

**STATE OF WASHINGTON  
OFFICE OF THE INSURANCE  
COMMISSIONER**



**FINANCIAL EXAMINATION**

**OF**

**Contractors Bonding and Insurance Company  
Seattle, Washington**

**NAIC CODE 37206  
DECEMBER 31, 2007**

Order No. 09-16  
Contractors Bonding and Insurance Company  
Exhibit A

**Participating States:  
Washington**

**SALUTATION**

Seattle, Washington  
February 19, 2009

The Honorable Mike Kreidler, Commissioner  
Washington State Office of the Insurance Commissioner (OIC)  
Insurance Building-Capitol Campus  
302 Sid Snyder Avenue SW, Suite 200  
Olympia, WA 98504

The Honorable Alfred W. Gross, Commissioner  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Chair, NAIC Financial Condition (E) Committee  
PO Box 1157  
Richmond, VA 23218

The Honorable Morris Chavez, Superintendent  
New Mexico Insurance Division  
NAIC Secretary, Western Zone  
PO Drawer 1269  
Santa Fe, NM 87504-1269

Dear Commissioners and Superintendent:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an Association examination was made of the corporate affairs and financial records of

**Contractors Bonding and Insurance Company**

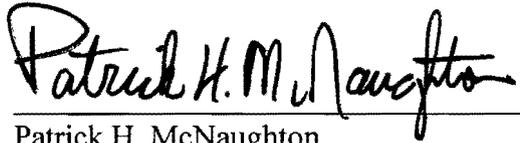
of

Seattle, Washington

hereinafter referred to as "CBIC," or the "Company" at the location of its home office, 1213 Valley Street, Seattle, Washington 98109. This report is respectfully submitted showing the condition of CBIC as of December 31, 2007.

**CHIEF EXAMINER'S AFFIDAVIT**

I hereby certify I have read the attached Report of the Financial Examination of Contractors Bonding and Insurance Company of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2007.



Patrick H. McNaughton  
Chief Examiner

2-19-2009

Date

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## SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2003 through December 31, 2007 and comprises a risk focused review of the books and records of the Company. The examination followed the statutory requirements contained in the Washington Administrative Code (WAC), the Revised Code of Washington (RCW), and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination.

Corporate records, external reference materials, and various aspects of the Company's operating procedures and financial records were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, the Company's certified public accountant's (CPA's) work papers were reviewed and utilized, where possible, to facilitate efficiency in the examination.

This examination was performed in compliance with the 2008 NAIC Financial Condition Examiners Handbook which requires the examiner to consider the Company's risk management process, corporate governance structure, and control environment. The examiners utilized the information obtained during the examination to assess overall potential risks throughout CBIC both currently and on an on-going basis, to allow examiners to focus on the Company's greatest areas of risk, and to provide assurance on the Company's financial statements as of the examination date.

## INSTRUCTIONS

The examiners reviewed the Company's filed 2007 NAIC Annual Statement as part of the statutory examination. This review was performed to determine if the Company completed the NAIC Annual Statement in accordance with the NAIC Annual Statement Instructions and to determine if the Company's accounts and records were prepared and maintained in accordance with Title 48 RCW, Title 284 WAC, and the NAIC Statements of Statutory Accounting Principles (SSAP) as contained in the NAIC Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review:

### **1. Reporting and Remitting Unclaimed Property to State**

Chapter 63.29 RCW requires reporting and remitting to the state any property considered unclaimed. Unclaimed property is defined to include checks outstanding for three (3) years as of June 30 each year and is reportable and payable to the state before November 1 of that year. Our review of outstanding check reconciliation reports identified 19 checks issued totaling \$30,172.32 that should have been reported and remitted to the state custodian for unclaimed property before November 1, 2007.

