

REPORT ON EXAMINATION

OF THE

WASHINGTON COUNTY CO-OPERATIVE INSURANCE COMPANY

AS OF

DECEMBER 31, 2007

DATE OF REPORT

JULY 7, 2008

EXAMINER

NYANTAKYI AKUOKO

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STATE OF NEW YORK
INSURANCE DEPARTMENT
ONE COMMERCE PLAZA
ALBANY, NEW YORK 12257

Honorable James J. Wrynn
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 22728 dated January 4, 2008, attached hereto, I have made an examination into the condition and affairs of Washington County Co-operative Insurance Company as of December 31, 2007, and submit the following report thereon.

Wherever the designations "the Company" or "WCCIC" appear herein without qualification, they should be understood to indicate Washington County Co-operative 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 office located at 33-35 Main Street Greenwich, New York 12834.

1. SCOPE OF EXAMINATION

The previous examination was conducted as of December 31, 2002. This examination covered the five-year period from January 1, 2003 through December 31, 2007. 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, 2007. 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
- 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

The Company was organized on March 30, 1858, as the Easton Mutual Insurance Company for the purpose of transacting business as an assessment co-operative fire insurance company in the Town of Easton, Washington County, New York.

Under an agreement of merger dated January 23, 1961, the corporate title of the Company was changed to the Washington County Co-operative Fire Insurance Company. On May 7, 1986, the

Department approved an amendment to the certificate of incorporation to change the corporate title of the Company to Washington County Co-operative Insurance Company. Between 1961 and 2005, the Company merged with various insurance companies through merger agreements approved by the Department. The latest merger between the Company and Salem Mutual Town Fire Insurance Company became effective on March 31, 2005.

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 eleven nor more than twenty members. The board met at least four times during each calendar year. At December 31, 2007, the board of directors was comprised of the following sixteen members:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Neil Adams Schaghticoke, NY	Self-employed Farmer
Eric Allen Schaghticoke, NY	Farm Equipment Dealer, Hudson River Tractor Company, LLC
Howard Andrew Eagle Bridge, NY	Self-employed Farmer
Raymond Earl Horton Cambridge, NY	Retired Farmer
Louis Marchaland Greenwich, NY	Retired Farmer
Douglas Maxwell Greenwich, NY	Retired Farmer
James McClay Greenwich, NY	Retired Teacher Secretary, Washington County Co-operative Insurance Company
Brian R. Mercure Granville, NY	Self-employed Farmer
Carleton Philpott Hoosick Falls, NY	Retired Farmer

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Neal Rea Cambridge, NY	Self-employed Farmer
James Reeve Valley Falls, NY	President, Washington County Co-operative Insurance Company Truck Driver, Peckham Materials Corporation
John R. Rich Shushan, NY	Retired Electrical Contractor
Donald Skellie Greenwich, NY	Treasurer, Washington County Co-operative Insurance Company Self-employed Farmer
Clifford Stewart Greenwich, NY	Vice-President, Washington County Co-operative Insurance Company Self-employed Farmer
Robert VanAnden Hartford, NY	Retired Auto Repair Shop Owner
Bruce Whitney Fort Ann, NY	Employee, Washington County

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, except Neal Rea, has an acceptable record of attendance. It was determined from the review of minutes of the board meetings that the average attendance of Neal Rea for the five years covered by the examination was below 50%. In fact, he did not attend any board meetings in 2007.

Members of the board of directors 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 either resign or be replaced. Therefore, it is recommended that Neal Rea should either improve his attendance at the board of directors' meetings or be replaced.

Pursuant to the provisions of Article VI of the Company's Charter and Article II Section I of its By-laws, directors are elected for a three-year term and the directors "shall be divided into three

(3) groups, as nearly equal as possible, and one group shall be elected at each annual meeting.” Upon review of the distribution of the Company’s sixteen directors as of December 31, 2007, it was noted that the groups were not evenly divided. During the annual policyholders meeting in 2008, the terms of the directors were revised to more evenly distribute the number of directors in each group. Nevertheless, it is recommended that the terms of the Company’s directors be maintained in three groups as nearly equal as possible to comply with the provisions of its charter and by-laws.

During the review of minutes of the board meetings, it was noted that each year the board appointed members to the nominating committee to nominate directors and officers for their terms in office. It was further noted that meetings were held by the committee, but no minutes were kept.

