STATE OF NEW YORK
INSURANCE DEPARTMENT
AGENCY BUILDING ONE
EMPIRE STATE PLAZA
ALBANY, NY 12257

REPORT ON EXAMINATION

OF THE

LEATHERSTOCKING COOPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2001

DATE OF REPORT: JUNE 21, 2002

EXAMINER: GERARD L. FRANCO

STATE OF NEW YORK
INSURANCE DEPARTMENT
AGENCY BUILDING ONE
EMPIRE STATE PLAZA
ALBANY, NY 12257

June 21, 2002

Honorable Gregory V. Serio

Superintendent of Insurance

Albany, New York 12257

Pursuant to the requirements of the New York Insurance Law, and in compliance with the instructions contained in Appointment No. 21813 dated March 7, 2002, attached hereto, I have made an examination into the condition and affairs of the Leatherstocking Cooperative Insurance Company as of December 31, 2001 and submit the following report thereon.

The examination was conducted at the Company's home office, located at P.O. Box 630, 103 Main Street, Cooperstown, New York 13326.

Whenever the designations "the Company", or "LCIC" appear herein without qualification, they should be understood to indicate the Leatherstocking Cooperative Insurance Company.

TABLE OF CONTENTS

1. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 1996. This examination covered the five year period from January 1, 1997 through December 31, 2001, and was limited in its scope to review or audit of only those balance sheet items considered by this Department to require analysis, verification or description, including: invested assets, inter-company balances, loss and loss adjustment expense reserves and the provision for reinsurance. 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 public accountants. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

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 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

The Company was organized in 1886, as the Otsego County Farmers' Co-operative Fire Insurance Company, for the purpose of transacting business as an assessment co-operative fire insurance company in Otsego County, New York. Effective January 1, 1987, the Company was licensed to write business in all counties of the State of New York except the counties of New York, Kings, Queens, Bronx and Richmond.

Effective October 1, 1990, the Company was authorized by this Department to change its corporate title to the Leatherstocking Cooperative Insurance Company.

A. Management

Pursuant to the Company's charter and by-laws, management of the Company is vested in a board of directors consisting of not less than nine (9) nor more than twenty-five (25) members. As of the examination date, the board of directors was comprised of eleven members, divided into three groups as nearly equal as possible, with one group being elected at each annual policyholders' meeting for a term of three years.

Each person insured by the Company is entitled to one vote in person or by proxy at any and all meetings of the Company. The annual meeting of the board of directors is held immediately after the annual meeting of the Company. At least four board meetings were held each year for the period under examination, thereby complying with Section 6624(b) of the New York Insurance Law.

The board of directors membership at December 31, 2001, was as follows:

Director	Principal Business Affiliation
Wayne D. Benjamin Morris, NY	Vice President, LCIC
John E. Clow Cooperstown, NY	Business education consultant
Peter L. Craig Hartwick, NY	President, LCIC
Nathan R. Fenno Cooperstown, NY	Corporate attorney
Carl Johansen Edmeston, NY	Secretary , LCIC
Richard F. Lohrman Franklin, NY	Retired insurance manager of LCIC
John C. Mitchell Norwich, NY	Owner I.L. Richer Company

Director	Principal Business Affiliation
Kim K. Muller Oneonta, NY	Mayor, City of Oneonta
Carol B. Ronovech Portlandville, NY	Certified public accountant
Paul O. Stillman Norwich, NY	Retired President of Preferred Mutual Insurance Company
Lynn J. Woodard New Berlin, NY	Insurance Executive, Preferred Mutual Insurance Company

The minutes of all meetings of the Board of Directors' and committees thereof held during the examination period were reviewed. The average attendance by the board of directors during the examination period was approximately 89% with each individual directors' attendance being adequate at these meetings, with the exception of John C. Mitchell, Paul O. Stillman and Lynn J. Woodard's attendance for the last year of the examination period.

Members of the board have a fiduciary responsibility and must evince an ongoing interest in the affairs of the insurer. It is essential that board members attend meetings consistently and set forth their views on relevant matters so that appropriate policy decisions may be reached by the board. Board members who are unable or unwilling to attend meetings consistently should resign or be replaced. Therefore, it is recommended that the above cited directors should either improve their attendance or be replaced by the policyholders.