**The Company is instructed to comply with Chapter 63.29 RCW and with RCW 48.07.030 by complying with appropriate state statutes for reporting and remitting any property considered unclaimed.**

**2. Intercompany Expense Sharing Agreement**

CBIC does not have an intercompany expense sharing agreement with its parent, Data and Staff Service Company (DSSC), or DSSC's affiliates. The Company performs accounting, payroll and data processing services for other members of the group. Based on our analysis, expenses that should have been allocated for 2007 were not material; therefore, no adjustment has been proposed. In addition, the Holding Company Act, RCW 48.31B.025(2)(c)(v) and RCW 48.31B.030(1)(b), requires that the intercompany expense sharing agreement be filed with the Insurance Commissioner.

Also, SSAP No. 25, paragraph 6, and SSAP No. 96, paragraph 2 requires that transactions between related parties must be in the form of a written agreement. The written agreement must provide for timely settlement of amounts owed, with a specified due date. Amounts owed to the reporting entity over ninety days from the written agreement due date shall be nonadmitted, except to the extent this is specifically addressed by other statements of statutory accounting principles (SSAPs). If the due date is not addressed by the written agreement, any uncollected receivable is nonadmitted.

**The Company is instructed to comply with both SSAP No. 25 and SSAP No. 96 and with RCW 48.31B.025(2)(c)(v) and RCW 48.31B.030(1)(b) in accordance with the Holding Company Act by drafting an Intercompany Expense Sharing Agreement and properly filing the Intercompany Expense Sharing Agreement with the OIC.**

**3. Executive Pension Plan**

The nonqualified DSSC Executive Retirement Plan covering executives at CBIC is funded by DSSC in compliance with terms of the agreement. However, the Executive Retirement Plan has not been filed with the OIC, as required by the Holding Company Act, RCW 48.31B.025(2)(c) and RCW 48.31B.030(1)(b).

**The Company is instructed to file the Data and Staff Services Company Executive Retirement Plan with the OIC as required by RCW 48.31B.025(2)(c) and RCW 48.31B.030(1)(b).**

**4. Entire Contract Clause**

SSAP No. 62, paragraph 8c, requires an entire contract clause in reinsurance agreements. The following five agreements do not include the entire contract clause:

- Surety Excess of Loss
- Automatic and Pre-Approved Quota Share (Excess of Loss)
- Property Facultative Excess of Loss
- Employment Practices Liability Quota Share
- Equipment Breakdown Agreement

**The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the NAIC Accounting Practices and Procedures Manual which requires an entire contract clause in reinsurance agreements.**

**5. Federal Tax Sharing Agreement Timely Settlement**

The Federal Tax Sharing Agreement between CBIC and DSSC, which was signed on April 22, 1998, states that settlement with DSSC will be at CBIC's discretion, and within a reasonable time following the filing of the consolidated tax return. SSAP No. 25, paragraph 6, and SSAP No. 96, paragraph 2, requires that written intercompany agreements must provide for timely settlement of amounts owed. The tax sharing agreement between CBIC and DSSC does not provide for timely settlement of amounts owed. Also, since CBIC and DSSC file a consolidated federal tax return, SSAP No. 10, paragraph 13, states that, to be admitted as a tax recoverable, balances must be settled within 90 days of the consolidated income tax return filing, or a tax refund due from DSSC to CBIC must be settled within 90 days of receiving such refund.

**The Company is instructed to comply with RCW 48.05.073 and WAC 284-07-050(2) by complying with SSAP No. 10, SSAP No. 25, and SSAP No. 96 by amending the Federal Tax Sharing Agreement to include a specified due date for settling its federal tax obligations and settling any income tax accounts within the required time frame.**

**6. Reports of Premiums and Losses to Reinsurer**

SSAP No. 62, paragraph 8d, requires that reports of premiums and losses, and payments of losses are to be submitted to the reinsurer no less frequently than on a quarterly basis. The Multiple Line Excess of Loss Reinsurance Treaty with Munich Reinsurance America, Inc., does not meet this requirement.