Section 6611(a)(3) of the New York Insurance Law states that:

The secretary shall maintain a minute book recording the proceedings of all meetings of the corporation, its board of directors and the principal committees thereof.

It is recommended that the Company maintain minutes of future meetings of the nominating committee to comply with Section 6611(a)(3) of the New York Insurance Law.

Upon examination, it was determined that the Company does not have an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees, or responsible employees that is in conflict or is likely to conflict with the official duties of such person. The establishment of such procedures is not only a good business practice, but it also serves as a source of information for both the policyholders and regulatory bodies to know of such conflicts on the part of a director, officer or key employee. Therefore, it is recommended that the Company establish a procedure for disclosure to its board of directors any material interest or affiliation on the part of any officer, director or responsible employee that is in conflict or likely to conflict with the official duties of such person.

As of December 31, 2007, the principal officers of the Company were as follows:

<u>Name</u>	<u>Title</u>
James Reeve	President
Clifford Stewart	Vice President
Dale MacNeil	Executive Vice President
James McClay	Secretary
Donald Skellie	Treasurer

B. Territory and Plan of Operation

As of December 31, 2007, the Company was licensed to write business in the following counties of New York only: Albany, Clinton, Columbia, Essex, Franklin, Fulton, Greene, Hamilton, Herkimer, Montgomery, Rensselaer, St. Lawrence, Saratoga, Schenectady, Schoharie, Warren and Washington.

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:

<u>Paragraph</u>	<u>Line of Business</u>
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 (excluding workers' compensation)
19	Motor vehicle and aircraft physical damage (excluding aircraft physical damage)
20	Marine and inland marine (inland marine only)

Paragraphs 5, 6, 7, 8, 13, 14 and 15 can be written solely in conjunction with fire insurance written under the same policy and covering the same premises. The Company is also licensed to accept and cede reinsurance as provided in Section 6606 of the Insurance Law of the State of New York.

Based on 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 predominant lines of business are homeowners multiple peril, farmowners multiple peril and fire, which accounted for 46.5%, 21.0% and 15.8%, respectively, of the Company's 2007 direct written business. The Company writes mainly through independent agents and an officer-agent.

The following schedule shows the direct premiums written by the Company in New York for the period under examination:

<u>Calendar Year</u>	<u>Direct Premium Written (000)</u>
2003	\$1,668
2004	\$1,841
2005	\$2,044
2006	\$2,250
2007	\$2,308

C. Reinsurance

The Company did not assume reinsurance during the period covered by the examination.

As of December 31, 2007, the Company had the following ceded reinsurance program in place:

<u>Type of treaty</u>	<u>Cession</u>
Excess of Loss Property (2 layers)	\$425,000 in excess of \$75,000, ultimate net loss each loss, each risk, subject to a limit of liability of \$175,000 and \$250,000 each loss, each risk and further subject to a limit of \$350,000 and \$500,000 each loss occurrence for each respective layer.
Casualty (3 layers)	\$925,000 in excess of \$75,000 ultimate net loss, each loss occurrence.
Casualty clash	\$1,000,000 in excess of \$1,000,000 each loss occurrence.
Property Catastrophe Excess of Loss (2 Layers)	95% of \$900,000 in excess of \$100,000 ultimate net loss, any one loss occurrence involving three or more risks. 100% ultimate net loss in excess of \$1,000,000 each loss occurrence.
Aggregate Excess of Loss	95% of \$500,000 of aggregate net loss, any one contract year, in excess of 85% of Combined Net Premium earned in any one calendar year.
Special Casualty Excess of Loss	\$500,000 in excess of \$500,000 any one loss occurrence subject to a limit of \$500,000 each loss occurrence.

In addition to its treaty reinsurance program, the Company obtained property facultative reinsurance program coverage. Cession under this contract is limited to an amount equal to two times the Company's net retention, subject to a minimum net retention of \$250,000 and to a maximum cession of \$1,000,000 on any one risk. Risks over \$1,000,000 underwritten on an offer and accept basis. Also, the Company obtained a casualty facultative excess of loss treaty covering casualty risks in excess of \$1,000,000.

Since the previous examination, the Company's retention has increased from \$40,000 to \$75,000 on property and casualty business. All business was ceded to authorized reinsurers.

Pursuant to Section 1308(e)(1) of the New York Insurance Law:

During any period of twelve consecutive months, without the superintendent's permission:

(A) no domestic insurer, except life, shall by any reinsurance agreement or agreements cede an amount of its insurance on which the total gross reinsurance premiums are more than fifty percent of the unearned premiums on the net amount of its insurance in force at the beginning of such period.

