REPORT ON EXAMINATION

OF THE

FIRE DISTRICTS OF NEW YORK MUTUAL INSURANCE COMPANY

AS OF

DECEMBER 31, 2005

DATE OF REPORT	MAY 30, 2007
EXAMINER	JOSEPH REVERS

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STATE OF NEW YORK
INSURANCE DEPARTMENT
25 BEAVER STREET
NEW YORK, NEW YORK 10004

May 30, 2007

Honorable Eric R. Dinallo
Superintendent of Insurance
Albany, New York 12257

Sir:

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment Number 22547 dated October 27, 2006 attached hereto, I have made an examination into the condition and affairs of Fire Districts of New York Mutual Insurance Company as of December 31, 2005, and submit the following report thereon.

Wherever the designations “the Company” or “FDM” appear herein without qualification, they should be understood to indicate Fire Districts of New York Mutual Insurance Company.

Wherever the term “Department” appears herein without qualification, it should be understood to mean the New York Insurance Department.

The examination was conducted at the Company‘s home offices located at 501 South Main Street, Spring Valley, New York 10977.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2001. This examination covered the four-year period from January 1, 2002 through December 31, 2005. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

The examination comprised a verification of assets and liabilities as of December 31, 2005. The examination included a review of income, disbursements and company records deemed necessary to accomplish such analysis or verification and utilized, to the extent considered appropriate, work performed by the Company's independent certified public accountants ("CPA"). A review or audit was also made of the following items as called for in the Examiners Handbook of the National Association of Insurance Commissioners ("NAIC"):

History of Company
Management and control
Corporate records
Fidelity bond and other insurance
Territory and plan of operation
Growth of Company
Business in force by states
Loss experience
Reinsurance
Accounts and records
Financial statements

A review was also made to ascertain what action was taken by the Company with regard to comments and recommendations contained in the prior report on examination.

This report on examination is confined to financial statements and comments on those matters, which involve departures from laws, regulations or rules, or which are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Fire Districts of New York Mutual Insurance Company was incorporated under the laws of the State of New York on November 2, 1977. It became licensed on November 28, 1978, and commenced business on December 20, 1978. Business originated with the joining together of various fire districts within New York State to form a mutual insurance company to provide volunteer firefighters with the benefits afforded under workers' compensation and employers' liability insurance, including insurances provided under the Volunteer Firefighters' Benefit Law and the Volunteer Ambulance Workers' Benefit Law.

The Company was granted tax-exempt status by the Internal Revenue Service on September 23, 1981, pursuant to Section 115(1) of the Internal Revenue Code and by the New York State Department of Taxation and Finance, on April 30, 1980, pursuant to Article 33, Section 1512(a)(1) of the New York State Tax Law. All premiums paid to the Company are derived from tax dollars allocated to the fire districts.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of thirteen members. The board met four times during each calendar year. At December 31, 2005, the board of directors was comprised of the following thirteen members:

Name and Residence	Principal Business Affiliation
Joseph L. Cruger Poughkeepsie, NY	Roosevelt Fire District, Dutchess County
Craig P. DeBaun Oceanside, NY	Oceanside Fire District
Michael H. Geoghan Bayport, NY	Bayport Fire Department
Donald D. Greene Newburgh, NY	Cronomer Valley Fire District
Thomas J. Herlighy Apulia Station, NY	Fabius Fire District
Kenneth E. Hoffard Valhalla, NY	Valhalla Fire District
John LoScalzo Huntington, NY	Eaton's Neck Fire District
James J. McCormick East Northport, NY	Unaffiliated

Name and Residence	Principal Business Affiliation
Daniel F. McNeil Cortland, NY	Unaffiliated
Frank A. Norcerino North Massapequa, NY	North Massapequa Fire District
George J. Paul West Seneca, NY	West Seneca Fire Distric
Lawrence Pierce Mendon, NY	Mendon Fire District
Michael L. White Clay, NY	Unaffiliated

A review of the minutes of the board of directors' meetings held during the examination period indicated that the meetings were generally well attended and each board member has an acceptable record of attendance. It was noted, however, that the board of directors' committees did not keep minutes of their meetings as required by Section 325(a) of the New York Insurance Law.

It is recommended that FDM comply with Section 325(a) of the New York Insurance Law by having its committees keep and maintain minutes of their meetings.