**The Company is instructed to comply with WAC 284-07-050(2) which requires adherence to the NAIC Accounting Practices and Procedures Manual, SSAP No. 62, paragraph 8d, by amending the Multiple Line Excess of Loss Reinsurance Treaty to include settlements no less frequently than on a quarterly basis.**

**COMMENTS AND RECOMMENDATIONS**

**1. Written Investment Policy**

Actual investments are approved by the Board of Directors and the investment philosophy is also discussed and approved by the Board. However, the examiners noted that the Company does not have a written investment policy.

**While this does not result in a significant control weakness since all investment decisions are made and implemented by the chief financial officer (CFO), who is also a board member, we recommend the Company document its investment policy in writing.**

## 2. Information Systems

Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place. While adequate controls are in place, they are not adequately documented.

Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the internal controls exercised to maintain data security. The Company lacks formal documentation that would provide an audit trail for information technology (IT) processes, procedures and internal controls.

CBIC has a formal, written disaster recovery plan (DRP) for the restoration of IT operations. However, the plan has not been tested. The business continuity plan (BCP) does not adequately address the continuation of financially-significant business operations using manual processing procedures that would be implemented until IT functions have been restored. The DRP and the BCP are not tested annually.

**It is recommended that the IT Department update its System Development Life Cycle Manual, Systems Design Standard Manual, Programming Standards Manual and the Document Standards Manual to provide an audit trail for IT processes, procedures and internal controls.**

**It is also recommended that the Company prepare a formal, written business continuity plan that addresses the continuation of all significant business activities. Such a plan should include manual processing procedures that would be implemented until IT functions have been restored. The business continuity and disaster recovery plans should be tested annually.**

## COMPANY PROFILE

### Company History

As a multi-line property and casualty insurance company domiciled in the state of Washington, Contractors Bonding and Insurance Company writes various types of surety bonds and certain lines of commercial coverage.

The Company's Articles of Incorporation were filed with the Secretary of State of Washington on September 24, 1979 and were approved by the OIC. CBIC was granted a Solicitation Permit on September 25, 1979 and received its Certificate of Authority on October 9, 1979 to transact surety insurance business in the state of Washington. The Certificate of Authority was amended on July 15, 1980, authorizing the transaction of marine and transportation, vehicle, property and general casualty insurance. In 1994, CBIC began writing other commercial property and casualty lines, and focused on certain niche markets such as contractors general liability insurance.

### Capitalization

The Company increased its capitalization from \$2,860,250 to \$3,860,250 on July 21, 1988. On May 9, 1997, CBIC issued a stock dividend to its sole shareholder, Data and Staff Service Company (DSSC), of 15,000 common shares, \$10 par value, which increased the Company's capitalization to \$4,010,250. In 2000, DSSC contributed another \$1,000,000, which further increased the capitalization to \$5,010,250. As of December 31, 2007, CBIC had 250,000 shares of common stock issued and outstanding, with a par value of \$10 per share.

### Territory and Plan of Operation

CBIC is currently authorized to transact business in all fifty (50) states and in the District of Columbia. Over 80% of the Company's direct premium volume is written in the states of Washington (34.6%), California (15.4%), Arizona (13.1%), Oregon (12.1%), and Nevada (7.1%). CBIC's authorized lines of business are property, general casualty, marine and transportation, vehicle and surety. Slightly less than 65% of the 2007 premiums were written under the commercial insurance coverage lines.

### Growth of Company

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital &amp; Surplus</u>
2007	\$214,519,446	\$127,101,191	\$87,418,255
2006	190,670,367	118,144,439	72,525,928
2005	169,935,584	115,738,522	54,197,062
2004	142,763,807	104,652,779	38,111,028
2003	118,779,299	86,489,612	32,289,687

<u>Year</u>	<u>Net Premiums Earned</u>	<u>Net Underwriting Gain (Loss)</u>	<u>Net Investment Gain (Loss)</u>	<u>Net Income</u>
2007	\$80,505,514	\$19,531,485	\$6,458,272	\$17,657,329
2006	79,540,438	22,806,993	5,479,908	18,549,625
2005	62,591,768	23,751,115	4,188,019	15,765,949
2004	47,996,134	8,420,823	3,518,245	6,362,750
2003	42,431,032	6,712,232	1,506,261	5,753,110

### Affiliated Companies

CBIC is a wholly-owned subsidiary of DSSC. The chairman, chief executive officer (CEO) and president of CBIC is also the ultimate controlling person of DSSC.

