

**REPORT ON EXAMINATION AS TO THE CONDITION OF  
THE SERVICE INSURANCE COMPANY, INC.  
WEST ORANGE, NEW JERSEY 07052**

**AT DECEMBER 31, 2018**

**NAIC COMPANY CODE 28240  
NAIC GROUP CODE 0000**

**FILED**

**November 20, 2019**

Commissioner  
Department of Banking & Insurance

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**State of New Jersey**  
DEPARTMENT OF BANKING AND INSURANCE  
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*Commissioner*

September 16, 2019

Honorable Marlene Caride  
Commissioner of Banking and Insurance  
State of New Jersey  
20 West State Street  
Trenton, New Jersey 08625

Commissioner:

A financial examination has been made of the condition and affairs of the:

**The Service Insurance Company, Inc.**  
**80 Main Street**  
**West Orange, New Jersey 07052**  
**NAIC Company Code 28240**

a property and liability insurance organization authorized to transact business in the State of New Jersey, and hereinafter referred to in this report as "SIC," "Service," or "Company."

## SCOPE OF EXAMINATION

This comprehensive financial condition examination was called by the Commissioner of the New Jersey Department of Banking and Insurance (hereafter "NJDOBI" or "the Department") pursuant to the authority granted by Section 17:23-22 of the New Jersey Annotated Revised Statutes.

The examination was conducted using the risk-focused examination approach and addressed the five-year period from December 31, 2013, the date of the last examination, including material transactions and/or significant events occurring subsequent to the examination date. The examination followed procedures formulated by the National Association of Insurance Commissioners ("NAIC") as permitted by the Department.

The scope of this examination was framed around specific key risk areas as determined by a risk assessment analysis, which attempted to measure the impact of these risks upon the Company's financial condition and future viability. This entailed an evaluation of the Company's management, corporate governance, information systems, accounting methods, system of internal control, and the annual audit work performed by the Company's certified public accountants, encompassing the following overall objectives:

- Analysis of business risk activities deemed to have a great impact on the Company's overall operations, including deviations from statutory accounting practices that affect solvency assessment.
- Identification of significant deviations from New Jersey insurance laws, regulations and directives.
- Compliance with the guidelines outlined in the revised NAIC Financial Condition Examiners Handbook ("NAIC Handbook"), NAIC accreditation/codification standards, and with NJDOBI Departmental policies and procedures.
- Identification and reporting of significant operational and internal control deficiencies and assessment of the Company's risk management processes.
- Assessment of the quality and reliability of corporate governance to identify and manage the risk environment facing the insurer in order to identify current and prospective risk areas.
- Assessment of the risks that the Company's surplus is materially misstated.
- Provision of a foundation for a profile of the Company's operations, risks and results to be utilized by regulatory authorities.

Substantive procedures were completed on certain risks based upon the adequacy of controls, risk mitigation strategies and materiality of the risks. Additional substantive procedures were performed as required by the Department. The Company, due to its size, does not maintain an internal audit department and/or staff. Assets were verified and valued, and all known liabilities were established at December 31, 2018. During the five-year exam period, the Company's assets increased \$6,207,889 from \$11,512,982 to \$17,720,871; liabilities increased \$2,905,916 from \$5,720,294 to \$8,626,210 and total surplus increased \$3,301,522 from \$5,792,688 to \$9,094,210.

## COMPANY HISTORY

Service Insurance Company, Inc. was formed pursuant to a Certificate of Incorporation ("Certificate") dated June 10, 1987, which was signed by ten incorporators and approved by the Attorney General of New Jersey on August 5, 1987. The Certificate provided that the Company was to be a stock company with a capital stock of two-hundred thousand dollars (\$200,000) divided into twenty-thousand (20,000) shares of common stock with each share having a par value of ten dollars (\$10.00). The Certificate was filed firstly in the Office of the Essex County Clerk on September 30, 1987, and then with the New Jersey Department of Banking and Insurance (hereafter "NJDOBI" or "Department") on October 21, 1987.

The Company is authorized to transact the business of fidelity and surety insurance as specified in paragraph "g" of N.J.S.A. 17:17-1, et seq., e.g., property and casualty. Service commenced business operations on December 21, 1987.

By resolution and unanimous consent of the Board of Directors on April 13, 1998, the Company restated and amended the "SECOND" article of the Certificate, which was approved by the Attorney General of New Jersey on May 7, 1998, to reflect a change of business location from 354 Park Avenue, Newark, New Jersey to 80 Main Street, West Orange, New Jersey.