As of December 31, 2005, the principal officers of the Company were as follows:

Name	Title
Daniel Francis McNeil III	President
Kenneth E. Hoffarth	Secretary
Michael Hart Geoghan	Treasurer
Frank A. Nocerino	Vice President

B. Territory and Plan of Operation

As of December 31, 2005, the Company was licensed to write business in New York only. The license covered workers' compensation and employers' liability insurance as defined in paragraph 15 of Section 1113(a) of the New York Insurance Law including Volunteer Firefighters' Benefit Law ("V.F.B.L.") insurance and Volunteer Ambulance Workers' Benefit Law insurance ("V.A.W.B.L.").

Based on the lines of business for which the Company is licensed and the Company's current capital structure, and pursuant to the requirements of Articles 13 and 41 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $300,000.

The Company is a direct writer, and its business is produced through approximately ninety-six agents and direct mail.

The following schedule shows the direct premiums written by the Company during the examination period. The Company wrote business only in the state of New York:

Calendar Year	Total Direct Premiums Written
2002	$9,056,571
2003	$10,189,842
2004	$12,776,558
2005	$14,000,398

C. Reinsurance

All assumed and ceded reinsurance contracts in effect as of the examination date were reviewed. These contracts all contained the required standard clauses including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

Examination review of the Schedule F data reported by the Company in its filed 2005 annual statement was found to accurately reflect its reinsurance transactions. Additionally, management has represented that all material ceded reinsurance agreements transfer both underwriting and timing risk as set forth in NAIC Accounting Practices and Procedures Manual, Statements of Statutory Accounting Principles ("SSAP") No. 62. Such representations were supported by appropriate risk transfer analysis and an attestation from the Company's chief executive officer pursuant to the NAIC Annual Statement Instructions. However, it was noted that, in some instances, certain reinsurers' names were incorrectly reported in Schedule F.

It is recommended that FDM exercise greater care to ensure that it correctly identifies reinsurers listed in Schedule F.

1. Ceded

The company has structured its ceded reinsurance program to limit its maximum exposure to any one risk as follows:

Type of treaty	Cession
Casualty:	
Excess of Loss 1st Layer 100% Authorized	$750,000 excess of $250,000 per occurrence; limit $750,000 in the aggregate each calendar year.
Excess of Loss 2nd Layer 100% Authorized	$4,000,000 excess of $1,000,000 per occurrence; limit $4,000,000 in the aggregate each calendar year.
Excess of Loss 3rd Layer 100% Authorized	$5,000,000 excess of $5,000,000 per occurrence; limit $10,000,000 in the aggregate each calendar year.

2. McNeil & Company Agreement

The 1999 reinsurance agreement between the Company and McNeil & Company, Inc. (“McNeil”), a company owned by one of the directors of FDM, was reviewed. McNeil produced the business on behalf of North American Specialty Insurance Company, a wholly-owned subsidiary of Swiss Reinsurance Company that writes out-of-state business. A portion of that business, primarily workers’ compensation, was eventually ceded to the Company, which in turn was shared with McNeil through a “reinsurance participation agreement.” In 2004, it was decided to terminate the agreement and runoff the remaining assumed reinsurance business. The examiners could not verify the terms of the agreement with McNeil because the Company was unable to furnish a complete and signed copy of the agreement for review.

It is recommended that FDM maintain completed and signed copies of all agreements relevant to the examination in accordance with the provisions of Section 310(a) (2) of the New York State Insurance Law.

D. Significant Operating Ratios

The following ratios have been computed as of December 31, 2005, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	141%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	77%
Premiums in course of collection to surplus as regards policyholders	12%

All of the above ratios fall within the benchmark ranges set forth in the Insurance Regulatory Information System of the NAIC.

The underwriting ratios presented below are on an earned/incurred basis and encompass the four-year period covered by this examination:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$36,804,196	93.71%
Other underwriting expenses incurred	7,623,598	19.41
Net underwriting loss	(5,155,000)	(13.13)
Premiums earned	$39,272,794	100.00%

E. Accounts and Records

The following deficiencies in the review of the Company's system of accounts and records were noted:

1. Custodian agreement

The review of the custodian agreement revealed that the agreement failed to include the NAIC safeguard provisions as required by Part 1, Section IV-J of the NAIC Financial Condition Examiners Handbook.

