

REPORT ON EXAMINATION
OF
FLORIDA CITRUS, BUSINESS AND
INDUSTRIES FUND

ORLANDO, FLORIDA

AS OF
MARCH 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

October 1, 2010

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statute, Section 624.486, Florida Statutes, and Rule 69O-190.063 (5), Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of March 31, 2009, of the financial condition and corporate affairs of:

**FLORIDA CITRUS, BUSINESS AND INDUSTRIES FUND
16407 NORTH WEST 174TH DRIVE SUITE E
ALACHUA, FLORIDA 32615**

Hereinafter referred to as, the "Fund". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of April 1, 2004, through March 31, 2009. The Fund was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of March 31, 2004. This examination commenced with planning at the Office on March 29, 2010, to April 2, 2010. The fieldwork commenced on May 17, 2010, and concluded as of October 1, 2010.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Fund by obtaining information about the Fund including corporate governance, identifying and assessing inherent risks within the Fund, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Fund were considered in accordance with the risk-focused examination process.

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

The following is a summary of material findings, significant non-compliance findings, or material changes in the financial statements noted during the examination.

Custodial Agreement

The Custodial Agreement with Salem Trust was not in compliance with Rule 69O-143.042 (2) (o), Florida Administrative Code.

Prior Exam Findings

The following is a summary of significant adverse findings contained in the Office's prior examination report as of March 31, 2004, along with resulting action taken by the Fund in connection therewith.

Treatment of Policyholders

The Fund did not have a written complaint-handling procedure, did not keep an up-to-date complaint log and had at least one missing complaint file. Section 626.954(1) (j), Florida Statutes, requires the Fund to maintain complaint-handling procedures and to maintain a complete record of all complaints since the date of the last examination.

Resolution: The Fund has implemented a Complaint Handling Procedure that is in compliance with Florida Statutes as confirmed by the examiner's current review.

Fund Records

For the Fund Year 2003, the Fund did not retain its CPA and Actuary before the end of the fiscal year as required by Sections 624.424(8), Florida Statutes and NAIC Annual Statement Instructions.

For the Fund Year 2003, the Fund did not perform the required annual reviews as required by Rule 69O-190.064, Florida Administrative Code.

Resolution: A copy of the Board of Trustees minutes for the March 18, 2005 and subsequent meetings were provided to the Office showing these items as being performed and documented.

HISTORY

General

The Fund was established in accordance with Section 440.57, Florida Statute, to operate as a self-insurance fund under the name of Florida Citrus Self-Insurers Fund, and commenced business on April 1, 1977. The Fund Agreement and the Bylaws were amended and restated on November 4, 1998 when the Fund changed its name to Florida Citrus, Business & Industries Fund.

The Fund was authorized to transact Workers Compensation insurance coverage in Florida on March 31, 2009.

Dividends to Policyholders

In accordance with Rule 69O-190.065, Florida Administrative Code, the Fund declared and paid dividends to its policyholders in 2009 and 2008 in the amounts of \$1,416,985 and \$958,845, respectively.

Surplus Debentures

The Fund did not have any surplus debentures.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance

The Fund had no acquisitions, mergers, disposals, dissolutions, or purchases or sales through reinsurance during the examination period.

CORPORATE RECORDS

The recorded minutes of the, Board of Trustees (Board), and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Fund transactions and events in accordance with Rule 69O-190.064(19) and (21), Florida Administrative Code, including the authorization of investments in accordance with Rules 69O-190.064(14) and 69O-190.071, Florida Administrative Code.

