

**REPORT ON EXAMINATION**  
**OF**  
**FLORIDA FARM BUREAU**  
**GENERAL INSURANCE COMPANY**  
**GAINESVILLE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2003**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

December 3, 2004

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 Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2003, of the financial condition and corporate affairs of:

**FLORIDA FARM BUREAU GENERAL INSURANCE COMPANY  
5700 S.W. 34<sup>th</sup> STREET  
GAINESVILLE, FLORIDA 32608-5300**

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

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2001 through December 31, 2003. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2000. This examination commenced, with planning at the Office, on July 8, 2004, to July 16, 2004. The fieldwork commenced on July 19, 2004, and was concluded as of December 3, 2004. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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 (FAC), with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

### **Status of Adverse Findings from Prior Examination**

The Company had no adverse findings from the prior examination.

## **HISTORY**

### **General**

The Company was incorporated in Florida on January 6, 1993 and commenced business on April 1, 1993 as Florida Farm Bureau General Insurance Company.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2003:

Fire	Allied Lines
Inland Marine	Other Liability
PPA Physical Damage	Fidelity
Private Passenger Auto Liability	Glass
Commercial Automobile Liability	Burglary and Theft
Commercial Auto Physical Damage	Homeowners Multi Peril
Commercial Multi Peril	Mobile Home Multi Peril

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

## **Capital Stock**

As of December 31, 2003, the Company's capitalization was as follows:

Number of authorized common capital shares	3,000,000
Number of shares issued and outstanding	3,000,000
Total common capital stock	\$3,000,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, Florida Farm Bureau Casualty Insurance Company (FFBCIC), who owned 100 percent of the stock issued by the Company, who in turn was owned by Southern Farm Bureau Casualty Insurance Company (SFBCIC), a Mississippi corporation, who was owned equally by the members of the Farm Bureau Federations of Arkansas, Mississippi, Texas, Louisiana, and South Carolina.

## **Profitability of Company**

The Company had an underwriting loss of (\$7,793) for the year 2003 and an overall net income of \$99,596 for the year. For the year 2002, the Company had an underwriting loss of (\$8,900) and net income of \$101,065. For the year 2001, the Company had an underwriting loss of (\$13,700) and net income of \$157,866.

## **Dividends to Stockholders**

The Company did not pay dividends to its stockholder during the period of this examination.

## **Management**

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2003, were:

## Directors

<b>Name and Location</b>	<b>Principal Occupation</b>
Ronald Roy Anderson Ethel, Louisiana	Chairman of the Board; Florida Farm Bureau Casualty Ins. Co.
Carl Bowie Loop, Jr. Jacksonville, Florida	President; Florida Farm Bureau Casualty Ins. Co.
John Lawrence Hoblick, Sr. DeLeon Springs, Florida	Secretary; Florida Farm Bureau Casualty Ins. Co.
David Webster Hillman Almyra, Arkansas	Director
David Whitmire Waide West Point, Mississippi	Director
David Melton Winkles, Jr. Sumter, South Carolina	Director
Michael Howell Waring Madison, Florida	Director
Kenneth William Dierschke San Angelo, Texas	Director
Raymond Richard Roth, Jr. Belle Glade, Florida	Director

The Board of Directors in accordance with the Company's bylaws appointed the following senior officers:

## Senior Officers

<b>Name</b>	<b>Title</b>
Ronald R. Anderson	Chairman of the Board
Carl Bowie Loop, Jr.	President
Robert Paul Jarratt	Vice President
Raymond Richard Roth, Jr.	Vice President
Rade Thomas Musulin	Vice President
Stuart Thomas Wheeler	Vice President
Gene Frank Leonard, Jr.	Vice President
Clyde Matthew Packham	Vice President
Thomas Winfield Lee	Vice President
John Lawrence Hoblick, Sr.	Secretary

Michael Howell Waring

Treasurer

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2003:

**Investment Committee**

Carl Loop, Jr.  
Roderick Moore  
Stuart Wheeler  
Dennis Griffin  
Gerald Garnett  
Robert Jarratt  
Harry Hyslop

**Audit Committee**

Carl Loop, Jr., Chairman  
David Winkles, Jr.  
David Waide  
Ronald Anderson

**Conflict of Interest Procedure**

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

**Corporate Records**

The recorded minutes of the Shareholder, Board of Directors, and Investment and Audit Committee meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, FS, including the authorization of investments as required by Section 625.304, FS.