It is recommended that FDM include the safeguard provisions in any custodial agreements it enters into as required by Part 1, Section IV-J of the NAIC Financial Condition Examiners Handbook.

2. Investment Transactions

The review of the Company’s investment transactions indicated that necessary approvals were not made by the board of directors or a committee thereof as required by Section 1411(a) of the New York Insurance Law.

It is recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law by having all of its investments authorized or approved as indicated in such section.

3. Special Deposits

It was noted in a review of Schedule E Part 3 that special deposits for New York were reported in the “All Other Special Deposits” column instead of the “Deposits with the State of Domicile for the Benefit of All Policyholders” column as prescribed in the NAIC Annual Statement Instructions.

It is recommended that the Company report special deposits for New York in the column labeled “Deposits with the State of Domicile for the Benefit of All Policyholders”, in Schedule E, Part 3 (“Special Deposits”) as prescribed in the NAIC Annual Statement Instructions.

4. General Interrogatories

A review of the 2005 filed annual statement indicated that the Company responded incorrectly to Question #24 of General Interrogatories relating to whether, with certain exclusions, all stocks, bonds and other securities, owned throughout the year were held pursuant to a custodial agreement with a qualified bank or trust company. In that year, the Company answered “NO” when it should have responded “YES” to this question. Subsequently, in 2006, it correctly responded in the affirmative to this question.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2005 as determined by this examination and as reported by the Company:

Assets	Examination			Company
	Assets	Assets Not Admitted	Net Admitted Assets	Net Admitted Assets
Bonds	$23,878,929	$ 0	$23,878,929	$23,878,929
Common stocks	2,833,030	0	2,833,030	2,833,030
Cash, cash equivalents and short-term investments	1,706,386	0	1,706,386	1,706,386
Investment income due and accrued	258,222	0	258,222	258,222
Uncollected premiums and agents' balances in the course of collection	945,352	0	945,352	945,352
Deferred premiums, agents' balances and installments booked but deferred and not yet due	517,928	0	517,928	517,928
Accrued retrospective premiums	0	0	0	0
Amounts recoverable from reinsurers	384,352	0	384,352	384,352
Electronic data processing equipment and software	354,803	340,395	14,408	14,408
Furniture and equipment, including health care delivery assets	15,178	15,178	0	0
Aggregate write-ins for other than invested assets	137,045	49,606	87,439	87,440
Total assets	$31,031,225	$405,179	$30,626,046	$30,626,047

Liabilities, Surplus and Other Funds	Examination	Company	Surplus Increase (Decrease)
Losses and loss adjustment expenses	$17,374,821	$16,969,821	$(405,000)
Commissions payable, contingent commissions and other similar charges	155,698	155,698	0
Other expenses (excluding taxes, licenses and fees)	92,339	92,339	0
Taxes, licenses and fees (excluding federal and foreign income taxes)	671,673	671,673	0
Unearned premiums	3,478,406	3,478,406	0
Advance premiums	240,315	240,315	0
Ceded reinsurance premiums payable (net of ceding commissions)	455,605	455,605	0
Abandoned property	2,426	2,426	0
Directors' severance payable	96,938	96,938	0
Funds due on partnership	(20,232)	(20,232)	0
Total liabilities	$22,567,133	$22,162,132	$(405,000)
Surplus and Other Funds			
Aggregate write-ins for special surplus funds	$300,000	$ 300,000	0
Unassigned funds (surplus)	7,758,912	8,163,914	$(405,000)
Surplus as regards policyholders	$8,058,912	$8,463,914	$(405,000)
Total liabilities, surplus and other funds	$30,626,045	$30,626,047	

NOTE: The Company is tax-exempt. The examiner is unaware of any potential exposure of the Company to any tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders decreased $1,217,449 during the four-year examination period January 1, 2002 through December 31, 2005, detailed as follows:

Underwriting Income		
Premiums earned		$39,272,794
Deductions:		
Losses incurred	$28,875,152	
Loss adjustment expenses incurred	7,929,044	
Other underwriting expenses incurred	7,623,598	
Aggregate write-ins for underwriting deductions	0	
Total underwriting deductions		44,427,794
Net underwriting gain or (loss)		$(5,155,000)
Investment Income		
Net investment income earned	$4,024,490	
Net realized capital gain	(62,298)	
Net investment gain or (loss)		3,962,192
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$(24,641)	
Finance and service charges not included in premiums	0	
Aggregate write-ins for miscellaneous income	0	
Total other income		(24,641)
Net income before dividends to policyholders and before federal and foreign income taxes		$(1,217,449)
Dividends to policyholders		0
Net income after dividends to policyholders but before federal and foreign income taxes		$(1,217,449)
Federal and foreign income taxes incurred		0
Net income		$(1,217,449)

