

REPORT ON EXAMINATION
OF THE
MACHINERY INSURANCE, INC.
AN ASSESSABLE MUTUAL INSURER

JACKSONVILLE, FLORIDA

AS OF
DECEMBER 31, 2003

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
July 16, 2004

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0300

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), an examination has been made as of December 31, 2003, of the financial condition and corporate affairs of the:

**MACHINERY INSURANCE, INC.
AN ASSESSABLE MUTUAL INSURER
219 Newnan Street
P.O. Drawer 41490
Jacksonville, Florida 32202-1490**

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, 2000 through December 31, 2003. The last examination of the Company by representatives of the Florida Office of Insurance Regulation (Office) was as of December 31, 1999. This examination commenced with planning at the Office on June 1, 2004. The fieldwork commenced on June 14, 2004 and was concluded as of July 16, 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 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 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.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following account:

Uncollected Premiums and Agents' Balances in the Course of Collection
Aggregate Write-ins
Losses
Unearned Premiums

Status of Adverse Findings from Prior Examination

1. The Company had not written insurance coverage in the lines of business of Inland Marine and Ocean since its inception.

Resolution: The Company has written insurance coverage in the lines of business of Inland Marine and Ocean Marine.

2. The Company's officers and directors did not sign Conflict of Interest statements.

Resolution: The Company's officers and directors did sign Conflict of Interest statements and provided copies to the Office on November 30, 2000. The latest signed copies of Conflict of Interest statements on file were dated May 25, 2004.

3. The Company had an agreement with Solomon, Smith and Barney that did not meet the requirements of Rule 69O-143.041(2)FAC, formerly 4-143.141(2). In addition, the custodian was not a bank or trust company as required by the Rule stated above.

Resolution: The Company currently has an agreement with Sun Trust Bank that meets the requirements of Rule 69O-143.041(2), formerly 4-143.141(2). In addition, the custodian is a bank as required by the Rule stated above.

4. The Company's reinsurance agreement with Capitol Indemnity Corporation was in violation of the Consent Order between the Company and the Office.

Resolution: The Company's reinsurance agreement with Capitol Indemnity Corporation expired in 2003.

HISTORY

General

The Company commenced business on July 1, 1988 as a Limited Reciprocal. The Company was converted to an assessable mutual insurer effective October 1, 1992 when the Company was incorporated under the laws of Florida. As a result, it became an insurer incorporated in Florida without a permanent capital stock and sells insurance only within the State of Florida, in accordance with Section 628.6011, FS.

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

Surety
Inland Marine
Ocean Marine

The Bylaws were amended in August 17, 2001 with regards to its members, directors, officers, the corporate seal, amending the bylaws, conduct of corporate funds and withdrawal of members. The amended bylaws were approved by the Office on October 29, 2001.

Capital Stock

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

Profitability of Company

The Company's net underwriting gain for 2000, 2001, 2002 was \$69,684, \$35,116, and \$15,156, respectively. Net income during the same period was \$112,270, \$79,201, and \$55,512.

Dividends to Shareholders/Policyholders

Dividends were not paid to policyholders during this examination period.

Management

The annual 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

Name and Location	Principal Occupation
Ronald T. Roy Jacksonville, Florida	Ring Power Corporation
Fitzhugh K. Powell, Sr. Jacksonville, Florida	Cecil W. Powell & Company
Lance C. Ringhaver Riverview, Florida	Ringhaver Equipment Company

Randal L. Ringhaver
Boca Raton, Florida

Ring Power Corporation

Stephen Cumella
Jacksonville, Florida

M.D. Moody & Sons, Inc.

H. Leon Holbrook
Jacksonville, Florida

Holbrook, Akel, Cold & Stiefel PA

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

Senior Officers

Name	Title
Ronald T. Roy	Chairman of the Board & Secretary
Fitzhugh K. Powell, Sr.	President and Treasurer
Lance C. Ringhaver	Vice President
Randal L. Ringhaver	Vice President
Rosemary G. Klemmt	Asst. Secretary/Asst. Treasurer

The Company had an Executive Committee in accordance with Section 607.0825, Florida Statutes, comprised of all the members of the Board of Directors.

The Company did not have a formal audit committee as required by Section 624.424(8)(c) FS.

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 and Board of Directors 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

There were no mergers, disposals, dissolutions, purchase, or sales through reinsurance as of December 31, 2003.

Surplus Debentures

The Surplus Notes of \$163,500, represented the contribution to surplus by the members at the inception of the Company and prior to the conversion.

Ringhaver Equipment Co.	\$ 40,000
Ring Power Corporation	40,025
M.D. Moody & Sons, Inc.	40,375
Mobro Marine, Inc.	40,100
Total	\$163,500

On December 31, 2003, the surplus notes were outstanding and no repayment can be made unless approved in advance by the Office.

AFFILIATED COMPANIES

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

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$250,000 with a single loss deductible of \$10,000, which adequately covered the amount as suggested by the NAIC. The Company had no other insurance coverage in effect as of December 31, 2003.