Conflict of Interest

The Fund adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual Members meeting for the election of trustees and officers was held in accordance with Rule 69O-190.068, Florida Administrative Code. Trustees serving as of March 31, 2009, were:

Trustees

Name and Location	Principal Occupation
Gasper Kovach, Jr. Lakeland, Florida	Director, HESCO Service CO-OP
Bobby R. Smith Hendersonville, North Carolina	Assistant Director, AEIC/ERC (ret)
Richard J. Kinney Zephyrhills, Florida	Florida Citrus Packer Association
Bert E. Roper Windermere, Florida	Bank Director, Ropers Growers CO-OP.
John L. Minton Vero Beach, Florida	Bank Director, Minton-Sun, Inc,
Frank M. Durrance Lake Mary, Florida	Assistant Director, Frank Durrance, CPA
Daniel R. Richey Winter Beach, Florida	Riverfront Groves, Inc.

The Board of Trustees in accordance with the Fund's Trust Agreement appointed the following senior officers:

Senior Officers

Name	Title
James E. Emerson	President and Administrator
Samuel D. Oswald	Secretary and Treasurer

The Fund's Board appointed several internal committees in accordance with Rule 69O-190.064(6), Florida Administrative Code. Following were the principal internal board committees and their members as of as of March 31, 2009:

Audit Committee	Investment Committee	Administrative & Budget Committee
Bert Roper ¹	Gap Kovach ¹	John Minton ¹
Frank Durrance	Frank Durrance	Gap Kovach
John Minton	Richard Kinney	Bobby Smith
¹ Chairman		

Affiliated Companies

The Fund was not a member of an insurance holding Company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

FIDELITY BOND

The Fund maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$10,000, and United Self Insured Services (USIS), its authorized claim service company maintained fidelity bond

coverage of \$25,000,000, which exceeded the requirement of \$500,000 as stated in Rule 69O-190.064(5) and exceeded the suggested minimum as recommended by the NAIC.

PENSION PLAN

The Fund had a Simplified Employee Pension, Individual Retirement Account (SEP-IRA) retirement pension plan for its two employees. The Board of Trustees approved a contribution of 8% of each eligible participant's compensation.

TERRITORY AND PLAN OF OPERATIONS

The Fund was authorized to transact insurance only in the State of Florida

Treatment of Policyholders

The Fund established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Fund's third party administrator maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

FUND GROWTH

The Fund has experienced a decline in net underwriting from 2005 thru 2009 with losses for 2008 and 2009. The losses are due primarily to a decrease in business as a consequence of a

depressed economy. The Fund is supported by member contributions in the event that additional capital is needed.

Profitability of Fund

The following table shows the profitability trend (in dollars) of the Fund for the period of examination, as reported in the filed annual statements.

	2009	2008	2007	2006	2005
Premiums Earned	20,937,270	29,121,437	34,462,678	40,409,279	30,736,604
Net Underwriting Gain/(Loss)	(1,071,320)	(1,534,662)	600,465	980,605	3,372,784
Net Income	2,265,881	2,790,107	3,403,922	1,266,991	3,216,607
Total Assets	76,201,880	79,304,255	80,181,694	69,165,450	49,425,217
Total Liabilities	52,766,329	56,769,596	54,574,493	48,726,419	34,042,838
Surplus As Regards Policyholders	23,435,551	22,534,659	25,607,201	20,439,031	15,382,379

LOSS EXPERIENCE

The Fund did not experience significant changes to their loss development.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Fund did not assume risks.

Ceded

The Fund ceded risk on an excess of loss basis. At March 31, 2009, the Fund had reinsurance agreements with Max Bermuda LTD, Hanover Ruckverssicherung-AG and National Union Fire Insurance Company under a contract with Axiom RE, Inc., a reinsurance broker. The Fund's coverage consisted primarily of a net retention of one million dollars with a three million dollars excess of loss coverage with unlimited reinstatements.

ACCOUNTS AND RECORDS

The Fund maintained its Administrative and Financial offices in Alachua and Orlando, Florida, respectively. This examination was conducted in Orlando, Florida.