Each of the directors' qualifications, as set forth in Article II of the Company's by-laws, were reviewed, and each director is duly qualified.

At December 31, 2001, the officers of the Company were as follows:

President	Peter L. Craig
Vice President	Wayne D. Benjamin
Secretary	Carl Johansen
Treasurer	Mary Ann Willoughby

B. Territory and Plan of Operation

The following schedule shows direct premiums written by Leatherstocking Cooperative Insurance Company in New York State for the examination period:

Calendar Year	Total Direct Premium Written(000's)
1997	$ 1,991
1998	2,081
1999	2,129
2000	2,231
2001	2,516

As of the examination date, the Company was authorized to transact the kinds of insurance as defined in the following numbered paragraphs of Section 1113(a) of the New York Insurance Law:

Paragraph	Kind of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
12	Collision
13	Personal injury liability
14	Property damage liability
15	Workers'compensation and employers' liability (employers' liability only)
19	Motor vehicle and aircraft physical damage(motor vehicle only)
20	Marine and inland marine (inland marine only)

Based upon the lines of business for which the Company is licensed, and pursuant to the requirements of Articles 13 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $100,000.

The Company's predominate lines of business are homeowners multiple peril, commercial multiple peril and fire, which accounted for 48.2%, 35.5% and 9.7% respectively, of the Company's 2001 direct written business.

C. Reinsurance

The Company did not assume any reinsurance as of December 31, 2001.

The Schedule F's as contained in the Company's annual statements filed for the years within the examination period were found to accurately reflect its reinsurance transactions.

The examiner reviewed all ceded reinsurance contracts effected during the examination period. These contracts, as endorsed during the examination, all contained the required standard clauses, including insolvency clauses meeting the requirements of Section 1308 of the New York Insurance Law.

As of December 31, 2001, the Company had the following excess of loss reinsurance program in place:

Property 2 layers	$60,000 x/s $40,000 ultimate net loss on any one loss occurrence, any one risk; subject to an aggregate limit any one loss occurrence of $180,000; except windstorm which is $73,000 x/s $27,000 ultimate net loss any one loss occurrence, any one risk; subject to an aggregate limit any one loss occurrence of $180,000
	$200,000 x/s $100,000 ultimate net loss any one occurrence, any one risk; subject to an aggregate limit any one loss occurrence $600,000, including windstorm
Casualty 3 layers	$982,000 x/s $18,000 ultimate net loss any one loss occurrence.
Property catastrophe 2 layers	95% of $950,000 x/s $50,000 ultimate net loss each loss occurrence
Quota share	100% of $1,000,000 x/s $1,000,000 net loss per occurrence for windstorm perils

As of December 31, 2001, the Company had the following automatic facultative reinsurance program in place:

Property	10(ten) times the net retention per risk, to a maximum cession of $ 700,000 per risk; subject to a limit as respects all losses from any one occurrence not to exceed $ 1,000,000
Casualty	$500,000 x/s $500,000 per occurrence

It is noted the Company has increased its retention from $ 21,000 to $ 40,000 on its non-windstorm property business, from $ 14,000 to $18,000 on its casualty business and from $14,000 to $27,000 on its windstorm property business. It is also noted that the Company, at December 31, 2001, was backed by an authorized reinsurer, as was the case in the previous examination.

D. Holding Company; Pools and Affiliations

The Company entered into a service agreement and working relationship with the Preferred Mutual Insurance Company (PMIC), of New Berlin, New York on July 1, 1990.

Effective January 1, 1998, the Company's agreement with PMIC was terminated. On May 1, 1998 the Company moved its office from the PMIC building in New Berlin, New York, to its current location in Cooperstown, New York.

The Company was independent with no affiliations or pooling agreements in force at December 31, 2001.

