REPORT ON EXAMINATION

OF THE

FINGER LAKES FIRE AND CASUALTY COMPANY

AS OF

DECEMBER 31, 2009

DATE OF REPORT	SEPTEMBER 3, 2010
EXAMINER	NYANTAKYI AKUOKO

TABLE OF CONTENTS

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

September 3, 2010

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 30507 dated April 5, 2010 attached hereto, I have made an examination into the condition and affairs of Finger Lakes Fire and Casualty Company as of December 31, 2009, and submit the following report thereon.

Wherever the designations “the Company” or “FLFCC” appear herein without qualification, they should be understood to indicate Finger Lakes Fire and Casualty 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 6905 Route 227, Trumansburg, New York 14886.

1. SCOPE OF EXAMINATION

The Department has performed a single-state examination of Finger Lakes Fire and Casualty Company. The previous examination was conducted as of December 31, 2004. This examination covered the five-year period from January 1, 2005 through December 31, 2009. Transactions occurring subsequent to this period were reviewed where deemed appropriate by the examiner.

This examination was conducted in accordance with the National Association of Insurance Commissioners ("NAIC") Financial Condition Examiners Handbook ("Handbook"), which requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. This examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All financially significant accounts and activities of the Company were considered in accordance with the risk-focused examination process. The examiners also relied upon audit work performed by the Company's independent public accountants when appropriate.

This examination report includes a summary of significant findings for the following items as called for in the Financial Condition Examiners Handbook of the NAIC:

Significant subsequent events
Company history
Corporate records
Management and control
Fidelity bonds and other insurance
Territory and plan of operation
Growth of Company
Loss experience
Reinsurance
Accounts and records
Statutory deposits
Financial statements
Summary of recommendations

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 that involve departures from laws, regulations or rules, or that are deemed to require explanation or description.

2. DESCRIPTION OF COMPANY

Finger Lakes Fire and Casualty Company was organized on December 23, 1876, as the Patrons Fire Relief Company of Seneca County, New York for the purpose of transacting business as a co-operative fire insurance corporation in the counties of Seneca, Ontario and Schulyer in this State. On November 14, 1967, this Department issued a certificate approving a change in the name of the Company to Seneca Co-operative Insurance Company.

On November 7, 1985, this Department approved an agreement of merger between the Finger Lakes Co-operative Insurance Company and the Seneca Co-operative Insurance Company, the surviving corporation. In accordance with this agreement, the corporate title of the Company became Finger Lakes-Seneca Co-operative Insurance Company, effective January 1, 1986.

Effective June 1, 1994, the Department approved the conversion of the Company into a non-assessable advance premium co-operative. On the same date, the Department also issued a license to the Company to do business as an advance premium co-operative.

The Department gave an approval for the Company to change its name to the Finger Lakes Fire and Casualty Company effective April 3, 1995. On August 20, 2001, the Company received the Department approval to amend its license to include boiler and machinery.

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 nor more than twenty-one members. The board meets four times during each calendar year. At December 31, 2009, the board of directors was comprised of the following eleven members:

Name and Residence	Principal Business Affiliation
Thomas R. Ball Dryden, NY	Vice President, Finger Lakes Fire and Casualty Company
Valerie Bassett Interlaken, NY	Director, Economic Development Department of Geneva
John W. Benedict Montour Falls, NY	Treasurer, Finger Lakes Fire and Casualty Company, and Energy Auditor, State of New York
David R. Eastman Ovid, NY	Self-employed, Farmer
Stephen E. Gillette Hector, NY	Retired
Stephen C. Hall Van Etten, NY	President/Chief Executive Officer and Secretary, Finger Lakes Fire and Casualty Company
Thomas L. Kime Geneva, NY	Chairman of the Board & Bank Officer, LNB Bank
Kathryn Smithers Ithaca, NY	Retired Assistant Budget Director, Tompkins County
Douglas R. Thornton Spencer, NY	Retired, U.S. Postal Service Employee
Ray G. Van deBogart Willseyville, NY	Self-employed, Farmer
Bryan G. VonHahmann Ovid, NY	President, Agri-Max Financial Services

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.

As of December 31, 2009, the principal officers of the Company were as follows:

Name	Title
Stephen C. Hall	President/Chief Executive Officer and Secretary
Thomas R. Ball	Vice President
Marlene Stein	Assistant Vice President
John W. Benedict	Treasurer
Thomas Kime	Chairman of the Board

B. Territory and Plan of Operation

As of December 31, 2009, the Company was licensed to write business in New York only.