On May 1, 1998, by a unanimous consent of the Board of Directors, the Company amended the by-laws and changed the annual shareholders meeting from the second Monday in February to May 1 of each year.

On July 22, 1998, the Company executed a Certificate of Amendment to affect a revision of the "THIRD" and "FIFTH" articles of incorporation. The Certificate of Amendment was filed with NJDOBI on October 26, 1998. The Third Article allowed SIC to transact the kind of insurance and reinsurance as authorized by paragraph "g" of Section 17:17-1 of the New Jersey Revised Statutes. The amendment to the Fifth Article raised the capital stock to five hundred thousand dollars (\$500,000) divided into fifty-thousand (50,000) shares, each of which will have a par value of ten dollars (\$10.00).

On December 20, 2000, the Company again executed a Certificate of Amendment to effect a revision of the "FIFTH" article of incorporation, authorizing an increase of the par value from ten dollars (\$10.00) per share to twenty dollars (\$20.00) per share, and thereby raising the amount of capital stock from five-hundred-thousand dollars (\$500,000) to one-million dollars (\$1,000,000). The amendment was approved by the New Jersey Deputy Attorney General on January 25, 2001.

The Company's most recent and amended Certificate of Authority, dated December 10, 2001, provides that the transaction of any business of fidelity and surety insurance by Service in any jurisdiction is hereby subject to the following conditions:

"Service shall not expose itself to any loss on any one risk or hazard in this State to an amount exceeding 10% of its net asset (increased from 5% effective May 6, 1996).

"Prior approval must be obtained for the entering into any reinsurance arrangements.

"Net premiums written to surplus as regards policyholders shall not be greater than 3 to 1.

"Gross premiums written to surplus as regards policyholders shall be no greater than 5 to 1.

"Prior approval must be obtained before Service enters into any agreement between itself and an affiliate."

The Company's statutory and main administrative office is located at 80 Main Street, West Orange, New Jersey 07052. The registered agent in charge, upon whom process may be served, is James S. Burger, President.

## HOLDING COMPANY SYSTEM

### Affiliated Parties

The Company is a member of an insurance company system as defined in N.J.S.A. 17:27A-1 and as such has registered with the Commissioner of the NJDOBI under N.J.S.A. 17:27 A-3. At December 31, 2018, the beneficial owners of the Company were James Burger who owned 75% of the outstanding stock and Glen Burger who had a 25% share. Glen Burger became an owner in 2012 after executing a Stock Purchase and Redemption Agreement, which was approved by the Department in the same year through Consent Order No.A12-107.

### Inter-Company Agreements

At December 31, 2018, the Company did not have contracts with any related party.

## INSURANCE PRODUCTS AND RELATED SERVICES

### Territory and Plan of Operation

The Company specializes in underwriting contract surety, bid and performance bonds for small subcontractors and miscellaneous surety, tax, probate and notary bonds. As of December 31, 2018, in addition to New Jersey, the Company was authorized to transact business in the following twenty states:

Alabama	Georgia	Montana	Rhode Island
Connecticut	Kentucky	North Carolina	South Carolina
District of Columbia	Massachusetts	New Hampshire	Tennessee
Delaware	Maryland	New York	Virginia
Florida	Mississippi	Pennsylvania	West Virginia

The Company does not actively market or sell to the public. Products are sold through an independent agency force consisting of approximately 200 brokers scattered throughout the various states. James Burger, the President of the Company, oversees this agency force through his underwriting responsibilities. He has an active producer license in the State of New Jersey. All of the Company's accounting and administrative functions are conducted at its home office located in West Orange, NJ, which is staffed by four employees. The Company also maintains a satellite office in Melville, New York mainly used as a back-up facility providing disaster recovery, miscellaneous and office support.

Direct premiums written during the examination period were as follows:

2014 -	\$3,388,450
2015 -	\$3,724,017
2016 -	\$4,899,831
2017 -	\$4,553,802
2018 -	\$5,149,426

The increase in premiums written for the period is in accordance with the Company's plan for continued measured and steady growth as they expand into additional states. As part of its business growth strategy, the Company has applied to the following three state or federally funded programs:

(1) *NY Rising Reconstruction Program (NYRCRP)*. This is a program of the NYS Urban Development d/b/a Empire State Development Corp (ESDC), which was established to provide additional rebuilding

and revitalization assistance to more than one hundred communities in New York that were severely damaged by Hurricanes Sandy and Irene, Tropical Storm Lee, and the summer floods of 2013. The program combines bottom-up community participation and State-provided technical expertise. The State of New York has allocated \$25 million to the program, with more planned for the future. This presents plenty of bonding opportunities for surety companies in the foreseeable future. The Company applied to the program in 2013 and was admitted in 2015 having issued five bonds as guarantor in connection with the program.