For each of the years between 2004 and 2007, the amount of reinsurance premiums ceded exceeded the threshold stated in Section 1308(e)(1)(A) of the New York Insurance Law. Prior to the current examination period, the Company had submitted its reinsurance contracts and obtained the superintendent's permission to cede more than fifty percent of its reported unearned premium reserves. However, the Company failed to submit to the Department any new reinsurance contracts or amendments to its contracts during the examination period. Accordingly, it is recommended that the Company submit to the Department any new reinsurance contracts or amendments to its reinsurance contracts whenever the amount of its total gross reinsurance premiums exceeds fifty percent of its unearned premiums at the beginning of the year, pursuant to the provisions of Section 1308(e)(1) of the New York Insurance Law.

All ceded reinsurance agreements in effect as of the examination date were reviewed and found to contain the required clauses, including an insolvency clause 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 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 the NAIC Accounting Practices and Procedures Manual, Statement of Statutory Accounting Principles (“SSAP”) No. 62. Representations were supported by attestations from the Company's president and treasurer pursuant to the NAIC Annual Statement Instructions. Additionally, examination review indicated that the Company was not a party to any finite reinsurance agreements. All ceded reinsurance agreements were accounted for utilizing reinsurance accounting as set forth in paragraph 25 of SSAP No. 62.

D. Holding Company System

As of December 31, 2007, the Company was not a member of any holding company system. The Company was independent with no affiliations or pooling agreements in place.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2007, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	26%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	2%
Premiums in course of collection to surplus as regards policyholders	28%

All of the above ratios fall within the benchmark ranges 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:

	<u>Amounts</u>	<u>Ratios</u>
Losses and loss adjustment expenses incurred	\$4,007,643	84.56%
Other underwriting expenses incurred	1,495,693	31.56
Net underwriting loss	<u>(764,158)</u>	<u>(16.12)</u>
Premiums earned	<u>\$4,739,178</u>	<u>100.00%</u>

F. Accounts and Records

i. Check Issuing Procedures

It was found during the review of canceled checks that a management staff member, who was not a board-appointed officer, was signing checks contrary to the provisions of Section 6611 of the New York Insurance Law regarding check issuing procedures. Section 6611(a)(4)(C) of the New York Insurance Law states, in part, that:

All checks issued shall be signed either by two officers or by one officer upon the written order of another officer. . .

During the course of the examination, the board appointed the said staff member as an officer. Nevertheless, it is recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law regarding the signatory requirements on checks.

ii. SSAP No. 62 and the Annual Statement Instructions

SSAP No. 62 paragraph 67 and the NAIC Annual Statement Instructions require an insurer to disclose in its annual statement if an unsecured aggregate recoverable for losses, paid and unpaid including incurred but not reported (“IBNR”), loss adjustment expenses and unearned premiums exceeds three percent of the entity’s policyholder surplus. An examination review of Schedule F Part 3 of the filed annual statement for 2007 indicates that the Company reported at least one reinsurer with unsecured reinsurance recoverables in excess of three percent of the Company’s reported surplus as regards policyholders, yet the Company failed to make the required disclosures in its filed annual statement.

It is recommended that the Company make necessary disclosures regarding unsecured reinsurance recoverables in future filed annual statements to comply with SSAP No. 62 and the NAIC Annual Statement Instructions.

iii. Rent Charges

The examination re-calculation of rent charged by the Company for the use of its home office indicated that the rent expense reported by the Company was inadequate for four out of the five years covered by the examination. It was discovered that the Company has not been including a rate of investment return pursuant to SSAP No. 40. Paragraph 15 of SSAP 40 provides for the inclusion

of “an average fair rate on carrying value of the reporting entity’s investment in its home office building.”

It is recommended that the Company either maintain and provide upon examination detailed documentation to support the rate used based upon rental rates of like property in the same area or that it use the calculation called for in the SSAP No. 40, which includes a return on investment.

iv. Recording of Acquisition Dates of Bonds

The examination testing of bonds acquired and reported in Schedule D of the 2007 filed annual statement indicated that, in some cases, the Company recorded settlement dates as the acquisition dates. SSAP No. 26 paragraph 4 provides that:

A bond acquisition or disposal shall be recorded on the trade date, not the settlement date. . .