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	Line of Business
4	Fire
5	Miscellaneous property
6	Water damage
7	Burglary and theft
8	Glass
9	Boiler and machinery
12	Collision
13	Personal injury liability
14	Property damage liability
19	Motor vehicle and aircraft physical damage
20	Marine and inland marine (inland marine only)

The Company is also licensed to accept and cede reinsurance as provided in Section 6606 of the New York Insurance Law.

Based on the lines of business for which the Company is licensed and pursuant to the requirements of Articles 13, 41 and 66 of the New York Insurance Law, the Company is required to maintain a minimum surplus to policyholders in the amount of $630,698. The Company writes predominantly commercial multiple peril and homeowners multiple peril lines of business, which accounted for 59% and 28%, respectively, of the 2009 direct written business. The Company writes mainly through independent agents.

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

Calendar Year	Direct Premiums Written (000's)
2005	$8,216
2006	8,948
2007	9,621
2008	9,530
2009	9,495

C. Reinsurance

During the period covered by this examination, the Company reported no assumed reinsurance business.

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

Treaty	Cession
Property (2 layers)	$850,000 in excess of $150,000, each loss each risk not exceeding a limit of $350,000 and $500,000 for each respective layer, each loss occurrence.
Casualty (2 layers)	$850,000 in excess of $150,000, ultimate net loss occurrence not exceeding a limit of $350,000 and $500,000 for each respective layer, each loss occurrence.
Inland Marine (2 layers)	$850,000 in excess of $150,000, each loss each risk not exceeding a limit of $350,000 and $500,000 for each respective layer, each loss occurrence.
Combined property, casualty and inland marine	$300,000 in excess of $150,000, each loss occurrence.
Casualty Clash	$1,000,000 in excess of $1,000,000 ultimate net loss in any one occurrence.

Treaty	Cession
Umbrella Quota Share (2 layers)	1st Layer: 95% quota share of the first $1,000,000 net loss, each loss occurrence. 2nd Layer: 100% of $2,000,000 in excess of $1,000,000 net loss, each los occurrence.

As of December 31, 2009, the Company maintained catastrophe excess of loss coverage on a per occurrence basis:

Treaty	Cession
Property (2 layers)	$4,700,000 in excess of $300,000 not exceeding $1,200,000 and $3,500,000 ultimate net loss each loss occurrence, and not exceeding $2,400,000 and $7,000,000 for the term of the agreement for the first and second layers, respectively.
Boiler and Machinery	100% cession not exceeding $5,000,000 any one risk without prior written agreement.

In addition to its treaty reinsurance program, the Company obtained property per risk excess of loss reinsurance coverage providing $1,000,000 in excess of $1,000,000 ultimate net loss as respects each risk, each loss occurrence; and not exceeding $2,000,000 ultimate net loss, each occurrence.

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.

The Schedule F data as reported in the Company's filed annual statements for 2006 through 2008 did not accurately reflect its reinsurance transactions. The company did not indicate on Schedule F Part 3 that it ceded reinsurance to three Underwriting Members of Lloyds during the aforementioned years. Therefore, it is recommended that the Company comply with the annual statement instructions and complete Schedule F with the accurate data that reflects its reinsurance transactions. A similar recommendation was made in the prior report on examination.

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 Statement of Statutory Accounting Principles ("SSAP) No. 62. Representations were supported by appropriate risk transfer analyses and an attestation from the Company's chief executive officer 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 SSAP No. 62.

D. Holding Company System

As of December 31, 2009, the Company was not a member of any holding company system. The Company was independent with no affiliations.

E. Significant Operating Ratios

The following ratios have been computed as of December 31, 2009, based upon the results of this examination:

Net premiums written to surplus as regards policyholders	49%
Liabilities to liquid assets (cash and invested assets less investments in affiliates)	34%
Premiums in course of collection to surplus as regards policyholders	1%

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:

	Amounts	Ratios
Losses and loss adjustment expenses incurred	$14,786,525	42.92%
Other underwriting expenses incurred	13,465,663	39.08%
Net underwriting loss	6,202,963	18.00%
Premiums earned	$34,455,151	100.00%

F. Accounts and Records

i. Completion of Schedule D

The Company reported all of its bonds as NAIC designation 1 on Schedule D Part 1 of its 2009 annual statement. Upon review, it was noted that nineteen of the bonds that should have been classified as NAIC designation 2. The Company acknowledged that the bonds were incorrectly classified. The misclassification of the bonds had no effect on their admitted value; however, it is recommended that the Company properly classify its bonds on Schedule D of its annual statement pursuant to the NAIC annual statement instructions and the SVO Purposes and Procedures Manual.