### Intercompany Agreements

The affiliates have the following intercompany agreements:

- Federal Income Tax Sharing Agreement between CBIC and DSSC.
- Ground Lease Agreement, between CBIC, DSSC, and Donald Sirkin, for leasing the land on which CBIC's home office building is located.

However, there was no intercompany expense sharing agreement between CBIC, DSC, and any DSSC affiliate. (See Instruction No. 2.)

### MANAGEMENT AND CONTROL

#### **Board of Directors (BOD)**

The Company's Statement of Shareholders, Article III, Section 2, of CBIC's Bylaws, states that the Board shall be composed of not more than fifteen (15) nor less than five (5) directors. Not less than three-fourths of the Board of Directors shall be United States citizens, as required by RCW 48.07.050. Directors of the Company need not be residents of the state of Washington or shareholders of the corporation.

Board of Directors as of December 31, 2007:

Donald Sirkin	Chairman of the Board
Robert K. Eland	Secretary
Robert M. Ogle	Treasurer and Assistant Secretary
John R. Burnett	Director
Lawrence A. Byers	Director
John T. Dymont	Director
Sidney C. Hedrick	Director
Matthew M. Kelleher	Director
Deborah J. Kidd	Director
Anne E. Kurt	Director
Robert W. Palfrey	Director
John T. Pieprzny	Director
Constance I. D. Rodriguez	Director
Jeffrey D. Thomas	Director

#### **Officers**

Officers as of December 31, 2007:

Donald Sirkin	Chief Executive Officer and President
Robert K. Eland	Chief Financial Officer and Chief Operating Officer 1
Robert M. Ogle	Treasurer and Chief Operating Officer 2
Lawrence A. Byers	Senior Vice President, Director of Underwriting -- Commercial Surety
John T. Pieprzny	Senior Vice President, Director of Underwriting -- Contract Surety
John R. Burnett	Chief Information Officer
Jeffrey D. Thomas	General Counsel
John T. Dymont	Vice President, Manager Portland Office
Sidney C. Hedrick	Vice President, Manager Phoenix Office
Deborah J. Kidd	Vice President, Manager Seattle Office
Anne E. Kurt	Vice President, Operations
Robert W. Palfrey	Vice President, Validation
Constance I. D. Rodriguez	Vice President, P&C Underwriting Manager

**Conflict of Interest**

The Company has a Conflict of Interest Policy that all directors, officers, and key CBIC employees sign annually, which states that he or she will make timely disclosure to the Company of all facts in the event a change occurs, which might in any way create a conflict of interest with CBIC. CBIC also has a Code of Business and Financial Conduct and Ethics Policy (“Code”), which all key senior employees also must acknowledge they have read and agree to report any possible conflicts of interest. Both the Code and the Conflict of Interest Policy are distributed annually for the director, officer, and/or key CBIC employees review, acknowledgement and disclosure of any conflicts of interest. The signed statements are reviewed annually by the BOD for conflicting situations.

**Fidelity Bond and Other Insurance**

CBIC and DSSC are the named insureds on an extensive portfolio of insurance which covers catastrophic losses and other types of losses including, but not limited to, fidelity, directors and officers’ (D&O) liability coverage, fire, building, building personal property, business income for Company properties owned or leased, automobile, stop-gap employers liability, fiduciary liability, errors and omissions, commercial general liability; computer property; earthquake and flood insurance coverage, workers’ compensation, and employers’ liability. The Company’s fidelity coverage meets the NAIC’s minimum recommended amount.

