

REPORT ON EXAMINATION
OF
FLORIDA ROOFERS, SHEET METAL &
AIR CONDITIONING WORKERS'
COMPENSATION TRUST FUND
WINTER PARK, FLORIDA

AS OF
DECEMBER 31, 2003

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
August 27, 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 Rule 69O-190.063, Florida Administrative Code (FAC), 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 ROOFERS, SHEET METAL & AIR CONDITIONING WORKERS' COMPENSATION
TRUST FUND
4099 METRIC DRIVE
WINTER PARK, FLORIDA 32792**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2001 through December 31, 2003. This examination commenced with planning at the Office on May 24, 2004 through May 28, 2004. The fieldwork commenced on June 3, 2004, and was concluded as of August 27, 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 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 Fund.

The examination included a review of the corporate records and other selected records deemed pertinent to the Fund's operations and practices. The Fund's independent audit reports and certain work papers prepared by the Fund'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 Fund's assets and liabilities as reported by the Fund in its annual statement as of December 31, 2003. Transactions subsequent to year-end 2003 were reviewed where relevant and deemed significant to the Fund'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

There were no prior findings from the prior examination.

HISTORY

General

The Fund commenced business in 1955, as Florida Roofers, Sheet Metal & Air Conditioning Workers' Compensation Trust Fund.

In accordance with Rule 69O-190.058, FAC, the Fund was authorized to transact the following insurance coverage, in Florida only, on December 31, 2003:

Workers' Compensation

The By-laws were not amended during the period covered by this examination.

Capital Stock

The Fund maintained no capital stock.

Profitability of Fund

The Fund reported direct premiums of \$24,486,026 at December 31, 2003. At December 31, 2003, the Fund reported net income, before taxes and dividends to policyholders, of \$8,840,328. This amount was an increase from a reported net income, before taxes and dividends to policyholders, of \$5,612,813, in 2002.

Dividends to Policyholders

In accordance with Rule 69O-190.063(18) and 69O-190.065, FAC, in 2003, the Fund declared a dividend to its members of \$8,958,452.

Management

The annual trustees meeting for the election of trustees and officers was held in accordance with Rule 69O-190.064, FAC. Directors serving as of December 31, 2003, were:

Trustees

Name and Location	Principal Occupation
Robert Purdy Pensacola, Florida	Chairman
Greg Hageman Ormond Beach, Florida	Trustee
Terry Turner San Mateo, Florida	Trustee
Brad Bowen, III Sebring, Florida	Trustee

Don Springer Lakeland, Florida	Trustee
Milton E. Thompson, Jr. Opa Locka, Florida	Trustee
Steve Sutter Sarasota, Florida	Trustee
Bob Hilson Homestead, Florida	Trustee
Joseph Rutkowski Tampa, Florida	Trustee
William Greene Jacksonville, Florida	Trustee

In accordance with the Fund's bylaws, the Board of Trustees appointed the following Administrator and CFO:

Senior Officers

Name	Title
Brett Stiegel	Administrator
Michael Ricker	Chief Financial Officer

In December of 2003, the Fund's board appointed an audit committee in accordance with Rule 69O-190.064(6), FAC.

Audit Committee

Terry Turner
Greg Hageman
Don Springer
William Greene

The Fund provided minutes by the Board of Trustees authorizing investments in accordance with Rule 69O-190.064(14) and 69O-190.071, FAC.

Conflict of Interest Procedure

The Fund had not adopted a formal policy statement for Conflict of Interests, in violation of Rule 69O-138.001(1), FAC. The Fund did maintain individual executed Conflict of Interest Statements, which were presented to the Board in compliance with Rule 69O-190.064(6), FAC.

Corporate Records

The recorded minutes of the Board of Trustees meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Fund transactions in accordance with Rule 69O-190.064(19) and (21), FAC.

The Board reviewed the previous examination report completed by the Office and noted the review in its minutes.