(2) *NYS Surety Bond Assistance Program (NYSBAP)*. This program, also administered by ESDC, provides technical and financial assistance to help contractors become eligible to receive a guarantee of up to 30% to secure a surety bond line, bid bond or a performance and payment bond on state projects. The Company was approved by virtue of its T Listing and has begun writing bonds in connection with this program.

(3) *SBA Surety Bond Guarantee Program (SBGP)*. This program helps small and emerging contractors who have the knowledge and skills in their respective field but lack the combination of experience and financial strength to obtain bonds through regular commercial channels. The **Small Business Administration ("SBA")** guarantees bid, payment and performance bonds issued by surety companies and reimburses the surety between 70% and 90% of the loss if the contractor defaults. The Company is certified by the U.S. Department of the Treasury to issue bonds and as such was eligible to participate in the program. The Company applied early in 2014 and was accepted on September 24, 2014.

In placing reinsurance, the Company utilizes the services of a global reinsurance company headquartered in New York, NY, that also specializes in reinsurance intermediary brokerage service. A review of the intermediary indicated it is authorized to transact business in the State of New Jersey under N.J.S.A. 17:22E-2a.

The Company has various agreements in effect with several service providers that offer assistance to Service in the conduct of its business, such as premium programming and preparation and filing of statutory annual statements in behalf of the Company.

### **Policy Forms and Underwriting Practices**

The Company utilizes standard Surety Association of America bond forms and corresponding attachments, a sampling of which is listed below:

- Bid, Performance and Contractor's Application
- Commercial and Court Bond Application
- Site Plan Bond Application
- Bond Request Form
- Performance Bond Form
- Bid Bond Form/Consent of Surety
- General Indemnification Agreement
- Collateral Agreement
- Job Status Report
- Principal Affidavit

The Company's policy for underwriting a new or existing account is to follow an underwriting checklist. Service feels these procedural guidelines are an effective way to communicate the requirements to the agent and principal. The Company's underwriting philosophy is focused on evaluating, among other things, the creditworthiness, competency, reputation, and overall character of the principal.

### **Advertising and Sales Material**

A review and sampling of advertisement materials submitted by the Company determined SIC to be in compliance with N.J.S.A. 17:18-10, which requires a company that is advertising its assets to also advertise liabilities in an equally conspicuous manner.

### **Treatment of Policyholders**

A review was made of the Company's complaint register for grievances filed during the period of examination. The inspection of these files determined that the Company was in compliance with N.J.S.A. 17:29B-4(10), which requires the maintenance of a complete record of all written complaints.

## **MANAGEMENT AND CONTROL**

### **Stockholders**

The by-laws of the Service Insurance Company, Inc. state that the Annual Meeting of the shareholders of the Company shall be held on the first of May in each year, or the next succeeding business day upon a legal holiday, at an hour to be named in the notice or waiver of notice of the meeting, for the election of directors and for the transaction of such other business as may properly come before the meeting.

Each shareholder shall be entitled to one vote, in person or by proxy, for each share entitled to vote held by such shareholder. Except as otherwise required by law, the Certificate of Incorporation or by the by-laws, the presence, in person or by proxy, of shareholders holding a majority of the shares of the corporation entitled to vote shall constitute a quorum at all meetings of the shareholders.

During the examination period, the two sole shareholders of the Company, James Burger and Glen Burger, called five annual meetings, the last of which ratified the list of directors currently in place as of December 31, 2018.

### **Board of Directors**

The by-laws vest the management and corporate powers of the Company in a Board of Directors ("the Board"). The Board shall be composed of not less than three (3) or more than ten (10) members, and shall be elected at the annual meeting of the shareholders. Each director shall be elected to hold office until the next succeeding annual meeting and, subject to law and the by-laws, shall hold office for the term for which elected and until a successor shall be elected and shall qualify.

The Board shall elect one additional person to serve as Chairman to preside over all meetings and participate in the work and functions of the Board, except he or she shall cast no vote on any matter except in the case of a tie in the votes cast by other Board members.