## **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance**

The Company had no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the period covered by this examination.

## **Surplus Debentures**

The Company had no outstanding surplus debentures.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on June 16, 2004, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

The following agreements were in force between the Company and its affiliates:

### **Reinsurance Agreement**

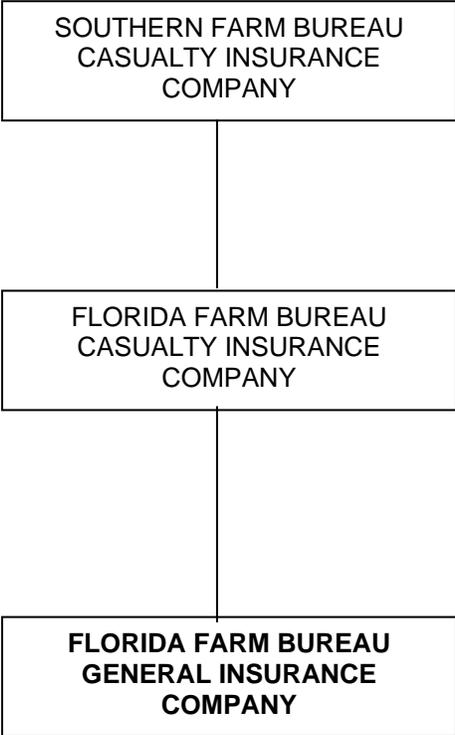
The Company had an agreement to cede all risk on its premiums written to its parent, FFBCIC. The agreement stated that all losses, loss adjustment expenses, acquisitions expenses, general expenses, and all taxes arising out of premiums assumed should be reimbursed or paid by the parent.

**Tax Allocation Agreement**

The Company, along with its parent and other affiliates, filed a consolidated federal income tax return. On December 31, 2003, the method of allocation between the Company and its affiliates was on a separate return basis.

A simplified organizational chart as of December 31, 2003, reflecting the holding company system, is shown below. Schedule Y of the Company's 2003 annual statement provided a list of all related companies of the holding company group.

**FLORIDA FARM BUREAU GENERAL INSURANCE COMPANY  
ORGANIZATIONAL CHART  
DECEMBER 31, 2003**



## FIDELITY BOND AND OTHER INSURANCE

The Company, along with several affiliated companies, maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$250,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

## PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company participated in a non-contributory benefit pension plan. In addition, the Company matched employee contributions that qualified for income tax deferral in a 401K-contribution plan. The Company also provided group life insurance, group accidental death, group hospitalization, and medical insurance for its employees.

## STATUTORY DEPOSITS

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

<b>State</b>	<b>Description</b>	<b>Par Value</b>	<b>Market Value</b>
FL	USTNTs, 3.375%, 11/15/08	<u>\$2,500,000</u>	<u>\$2,519,530</u>

## CERTIFICATION OF COMPLIANCE WITH EXECUTIVE ORDER 13224

The Company established and implemented procedures and guidelines for complying with Executive Order 13224, Blocking Property and Prohibiting Transactions with Persons Who Permit, Threaten to Commit, or Support Terrorism.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

The Company provided coverage of insurance to persons who were members of a county Farm Bureau agricultural organization. The Company along with its parent, maintained sales offices in each county of Florida, where business was marketed and serviced by a network of agents.

### **Territory and Plan of Operation**

The Company was authorized to transact insurance in the State of Florida, in accordance with Section 624.401(2), FS.

### **Treatment of Policyholders**

The Company had established procedures for handling written complaints in accordance with Section 626.9541(1)(j), FS.

## **REINSURANCE**

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

### **Assumed**

The Company assumed no risk during the period covered by the examination.

### **Ceded**

The Company ceded one hundred percent of all business written to its parent, FFBCIC.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2001, 2002 and 2003, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

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

The Company maintained its principal operational offices in Gainesville, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company's investments were held by Merrill Lynch, Pierce, Fenner & Smith Incorporated (MLPFS) and Wachovia Bank.

MLPFS is a broker-dealer and does not meet the requirements of a custodian as defined in Rule 69O-143.041(2), FAC. A custodian must be a national bank, state bank or trust company which has at all times aggregate capital, surplus and undivided profits of not less than \$500,000 and

which is regulated by the state banking laws or is a member of the Federal Reserve System and is legally qualified to accept custody of securities in accordance with the standards set forth in Rule 69O-143.042, FAC. The Company stated they moved the account and the custodial agreement held with MLPFS to Merrill Lynch Trust Company, a New Jersey Limited Purpose Trust Company. Merrill Lynch Trust Company met the requirements of a custodian as defined in Rule 69O-143.041(2), FAC. However, the Company's custodial agreement with Merrill Lynch Trust Company was signed by MLPFS, a broker-dealer.