**Officers’, Employees’, and Agents’ Welfare and Pension Plans**

The Company offers to its employees meeting certain eligibility requirements the following employee benefits at no cost to the employee. Employees are responsible for the additional costs of spouses and dependants:

- Medical Insurance
- Dental Insurance
- Long Term Disability Insurance
- Group Term Life and Accidental Death and Disability Insurance
- Group Long Term Care Insurance

**Data and Staff Service Company Profit Sharing/401K Plan**

CBIC’s parent company, DSSC, offers a qualified defined contribution profit sharing/401K plan for CBIC employees meeting certain eligibility requirements. Under the plan, there is no fixed dollar amount of retirement benefits. Each year, the Company may elect to make a discretionary contribution to the plan. The amount, if any, is determined annually by the Company. Actual benefits to participants depend upon the value of vested account balances based on a formula which includes credited years of service at the time of retirement. Amounts are fully vested upon the completion of six years of service. The profit sharing plan received a favorable determination letter from the Internal Revenue Service in May 2005.

The profit sharing plan was audited by Moss Adams, LLP, for year-end 2007 and received an unqualified opinion. The fair value of plan assets was \$12,294,660 as of December 31, 2007.

### **Data and Staff Service Company Employee Stock Ownership Plan (ESOP)**

DSSC also maintains an ESOP that covers CBIC employees who meet certain eligibility requirements for this plan. According to the Company, the ESOP is to reward eligible CBIC employees for long and loyal service. The plan is governed by the Employee Retirement Income Security Act of 1974 (ERISA), as amended, and the laws of the state of Washington. ESOP assets are invested primarily in common stock of DSSC. Each year, the employer determines the amount, if any, of its contribution to the plan. Actual retirement benefits depend upon the accumulated value of the eligible employee's account, based on a formula which includes the participant's compensation.

The ESOP was also audited by Moss Adams, LLP, for year-end 2007, and received an unqualified opinion. The fair value of plan assets was \$6,926,625 as of December 31, 2007

### **CORPORATE RECORDS**

The Company's BOD managed the property and business of CBIC and was actively involved in the Company's affairs. Corporate records were reviewed for the period under examination. Investment purchases, transfers, and disposals were ratified by the BOD and noted in the minutes. BOD meetings were conducted with a quorum present. Appointments and elections of officers, reinsurance contracts, bank agreements, and other contracts were also noted in the BOD's minutes, as well as any Board members' ratification for changes to the Company's Articles of Incorporation or its Bylaws. The Company maintains the minutes of the annual shareholder meeting and regular BOD and Investment Committee meetings.

During the examination period, only the Bylaws were changed, to increase the maximum number of Board members from ten to fifteen.

### **UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

	<b>Loss</b>	<b>LAE</b>
<b><u>Year</u></b>	<b><u>Reserves</u></b>	<b><u>Reserves</u></b>
<b>2007</b>	\$45,765,411	\$11,882,879
<b>2006</b>	41,391,557	10,802,350
<b>2005</b>	39,046,852	10,036,770
<b>2004</b>	29,653,623	7,917,178
<b>2003</b>	28,417,309	6,671,830

As shown above, the reserves carried by the Company for these liabilities were \$45,765,411 and \$11,882,879 respectively, as of December 31, 2007. These reserves were reviewed by the casualty actuarial staff employed by the OIC. CBIC provided loss and loss adjustment expense development data by accident year and line of business, as of December 31, 2007. The OIC actuarial staff obtained additional information through interviews with Company employees. They also reviewed an actuarial report prepared by the Company's appointed actuary with Ernst

& Young, LLP (E&Y) in connection with the appointed actuary's Statement of Actuarial Opinion as of December 31, 2007.

The OIC actuarial staff's estimates indicated that the Company's reserves for losses and loss adjustment expenses, on a net basis, were within a range of reasonable estimates. Therefore, CBIC's loss and loss adjustment expense reserves were accepted as reported in the Company's NAIC 2007 Annual Statement.