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

There were no acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance.

Surplus Debentures

The Fund had no surplus debentures.

AFFILIATED COMPANIES

The Fund provided workers' compensation insurance to members of the Florida Roofing, Sheet Metal & Air Conditioning Contractors Association. The Fund had no affiliated companies.

Claims Servicing Agreement

The Fund had an agreement with United Self Insured Services (USIS) to receive and process claims submitted by the insured. USIS had the authority to process and pay claims up to a certain value without approval from the Fund. USIS was also charged with recovering Special Disability Trust Funds on an incentive percentage basis.

Workers' Compensation Managed Care Arrangement

The Fund, FOCUS Healthcare Management, Inc. (FOCUS) and Amerisys Inc. entered into a workers' compensation management care arrangement. FOCUS developed a network of health care providers, health care facilities and procedures for utilizing a managed care arrangement.

FIDELITY BOND AND OTHER INSURANCE

The Fund maintained fidelity bond coverage for individuals with the authority to disburse funds, which covered the minimum of \$500,000 in compliance with Rule 69O-190.064(5), FAC. The minimum coverage was maintained through two bonds with limits of liability of \$250,000 each.

A service company, USIS, provided a fidelity bond through their parent, Brown & Brown, Inc., as the named insured. The bond met the minimum dollar requirement of Rule 69O-190.064(7)(a), FAC. The USIS bond exceeded the maximum deductible as required by Rule 69O-190.064(8), FAC, with a deductible of \$250,000. Fidelity bonds may provide for a deductible of not more than

\$5,000. Also, the bond was in violation of Rule 69O-190-064(7)(a), FAC, as it was not payable to the Fund. The named insured was Brown & Brown, Inc.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Fund had a non-qualified retirement plan for the benefit of selected employees. The Fund purchased certain insurance contracts for the plan. The Fund recorded the investment in insurance contracts on the annual statement in the amount of \$1,154,663, and non-admitted the amount.

STATUTORY DEPOSITS

The Fund maintained a security deposit with the State of Florida, below the dollar requirement of Rule 69O-190.060, FAC. The Fund maintained two US Treasury Notes totaling \$2,261,695 of fair market value at December 31, 2003.

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	US T Note, 4.75%, 2/15/04	\$1,500,000	\$1,506,570
FL	US T Note, 6.5%, 8/15/05	<u>\$ 700,000</u>	<u>\$ 755,125</u>
TOTAL DEPOSITS		<u>\$2,200,000</u>	<u>\$2,261,695</u>

Subsequent event: The Fund increased the collateral deposit by \$1,000,000 on August 11, 2004. The addition of this deposit, combined with the existing deposit, brought the collateral deposit into compliance with the aforementioned rule.

Territory and Plan of Operation

The Fund was authorized to transact insurance in the State of Florida, in accordance with Rule 69O-190.058, FAC.

Treatment of Policyholders

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

EXCESS POLICY

The Fund maintained a 1st layer excess of loss policy with Scor Reinsurance Company and PMA Capital Insurance Company, \$1,000,000 excess of \$1,000,000. The Fund maintained a 2nd layer excess of loss policy with National Union Fire Insurance Company, \$20,000,000 excess of \$2,000,000.

The excess policy was reviewed by the Fund's appointed actuary and was utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Fund's statutory basis financial statements annually for the years 2001, 2002 and 2003, in accordance with Rule 69O-190.064(10), FAC. The Fund's independent CPA's workpapers were used where applicable during this examination. The supporting work papers were prepared as required by Rule 69O-137.002, FAC.

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 maintained its office in Winter Park, Florida, where this examination was conducted.

The Fund and non-affiliates had the following agreements:

Custodial Agreement

The Fund maintained a custodial agreement with Wachovia Bank, NA. The agreement was in compliance with Rule 69O-143.042(1), FAC.