The duly elected members of the Board serving at December 31, 2018, were as follows:

<u>Name and Address</u>	<u>Principal Occupation</u>
James S. Burger (Chairman) Cold Spring Harbor, NY 11724	President/Underwriter The Service Insurance Company, Inc.
Glen T. Burger New York, NY 10016	Secretary/Controller The Service Insurance Company, Inc.



Michael Caro, Jr. Fairfield, NJ 07004	Certified Public Accountant Bederson, LLP
Andrew F. Durkin Haworth, NJ 07641	President/Owner Durkin Agency, Inc.
Richard A. Feldman Montclair, NJ 07042	Attorney Richard Feldman, PC
Richard A. Grodeck Stirling, NJ 07980	Attorney Piro, Zina, Cifelli, Paris & Genitempo, PC
Donald J. Rogosin New York, NY 10024	Economic and Financial Consultant
Laura Shanahan Garden City, NY 11530	Reinsurance Management Consultant

The Board's composition meets the prerequisites of N.J.S.A. 17:27A-4d, paragraph 3, which requires that at least one-third of the membership (exclusive of the Audit Committee) be made up of outside directors only.

The by-laws provide for the appointment of one or more committees, each to consist of two directors of the Board. At December 31, 2013, the Company had one committee consisting of the following members:

Audit Committee

Richard Grodeck (Chairman)  
Michael Caro, Jr.  
Donald Rogosin

The Audit Committee satisfies the statutory provisions of N.J.S.A. 17:27A-4d, paragraph 4, which requires the establishment of at least one committee to be composed entirely of outside directors who are not officers, employees, or beneficial owners of a controlling interest in the voting securities of the Company.

The Board's location for all correspondence and meetings is the SIC home office, 80 Main Street, West Orange, New Jersey 07052.

Officers

The by-laws of the Company stipulate that the officers of the Company shall be a President, one or more Vice Presidents, a Secretary, and a Treasurer, all of whom shall be elected by the Board and who shall hold office, subject to the by-laws, until their successors are elected and qualified. In addition, the Board may elect a Chairman of the Board and such Assistant Secretaries and Assistant Treasurers as the Board may deem advisable. One person may hold two or more offices, except that the offices of President and Secretary or Assistant Secretary may not be held by the same person.

The elected officers of the Company serving at December 31, 2018, were as follows:

<u>Name</u>	<u>Office(s)</u>
James S. Burger	President
Glen T. Burger	Secretary, Treasurer

## **Corporate Records**

The by-laws stipulate that the Board shall meet in the months of May, August and November at a time and place of their choosing. A quorum is reached when a majority of directors are present. A review of the corporate minutes indicated that directors held their annual and regular meetings in accordance with the Company's by-laws, for the purpose of nominating officers and transacting business. Altogether, fifteen (15) meetings were held during the period. Attendance at the meetings of the Board during the period of this examination was at least 80% at all times. The Board's review and approval of the previous examination report, key investment transactions, and other strategically relevant and important matters were duly noted and documented in its minutes.

At the May 6, 2014 meeting the Board approved an amendment to the by-laws to allow business to be conducted between the regularly scheduled general meetings without necessitating convening a special meeting. The amendment provides for a specific way to bring business in front of the Board. The e-mail meetings would not replace the quarterly meetings. At the August 16, 2016 meeting the Board approved to amend article II, Section 6 of the by-laws to allow non-directors to be appointed to the various committees of the Corporation.

## **Policy on Conflicts of Interest**

The Company has adopted a formal program for the identification of circumstances which would constitute a conflict of interest ("COI") between SIC and an officer or director thereof. Each year all officers and directors of the Company are required to complete and execute a conflict of interest questionnaire which requires the individual to disclose any act or affiliation that is likely to conflict with his or her official duties.

Service provided completed COI questionnaires applicable to the examination period. These forms are reviewed by the Audit Committee, which will make decisions as to whether an individual's outside interests constitute a conflict and will recommend if necessary that an individual recuse himself from matters which come before the board where it is deemed they have a conflict.

## **FIDELITY BOND AND OTHER INSURANCE COVERAGES**

The Company maintains a financial institution bond to cover for losses caused by fraudulent activities, which meets the NAIC suggested minimum amount of fidelity insurance. In addition, the Company also maintains an assortment of other basic insurance coverages, such as Auto Comprehensive Insurance, Commercial Umbrella, Employee Dishonesty, Computer Fraud, Employment Practices Liability/D&O, Privacy Liability, Security Breach, Professional Services Liability/D&O, Notary Public E&O, NY Paid Family Leave, Workers' Compensation and Employer's Liability.