### **REINSURANCE**

CBIC participates in quota share and excess loss treaties. The Company does not assume any business.

Reinsurance agreements were found to be in compliance with Washington State reinsurance statutes except for five which did not contain the entire contract clause required by SSAP No. 62, paragraph 8c. (See Instruction No. 4.) The reinsurers are all authorized to do business in Washington State or the Company holds an approved Letter of Credit. They are all properly classified in Schedule F of the Company's 2007 NAIC Annual Statement. The Company has controls in place to monitor its reinsurance program including the financial condition of the reinsurers.

CBIC utilizes the services of a reinsurance intermediary, Guy Carpenter & Company, Inc., to solicit, negotiate, and place reinsurance cessions on its behalf. Guy Carpenter & Company, Inc., is an international reinsurance intermediary owned by Marsh & McLennan and licensed in Washington State.

### **STATUTORY DEPOSITS**

CBIC maintained the following statutory deposits as of December 31, 2007:

<b><u>State</u></b>	<b><u>Type</u></b>	<b><u>Book Value</u></b>	<b><u>Fair Value</u></b>
Washington	Bond	\$ 2,768,886	\$ 2,871,369
Massachusetts	Bond	601,571	626,766
New Mexico	Bond	389,993	388,994
North Carolina	Bond	349,850	349,097
Oregon	Other	348,569	348,988
Virginia	Bond	231,656	245,244
Florida	Certificate of Deposit	100,000	100,000
Louisiana	Certificate of Deposit	100,000	100,000
Georgia	Bond	49,480	52,180
<b>Total</b>		<b><u><u>\$ 4,940,005</u></u></b>	<b><u><u>\$ 5,082,638</u></u></b>

## **ACCOUNTING RECORDS AND INFORMATION SYSTEMS**

The Company maintains its accounting records on a Generally Accepted Accounting Principles (GAAP) modified accrual basis of accounting and adjusts to Statutory Accounting Principles (SAP) basis for NAIC Annual Statement reporting. CBIC is audited annually by the certified public accounting firm of Ernst & Young, LLP (E&Y), and CBIC has received an unqualified opinion from E&Y for all years under review. The Company's accounting procedures, internal controls, and transaction cycles were reviewed during the planning and testing phase of the examination and no exceptions were noted.

The management of CBIC is sufficiently knowledgeable of Information Systems (IS) operational issues and provides direction and oversight through its IT Steering Committee. Systems development, acquisition and maintenance controls were evaluated to gain assurance that appropriate internal controls are in place.

Operations and application controls were reviewed to determine the type of hardware installed; operating systems and proprietary software in use; back up and recovery facilities employed and the internal controls exercised to maintain data security. However, the Company lacks formal documentation that would provide an audit trail for information technology (IT) processes, procedures, and internal controls. (See Recommendation No. 2.)

CBIC has a formal, DRP for the restoration of IT operations. However, the plan has not been tested. The Company does not have a BCP that addresses the continuation of financially-significant business operations. (See Recommendation No. 2.)

## **SUBSEQUENT EVENTS**

There were no material events impacting the Company between the examination date and the last day of our field work.

## **FOLLOW UP ON PREVIOUS EXAMINATION FINDINGS**

With the exception of one recommendation regarding the update of the Company's Business Contingency Plan, all previous report instructions and recommendations were corrected and satisfactorily addressed.

Recommendation from the previous examination report as of December 31, 2002:

### **1. Business Contingency Plan**

The Company has a business contingency plan which has not been revised in several years and needs to be updated to address the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities.