C. Capital and Surplus Accounts

	Gains in Surplus	Losses in Surplus	
Surplus as regards policyholders per report on examination as of December 31, 2001			$8,755,761
Net income		$1,217,451	
Net unrealized capital gains or (losses)	$585,860		
Change in nonadmitted assets		65,258	
Total gains and losses	$585,860	$1,282,709	
Net increase (decrease) in surplus			(696,849)
Surplus as regards policyholders per report on examination as of December 31, 2005			$8,058,912

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $17,374,821 is $405,000 more than the $16,969,821 reported by the Company in its December 31, 2005 filed annual statement. The examination analysis was conducted in accordance with generally accepted actuarial principles and practices and was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. MARKET CONDUCT ACTIVITIES

In the course of this examination, a review was made of the manner in which the Company conducts its business and fulfills its contractual obligations to policyholders and claimants. The review was general in nature and is not to be construed to encompass the more precise scope of a market conduct investigation, which is the responsibility of the Market Conduct Unit of the Property Bureau of this Department.

The general review was directed at practices of the Company in the following areas:

A. Sales and advertising
B. Underwriting
C. Rating
D. Claims

No problem areas were encountered.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report on examination contained three recommendations as follows (page numbers refer to the prior report):

ITEM		PAGE NO.
A	It was recommended that the Company classify assets correctly on all future filed financial statements.	7
	The Company has complied with this recommendation.	
	It was recommended that the Company revise its custodian agreement with PNC Bank to include the necessary safeguards considered to be good business practice by the Department and the NAIC.	8
	Based on the recommendation contained in the prior report, the Company revised its custody agreement in 2002 to include the recommended provisions. Subsequent to that date, the Department adopted the provisions recommended in the NAIC Financial Condition Examiners Handbook ("Handbook"), which differ from our previous requirements. This report contains a recommendation that the custodial agreement be revised to comply with the provisions in the Handbook.	
B	It was recommended that the Company comply with Section 1316 of the New York Abandoned Property Law and remit to the Office of the State Comptroller all amounts issued and payable to a resident of this state that are unclaimed for three years or more.	9
	The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM		PAGE NO.
A	Management	
i.	It is recommended that FDM comply with Section 325(a) of the New York Insurance Law by having its committees keep and maintain minutes of their meetings.	4
B	Reinsurance	
i.	It is recommended that FDM exercise greater care to ensure that it correctly identifies reinsurers listed in Schedule F.	5
ii.	It is recommended that FDM keep complete and signed copies of all agreements relevant to the examination in accordance with the provisions of Section 310(a) (2) of the New York State Insurance Law.	6
C	Accounts and Records	
i.	It is recommended that FDM include the safeguard provisions in any custodial agreements it enters into as required by Part 1, Section IV-J of the NAIC Financial Condition Examiners Handbook.	7
ii.	It is recommended that the Company comply with the requirements of Section 1411(a) of the New York Insurance Law by having all of its investments authorized or approved as indicated in such section.	8
iii.	It is recommended that FDM in the future report Schedule E Part 3 Special Deposits in the column of "Deposits with the State of Domicile for the Benefit of All Policyholders".	8

Respectfully submitted,

/S/

Joseph Revers, CFE
Senior Insurance Examiner

STATE OF NEW YORK)
)SS:
)
COUNTY OF WESTCHESTER)

JOSEPH REVERS, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

/S/

Joseph Revers

Subscribed and sworn to before me

this__________ day of ___________________, 2008.

Appointment No 22547

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, HOWARD MILLS, *Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Joseph Revers

as proper person to examine into the affairs of the

FIRE DISTRICTS OF NEW YORK MUTUAL INSURANCE COMPANY

and to make a report to me in writing of the condition of the said

Company

with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed by the name and affixed the official Seal of this Department, at the City of New York,

this 27th *day of* October, *2006*

HOWARD MILLS
Superintendent of Insurance