## **REINSURANCE**

The Company has a variable quota share reinsurance agreement under which it cedes to the reinsurer the pro-rata portions of its premiums, losses and loss adjustment expenses based on the limits of its surety bonds ranging from 0% to 70% of such premiums and losses. This variable quota share agreement contains a ceding commission and a contingent ceding commission whereby the Company is entitled to a portion of the reinsurer's profit based upon a stated formula. The Company has accrued an estimate for this provision of \$114,141 in the 2018 financial statement.

Effective January 1, 2018, the Company entered into an excess of loss reinsurance agreement under which it cedes to the reinsurer losses and loss adjustment expenses in excess of \$200,000, not to exceed a limit of \$1,800,000 individually or \$3,600,000 aggregate. This agreement is subject to certain minimum and deposit premium provisions. The Company has recorded an estimate for the actual premiums ceded of \$43,751 in the 2018 financial statement.

### **ACCOUNTS AND RECORDS**

The Company's accounting records are maintained at the main administrative office. The Company utilizes a general ledger system to accommodate the specific needs of a small business. The accounting system is fully integrated for agent premium balances, accounts payable, premium invoicing, payroll, cash, investments, and adjusting journal entries reflecting the detailed activity of each account over a period with time. The Company's 2018 general ledger amounts were reconciled to the annual statement. The premiums are summarized monthly and electronically transferred to an outside service that provides the Company with the ability to monitor and report on premium earnings and to prepare detailed unearned premiums registers. An upgraded document management system was implemented in 2019 and is employed for all permanent records. Original signed indemnity agreements, bank collateral instruments and other permanent documents are stored in fireproof safes.

The Company does not rely on paper records for its operations. Administrative, financial, accounting, bond logs, broker powers, broker agreements, policy records, taxes, payroll and other records are stored electronically and are accessible remotely in the event of a localized disaster. The full system, images and database are continuously backed up, are tested and checked for consistency, and are completely portable and may be fully restored to a satellite office location as part of the Company's Disaster Recovery Plan.

All claims are handled by an officer of the Company. Proof of loss is always required, and inquiries are made to the principal as to ascertain the validity of any claim. Losses, when incurred, are directly expensed to a loss adjustment account in the general ledger. The Company maintains separate general ledger accounts for actual losses, loss reserves and loss adjustment expenses.

Pursuant to N.J.A.C. 11:2-26.4 an annual audit was performed by the CPA firm **Bonamassa, Maietta & Cartelli, LLP** and an audited financial CPA report was filed with the Commissioner of the NJDOBI. The report contains a synopsis of the major audit activities and results in the corporate area.

### **CONTINUITY OF OPERATIONS**

Service has a formal disaster recovery plan that includes backup procedures, failover precautions on backup files, emergency contacts, anti-virus support and an alternate location in order to maintain the stability and continuity of the Company's operations in the event of a man-made or natural disaster. Data restoration tests are performed quarterly with full recovery implemented at a satellite office should a localized catastrophe occur. The Company has also made provisions for the succession of officers in its by-laws.

## **FINANCIAL STATEMENTS**

Financial statements are presented in the following three pages as listed below:

- Exhibit-A      Statement of Financial Position  
                    as of December 31, 2018
  
- Exhibit-B      Statement of Operating Results  
                    for the Five-Year Period ended December 31, 2018
  
- Exhibit-C      Capital and Surplus Account  
                    for the Five-Year Period ended December 31, 2018