E. Significant Operating Ratios

The following ratios have been computed, as of December 31, 2001, based upon the results of this examination:

Net premiums written in 2001 to surplus as regards policyholders	1.05 to 1
Liabilities to liquid assets(cash and invested assets, less investments in affiliates	53.7%
Premiums in course of collection to surplus as regards policyholders	3.3%

The above ratios fall within the benchmark ranges as set forth in the Insurance Regulatory Information System of the National Association of Insurance Commissioners.

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

	Amounts	Ratios
Losses & Loss adjustment expenses incurred	$3,539,180	44.97%
Other underwriting expenses incurred	3,194,614	40.60%
Net underwriting gain(loss)	1,135,557	14.43%
Premiums earned	$7,869,351	100.00%

F. Abandoned Property

During the period covered by this examination, the Company has filed the appropriate abandoned property reports with the state comptroller as required by Section 1316 of the New York Abandoned Property Law.

It is noted that the Company has procedures in effect for the handling of unclaimed funds, to ensure that outstanding checks are subject to follow-up procedures on a periodic basis.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the Company's financial condition as of December 31, 2001 determined by this examination and as reported by the Company:

	Examination			Company	
Assets	Assets Current Year	Nonadmitted Assets Current Year	Net Admitted Assets Current Year	Net Admitted Assets Current Year	Surplus Increase (Decrease)
Bonds	$2,430,296	$ -0-	$2,430,296	$2,430,296	$ -0-
Common stocks	760,625	-0-	760,625	760,625	-0-
Cash and short term investments	867,022	470,875	396,147	867,022	(470,875)
Agents' balances or uncollected premiums	318,000	-0-	318,000	318,000	-0-
Reinsurance recoverable on loss payments	16,621	-0-	16,621	16,621	-0-
Interest and dividend income due and accrued	39,779	-0-	39,779	39,779	-0-
Other assets nonadmitted	6,359	6,359	-0-	-0-	-0-
Total assets	$4,438,702	$477,234	$3,961,468	$4,432,343	(470,875)

Liabilities		Examination	Company	Surplus Increase (Decrease)
Losses and loss adjustment expenses		$ 606,931	$ 606,931	$ -0-
Contingent commissions and other similar charges		76,652	76,652	-0-
Other expenses (excluding, taxes, licenses and fees)		28,285	28,285	-0-
Federal and foreign income taxes		31,167	31,167	-0-
Unearned premiums		1,307,824	1,307,824	-0-
Ceded reinsurance premiums payable		113,646	113,646	-0-
Amounts withheld for account of others		894	894	-0-
Aggregate write-ins for liabilities		34,720	34,720	-0-
Total Liabilities		$ 2,200,119	$ 2,200,119	$ -0-
Special contingent surplus	$ 100,000			
Unassigned funds(surplus)	1,661,349			
Surplus as regards policyholders		1,761,349	2,232,224	(470,875)
Total Liabilities and surplus		$ 3,961,468	$4,432,343	

The Internal Revenue Service has not performed an audit of the Company's federal income tax returns for any year during the examination period. Audits covering subsequent tax years have yet to commence. Except for any impact that might result from the examination changes contained in this report, the examiner is unaware of any potential exposure of the Company to any further tax assessment and no liability has been established herein relative to such contingency.

B. Underwriting and Investment Exhibit

Surplus as regards policyholders increased $670,137 during the five-year examination period, (January 1, 1997 to December 31, 2001) detailed as follows:

Statement of Income

Underwriting Income		
Premiums earned		$ 7,869,351
Losses & Loss adjustment expenses incurred	$ 3,539,180	
Other underwriting expenses incurred	3,194,614	
Total underwriting deductions		6,733,794
Net underwriting gain(loss)		$ 1,135,557
Investment Income		
Net Investment income earned	$ 638,288	
Net Investment gain		638,288
Other Income		
Net gain or(loss) from agents' or premium Balances charged off	$ (25,924)	
Finance and service charges not included in premium	253,980	
Surplus notes with interest	(29,056)	
Total other income		199,000
Net income before federal income taxes		$ 1,972,845
Federal income taxes incurred		722,587
Net income		$ 1,250,258