An independent CPA audited the Fund's statutory basis financial statements annually for the years 2006, 2007 and 2008, in accordance with Rule 69O-190.064(10), Florida Administrative Code. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Fund's accounting records were maintained on a computerized system. The Fund's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Fund and non-affiliates had the following agreements:

Custodial Agreement

Effective June 23, 2005, the Fund entered in a custodial agreement with Salem Trust. The Agreement was not in compliance with Rule 69O-143.042 (2) (o), Florida Administrative Code

which states: “that the custodian shall provide written notification to the Office if the custodial agreement with the insurer has been terminated or if 100% of the account assets in any one custody account have been withdrawn. This notification shall be remitted to the Office within three (3) business days of the receipt by the custodian of the insurer’s written notice of termination or within three (3) business days of the withdrawal of 100% of the account assets.”

Claims Management Agreement

The Fund had a Service Agreement with United Self Insured Services (USIS) dated July 1, 2000, whereby it allows USIS to secure excess insurance coverage, errors and omissions and fidelity and surety bonds coverage, collect excess insurance recoveries and subrogation, claim services, loss control services, provide online access to company systems and general administration.

Managing General Agent Agreement

The Fund had a Managing General Agent agreement with United Association Services (UAS) dated April 1, 2005 in which UAS had the authority to receive and accept proposals for insurance coverage; solicit, underwrite and bind coverage; assemble, issue, and countersign all endorsements and policies; cancel policies, bill and collect premiums; calculate and refund return premiums.

Associated Sponsorship Agreement

The Fund entered into an agreement with Florida United Business Association (FUBA) effective April 1, 2005, whereby the association sponsors and endorses the Fund for purpose of

providing worker's compensation coverage to eligible members of FUBA. The Association gave the Fund the exclusive right to the use of their name in promotional material and advertisement.

Investment Advisory Agreement

The Fund entered into an agreement with BPS Associates, Inc. (BPS) effective July 1, 2000, whereby BPS provides advice and services with respect to the Fund's investment portfolio. The Fund gives authority to BPS to conduct transactions of selling, buying and delivery against negotiable and fixed securities with the approval of Board of Trustees.

Reinsurance Broker Agreement

The Fund entered into an agreement with Axiom RE, Inc. effective April 1, 2006 which allowed Axiom RE, Inc. to provide reinsurance brokerage and consulting services.

Independent Auditor Agreement

Effective March 28, 2009, the Fund's Board of Trustees, entered into an agreement with Shores, Tagman, Butler & Fund, P. A. CPA's to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), and Rule 69O-190.064(10), Florida Administrative Code.

Information Technology Report

Computer Aid, Inc. performed an evaluation of the information technology and computer systems of the Fund. Results of the evaluation were noted in the Information Technology Report provided to the Fund.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411,

Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Int'l Lease Co., 4.375%, 11/01/09	\$ 500,000	\$ 412,500
FL	Morgan Stanley, 3.875%, 01/15/09	550,000	549,340
FL	G. Sachs Group Inc., 6.65%, 05/15/09	500,000	500,650
FL	Morgan JP & Co. Inc., 6%, 01/15/09	500,000	500,550
FL	Freddie Mac, 5.4%, 01/06/23	2,000,000	1,883,800
TOTAL SPECIAL DEPOSITS		<u>\$4,050,000</u>	<u>\$3,846,840</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Fund's financial position as of March 31, 2009, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

FLORIDA CITRUS, BUSINESS & INDUSTRIES FUND
Assets

MARCH 31, 2009

	Per Company	Examination Adjustments	Per Examination
Bonds	\$68,436,263		\$68,436,263
Cash:	2,281,554		2,281,554
Investments Income Due and Accrued	659,466		659,466
Reinsurance Recoverable	1,164,108		1,164,108
Current Federal Tax Recoverable	694,539		694,539
Net Deferred Tax Asset	517,336		517,336
Aggregate write-in for other than invested assets	2,448,614		2,448,614
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Totals	\$76,201,880		\$76,201,880
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FLORIDA CITRUS, BUSINESS & INDUSTRIES FUND
Liabilities, Surplus and Other Funds