Therefore, it is recommended that the Company record the trade date as the acquisition/disposal date for bonds acquired or disposed of in order to comply with SSAP No. 26.

v. Designation of Securities

An examination review of Schedule D Part 1 of the 2007 filed annual statement indicated that the Company assigned incorrect NAIC designations to securities per the provisions of the NAIC Security Valuation Office (“SVO”) Purposes and Procedures Manual and the NAIC Annual Statement Instructions. Therefore, it is recommended that the Company assign proper NAIC designations to its owned securities reported in Schedule D Part 1 of its filed annual statements in order to comply with the SVO Purposes and Procedures Manual and the NAIC Annual Statement Instructions.

vi. Annual Statement Disclosure on Investments Subject to Repurchase Agreement

Upon examination, it was determined that for each year under examination, the Company failed to make the required disclosure in the Notes to Financial Statements and the General Interrogatories Part 1 Common Interrogatories relative to investments subject to repurchase agreement. The prior examination report contained a similar recommendation regarding repurchase agreement disclosure. It appears that the Company did not comply with the recommendation.

It is recommended that the Company make the required disclosures in the annual statement regarding its investments subject to repurchase agreement in order to comply with the NAIC Annual Statement Instructions.

vii. Value of Pledged Securities of Investments Subject to Repurchase Agreement

The repurchase agreement between the Company and its bank provided that the latter would collateralize the agreement with a pledge of securities in an amount equal to the outstanding principal balance in the account. SSAP No. 91 paragraph 71a requires that such collateral shall have a fair value at least equal to 102% of the purchase price paid by the reporting entity for the securities. The amount of collateral at December 31, 2007 was equal to 102% or greater.

During the course of the examination, the Company amended the agreement to provide for the missing requirement. Nevertheless, it is recommended that the Company comply with SSAP No. 91 when entering into repurchase agreements.

viii. Verification of Reported Deferred Tax Assets

SSAP No. 10 and the Annual Statement Instructions set forth methods governing the calculation and subsequent admittance thereof for Net deferred tax assets (“DTA”). On examination, it was determined that the Company reported the same amounts for the annual statement line item for three years in a row: 2005 through 2007. In addition, management could not provide support for some figures used in the calculation of the 2007 DTA in order to enable the examiner to determine compliance with SSAP No. 10 and the NAIC Annual Statement Instructions.

The amount of the net deferred tax asset reported by the Company was not material to its surplus; therefore, no financial change has been made to the Company’s balance sheet for this item. However, it is recommended that the Company comply with SSAP No. 10 and the NAIC Annual Statement Instructions and provide support for all figures used in the calculation and admittance of its Net deferred tax asset.

3. FINANCIAL STATEMENTS

A. Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2007 as determined by this examination and as reported by the Company:

<u>Assets</u>	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$5,151,485	\$ 0	\$5,151,485
Common stocks	6,191	0	6,191
Real Estate: Properties occupied by the company	32,172	0	32,172
Cash, cash equivalents and short-term investments	498,712	0	498,712
Investment income due and accrued	62,567	0	62,567
Uncollected premiums and agents' balances in course of collection	35,206	2,515	32,691
Deferred premiums, agents' balances and installments booked but deferred and not yet due	197,035	0	197,035
Reinsurance: Amounts recoverable from reinsurers	1,562	0	1,562
Net deferred tax asset	372,322	270,322	102,000
Electronic data processing equipment and software	10,976	10,976	0
Furniture and equipment, including health care delivery assets	<u>9,001</u>	<u>9,001</u>	<u>0</u>
Total assets	<u>\$6,377,229</u>	<u>\$292,814</u>	<u>\$6,084,415</u>

Liabilities, Surplus and Other Funds

Liabilities

Losses and loss adjustment expenses	\$ 452,904
Commissions payable, contingent commissions and other similar charges	81,124
Other expenses (excluding taxes, licenses and fees)	30,466
Unearned premiums	1,094,051
Advance premium	23,684
Ceded reinsurance premiums payable (net of ceding commissions)	83,752
Aggregate write-ins for liabilities	<u>38,779</u>
Total liabilities	\$1,804,760

Surplus and Other Funds

Required surplus	\$ 100,000
Unassigned funds (surplus)	<u>4,179,655</u>
Surplus as regards policyholders	<u>4,279,655</u>
Total liabilities, surplus and other funds	<u>\$6,084,415</u>

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2003 through 2007. 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 increased \$641,090 during the five-year examination period January 1, 2003 through December 31, 2007, detailed as follows:

Underwriting Income

Premiums earned		\$4,739,178
Deductions:		
Losses and loss adjustment expenses incurred	\$4,007,643	
Other underwriting expenses incurred	<u>1,495,693</u>	
Total underwriting deductions		<u>5,503,336</u>
Net underwriting gain or (loss)		\$ (764,158)

Investment Income

Net investment income earned	\$ <u>921,941</u>	
Net investment gain or (loss)		921,941

Other Income

Finance and service charges not included in premiums	\$ <u>59,615</u>	
Total other income		<u>59,615</u>
Net income before federal and foreign income taxes		\$ <u>217,398</u>
Federal and foreign income taxes incurred		<u>(36,086)</u>
Net income		\$ <u>253,484</u>

Surplus as regards policyholders per report on examination as of December 31, 2002			\$3,638,565
	<u>Gains in Surplus</u>	<u>Losses in Surplus</u>	
Net income	\$253,484		
Net unrealized capital gains or losses	1,169		
Change in net deferred income tax	253,570		
Change in nonadmitted assets		\$253,193	
Aggregate write-ins for gains and losses in surplus	<u>386,060</u>	<u>0</u>	
Total gains and losses	<u>\$894,283</u>	<u>\$253,193</u>	
Net increase (decrease) in surplus			<u>641,090</u>
Surplus as regards policyholders per report on examination as of December 31, 2007			<u>\$4,279,655</u>

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of \$452,904 is the same as reported by the Company as of December 31, 2007.

The examination analysis of the loss and loss adjustment expense reserves was conducted in accordance with generally accepted actuarial principles 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 and complaint handling

The following exceptions were noted during the review:

Redlining Notices to Agents and Brokers

During the review of notices mailed to terminated agents or brokers, it was noted that the notices did not fully meet the redlining notice requirements put forth in Part 218.5 of Department Regulation 90. Also, reasons provided for termination of two agents were unsupported general statements and thus not in compliance with Part 218.4 of Department Regulation 90. Therefore, it is recommended that the Company include the required redlining wording in notices of termination sent to agents and brokers and that it provide specific reasons for termination to comply with Parts 218.5 and 218.4 of Department Regulation 90.

Notice of Settlements to Third Party Claimants

On examination, it was determined that the Company did not maintain records of notices of settlements to third party claimants when payments were made to claimants' attorneys or representatives. Part 216.9 of Department Regulation 64 requires that notice of settlement shall be mailed to claimants at the same time payments of \$5,000 or more is made to the claimant's attorney. The Company indicated in a response dated April 3, 2008 that its attorneys have been sending such notices, but it did not maintain the documentation necessary to verify compliance with Part 216.9 of Regulation 64. Therefore, it is recommended that the Company maintain the documentation necessary to verify compliance with Part 216.9 of Department Regulation 64.

6. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Accounts and Records</u>	
i. It was recommended that the Company comply with the NAIC requirements, reinforced by Circular Letter No. 2 (1997) by obtaining a custodial agreement that includes the requirements specified by the NAIC and the New York Insurance Department.	8
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with SSAP No. 26 paragraph 6 by using scientific interest method to calculate amortization of discounted or premium bonds.	8
The Company has complied with this recommendation.	
iii. It was recommended that the Company comply with the annual statement instructions by reporting the premium receivables as indicated in the annual statement instructions.	8
The Company has complied with this recommendation.	
iv. It was recommended that the Company comply with SSAP No. 6 paragraph 9 by non-admitting uncollected premium balances and installment premiums that are over ninety days due.	9
The Company has complied with this recommendation.	
v. It was recommended that the Company comply with the annual statement instructions and SSAP No. 45 by disclosing in the annual statement funds subject to repurchase agreement and by reporting such funds as short-term investments.	9
The Company did not fully comply with this recommendation. Though the referenced SSAP has been changed to SSAP No. 91, the requirements remained unchanged.	

<u>ITEM</u>	<u>PAGE NO.</u>
B. <u>Market Conduct Activities</u>	
i. It was recommended that the Company comply with Circular Letter No. 11 (1978) by maintaining an appropriate ongoing central log to register and monitor complaint activities.	13
The Company has complied with this recommendation.	
ii. It was recommended that the Company comply with Section 3425(b) of the New York Insurance Law by stating on the notice of cancellation or denial to applicants the specific reason or reasons for such cancellation or denial.	13
The Company has complied with this recommendation.	
iii. It was recommended that the Company comply with NYCRR 216.11 (Regulation 64) by maintaining its claim files in such manner as to enable the Department examiners to reconstruct events relating to claims.	14
The Company has complied with this recommendation.	