Independent Auditor Agreement

The Fund maintained a contract with an external CPA to perform the annual audit, in compliance with Rule 69O-190.064(10), FAC.

Risk-Based Capital

The Fund was exempt from risk-based capital requirements.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Fund'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 ROOFERS, SHEET METAL & AIR CONDITIONING WORKERS'
COMPENSATION TRUST FUND
Analysis of Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$30,172,562		\$30,172,562
Common stock	1,760,488		1,760,488
Real estate owned	594,434		594,434
Cash:			
On deposit	(1,058,880)		(1,058,880)
Short term investments	4,219,906		4,219,906
Interest income due & accrued	361,290		361,290
Agents' Balances:			
Due in course of collection	2,505,518		2,505,518
Reinsurance recoverable	130,853		130,853
Net deferred tax asset	434,717		434,717
Furniture & equipment	18,838		18,838
Aggregate write-ins for other than invested assets	2,305,018		2,305,018
Totals	\$41,444,744	\$0	\$41,444,744

FLORIDA ROOFERS, SHEET METAL & AIR CONDITIONING WORKERS'
COMPENSATION TRUST FUND
Liabilities, Surplus and Other Funds

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$19,564,058		\$19,564,058
Loss adjustment expenses	5,066,696		5,066,696
Other expenses	120,666		120,666
Taxes, licenses and fees	366,689		366,689
Dividends declared and unpaid	8,958,452		8,958,452
Ceded reinsurance premiums payable	594,900		594,900
Aggregate write-ins for liabilities	<u>1,881,351</u>		<u>1,881,351</u>
 Total Liabilities	 \$36,552,812		 \$36,552,812
Aggregate write-ins for special surplus funds	\$2,305,018		\$2,305,018
Unassigned funds (surplus)	<u>2,586,914</u>		<u>2,586,914</u>
Surplus as regards policyholders	<u>\$4,891,932</u>		<u>\$4,891,932</u>
Total liabilities, capital and surplus	<u>\$41,444,744</u>	<u>\$0</u>	<u>\$41,444,744</u>

**FLORIDA ROOFERS, SHEET METAL & AIR CONDITIONING WORKERS' COMPENSATION
TRUST FUND
Statement of Income
DECEMBER 31, 2003**

Underwriting Income

Premiums earned	\$21,681,396
DEDUCTIONS:	
Losses incurred	7,649,777
Loss expenses incurred	3,426,383
Other underwriting expenses incurred	3,347,896
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$14,424,056</u>
Net underwriting gain or (loss)	\$7,257,340

Investment Income

Net investment income earned	\$1,266,644
Net realized capital gains or (losses)	10,729
Net investment gain or (loss)	<u>\$1,277,373</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$96,384
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	209,231
Total other income	<u>\$305,615</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$8,840,328
Dividends to policyholders	<u>8,802,331</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$37,997
Federal & foreign income taxes	<u>37,997</u>
Net Income	\$0

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2002	\$3,896,362
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Gains and (Losses) in Surplus

Net Income	\$0
Change in net unrealized capital gains or losses	395,665
Change in net deferred income tax	37,997
Change in non-admitted assets	(254,334)
Surplus changes: Paid in	0
Cumulative effect of changes in accounting principles	0
Aggregate write-ins for gains and losses in surplus	816,242
Change in surplus as regards policyholders for the year	<u>\$995,570</u>
Surplus as regards policyholders, December 31, 2003	<u><u>\$4,891,932</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Real Estate \$ 594,434

The Fund maintained the same “actual costs” on Schedule A, Part 1, Column 6 of their annual statement for the last four years for real estate. The Fund should have added the cost of their additional improvements made over the last four years.

Reinsurance Recoverable \$130,853

The Fund reported a reinsurance recoverable balance in the amount of \$35,752, on Schedule F, Part 4, of their annual statement as current, when in fact it had been in dispute for over a year, in violation of Rule 69O-137.001, FAC. The Fund should have reported the recoverable over 120 days old and completed Schedule F, Part 7, Provision for Overdue Reinsurance.