MARCH 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$40,228,253		\$40,228,253
Loss adjustment expenses	5,238,821		5,238,821
Other expenses	1,465,143		1,465,143
Taxes, licenses and fees	33,674		33,674
Advance Premium	1,632,755		1,632,755
Funds held under reinsurance treaties	3,017,419		3,017,419
Aggregate write-ins for liabilities	1,150,264		1,150,264
Total Liabilities	\$52,766,329		\$52,766,329
Aggregate Write In	\$2,439,765		\$2,439,765
Unassigned funds (surplus)	20,995,786		20,995,786
Surplus as regards policyholders	\$23,435,551		\$23,435,551
Total liabilities, surplus and other funds	\$76,201,880		\$76,201,880

FLORIDA CITRUS, BUSINESS & INDUSTRIES FUND
Statement of Income

MARCH 31, 2009

Underwriting Income

Premiums earned		\$20,937,270
	Deductions:	
Losses incurred		11,533,330
Loss expenses incurred		2,049,935
Other underwriting expenses incurred		8,425,325
Total underwriting deductions		\$22,008,590
Net underwriting gain or (loss)		(\$1,071,320)

Investment Income

Net investment income earned		\$3,778,499
Net realized capital gains or (losses)		1,350
Net investment gain or (loss)		\$3,779,849

Other Income

Net gain or (loss) from agents' or premium balances charged off		(\$595,854)
Aggregate write-ins for miscellaneous income		1,178,784
Total other income		\$582,930
Net income before dividends to policyholders and before federal & foreign income taxes		\$3,291,459
Dividends to policyholders		1,416,965
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$1,874,494
Federal & foreign income taxes		(391,387)
Net Income		\$2,265,881

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$22,534,659
Net Income		\$2,265,881
Change in deferred income tax		(429,412)
Change in non-admitted assets		585,078
Aggregate write-ins for gains and losses in surplus		(1,520,655)
Change in surplus as regards policyholders for the year		\$900,892
Surplus as regards policyholders, December 31 current year		\$23,435,551

A comparative analysis of changes in surplus is shown below

**FLORIDA CITRUS, BUSINESS & INDUSTRIES FUND
Comparative Analysis of Changes in Surplus**

MARCH 31, 2009

The following is a reconciliation of Surplus as regards policyholders between that reported by the Fund and as determined by the examination.

Surplus as Regards Policyholders
March 31, 2009, per Annual Statement \$23,435,551

	<u>PER FUND</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS: No Adjustment			
LIABILITIES: No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders March 31, 2009, Per Examination			<u><u>\$23,435,551</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$45,467,074

An outside actuarial firm appointed by the Board of Trustees, rendered an opinion that the amounts carried in the balance sheet as of March 31, 2009, made a reasonable provision for all unpaid loss and loss expense obligations of the Fund under the terms of its policies and agreements.

The Office consulting actuary, EVP Advisors, Inc., reviewed the loss and loss adjustment expense work papers provided by the Fund and was in concurrence with this opinion

Capital and Surplus

The amount reported by the Fund of \$23,435,551, exceeded the minimum of \$5,276,633 required by Section 624.408, Florida Statutes

SUMMARY OF RECOMMENDATIONS

Custodial Agreement

We recommend that the Company correct the custodial agreement to comply with Rule 69O-143.042 (2) (o), Florida Administrative Code.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FLORIDA CITRUS, BUSINESS & INDUSTRIES FUND** as of March 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Fund's Surplus as regards policyholders was \$23,435,551, which exceeded the minimum of \$5,276,633 required by Section 624.408, Florida Statutes

In addition to the undersigned, Fidel Gonzalez, Financial Examiner/Analyst Supervisor, participated in the examination. We also recognize Mike Park from Computer Aid, Inc. and Chuck Emma, FCAS, MAAA and Debbie Price, FCAS, MAAA from EVP Advisors, Inc. participation in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation