

REPORT ON EXAMINATION

OF

MACHINERY INSURANCE, INC.

AN ASSESSABLE MUTUAL INSURER

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2013

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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January 7, 2015

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, Rule 690-138.005, Florida Administrative Code and Chapter 628, Florida Statutes, 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, 2013, of the financial condition and corporate affairs of:

**MACHINERY INSURANCE INC., AN ASSESSABLE MUTUAL INSURER
219 NEWNAN STREET
JACKSONVILLE, FLORIDA 32202**

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, 2009, through December 31, 2013. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2008. This examination commenced with planning at the Office on September 29, 2014 to October 3, 2014. The fieldwork commenced on October 6, 2014, and concluded as of January 7, 2015.

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 Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, 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 Company 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

There were no material findings or exceptions noted during the examination as of December 31, 2013.

Prior Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2008.

SUBSEQUENT EVENTS

The Administrative Agreement with Cecil W. Powell and Company was renewed March 3, 2014 for another five-year period through March 3, 2019. The services provided and terms remained unchanged. Effective July 1, 2014, per addendum to the Agreement, the quarterly administrative fees were increased from \$5,000 to \$7,750. The Company did not notify the Office of the renewed agreement or addendum with the change in the management fee.

The Company changed custodial banks effective August 6, 2014. The Company replaced SunTrust Bank with Branch Banking and Trust Company as custodian of certain assets of the Company. The Office approved the new custodial agreement August 7, 2014.

The Company appointed Benjamin K. Powell as assistant vice president in August 2014.

HISTORY

General

The Company was incorporated in Florida on July 1, 1988, as a limited reciprocal. The Company was converted to an assessable mutual insurer effective October 1, 1992, under the laws of Florida. In conjunction with the conversion, the Company also became an incorporated insurer without permanent capital stock. The Company was not part of a holding company system.

The members of an assessable mutual have a contingent liability for the discharge of its liabilities. The members of the Company are Ring Power Corporation, Mobro Marine, Inc., and Cecil W. Powell and Company.

The Company was authorized to transact the following insurance coverage in Florida on October 1, 1992 and continued to be authorized as of December 31, 2013:

Surety	Inland marine
Ocean marine	

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Policyholders

The Company did not declare or pay any dividends during the period of this examination.

Capital Stock and Capital Contributions

The Company is a mutual insurer incorporated in Florida without permanent capital stock.

Surplus Notes

The Company held Surplus Notes in the amount of \$163,500 which represented contribution to surplus by the following members of the Company:

Ring Power Corporation	\$ 83,025
Mobro Marine, Inc.	\$ 40,100
Cecil W. Powell and Company	\$ 40,375

There were no changes to the Surplus Notes during the period covered by the examination.

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

The Company had no acquisitions, mergers, disposals, and purchase or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Shareholder(s), Board of Directors (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 Company transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Company adopted a policy statement requiring periodic 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 shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2013 were:

Directors

Name and Location	Principal Occupation
Fitzhugh Knox Powell Sr. Jacksonville, Florida	President/Treasurer Machinery Insurance, Inc.
Ronald Thomas Roy Jacksonville, Florida	Secretary Machinery Insurance, Inc.
Rosemary Geers Klemmt Jacksonville, Florida	Asst. Secretary/Treasurer Machinery Insurance, Inc.
Randal Lee Ringhaver St. Augustine, Florida	President Ring Power Corporation
Stephen Thomas Cumella Jacksonville, Florida	Chief Financial Officer Mobro Marine, Inc.
Fitzhugh Knox Powell Jr. Jacksonville, Florida	President Cecil W. Powell and Company

In accordance with the Company's bylaws, the Board appointed the following senior officers:

Senior Officers

Name	Title
Fitzhugh Knox Powell Sr.	President/Treasurer
Ronald Thomas Roy	Secretary
Randal Lee Ringhaver	Vice President
Rosemary Geers Klemmt	Asst. Secretary/Treasurer

The Company's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2013:

Audit Committee

Fitzhugh Knox Powell, Sr. ¹
Randal Lee Ringhaver
Ronald Thomas Roy
Stephen Thomas Cumella

Investment Committee

Fitzhugh Knox Powell, Sr. ¹
Randal Lee Ringhaver
Ronald Thomas Roy
Stephen Thomas Cumella

¹ Chairman

The Company maintained an audit committee, as required by Section 624.424(8) (c), Florida Statutes.