**It is recommended that the Company update its business contingency plan to address the continuation of all significant business activities, including financial functions, telecommunication services and data processing services, in the event of a disruption of normal business activities, as required by NAIC Guidelines.**

### **FINANCIAL STATEMENTS**

The following examination financial statements show the financial conditions of the Contractors Bonding and Insurance Company as of December 31, 2007:

Assets and Liabilities

Statement of Income and Capital and Surplus Account

Reconciliation of Surplus for the Period Since the last Examination

Contractors Bonding and Insurance Company  
 Assets, Liabilities, Surplus and Other Funds  
 December 31, 2007

Assets	Balance Per Company	Examination Adjustments	Balance Per Examination
Bonds	\$177,333,005	\$0	\$177,333,005
Stocks:			
Common stocks	3,874,349		3,874,349
Properties occupied by the company	2,108,830		2,108,830
Cash and short-term investments	9,297,898		9,297,898
<b>Subtotal, cash and invested assets</b>	<b>192,614,082</b>	<b>0</b>	<b>192,614,082</b>
Investment income due and accrued	1,790,958		1,790,958
Uncollected premiums and agents' balances in course of collection	4,735,813		4,735,813
Premiums, and agents' balances and installments booked but deferred and not yet due	10,571,122		10,571,122
Reinsurance recoverables on loss and loss adjustment expense payments	394,431		394,431
Net deferred tax asset	3,746,775		3,746,775
Guaranty funds receivable or on deposit	0		0
Electronic data processing equipment and software	666,265		666,265
<b>Total Assets</b>	<b>\$214,519,446</b>	<b>\$0</b>	<b>\$214,519,446</b>
<b>Liabilities, Surplus and other Funds</b>			
Losses	\$45,765,411	\$0	\$45,765,411
Loss adjustment expenses	11,882,879		11,882,879
Commissions payable, contingent commissions and other similar charges	1,446,351		1,446,351
Other expenses	2,373,554		2,373,554
Taxes, licenses and fees (excluding federal and foreign income taxes)	233,738		233,738
Federal and foreign income taxes	1,069,565		1,069,565
Borrowed money	0		0
Unearned premiums	43,464,203		43,464,203
Advanced premium	846,862		846,862
Ceded reinsurance premiums payable	(107,379)		(107,379)
Amounts withheld or retained for account of others	20,173,974		20,173,974
Payable to parent, subsidiaries and affiliates	(47,967)		(47,967)
<b>Total Liabilities</b>	<b>127,101,191</b>	<b>0</b>	<b>127,101,191</b>
Common capital stock	2,500,000		2,500,000
Gross paid in and contributed surplus	2,510,250		2,510,250
Unassigned funds (surplus)	82,408,005		82,408,005
<b>Surplus as regards policyholders</b>	<b>87,418,255</b>		<b>87,418,255</b>
<b>Total Liabilities, Surplus and other Funds</b>	<b>\$214,519,446</b>	<b>\$0</b>	<b>\$214,519,446</b>

Contractors Bonding and Insurance Company  
Statement of Income and Capital and Surplus Account  
December 31, 2007

	Balance Per Company	Examination Adjustments	Balance Per Examination
<b>Underwriting Income</b>			
Premiums earned	\$80,505,514	\$0	\$80,505,514
<b>Deductions</b>			
Losses incurred	14,738,110		14,738,110
Loss expenses incurred	6,274,163		6,274,163
Other underwriting expenses incurred	39,961,756		39,961,756
Total underwriting deductions	<u>60,974,029</u>		<u>60,974,029</u>
<b>Net underwriting gain or (loss)</b>	<b><u>19,531,485</u></b>	<b><u>0</u></b>	<b><u>19,531,485</u></b>
<b>Investment Income</b>			
Net investment income earned	6,439,073		6,439,073
Net realized capital gains or (losses)	19,199		19,199
Net investment gain or (loss)	<u>6,458,272</u>	<u>0</u>	<u>6,458,272</u>
<b>Other Income</b>			
Net gain or (loss) from agents' or premium balances charged off	(58,096)		(58,096)
Finance and service charges not included in premiums	472,276		472,276
<b>Total other income</b>	<b><u>414,180</u></b>	<b><u>0</u></b>	<b><u>414,180</u></b>
Net income, after dividends to policyholders but before federal and foreign income taxes	26,403,937		26,403,937
Federal and foreign income taxes incurred	8,746,608		8,746,608
<b>Net income</b>	<b><u>\$17,657,329</u></b>	<b><u>\$0</u></b>	<b><u>\$17,657,329</u></b>
<b>Capital and Surplus Account</b>			
Surplus as regards policyholders, December 31 prior year	\$72,525,928	\$0	\$72,525,928
<b>Gains and (Losses) in Surplus</b>			
Net income	17,657,329		17,657,329
Net unrealized capital gains or (losses)	141,197		141,197
Change in net deferred income tax	(32,211)		(32,211)
Change in nonadmitted assets	226,012		226,012
Dividends to stockholders (cash)	(3,100,000)		(3,100,000)
<b>Change in surplus as regards policyholders for the year</b>	<b><u>14,892,327</u></b>	<b><u>0</u></b>	<b><u>14,892,327</u></b>
<b>Surplus as regards policyholders, December 31 current year</b>	<b><u>\$87,418,255</u></b>	<b><u>\$0</u></b>	<b><u>\$87,418,255</u></b>

