

Report on the Statutory Examination

Granite Manufacturers Mutual Indemnity Co., Inc.

as of December 31, 2007



by

Vermont Department of Banking, Insurance,
Securities and Health Care Administration

Division of Insurance

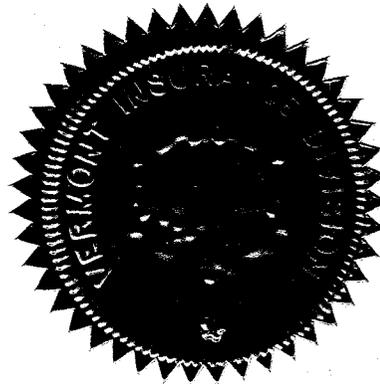
After due consideration of the following report and the related Company responses, I hereby accept the attached as a final Report on the Statutory Examination of **Granite Manufacturers Mutual Indemnity Co., Inc.**, as of December 31, 2007.

IN WITNESS WHEREOF, I have hereunto set my hand, and affixed the official seal of this Department at the City of Montpelier this 7^m day of July, 2008.

Paulette Thabault

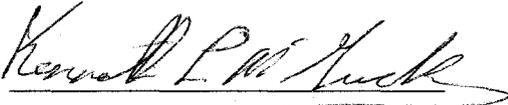
Paulette Thabault

Commissioner



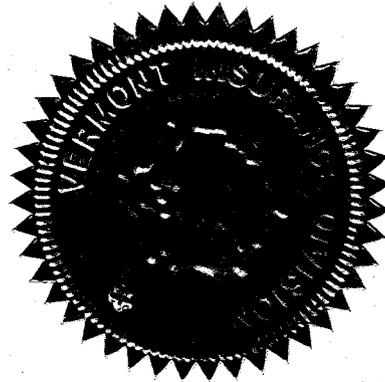
IT IS HEREBY CERTIFIED that the annexed copy of the Report on the Statutory Examination of **Granite Manufacturers Mutual Indemnity Co., INC.**, as of December 31, 2007 has been compared with the original on file in the Department and that it is a correct and complete transcript of said original.

IN WITNESS WHEREOF, I have hereunto set my hand, and affixed the official seal of this Department at the City of Montpelier this 7th day of July, 2008.



Kenneth L. McGuckin

Chief Examiner



**GREEN MOUNTAIN INSURANCE COMPANY, INC.
STATUTORY EXAMINATION REPORT
AS OF DECEMBER 31, 2006**

TABLE OF CONTENTS

<u>SECTION</u>	<u>PAGE</u>
Salutation.....	2
Scope of Examination	
Period Covered by Examination.....	3
Examination Procedures Employed.....	3
History	
General.....	3
Growth of the Company	4
Board of Trustees	5
Officers.....	6
Corporate Records	6
Accounts and Records.....	6
Subsequent Events	7
Financial Statements.....	7
Statutory Statement of Assets, Liabilities, and Surplus	8
Statutory Statement of Operations	9
Statutory Statement of Changes in Surplus	10
Comments and Recommendations	11
Conclusion	13

**Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007**

May 30, 2008

Honorable Paulette Thabault
Commissioner of Banking, Insurance, Securities
and Health Care Administration
State of Vermont
89 Main Street
Montpelier, VT 05620-3101

Dear Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination has been made for the four years ended December 31, 2007 of the financial condition, business affairs, transactions, and accounts and records of:

Granite Manufacturers Mutual Indemnity Co., Inc.
with its Statutory Home Office location at
83 Washington Street
Barre, Vermont 05641-0628

The following examination report is respectfully submitted.

Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007

SCOPE OF EXAMINATION

Period Covered by Examination

Representatives of the Vermont Insurance Division conducted an examination of Granite Manufacturers Mutual Indemnity Co., Inc. (Granite or the Company) as of December 31, 2007. The prior examination was conducted as of December 31, 2003. The examination covered the intervening period from January 1, 2004, through December 31, 2007, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

Fieldwork on the current financial examination commenced on April 8, 2008 at the Company's main administrative office located at 83 Washington Street, Barre, VT. Sections of the examination, including aspects of the planning phase and fieldwork, were performed at the Vermont Insurance Division.

Examination Procedures Employed

The examination was conducted in accordance with the guidelines and procedures recommended by the Financial Condition Examiners Handbook (FCEH) of the National Association of Insurance Commissioners (NAIC) and the rules, regulations and directives of the Vermont Insurance Division. The purpose of the examination was to determine if the Company operated within its Bylaws and its Charter, conformed to Vermont Statutes, and maintained solvency standards. This report was prepared according to the "Alternate Format" as described in the FCEH. Only the items needing financial adjustment, procedural recommendations, or not conforming to the Charter approved by the Vermont legislature are commented upon.

HISTORY

General

The Company was originally organized in April of 1920 under Section 156 of the Public Acts of the General Assembly of 1919 of the State of Vermont entitled "an act authorizing the incorporation of mutual associations to do workmen's' compensation insurance" and amendments thereto.

Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007

On July 1, 1969 the Company transferred its entire block of business to an authorized Connecticut insurer and since that time has not issued a single policy. Sufficient assets were retained in the Company to fund the runoff of claims. For several years the Company had only one claimant. In 2001, this lone claimant agreed to a settlement, which was approved by the Vermont Department of Labor and Industry Worker's Compensation Division. Berg, Carmolli & Kent, Inc., an insurance agency located at the address given above, manages the remaining assets.

The Company files P&C Annual Statements to the Department and is no longer required to obtain annual audits by a Certified Public Accountant. The Company has not paid or incurred a claim since settling the last one in 2001 (per above), consequently a \$10k estimate is recorded as a reserve liability in the unlikely event another claim does arise.

Growth of the Company

The following tables summarize financial information for the examination period:

Net Income

Year	Net Income
2007	4,653
2006	1,126
2005	1,558
2004	11,207

Assets, Liabilities and Surplus

Year	Assets	Liabilities	Surplus
2007	368,166	10,000	358,166
2006	344,522	10,000	334,522
2005	319,195	10,000	309,195
2004	323,189	10,000	313,189

Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007

Board of Trustees

The Board of Trustees consisted of four members who are elected for a term of three years.

Article IV, Section 1 of the Company's By-Laws state that, "the Trustees shall be elected by the members from the members of this Corporation."

Article II, Section 1 of the Company's By-Laws state that, "any person or corporation to whom a policy of insurance is issued by the Corporation shall be a member of this Corporation.

Article II, Section 2 of the Company's By-Laws states that, "membership in this Corporation shall be terminated upon the expiration or cancellation of the policy of insurance issued by this Corporation to such member.

Since no insurance policies are in force it appears that none of the Trustees meet the membership qualifications of the By-Laws.

A Barre, Vermont firm has been appointed as managers and agents of the Company. The Board voted to increase the management fees from \$4,000 per year to \$5,000 per year for these services.

At December 31, 2007 the Board of Trustees serving in accordance with the by-laws of the Company were as follows:

Name	Residence	Principal Business Affiliation
Richard W. Huskes	Barre City	Berg Carmolli Kent Insurance
Peter Friberg	Barre Town	Rock of Ages Corp.
Kenneth Geider	Barre Town	Berg Carmolli Kent Insurance
Judee Chatot	Barre Town	North Barre Granite, Inc.

Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007

Officers

The by-laws state that the officers of the Company shall consist of a President, one or more Vice Presidents, a Treasurer and a Secretary, all of whom shall be elected annually by the Board of Trustees. The Board of Trustees may appoint such other officers as they shall deem necessary. Officers elected at annual meetings of the Board of Trustees shall hold office for one year or until their successors are chosen and are qualified.

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

Title	Name
President/Treasurer	Richard Huskies
Vice President	Peter Friberg
Secretary	Kenneth Geider

Corporate Records

The Company's statutory home office is located at 83 Washington Street, Barre, Vermont, which is where the Company's corporate records are located. The minutes of the Board of Trustees meetings were reviewed for the period of examination. The examination determined that these minutes adequately approve and support Company transactions and events in compliance with the Company's Bylaws and Vermont Statutes.

ACCOUNTS AND RECORDS

A review was performed of the Company's books and records for the examination period. The Company maintains a checkbook, which doubles as the underlying accounting records. Given the limited amount of activity in the Company, the checkbook, along with the investment statements, serve as adequate record of the Company's transactions.

**Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007**

An independent firm of public accountants is employed by the Company to make annual audits of its accounts and records.

SUBSEQUENT EVENTS

No items of significance were noted during our review.

FINANCIAL STATEMENTS

The following statements show the financial position of the Company as of December 31, 2007 in accordance with statutory accounting principles as defined by Vermont State Statutes and the National Association of Insurance Commissioners Accounting Practices and Procedures Manual.

Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007

Statutory Statement of Assets, Liabilities and Surplus
As of December 31, 2007

Assets

Cash and invested assets	
Bonds, at amortized cost	\$ 24,988
Common stock, at fair value	307,854
Cash and cash equivalents	<u>35,324</u>
 Total cash and invested assets	 368,166
 Total admitted assets	 <u><u>\$ 368,166</u></u>

Liabilities and Surplus

Liabilities	
Losses	<u>\$ 10,000</u>
 Total liabilities	 <u>10,000</u>
 Surplus	
Unassigned surplus	<u>358,166</u>
 Total surplus	 <u>358,166</u>
 Total liabilities and surplus	 <u><u>\$ 368,166</u></u>

Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007

Statutory Statement of Operations
For 12-month period ending December 31, 2007

Underwriting Income

Other underwriting expenses incurred	\$ 12,042
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Net underwriting loss	12,042
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Investment income:

Net investment income	11,817
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Net realized investment gains	4,878
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Net income before federal income tax	4,653
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Federal income tax expense	0
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Net income	<u>\$ 4,653</u>
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Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007

Statutory Statement of Changes in Surplus
January 1, 2004 through December 31, 2007