Capital and Surplus Account

Surplus as regards policyholders, December 31, 1996 per prior report on examination			$ 1,091,212
	Gain in surplus	Losses in surplus	
Net income or loss	$ 1,250,258	$ -0-	
Change in surplus note	-0-	400,000	
Net unrealized capital gains or losses	285,218	-0-	
Change in non-admitted assets	-0-	465,339	
Total gains and losses	1,535,476	$ 865,339	
Net increase in surplus as regards policyholders			670,137
Surplus as regards policyholders, December 31, 2001 per Report on examination			$ 1,761,349

4. CASH AND SHORT TERM INVESTMENTS

The examination admitted asset of $396,147 is $470,875 less than the $867,022 reported by the Company as of December 31, 2001. The change represents the examination decrease due to the Company's investment in excess of the limitations set forth in Section 1409(a) of the New York Insurance Law. Section 1409(a) of the Insurance Law, in part, states that "…no domestic insurer shall have more than ten percent of its admitted assets ... invested in, or loaned upon the securities (including for this purpose certificates of deposit, partnership interests and other equity interests) of any one institution." The Company has exceeded this investment limitation prescribed by law by investing more than ten percent of its admitted assets in the Automated Government Money Trust of Federated Investors, Inc. Automated Government Money Trust of Federated Investors, Inc. is a money market mutual fund that primarily invests in United States Treasury securities. It is hereby recommended that the Company comply with Section 1409(a) of the Insurance Law and not invest more than ten percent of its admitted assets in one institution.

5. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability of $ 606,931 is the same as the $ 606,931 reported by the Company on its filed 2001 annual statement.

The Department's 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.

The Department's analysis indicated that, in the aggregate, the Company's losses and loss adjustment expense reserves were adequate.

The Company's actuarial opinion and report were reviewed and utilized in the determination of an appropriate reserve for the Company's unpaid losses and loss adjustment expenses.

6. MARKET CONDUCT ACTIVITIES

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

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

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

It was found during the course of the examination that the Company was not giving ten days advanced notice to mortgagees when an insurance policy was being cancelled at the insured's request. The New York Standard Mortgage Clause, as reaffirmed by Department Circular Letter 17 of 1976, requires that such notice be given to mortgagees before their interest in such policies is cancelled. Thus, it is recommended that the Company comply with the provisions of the New York Standard Mortgage Clause, henceforth, when canceling such policies containing same.

7. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

The prior report contained comments and recommendations as follows (page numbers refer to the prior report):

A. The Company should comply with Department Regulations 64(11NYCRR 216.6) and include the Department's address on all correspondence that rejects any element of a claim.

The Company has complied with this recommendation.

8. SUMMARY OF COMMENTS AND RECOMMENDATIONS

The following is a summary of comments and recommendations made in the body of this report:

Item	Page No.
A. MANAGEMENT	4
It is recommended that directors John C. Mitchell, Paul O. Stillman and Lynn J. Woodard should either improve their attendance or be replaced by the policyholders.	
B. LIMITATION OF INVESTMENTS	13
It is hereby recommended that the Company comply with Section 1409(a) of the Insurance Law and not invest more than ten percent of its admitted assets in one institution.	
C. MARKET CONDUCT ACTIVITIES	14
It is recommended that the Company comply with the provisions of the New York Standard Mortgage Clause, henceforth, when canceling such policies containing same.	

Respectfully submitted,

/S/
Gerard Franco
Senior Insurance Examiner

STATE OF NEW YORK)
) ss:
COUNTY OF ALBANY)

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

/S/
Gerard Franco
Senior Insurance Examiner

Sworn to before me this

9th day of July, 2002

/S/
Notary Public

CAROLYN D. GRESSICK
Notary Public, State of New York
No. 4658907
Qualified in Montgomery County
Commission Expires October 31, 2005

Appointment No 21813

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, Gregory V. Serio *, Superintendent of Insurance of the State of New York, pursuant to the provisions of the Insurance Law, do hereby appoint:*

Gerard Franco

as proper person to examine into the affairs of the

Leatherstocking Cooperative 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 7th *day of March, 2002*

GREGORY V. SERIO
Superintendent of Insurance