## **EXHIBIT-A: Statement of Financial Position**

As of December 31, 2018

<u>ASSETS</u>	<u>Balance</u> per Examination @ 12/31/18	<u>Balance</u> per Company @ 12/31/18	<u>Examination</u> Change	<u>Note</u>
Bonds	\$ 9,835,181	\$ 9,835,181	\$ -	
Preferred Stocks	50,352	50,352		
Common Stocks	1,790,850	1,790,850		
Cash and Short-term Investments	4,462,300	4,462,300		
Other Invested Assets	613,922	613,922		
Investment Income Due and Accrued	58,808	58,808		
Uncollected Premiums	568,762	568,762		
Reinsurance: Amounts Recoverable	114,141	114,141		
Net Deferred Tax Asset	91,625	91,625		
EDP Equipment and Software	134,930	134,930		
<b>Total Admitted Assets</b>	<b>\$ 17,720,871</b>	<b>\$ 17,720,871</b>	<b>\$ -</b>	
<u>LIABILITIES</u>				
Losses	\$ 420,845	\$ 420,845	\$ -	1
Loss Adjustment Expenses	338,032	338,032		1
Other Expenses (excluding federal/foreign taxes)	435,366	435,366		
Taxes, Licenses, and Fees	211,800	211,800		
Current Federal and Foreign Income Taxes	25,495	25,495		
Unearned Premiums	1,455,335	1,455,335		
Advance Premiums	22,906	22,906		
Ceded Reinsurance Premiums Payable	43,751	43,751		
Amounts Withheld for Account of Others	5,466,259	5,466,259		
Payable to Parent, Subsidiaries and Affiliates	206,871	206,871		
<b>Total Liabilities</b>	<b>\$ 8,626,661</b>	<b>\$ 8,626,661</b>	<b>\$ -</b>	
<u>CAPITAL AND SURPLUS</u>				
Common Capital Stock	\$ 1,000,000	\$ 1,000,000	\$ -	
Gross Paid-in and Contributed Surplus	839,198	839,198		
Unassigned Funds (surplus)	8,293,612	8,293,612		2
Less: Treasury Stock at Cost	(1,038,600)	(1,038,600)		2
<b>Surplus as Regards Policyholders</b>	<b>\$ 9,094,210</b>	<b>\$ 9,094,210</b>	<b>\$ -</b>	2
<b>Total Liabilities, Capital and Surplus</b>	<b>\$ 17,720,871</b>	<b>\$ 17,720,871</b>	<b>\$ -</b>	

**EXHIBIT-B: Statement of Operating Results**  
**For the Five-Year Period Ended December 31, 2018**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<u>UNDERWRITING INCOME</u>					
Premiums Earned	\$ 1,548,770	\$ 1,629,655	\$ 2,107,408	\$ 2,348,612	\$ 2,428,342
Deductions:					
Losses Incurred	(202,896)	(139,762)	144,802	85,926	(132,818)
Loss Adjustment Expenses Incurred	30,134	166,828	168,052	203,366	164,863
Other Underwriting Expenses Incurred	1,047,659	910,096	1,376,761	1,275,678	1,532,328
Total Deductions	874,897	937,163	1,689,615	1,564,969	1,564,373
<b>Net Underwriting Gain or (Loss)</b>	<b>\$ 673,873</b>	<b>\$ 692,492</b>	<b>\$ 417,793</b>	<b>\$ 783,643</b>	<b>\$ 863,969</b>
<u>INVESTMENT INCOME</u>					
Net Investment Income Earned	182,202	223,007	44,131	116,598	165,149
Net Realized Capital Gains or (Losses)	-	-	332,281	116,796	(102,569.00)
<b>Net Investment Gain or (Loss)</b>	<b>\$ 182,202</b>	<b>\$ 223,007</b>	<b>\$ 376,413</b>	<b>\$ 233,394</b>	<b>\$ 62,580</b>
<u>OTHER INCOME</u>					
Premium Balance Charged Off	-	-	-	-	-
Finance and Service Charges	10,772	14,278	26,279	23,782	38,990
Aggregate Write-ins for Misc. Income	-	-	-	-	-
<b>Total Other Income</b>	<b>\$ 10,772</b>	<b>\$ 14,278</b>	<b>\$ 26,279</b>	<b>\$ 23,782</b>	<b>\$ 38,990</b>
Dividends to Policyholders	-	-	-	-	-
Federal and Foreign Income Taxes Incurred	306,057	327,886	221,020	351,186	221,987
<b>Net Income</b>	<b>\$ 560,790</b>	<b>\$ 601,891</b>	<b>\$ 599,464</b>	<b>\$ 689,634</b>	<b>\$ 743,552</b>