ii. Disclosure of Unsecured Reinsurance Recoverables

SSAP No. 62, paragraph 68 and the NAIC Annual Statement Instructions require an insurer to disclose in Note 22 A of the Notes to Financial Statements if the Company has with any individual reinsurers, authorized or unauthorized, an unsecured aggregate recoverable for losses, paid and unpaid including incurred but not reported, loss adjustment expenses, and unearned premiums, that exceeds three percent of its policyholders' surplus. An examination review of Schedule F, Part 3 of the filed annual statement for each of the years under examination indicated 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 Note 22A of the Notes to Financial Statements.

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. Completion of Schedule E, Part 3 of the Annual Statement

The Company maintains an investment with the Superintendent which is held in trust for the security of all policyholders of the Company pursuant to Section 1314 of the New York Insurance Law. In accordance with the requirements of the NAIC annual statement instructions, the amount held in such investment should be reported on Schedule E, Part 3 of the filed annual statement.

Upon examination, it was found that the Company did not complete the schedule in any of the annual statements filed with the Superintendent during the five years covered by the examination.

Therefore, it is recommended that the Company comply with the Annual Statement Instructions and report on Schedule E, Part 3, the amount held pursuant to Section 1314 of the New York Insurance Law.

iv. Rent Charges

Paragraph 15 of SSAP 40 prescribes that a reporting entity shall include in both its income and expenses an amount for rent relating to its occupancy of its own building. Further, the SSAP prescribes that if a rate comparable to rent received from others and/or rental rates of like properties in the same area is not available, the rate shall be derived from consideration of the repairs, expenses, taxes and depreciation incurred, plus interest added at an average fair rate on the carrying value of the reporting entity's investment in its home office building. A review of the rent expense reported by the Company indicated that the rate was inadequate for four out of the five years of this examination period due to the fact that the Company did not include a provision for interest on the carrying value of 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 rent received for rental rates of like properties in the same area or that it use the calculation prescribed in SSAP No. 40, which includes interest on the carrying value of its home office building.

iv. Custodial Agreement

Section 3, III, H of the 2009 NAIC Financial Condition Examiners Handbook provides guidelines for evaluating custodial or safekeeping agreements.

Upon on examination, it was discovered that the Company maintains a broker as one of its custodians, with which it maintains a Strategic Asset Management agreement. A review of the agreement indicated that several of the provisions and safeguards recommended in the Handbook were missing.

Accordingly, it is recommended that the Company maintain a custodial agreement, with the broker custodian, that will comply with Section 3, III, H of the NAIC Financial Examiners Handbook.

3. FINANCIAL STATEMENTS

A Balance Sheet

The following shows the assets, liabilities and surplus as regards policyholders as of December 31, 2009 as determined by this examination and as reported by the Company:

Assets	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	$15,911,848	$ 0	$15,911,848
Common stocks	5,186,889	0	5,186,889
Properties occupied by the company	358,213	0	358,213
Cash, cash equivalents and short-term investments	584,903	0	584,903
Investment income due and accrued	186,124	0	186,124
Uncollected premiums and agents' balances in the course of collection	119,510	0	119,510
Deferred premiums, agents' balances and installments booked but deferred and not yet due	1,802,626	0	1,802,626
Amounts recoverable from reinsurers	90	0	90
Current federal and foreign income tax recoverable and interest thereon	40,000	0	40,000
Net deferred tax asset	631,400	134,242	497,158
Furniture and equipment, including health care delivery assets	103,289	103,289	0
Aggregate write-ins for other than invested assets	329,454	0	329,454
Total assets	$25,254,346	$237,531	$25,016,815

Liabilities, Surplus and Other Funds

Losses		$2,353,985
Loss adjustment expenses		587,273
Commissions payable, contingent commissions and other similar charges		769,923
Other expenses (excluding taxes, licenses and fees)		389,036
Taxes, licenses and fees (excluding federal and foreign income taxes)		14,666
Unearned premiums		4,843,888
Advance premium		142,661
Ceded reinsurance premiums payable (net of ceding commissions)		64,109
Amounts withheld or retained by company for account of others		723
Remittances and items not allocated		1,236
Total liabilities		$9,167,500
Surplus and Other Funds		
Required Surplus	$ 630,698	
Unassigned funds (surplus)	15,218,617	
Surplus as regards policyholders		15,849,315
Total liabilities, surplus and other funds		$25,016,815