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Surplus, beginning of year	\$334,522	\$309,195	\$313,189	\$283,367
Net Income	4,653	1,126	1,558	11,207
Change in net unrealized capital gains	<u>18,991</u>	<u>24,201</u>	<u>(5,552)</u>	<u>18,615</u>
Surplus, end of year	<u><u>\$358,166</u></u>	<u><u>\$334,522</u></u>	<u><u>\$309,195</u></u>	<u><u>\$313,189</u></u>

Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007

COMMENTS AND RECOMMENDATIONS

1. It was noted that the Company has two common stock holdings in excess of 5% of admitted assets. 8VSA § 3461a generally limits single investments by property and casualty companies to 5% of admitted assets.
2. The Company files an annual property and casualty statement, but due to minimal activity within the Company there are typically only a few pages completed. The Company pays a third party to have the statements completed. The Company also receives an annual GAAP audit from an independent CPA. The Company should consider preparing a request to the Director of Examinations of the State of VT to file 'only' the GAAP financials provided by the CPA, along with all information deemed necessary by the Department. This change could potentially save the Company time and money associated with filing the annual statement.
3. We noted that the Wachovia Statement includes preferred stock, but the annual statement does not contain this category. Preferred stock should be reported separately from bonds and common stock. It was also noted that all securities are reported at fair market value. Statutory Accounting Principles require certain investments be reported at amortized cost versus fair market value. Per SAP 26, high quality bonds should be reported at amortized cost and per SAP 32, high quality preferred stock should be reported at amortized cost.
4. We noted that the Company is reporting \$247 in Safety Deposit and Foreign Withholding fees in the Underwriting and Investment Exhibit, Part 3 – Expenses. Based on our review of the underlying data, only \$49 of this is for safety deposit boxes. The remainder is for Annual Statement Compilation services of \$177. We also noted that this service is typically around \$90/year, which leads us to believe the Company double paid for the service in the current year. We recommend that expenses be labeled and allocated appropriately in statutory filings.
5. We noted that the amount recorded in the checkbook for the purchase of a US T-note on 6/21/07 of \$24,622.93, does not agree to the detailed purchase activity in the 12.31.07 Wachovia statement. The amount in the statement is \$87.13 less than that in the checkbook.
6. The Company does not prepare year end reconciliations for cash and investments. The Company should prepare year-end reconciliations of the cash and investment accounts.
7. The Company does not include a statement of cash flows in its annual statutory filings. The Company should include a statement of cash flows in their year-end filing.
8. During our review of the Board of Trustees minutes, we noted that the Secretary did not sign the 2004 Annual meeting minutes. All minutes should be signed and dated by the Secretary.

Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007

9. We noted that in some instances the Company does not have valid support for payments made. For example, no contract or invoices were noted with BCK for management expenses.
10. No current custodial agreement was located. The Company should obtain a custodial agreement with customary safeguards.
11. An allocation of surplus to policyholders in the case of liquidation does not exist. Based on discussions with management, preparing this list could be costly and require a good deal of research. It is recommended that the Company explore options in determining the proper allocation of the surplus.
12. The 2007 Management Representation Letter to the CPA is not signed or dated. The Company should retain a signed and dated copy.
13. Trustee's fees have increased from \$400 each in 2004 to \$750 each in 2007. There was no indication of why the increase in fees was deemed necessary in the Board of Trustees minutes. It is recommended that changes in Trustees fees be supported by the rationale for the change in the Board minutes.

Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007

CONCLUSION

As a result of this examination, the financial condition of the Company, as of December 31, 2007, was determined to be as follows:

Admitted Assets	<u>\$ 368,166</u>
Liabilities	\$ 10,000
Surplus	<u>\$ 358,166</u>
Total Liabilities and Surplus	<u>\$ 368,166</u>

In addition to the undersigned, Dan Petterson, Examiner for the Vermont Division of Insurance, also participated on this examination. We wish to express our appreciation to the officers and employees of the Company for the courteous cooperation extended during the course of the examination.

Respectfully submitted,

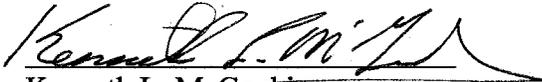


Kenneth L. McGuckin, CFE
Chief Examiner
Vermont Department of Banking, Insurance, Securities,
and Health Care Administration

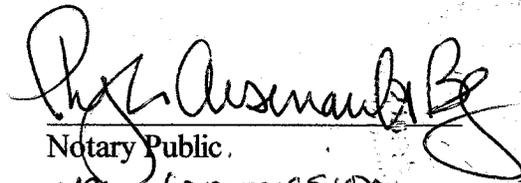
Granite Manufacturers Mutual Indemnity Co., Inc.
Statutory Examination Report
As of December 31, 2007

STATE OF VERMONT
COUNTY OF WASHINGTON

Kenneth L. McGuckin, being duly sworn, deposes and says that the foregoing report submitted by him is true to the best of his knowledge and belief.


Kenneth L. McGuckin

Subscribed and sworn to before me
this 7th day of July, 2008.


Notary Public.
my Commission
Expires: 2-10-11