**EXHIBIT-C: Capital and Surplus Account**  
For the Five-Year Period Ended December 31, 2018

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Surplus as Regards Policyholders December 31, Previous Year	<u>\$ 5,792,688</u>	<u>\$ 6,499,106</u>	<u>\$ 7,008,960</u>	<u>\$ 7,779,190</u>	<u>\$ 8,292,048</u>
Net Income	560,790	601,891	599,464	689,634	743,552
Change in Net Unrealized Cap Gains/(Losses)	100,511	49,222	100,107	(128,792)	34,269
Change in Net Deferred Income Tax	(7,832)	(10,233)	66,995	(2,198)	(6,856)
Change in Non-admitted Assets	52,949	(131,027)	3,664	(45,786)	31,197
Dividends to Stockholders	-				
Change in Treasury Stock	-				
Aggregate Write-ins for Surplus Gains/(Losses)	-				
Total Adjustments	<u>\$ 145,628</u>	<u>\$ (92,038)</u>	<u>\$ 170,766</u>	<u>\$ (176,776)</u>	<u>\$ 58,610</u>
Change in Surplus for the Year	706,418	509,853	770,230	512,858	802,162
Surplus as Regards Policyholders Decemebr 31, Current Year	<u><u>\$ 6,499,106</u></u>	<u><u>\$ 7,008,960</u></u>	<u><u>\$ 7,779,190</u></u>	<u><u>\$ 8,292,048</u></u>	<u><u>\$ 9,094,210</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

### **Note 1 - Losses and Loss Adjustment Expenses**

The Company reported reserves for loss and loss adjustment expenses of \$420,845 and \$338,032 respectively. A review by the NJDOBI Office of Solvency Regulation's Actuarial Staff indicated the reserves established by the Company were reasonable.

Data supplied to the Actuaries were reconciled to the Company's Annual Statement without material exception.

### **Note 2 - Capital and Surplus**

#### Unassigned Funds

Total Unassigned Funds, as per the current examination review, amounted to \$8,293,612, which is \$3,301,522 more than the amount reported in the last examination, reflecting a 66% increase.

#### Treasury Stock

Treasury Stock represents 18,000 shares the Company redeemed from the estate of the former majority shareholder William Burger and his spouse, which was approved by the Department on June 18, 2012.

#### Surplus as Regards Policyholders

The cumulative changes in surplus and other funds during the five-year examination period is reflected and summarized below:

Policyholder Surplus, December 31, 2013 .....		\$ 5,792,688
Net Cumulative Income or (Loss) .....		3,195,332
Change in Net Unrealized Cap Gains/(Losses) .....	155,317	
Change in Net Deferred Income Tax .....	39,877	
Change in Non-Admitted Assets .....	(89,003)	
Dividends to Stockholders .....	-0-	
Change in Treasury Stock .....	-0-	
Surplus Adjustments: Examination Change .....	-0-	
Net Adjustments During Five-Year Period .....		<u>(106,190)</u>
<b>Policyholder Surplus, December 31, 2018 .....</b>		<b><u><u>\$ 9,094,210</u></u></b>

The Company meets the statutorily required minimum capital and surplus benchmark of \$1,250,000, an excess of \$7,844,210 remaining PHS.

## SUBSEQUENT EVENTS

No events of a significant or material nature were noted during the review of SIC's accounts and transactions subsequent to the examination date.



**CONCLUSION**

The statutory condition examination was conducted by the undersigned with the support of the NJDOBI field and office staff, at the Company's home office.

The courteous cooperation and assistance extended during the course of this examination by the Officers of the Company and members of the office staff are hereby acknowledged.

Respectfully submitted,

  
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Juan P. Collado  
Examiner-In-Charge

Under the supervision of:



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Nancy Lee Chice, CFE  
CFE Reviewer – Supervising Examiner  
New Jersey Department of Banking and Insurance

**THE SERVICE INSURANCE COMPANY, INC.**  
**NOTARIZATION**

I, Juan P. Collado, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2018, to the best of my information, knowledge and belief.

Respectfully submitted,



Juan P. Collado  
Insurance Examiner 2  
Representing the NJDOBI  
Office of Solvency Regulation  
Field Examination Unit

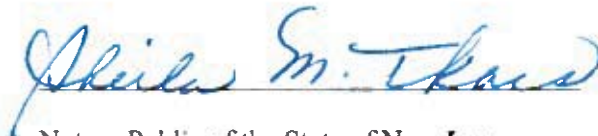
Under the supervision of:



\_\_\_\_\_  
Nancy Lee Chice, CFE  
CFE Reviewer – Supervising Examiner  
New Jersey Department of Banking and Insurance

State of New Jersey  
County of Mercer

Subscribed and sworn to before me, on this 31<sup>st</sup> day of December, 2018.



Notary Public of the State of New Jersey

My commission expires: July 2025