability for all policies in force.

A number of methods are used for the computation of the unearned premium reserve. In one method, the unearned premiums are calculated by applying the appropriate factors or fractions to the original premiums in force, segregated by line of business, term, and date of expiration. The premium for the full original term is used for this purpose because the factors or fractions are calculated on this basis. When a policy is cancelled, the full original premium should be deducted from the total premium in force; otherwise, premiums in force and unearned premiums would be overstated. During the life of a policy, changes are frequently made, resulting in additional or return premiums. For example, a one-year policy may have its premium increased or decreased by a change in coverage after it has been in force for six months, in which case the insured might pay an additional premium or receive a return premium. Theoretically, the full annual premium for changes should be calculated so that premiums in force for the one-year term may be correspondingly increased or decreased. However, as a practical matter, some companies adjust the premiums in force by the amount of the actual additional premium or return premium, other than in the event of cancellation, on the assumption that the resulting errors in the premiums in force will largely offset one another.

One of the more common assumptions used by companies to calculate an unearned premium reserve is the monthly pro rata method. This method assumes that, on the 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. The following schedule demonstrates the application of this methods (fractions were converted to decimals, for example 1/24 = .0417).

Computation of Unearned Premium

As of December 31

		IN-FORCE		RATE		UNEARNED
Premium in-force on policies expiring in Jan			x	.0417	=	
Premium in-force on policies expiring in Feb			x	.1250	=	
Premium in-force on policies expiring in Mar			x	.2083	=	
Premium in-force on policies expiring in Apr			x	.2917	=	
Premium in-force on policies expiring in May			x	.3750	=	
Premium in-force on policies expiring in Jun			x	.4583	=	
Premium in-force on policies expiring in Jul			x	.5417	=	
Premium in-force on policies expiring in Aug			x	.6250	=	
Premium in-force on policies expiring in Sep			x	.7083	=	
Premium in-force on policies expiring in Oct			x	.7917	=	
Premium in-force on policies expiring in Nov			x	.8750	=	
Premium in-force on policies expiring in Dec			x	.9583	=	
		--------------				----------------
Totals						
		--------------				----------------

A second method is to 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.

If a company assumes reinsurance, it must provide the same unearned premium reserve that would have been provided by the ceding company if reinsurance had not been placed.

There are a number of methods used to calculate unearned premium reserve. Certain states have a provision in their statutes which prescribes the method or methods which should be used.

BORROWED MONEY

Borrowed money includes liabilities for loans except those secured by mortgages on company real estate and surplus loans. The amount to be reported is the amount unpaid at the balance sheet date. Resolutions authorizing borrowed money are usually shown in the minutes of the board of directors, executive, investment or finance committees.

Loans secured by mortgages on company real estate are treated as a reduction from the asset value of such real estate rather than as "Borrowed Money". For further discussion, see 4-Real Estate.

LIABILITY WRITE-INS – OTHER ACCRUED EXPENSES

Items to be reported in the blank liability lines should consist of items that do not fit the description contained in the other liability lines. These items often consist of operating expenses that are incurred during the reporting year, but not paid until a subsequent period. The company should provide a detailed description of these items. Immaterial items may be grouped together under a general description such as "Miscellaneous Expenses Payable." Detailed records and source documents should be maintained by the company, in order that the origin of the liabilities may be ascertained. Some examples of liability write-ins include the following:

1. Payroll, agent commissions or director fees earned in the current year, but paid in a subsequent period.
2. Independent adjuster, legal or accounting service fees incurred in the current year, but paid in a subsequent period.
3. Amounts withheld from employee payroll and unpaid at the balance sheet date, including any payroll taxes, insurance premiums and retirement plan deductions.
4. Accrued annual leave, sick leave and/or personal leave that may be carried over to the subsequent year or that the Company "purchases" from the employee after year-end. The reported accrued liability should be based upon the rate of compensation and balance outstanding at year-end.
5. Any other general expenses incurred during the year, but paid on a date subsequent to December 31. Common examples include utilities (electric, gas, telephone, internet, postage), advertising, and printing costs.

PREMIUMS/ASSESSMENTS

An insurance company is a service organization that performs the function of selling protection in the form of insurance policies for which it charges a price, referred to as a premium/assessment.

Premiums (assessments) should include all direct premiums/assessments collected by the company.

Companies which have 100% reinsurance should include all gross premium/assessment collected. If a company has a cooperative agreement whereby the company uses the endorsement of a second company for certain coverages, this premium/assessment should not be shown in the gross premium/assessment figure, nor should the commission received from this type of transaction be included in "Gross Premium/Assessment". Commissions received from cooperative agreements should be included in Other Insurance Income, Page 2, Section 6.

Paid for Reinsurance

The gross amount of premium/assessment ceded to reinsurers should be shown here. Any commissions received should be shown under Other Insurance Income, Page 2, Section 6.

Do not show monies collected from cooperative agreements with reinsurers.