Contractors Bonding and Insurance Company  
Reconciliation of Surplus for the Period since Last Examination  
For the Year Ended December 31, 2007

	2007	2006	2005	2004	2003
<b>Surplus as regards to policyholders, December 31, previous year</b>	<u>\$ 72,525,928</u>	<u>\$ 54,197,062</u>	<u>\$ 38,111,028</u>	<u>\$ 32,289,687</u>	<u>\$ 26,707,563</u>
Net income	17,657,329	18,549,625	15,765,949	6,362,750	5,753,110
Net unrealized capital gains or (losses)	141,197	192,244	258,239	106,541	367,448
Change in net deferred income tax	(32,211)	527,896	1,132,264	449,367	310,572
Change in nonadmitted assets	226,012	(640,899)	(195,418)	127,683	425,994
Dividends to stockholders (cash)	<u>(3,100,000)</u>	<u>(300,000)</u>	<u>(875,000)</u>	<u>(1,225,000)</u>	<u>(1,275,000)</u>
Change in surplus as regards policyholders for the year	<u>14,892,327</u>	<u>18,328,866</u>	<u>16,086,034</u>	<u>5,821,341</u>	<u>5,582,124</u>
<b>Surplus as regards policyholders, December 31, current year</b>	<u><u>\$ 87,418,255</u></u>	<u><u>\$ 72,525,928</u></u>	<u><u>\$ 54,197,062</u></u>	<u><u>\$ 38,111,028</u></u>	<u><u>\$ 32,289,687</u></u>

## **NOTES TO THE FINANCIAL STATEMENTS**

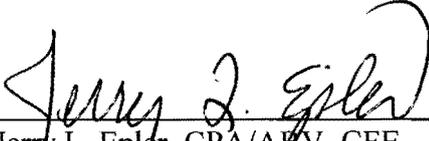
The Company has no special consents, permitted practices or orders from the state of Washington, and there were no examination adjustments.

**ACKNOWLEDGMENT**

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers and employees of Contractors Bonding and Insurance Company during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner; Timoteo L. Navaja, CFE, CIE, Property and Casualty Field Supervisor; John Jacobson, AFE, CISA, AES, Automated Examination Specialist; Susan Campbell, CPA, FLMI, CFE, Reinsurance Specialist; D. Lee Barclay, FCAS, MAAA, Senior Actuary; Timothy F. Hays, CPA, JD, Investment Specialist; Eric Slavich, Actuarial Analyst; Edsel R. Dino, Financial Examiner, and Randy E. Fong, AFE, Financial Examiner, all from the Washington State Office of the Insurance Commissioner, participated in the examination and in the preparation of this report.

Respectfully submitted,

  
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Jerry L. Epler, CPA/ABV, CFE  
Examiner in Charge  
State of Washington