Affiliated Companies

The Company was not a member of an insurance holding company system.

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

Agency Agreement

The Company entered into an agency agreement with Cecil W. Powell and Company effective March 16, 2009 to solicit and submit application for surety bonds. In accordance with the terms of

the agreement, the agent collected premiums and retained commissions as full compensation for business placed with the Company. The agent rendered the premiums due on business placed by the agent within ten days of the end of each month. The maximum annual premium volume written by the agent was \$450,000. The Company's gross written premiums for 2013 were \$138,606.

Administrative Agreement

The Company entered into an administrative agreement with Cecil W. Powell and Company effective March 3, 2009. Under the terms of the agreement, the administrator provided an office space for the Company where all financial and corporate records were maintained. The administrator provided all accounting services for the Company, supervised the day to day management of the Company and acted as the liaison for the Company in any communication with the Office, Internal Revenue Service and the NAIC. Pursuant to an addendum to the agreement effective October 1, 2013, the quarterly fee paid for services rendered was reduced from \$7,500 to \$5,000.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$250,000 with a single deductible of \$10,000, which covered the suggested minimum recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and, therefore, no pension, stock ownership or insurance plans.

TERRITORY AND PLAN OF OPERATIONS

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

Treatment of Policyholders

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

The Company 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.

COMPANY GROWTH

During the current examination period, premium growth fluctuated and the company produced positive but deteriorating operating earnings. This was a result in the downturn in the overall economy which particularly affected the Florida construction industry, and exerted negative pressure on premiums for the Company.

Profitability of Company

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

	2013	2012	2011	2010	2009
Premiums Earned	112,909	182,926	154,832	221,625	261,377
Net Underwriting Gain/(Loss)	2,162	26,460	20,708	43,956	128,202
Net Income	25,950	32,509	62,804	102,808	194,437
Total Assets	2,585,225	2,479,616	2,363,972	2,567,750	2,393,620
Total Liabilities	173,561	124,589	120,917	247,303	160,236
Surplus As Regards Policyholders	2,411,664	2,355,027	2,243,055	2,320,447	2,233,384

LOSS EXPERIENCE

During the current examination period, the Company showed favorable loss development overall. The favorable loss development was a result of the Company's use of indemnification agreements and guarantees, as well as the Company's conservative underwriting approach and niche underwriting expertise in the surety business. As is customary in this line of business, the examination actuary evaluated loss development based on an allocation of ninety percent of the IBNR in the current year and ten percent in the prior year.

REINSURANCE

The Company did not assume or cede any reinsurance during the period of this examination.

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in Jacksonville, Florida.

An independent CPA audited the Company's statutory basis financial statements annually for the all years under examination, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company was a party to a custodial agreement with SunTrust Bank. The agreement was restated, effective February 11, 2010 to meet the requirements of Rule 69O-143.042, Florida Administrative Code. The prior custodial agreement, dated November 8, 2001, was compliant until the amendment of this Rule in 2008.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes and with various state officials as required or permitted by law:

STATE	Description	Par Value	Market Value
FL	Cash	<u>\$250,000</u>	<u>\$250,000</u>
TOTAL FLORIDA DEPOSITS		\$250,000	\$250,000
TOTAL OTHER DEPOSITS		<u>0</u>	<u>0</u>
TOTAL SPECIAL DEPOSITS		<u>\$250,000</u>	<u>\$250,000</u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2013, and the results of its operations for the year then ended as determined by this examination.