### **Licensing Agreement**

The Company, along with its parent, FFBCIC, had an agreement with Florida Farm Bureau Federation, a member of the American Farm Bureau Federation, to use the "Farm Bureau" name and logo in connection with selling, placing and underwriting of property and casualty insurance products and services in the State of Florida. In return for this agreement, the Company and FFBCIC pay a royalty of eighty-two hundredths percent per year on adjusted direct premiums written, less premiums collected from assigned risk pool and dividends declared by the licensees.

### **Independent Auditor Agreement**

The Company engaged KPMG LLP to perform the statutory audits of its 2003 and 2002 financial statements, as required by Section 624.424(8), FS, and Rule 69O-137.002, FAC.

### **Risk-Based Capital**

The Company reported its risk-based capital at an adequate level.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2003, 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 FARM BUREAU GENERAL INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2003**

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$4,080,951		\$4,080,951
Stocks:			
Common	560,296		560,296
Cash & Short-term investments	137,159		137,159
Investment income due and accrued	34,902		34,902
	<hr/>		
Totals	\$4,813,308	\$0	\$4,813,308
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**FLORIDA FARM BUREAU GENERAL INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2003**

<b>Liabilities</b>	<b>Per Company</b>	<b>Examination Adjustments</b>	<b>Per Examination</b>
Losses	\$0		\$0
Loss adjustment expenses	0		0
Current federal income taxes	46,642		46,642
Total Liabilities	<u>\$46,642</u>		<u>\$46,642</u>
Common capital stock	\$3,000,000		\$3,000,000
Unassigned funds (surplus)	1,766,666		1,766,666
Surplus as regards policyholders	<u>\$ 4,766,666</u>		<u>\$4,766,666</u>
Total liabilities, capital and surplus	<u>\$4,813,308</u>	<u>\$0</u>	<u>\$4,813,308</u>

**FLORIDA FARM BUREAU GENERAL INSURANCE COMPANY**

**Statement of Income**

**DECEMBER 31, 2003**

**Underwriting Income**

Premiums earned	\$0
DEDUCTIONS:	
Losses incurred	0
Loss expenses incurred	0
Other underwriting expenses incurred	7,793
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$7,793</u>
Net underwriting gain or (loss)	(\$7,793)

**Investment Income**

Net investment income earned	\$150,192
Net realized capital gains or (losses)	3,303
Net investment gain or (loss)	<u>\$153,495</u>

**Other Income**

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	0
Total other income	<u>\$0</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$145,702
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$145,702</u>
Federal & foreign income taxes	46,106
Net Income	\$99,596

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$4,667,070
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**Gains and (Losses) in Surplus**

Net Income	\$99,596
Net unrealized capital gains or losses	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$99,596</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$4,766,666</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$0

The Company's parent reinsured 100% of all business written by the Company. There were no net reserves held by the Company.

**FLORIDA FARM BUREAU GENERAL INSURANCE COMPANY  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2003**

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

Surplus as Regards Policyholders per December 31, 2003, Annual Statement	\$4,766,666
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	<u>INCREASE</u> <u>(DECREASE)</u> <u>IN SURPLUS</u>
<b>ASSETS:</b>			
No adjustment necessary.			
<b>LIABILITIES:</b>			
No adjustment necessary.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$4,766,666

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company complied with the directives noted in the prior examination.

### **Current examination comments and corrective action**

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2003.

### **Custodial Agreement**

The Company did not have a custodial agreement with Merrill Lynch Trust Company. **It is recommended that the Company enter into a custodian agreement with Merrill Lynch Trust Company as required by Rule 690-143.042, FAC. The Company is to provide documentation of compliance to the Office within 90 days after the report is issued.**

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Farm Bureau General Insurance Company** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$4,766,666, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael Hampton, CFE, CPA, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Richard Shaffer, Financial Examiner/Analyst and March Fisher, Senior Actuarial Analyst, participated in the examination.

Respectfully submitted,

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Donna Letterio, CFE, CPA, MS  
Financial Specialist  
Florida Office of Insurance Regulation