NOTE: The Internal Revenue Service has not yet begun to audit tax returns covering tax years 2005 through 2009. 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 $6,151,980 during the five-year examination period January 1, 2005 through December 31, 2009, detailed as follows:

Underwriting Income		
Premiums earned		$34,455,151
Deductions:		
Losses and loss adjustment expenses incurred	$14,786,525	
Other underwriting expenses incurred	13,465,663	
Total underwriting deductions		28,252,188
Net underwriting gain		$6,202,963
Investment Income		
Net investment income earned	$2,999,457	
Net realized capital gain	195,513	
Net investment gain or (loss)		3,194,970
Other Income		
Net gain or (loss) from agents' or premium balances charged off	$19,907	
Finance and service charges not included in premiums	523,954	
Aggregate write-ins for miscellaneous income	57,158	
Total other income		601,019
Net income after dividends to policyholders but before federal And foreign income taxes		$9,998,952
Federal and foreign income taxes incurred		3,252,121
Net income		$6,746,831

Surplus as regards policyholders per report on examination as of December 31, 2004			$9,697,335
	Gains in Surplus	Losses in Surplus	
Net income	$6,746,831		
Net unrealized capital gains or (losses)		$708,053	
Change in net deferred income tax	115,300		
Change in nonadmitted assets		163,736	
Aggregate write-ins for gains and losses in surplus	161,638	0	
Total gains and losses	$7,023,769	$871,789	
Net increase (decrease) in surplus			6,151,980
Surplus as regards policyholders per report on examination as of December 31, 2009			$15,849,315

4. LOSSES AND LOSS ADJUSTMENT EXPENSES

The examination liability for the captioned items of $2,941,258 is the same as reported by the Company as of December 31, 2009. The examination analysis was based on statistical information contained in the Company's internal records and in its filed annual statements.

5. COMPLIANCE WITH PRIOR REPORT ON EXAMINATION

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

ITEM			PAGE NO.
A.			
	i.	It was recommended that the Company comply with Section 712(b) and (c) of the NYBCL and Section IV of its Charter and have board committees approved by its board of directors.	4-5
		The Company has complied with this recommendation.	
	ii.	It was recommended that the Company comply with Section 6611(a)(3) of the New York Insurance Law and maintain a minute book recording the proceedings of all board appointed committees.	5
		The Company has complied with this recommendation.	
B.			
	i.	It was recommended that the Company comply with Section 1308(e)(1)(A) of the NYIL.	8
		The Company has complied with this recommendation.	
	ii.	It was recommended that the Company comply with the annual statement instructions and complete Schedule F with the accurate data that reflects its reinsurance transactions.	9
		The Company has not complied with this recommendation. A similar recommendation is made in this report.	
C.			
	i.	It was recommended that the Company comply with Section 6611(a)(4)(C) of the NYIL regarding the signature requirements on checks.	10
		The Company has complied with this recommendation.	
	ii.	It was recommended that management establish and maintain written documentation supporting the allocation of salaries to the major expense groups in accordance with Regulation 30 and make such documentation readily available for examination.	10-11
		The Company has complied with this recommendation.	

6. SUMMARY OF COMMENTS AND RECOMMENDATIONS

ITEM			PAGE NO.
A.	Reinsurance		
	i.	It is recommended that the Company comply with the annual statement instructions and complete Schedule F with the accurate data that reflects its reinsurance transactions.	7
B.	Accounts and Records		
	i.	It is recommended that the Company comply with SSAP No. 26 and the applicable manuals when completing Schedule D of the annual statement.	9
	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.	9
	iii.	It is recommended that the Company comply with the Annual Statement Instructions and report on Schedule E, Part 3, the amount held pursuant to Section 1314 of the New York Insurance Law.	9
	iv.	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 properties in the same area or that it use the calculation prescribed in SSAP No. 40, which includes interest on the carrying value of its home office building.	10
	v.	It is recommended that the Company maintain a custodial agreement with the broker custodian that will comply with Section 3, III, H of the NAIC Financial Examiners Handbook.	10

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 30507

STATE OF NEW YORK
INSURANCE DEPARTMENT

I, James J. Wrynn *, 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

Finger Lakes Fire & Casualty 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 5th *day of* April 2010

James J. Wrynn
Superintendent of Insurance