MACHINERY INSURANCE, INC. AN ASSESSABLE MUTUAL INSURER
Assets
DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Bonds	\$0		\$0
Stocks:			
Common	244,366		244,366
Real Estate:			
Properties			
occupied by Company	0		0
Other properties	0		0
Cash and Short-Term Investments	2,244,461		2,244,461
Other investments	0		0
Aggregate write-in for invested assets	0		0
Investment income due and accrued	575		575
Agents' Balances:			
Uncollected premium	43,303		43,303
Deferred premium	0		0
Reinsurance recoverable	0		0
EDP Equipment	0		0
Receivable from parents, subsidiaries and affiliates	0		0
Equities and deposits in pools and associations	0		0
Aggregate write-in for other than invested assets	52,520		52,520
Totals	\$2,585,225	\$0	\$2,585,225

MACHINERY INSURANCE, INC. AN ASSESSABLE MUTUAL INSURER
Liabilities, Surplus and Other Funds
DECEMBER 31, 2013

	Per Company	Examination Adjustments	Per Examination
Losses	\$31,600		\$31,600
Loss adjustment expenses	0		0
Other expenses	0		0
Taxes, licenses and fees	1,726		1,726
Unearned premium	97,689		97,689
Funds held under reinsurance treaties	0		0
Amounts withheld	42,546		42,546
Drafts outstanding	0		0
Payable to parent, subsidiaries and affiliates	0		0
Aggregate write-ins for liabilities	0		0
Total Liabilities	\$173,561	\$0	\$173,561
Common capital stock	\$0		\$0
Aggregate write-ins for other than special surplus funds	52,520		\$52,520
Surplus notes	163,500		\$163,500
Gross paid in and contributed surplus	0		0
Unassigned funds (surplus)	2,195,644		2,195,644
Surplus as regards policyholders	\$2,411,664	\$0	\$2,411,664
Total liabilities, surplus and other funds	\$2,585,225	\$0	\$2,585,225

MACHINERY INSURANCE, INC. AN ASSESSABLE MUTUAL INSURER
Statement of Income
DECEMBER 31, 2013

Underwriting Income

Premiums earned		\$112,909
	Deductions:	
Losses incurred		(\$19,500)
Loss expenses incurred		0
Other underwriting expenses incurred		130,247
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$110,747
Net underwriting gain or (loss)		\$2,162

Investment Income

Net investment income earned		\$25,811
Net realized capital gains or (losses)		(1,038)
Net investment gain or (loss)		\$24,773

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		16
Total other income		\$16

Net income before dividends to policyholders and before federal & foreign income taxes		\$26,951
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$26,951
Federal & foreign income taxes		1,001
Net Income		\$25,950

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$2,355,027
Net Income		\$25,950
Change in net unrealized capital gains or losses		(14,014)
Change in non-admitted assets		15,467
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		29,234
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$56,637
Surplus as regards policyholders, December 31 current year		\$2,411,664

A comparative analysis of changes in surplus is shown below.

MACHINERY INSURANCE, INC. AN ASSESSABLE MUTUAL INSURER
Comparative Analysis of Changes in Surplus
DECEMBER 31, 2013

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
December 31, 2013, per Annual Statement \$2,411,664

	<u>PER COMPANY</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 December 31, 2013, Per Examination			<u><u>\$2,411,664</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$31,600

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, 2013, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Dennis Henry, FCAS, MAAA of The Actuarial Advantage, reviewed the loss and loss adjustment expense work papers provided by the Company and he was in concurrence with this opinion.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$2,411,664, exceeded the minimum of \$250,000 required by Section 628.161, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Machinery Insurance, Inc. An Assessable Mutual Insurer** as of December 31, 2013, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$2,411,664, which exceeded the minimum of \$250,000 required by Section 628.161, Florida Statutes.

In addition to the undersigned, Mark Jaster, CFE, Examiner-In-Charge, Tracy Gates, CFE, and Sam Hebert, Participating Examiners, of Highland Clark, LLC participated in the examination. We also recognize, Dennis Henry, FCAS MAAA, consulting actuary of The Actuarial Advantage and Jeffery Rockwell, Examination Manager of the Office.

Respectfully submitted,

Robin Brown, CFE
Chief Examiner
Florida Office of Insurance Regulation