Subsequent event: On August 10, 2004, the Fund provided a check in the amount of \$135,000, from the reinsurer settling the old reinsurance recoverable balance and releasing the reinsurer from all future liability under the agreement.

Aggregate Write-ins for Other Than Invested Assets \$2,305,018

The Fund reported amounts (for bad debt, prepaid expenses, premium tax payable, state income tax payable, federal and state income tax payable) on this line item rather than on the lines as instructed by the NAIC’s Annual Statement Instructions, in violation of Rule 69O-137.001(4)(1), FAC.

Liabilities

Losses and Loss Adjustment Expenses

\$24,630,754

The Fund bought an annuity in 2002 to establish fixed payments to a claimant for life, as a settlement for his claim. The Fund did not report this annuity in the annual statement, Note 27, Structured Settlements, in violation of SSAP No. 65, paragraph 19. The information required to be disclosed was the amount of reserves no longer carried by the reporting entity and also the extent of which the reporting entity is contingently liable for such amounts if the issuers of the annuity fail to perform under the annuity terms.

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2003, 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 actuary reviewed work papers provided by the Fund and rendered an opinion which agreed with the outside actuarial firm.

Taxes, Licenses & Fees

\$366,689

The Fund did not accrue adequately for taxes. The deficiency of the accrual for various taxes was \$97,104.

Surplus\$4,891,932

No adjustments were made to Surplus as reported on the annual statement due to the overall immateriality of the dollar amounts of those adjustments and reclassifications.

**FLORIDA ROOFERS, SHEET METAL & AIR CONDITIONING WORKERS' COMPENSATION
TRUST FUND
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	\$4,891,932
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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>
ASSETS:			
No adjustments needed.			
LIABILITIES:			
No adjustments needed.			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$4,891,932

SUMMARY OF FINDINGS

Current examination comments and corrective action

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

General

The Fund did not maintain a formal Conflict of Interest Policy in 2003. **The Fund is directed to comply with Rule 69O-138.001, FAC, Section IV. The Fund is to provide documentation of compliance to the Office within 90 days after the report is issued.**

The service company's fidelity bond was not in compliance with the application rules in regard to the maximum deductible dollar amount and it was not payable to the Fund. **It is recommended that the Fund comply with Rule 69O-190.064(5)(7)(8), FAC. The Fund is to provide documentation of compliance to the Office within 90 days after the report is issued.**

Financial Items

Real Estate

On Schedule A of the annual statement, the Fund reported the original cost for the office building but did not include the accumulated cost amount for additional improvements purchased over the last three years. **The Fund is directed to comply with Rule 69O-137.001(4)(a), FAC and to properly report such in all future annual and quarterly statement filings with the Office.**

Losses and Loss Adjustment Expenses

The Fund did not disclose the annuity purchased in 2002 in the notes to the annual statement.

The Fund is directed to comply with SSAP No. 65, paragraph 19(a) and to properly disclose such in all future annual and quarterly statement filings with the Office.

Taxes, Licenses & Fees

The Fund did not accrue all taxes due as of December 31, 2003, on their annual statement.

The Fund is directed to comply with Section 625.041(4), FS and to properly report such in all future annual and quarterly statement filings with the Office.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Florida Roofers, Sheet Metal & Air Conditioning Workers' Compensation Trust Fund** as of December 31, 2003, consistent with the insurance laws of the State of Florida.

Per examination findings, the Fund's surplus as regards policyholders was \$4,891,932, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Rose Cady, Financial Examiner/Analyst II, Richard Shaffer, Financial Examiner/Analyst I, Mary James, CFE, Financial Examiner/Analyst Supervisor, Joe Boor, Actuary and March Fisher, Senior Actuarial Analyst participated in the examination.

Respectfully submitted,

Miriam Bleakley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation