

TUSCARORA WAYNE MUTUAL GROUP, INC.

***YEARS ENDED
DECEMBER 31, 2016 AND 2015***



Independent Auditors' Report

Board of Directors
Tuscarora Wayne Mutual Group, Inc.
Wyalusing, Pennsylvania

Report on the Statutory Financial Statements

We have audited the accompanying statutory financial statements of Tuscarora Wayne Mutual Group, Inc., (the Group) which comprise the statutory statements of admitted asset, liability and members' equity as of December 31, 2016 and 2015, and the related statutory statements of members' equity for the years then ended and the related notes to the statutory financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices prescribed by the Insurance Department of the Commonwealth of Pennsylvania. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Group's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the admitted asset, liability and members' equity of Tuscarora Wayne Mutual Group, Inc. as of December 31, 2016 and 2015, in accordance with accounting practices prescribed by the Insurance Department of the Commonwealth of Pennsylvania as described in Note 1.

Basis of Accounting

We draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of the financial reporting provisions of the Insurance Department of the Commonwealth of Pennsylvania, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to comply with the requirements of the Commonwealth of Pennsylvania. Our opinion is not modified with respect to that matter.

Restriction on Use

This report is intended solely for the information and use of the board of directors and management of Tuscarora Wayne Mutual Group, Inc., rating agencies and for filing with state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Brown Schultz Steidman & Fritz

Camp Hill, Pennsylvania
April 17, 2017

TUSCARORA WAYNE MUTUAL GROUP, INC.

STATUTORY STATEMENTS OF ADMITTED ASSET, LIABILITY AND MEMBERS' EQUITY

DECEMBER 31, 2016 AND 2015

ADMITTED ASSET

	<u>2016</u>	<u>2015</u>
Investment in subsidiary	<u>\$ 76,000,264</u>	<u>\$ 67,269,879</u>
Total assets	<u><u>\$ 76,000,264</u></u>	<u><u>\$ 67,269,879</u></u>

LIABILITY AND MEMBERS' EQUITY

Liability, payable to subsidiary	\$ 300	\$ 300
Members' equity	<u>75,999,964</u>	<u>67,269,579</u>
Total liability and members' equity	<u><u>\$ 76,000,264</u></u>	<u><u>\$ 67,269,879</u></u>

See notes to statutory financial statements.

TUSCARORA WAYNE MUTUAL GROUP, INC.

STATUTORY STATEMENTS OF MEMBERS' EQUITY

YEARS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
Members' equity:		
Beginning	\$ 67,269,579	\$ 64,317,509
Net unrealized capital gain	<u>8,730,385</u>	<u>2,952,070</u>
Ending	<u>\$ 75,999,964</u>	<u>\$ 67,269,579</u>

See notes to statutory financial statements.

TUSCARORA WAYNE MUTUAL GROUP, INC.

NOTES TO STATUTORY FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

1. Nature of operations and significant accounting policies:

Organization:

Tuscarora Wayne Mutual Group, Inc. (Group) is a mutual holding company that owns 99.811% of Susquehanna Capital Corp. (Susquehanna), a stock holding company that owns 100% of Tuscarora Wayne Insurance Company (TWIC) and Lebanon Valley Insurance Company (Lebanon). TWIC writes personal and commercial business in the states of Pennsylvania and Ohio, and its principal lines of business are homeowners, commercial multi-peril, farmowners and fire. Lebanon writes property and liability insurance exclusively in the Commonwealth of Pennsylvania.

TWIC owns 90.1% of Keystone National Insurance Company (Keystone). Keystone is a property and casualty insurance company domiciled in the Commonwealth of Pennsylvania and writing business primarily in Pennsylvania, Ohio, Kentucky and Indiana for agent/owners of Keystone Insurers Group, Inc. Its primary lines of business are commercial multi-peril, fire and homeowners.

TWIC holds a \$2.1 million surplus note from its acquisition of Lebanon in 2010.

The Group's members consist of all current policyholders of TWIC and Lebanon. The Insurance Department of the Commonwealth of Pennsylvania exercises regulatory authority over the insurance company.

Principles of accounting:

The financial statements of the Group are presented on the basis of accounting practices prescribed by the Insurance Department of the Commonwealth of Pennsylvania.

The Insurance Department of the Commonwealth of Pennsylvania recognizes only statutory accounting practices prescribed or permitted by the Commonwealth of Pennsylvania for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under Pennsylvania Insurance Laws. The National Association of Insurance Commissioners' *Accounting Practices and Procedures Manual* has been adopted as a component of prescribed practices by the Commonwealth of Pennsylvania. During 2016 and 2015, the Group did not have any permitted accounting practices.

TUSCARORA WAYNE MUTUAL GROUP, INC.

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

1. Nature of operations and significant accounting policies (continued):

Principles of accounting (continued):

Statutory accounting practices prescribed by the Insurance Department of the Commonwealth of Pennsylvania vary in some respects from generally accepted accounting principles (GAAP) in the United States of America. The most significant of these differences is:

- (a) the Group's investment in its subsidiary is reported using the equity method of accounting based on statutory accounting principles, rather than on a consolidated basis in accordance with GAAP, with earnings or losses credited or charged to members' equity as an unrealized capital gain or loss.

Use of estimates:

Management of the Group has made estimates and assumptions related to the reporting of admitted assets and liabilities to prepare these financial statements in accordance with accounting practices prescribed by the Insurance Department of the Commonwealth of Pennsylvania. Actual results could differ from those estimates.

Subsequent events:

The Group has evaluated subsequent events through April 17, 2017, the date which the financial statements were available to be issued.

TUSCARORA WAYNE MUTUAL GROUP, INC.

NOTES TO STATUTORY FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2016 AND 2015

2. Susquehanna Capital Corporation:

The following is a summary of investments held by Susquehanna which ultimately comprises the investments of the Group:

	<u>2016</u>	<u>2015</u>
TWIC	\$ 65,731,376	\$ 57,517,801
Lebanon (excluding surplus note from TWIC)	9,717,767	8,807,575
Investment in Harrisburg Capitals Soccer, Inc.	549,923	800,000
Other assets, net	145,409	272,148
Noncontrolling interest	<u>(144,211)</u>	<u>(127,645)</u>
	<u>\$ 76,000,264</u>	<u>\$ 67,269,879</u>

Dividend payments from the insurance subsidiaries are restricted by the insurance laws of the Commonwealth of Pennsylvania. At December 31, 2016, the maximum amount of dividends that may be paid without prior approval of the insurance commissioner is approximately \$7,755,000.

3. Income taxes:

The Group files a consolidated federal income tax return with its subsidiaries, including Susquehanna Capital Corporation, Lebanon, TWIC and its subsidiary, Keystone. The Group is party to a tax allocation agreement, whereby current income taxes are allocated based on separate return computations. Balances due under the current tax allocation agreement are settled quarterly.