Different methods of recording written premiums/assessments are used and generally follow the company's plan of operation. For example, premiums/assessments may be recorded when the daily report is processed, or the premium/assessment is due, or the premium/assessment is paid. Many companies use combinations of these methods. Whatever recording method is used, premiums/assessments written include the following categories: direct premiums/assessments, assumed reinsurance premiums, and ceded reinsurance premiums.

Direct Premiums/Assessments

The major portion of most companies' premiums/assessments are direct premium/assessments. Direct premiums/assessments include all premiums/assessments arising from policies issued by the company acting as the primary insurance carrier. These premiums/assessments should be adjusted for any return or additional premiums arising from endorsements, cancellations, audits, and retrospective rating plans.

Direct written premiums/assessments are generally recorded for the full policy term.

Endorsement entries generally follow the same recording path as the original entries. Those policies subject to audit may be adjusted on a monthly, quarterly, semi-annual or annual basis with premium/assessment resulting from a physical review of the exposure immediately recorded as written. Adjustments resulting from retrospective rating plans are immediately recorded as written premiums/assessments.

Assumed and Ceded Reinsurance Premiums

Assumed reinsurance premiums include all premiums (less return premiums) from contracts issued to reinsure another insurance company which is providing the primary coverage. Ceded reinsurance premiums include all premiums (less return premiums) transferred to another insurance company for reinsurance purchased.

Pooling

Pooling is a term used to describe the practice of sharing the business of a group of insurance companies affiliated or under common management. Premiums written by the associated companies are customarily

ceded to or reinsured by one company; then, after provision for any outside reinsurance, the premiums are ceded back to the pooling participants as provided by the contract.

Underwriting Pools, Associations, and Syndicates

Companies also participate as members of an underwriting pool, association or syndicate organized to provide special insurance coverages. Operating results, including the applicable premiums, are distributed to member companies based on their prescribed share.

Usually, statements are received by the company showing the total premiums written, as well as the member company's participation. These premiums are recorded on a summary basis (usually by line of business) as direct or assumed business depending on the requirements of the particular association.

Net Written Premiums/Assessments

The net written premiums/assessments of an insurance company are equal to the direct premiums/assessments plus the reinsurance assumed premiums, less the reinsurance ceded premiums.

Earned Premiums

The earned premiums of an insurance company represent the pro rata portion of the premiums/assessments in force applicable to the expired portion of the policy term, plus or minus the premiums earned on audits and other adjustments. To compute earned premiums, deduct from net premium writings the net change which has taken place during the period in total unearned premium reserve.

INVESTMENT INCOME

Investment income arises from interest on bonds, dividends on stocks, interest on mortgage loans, rent on real estate and other miscellaneous sources. Such income is on a gross basis and does not reflect investment expenses, taxes, depreciation, depletion or interest on borrowed money.

Investment Income Due

Income due represents certain amounts of income, particularly in connection with mortgage loans, which are legally owed to the company as of the statement date but have yet been received. These amounts are to be considered as earned in the annual statement.

Income due which is of doubtful collectibility should either not be accrued or should be treated as nonadmitted. On certain bonds in default, the company should not report interest due because the association value of the bond includes such interest.

Accrued Investment Income

Income accrued represents interest that would be collectible if the obligation were to mature as of the statement date. Again, this type of investment income is considered earned.

The amounts that are shown as accrued for preferred stocks and common stocks are, in accordance with NAIC instructions, dividends on stocks declared to be ex-dividend on or prior to December 31 where said dividend is payable on or after January 1 of the following year.

Accrual of Discount and Amortization of Premium

The premium between the par value and the purchase price of a bond may be considered a proper decrease in investment income and is amortized over the number of years from acquisition of the bond to the maturity date or call feature producing the lowest amortized value. If bond premiums were not amortized, the current year's earnings would be charged for the entire premium, which would understate earnings. The discount between the par value and the price paid may be considered a proper element of investment income and should be accrued to the maturity date of the bond. If bond discounts were not accrued, the current year's earnings would be credited for the entire discount, which would overstate earnings. The discount between the cost and par value at maturity is amortized over the number of years from date of purchase to maturity.

Rent on Company-Owned Office Building

Real estate income from company-owned property includes rent received from the leasing of space to others and also an imputed rental charge for the portion of the building occupied by the company. This rental charge is made on the theory that such space can be rented to others, therefore, the company is entitled to income on its investment. Some states require that this rent be comparable to rent received from others and/or rental rates of like property in the same area. It should be noted that an offsetting charge is made to rent expense.

If there is a mortgage on real estate, the interest paid is deducted from real estate income.

OTHER INSURANCE INCOME

This is income derived from insurance operations, but no included in premium or investments and includes such income as policy service charges/membership fees and bonuses/commissions from reinsurers.

OTHER INCOME

The section consists of all income not directly related to insurance operations and includes rental income and any other income not included in the preceding sections.