7. SUMMARY OF COMMENTS AND RECOMMENDATIONS

<u>ITEM</u>	<u>PAGE NO.</u>
A. <u>Management</u>	
i. It is recommended that Neal Rea should either improve his attendance at the board of directors' meetings or be replaced.	4
ii. It is recommended that the terms of the Company's directors be maintained in three groups as nearly equal as possible to comply with the provisions of its charter and by-laws.	5
iii. It is recommended that the Company maintain minutes of future meetings of the nominating committee to comply with Section 6611(a)(3) of the New York Insurance Law.	5
iv. It is recommended that the Company establish a procedure for disclosure to its board of directors any material interest or affiliation on the part of any officer, director or responsible employee that is in conflict or likely to conflict with the official duties of such person.	5

<u>ITEM</u>	<u>PAGE NO.</u>
B. <u>Reinsurance</u>	
It is recommended that the Company submit to the Department any new reinsurance contracts or amendments to its reinsurance contracts whenever the amount of its total gross reinsurance premiums exceeds fifty percent of its unearned premiums at the beginning of the year, pursuant to the provisions of Section 1308(e)(1) of the New York Insurance Law.	8
C. <u>Account and Records</u>	
i. It is recommended that the Company comply with Section 6611(a)(4)(C) of the New York Insurance Law regarding the signatory requirements on checks.	10
ii. It is recommended that the Company make necessary disclosures regarding unsecured reinsurance recoverables in future filed annual statements to comply with SSAP No. 62 and the NAIC Annual Statement Instructions.	10
iii. It is recommended that the Company either maintain and provide upon examination detailed documentation to support the rate used based upon rental rates of like property in the same area or that it use the calculation called for in SSAP No. 40, which includes a return on investment.	11
iv. It is recommended that the Company record the trade date as the acquisition/disposal date for bonds acquired or disposed of in order to comply with SSAP No. 26.	11
v. It is recommended that the Company assign proper NAIC designations to its owned securities reported in Schedule D Part 1 of its filed annual statements in order to comply with the SVO Purposes and Procedures Manual and the NAIC Annual Statement Instructions.	11
vi. It is recommended that the Company make the required disclosures in the annual statement regarding its investments subject to repurchase agreement in order to comply with the NAIC Annual Statement Instructions.	12
vii. It is recommended that the Company comply with SSAP No. 91 when entering into repurchase agreements.	12
viii. It is recommended that the Company comply with SSAP No. 10 and the NAIC Annual Statement Instructions and provide support for all figures used in the calculation and admittance of its Net deferred tax asset.	12

ITEMPAGE NO.D. Market Conduct Activities

- | | | |
|-----|---|----|
| i. | It is recommended that the Company include the required redlining wording in notices of termination sent to agents and brokers and that it provide specific reasons for termination to comply with Parts 218.5 and 218.4 of Department Regulation 90. | 16 |
| ii. | It is recommended that the Company maintain the documentation necessary to verify compliance with Part 216.9 of Department Regulation 64. | 16 |

Respectfully submitted,

/s/
Nyantakyi Akuoko
Senior Insurance Examiner

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

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

/s/
Nyantakyi Akuoko

Subscribed and sworn to before me

this _____ day of _____, 2010

Appointment No 22728

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, ERIC DINALLO, Superintendent of Insurance of the State of New York,
pursuant to the provisions of the Insurance Law, do hereby appoint:

Nyantakyi Akuoko

as proper person to examine into the affairs of the

Washington County Co-operative Insurance Company

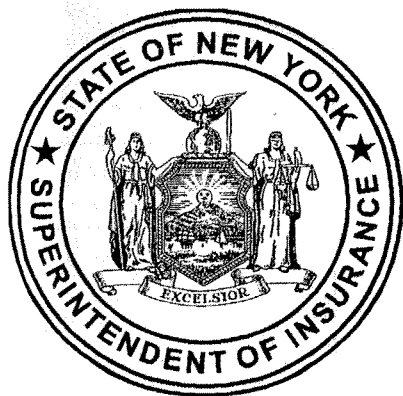
and to make a report to me in writing of the condition of the said

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 4th day of January 2008



A handwritten signature in cursive script, appearing to read "Eric Dinallo".

ERIC DINALLO
Superintendent of Insurance