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company wrote surety business on behalf of its members, which guaranteed that the member would perform specifically covered acts within a specific time. Most of the business written was in the form of "Buy Back Bonds", which guaranteed the performance of its insured in connection with the sale of heavy equipment to various municipalities. The sales contracts provided for the repurchase and/or repair of this equipment by the member, within the provisions of the sales agreement.

Territory

The Company was authorized to transact insurance in the State of Florida only, 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. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

STATUTORY DEPOSITS

State	Description	Par Value	Market Value
FL	US Treasury Deposit	<u>\$ 250,000</u>	<u>\$ 250,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 250,000</u>	<u>\$ 250,000</u>

REINSURANCE

Assumed

The Company assumed risk from Capitol Indemnity Corporation which was discontinued in 2002 and expired in 2003.

Ceded

The Company did not cede risk.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statement for the years 2000, 2001, 2002 and 2003 in accordance with Section 624.424(8), FS. The supporting work papers prepared by the CPA were in accordance with 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 Jacksonville, Florida, where this examination was conducted.

On December 31, 2003, the following agreements were in force between the Company and non-affiliates:

Custodial Agreement

The Company had an agreement with Sun Trust Bank that met the requirements of Rule 69O-143.042, FAC.

MGA Agreement

The Company had an agreement with Cecil W. Powell & Company, an independent agency, in which it was agreed that the agent may solicit and submit applications for surety bonds on behalf of the Company. The agent collected premiums and retained commissions as full compensation on business placed with the Company by or through the agent at a rate of thirty-five (35) percent.

CPA Agreement

The Company had an agreement with Harbeson, Beckerleg & Fletcher, Certified Public Accountants, to audit the balance sheet and related statements.

Management Agreement

The Company had a management agreement with Cecil W. Powell & Company, which provided for all day-to-day activities including accounting, underwriting, data processing and administrative services. A quarterly fee of \$7,250 was agreed upon for these services.

Risk-Based Capital

The Company was exempt from the risk-based capital calculation.

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."

MACHINERY INSURANCE, INC.
AN ASSESSABLE MUTUAL INSURER
Assets

DECEMBER 31, 2003

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$141,764		\$141,764
Cash:			
Cash/Short-term investments	1,055,571		1,055,571
Agents' Balances:			
Uncollected premium	28,349		28,349
Interest and dividend income due & accrued	5,732		5,732
Aggregate write-ins	85,130		85,130
Totals	<u>\$1,316,546</u>	<u>\$0</u>	<u>\$1,316,546</u>

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

DECEMBER 31, 2003

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$ 116,100		\$116,100
Taxes, licenses and fees	1,009		1,009
Borrowed Money	10,000		10,000
Unearned premium	147,396		147,396
Amounts withheld or retained by Co. for others	7,698		7,698
Total Liabilities	\$282,203		\$282,203
Aggregate Write-ins for other than special surplus	85,130		85,130
Surplus Notes	163,500		163,500
Unassigned funds (surplus)	785,713		785,713
Surplus as regards policyholders	<u>\$ 1,034,343</u>	<u>0</u>	<u>\$ 1,034,343</u>
Total liabilities, capital and surplus	<u>\$1,316,546</u>	<u>0</u>	<u>\$1,316,546</u>

MACHINERY INSURANCE, INC.
AN ASSESSABLE MUTUAL INSURER

Statement of Income

DECEMBER 31, 2003

Underwriting Income

Premiums earned	\$318,441
DEDUCTIONS:	
Losses incurred	15,200
Loss expenses incurred	0
Other underwriting expenses incurred	171,182
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$186,382</u>
Net underwriting gain or (loss)	<u>\$132,059</u>

Investment Income

Net investment income earned	\$33,563
Net realized capital gains or (losses)	1,178
Net investment gain or (loss)	<u>\$34,741</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	
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	\$166,800
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$166,800
Federal & foreign income taxes	0

Net Income \$166,800

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year \$843,353
Gains and (Losses) in Surplus

Net Income	\$166,800
Net unrealized capital gains or losses	0
Change in net deferred income tax	0
Change in non-admitted assets	0
Change in provision for reinsurance	0
Aggregate Write-ins for Gains & Losses in Surplus	24,190
Change in surplus as regards policyholders for the year	<u>\$190,990</u>

Surplus as regards policyholders, December 31 current year \$1,034,343

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$116,100

The Company was exempted from filing a statement of actuarial opinion. The Office Actuary reviewed work papers on reserves provided by the Company and was in concurrence with the amount reported in the filed annual statement.

**MACHINERY INSURANCE, INC.
AN ASSESSABLE MUTUAL INSURER
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	\$1,034,343
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustments			
LIABILITIES:			
No adjustments			
Net Change in Surplus:			\$0
Surplus as Regards Policyholders December 31, 2003, Per Examination			\$1,034,343

SUMMARY OF FINDINGS

Compliance with previous directives

The Company had taken the necessary actions to comply with the comments made in the 1999 Examination Report issued by the Office.

Current examination comments and corrective action

The Company does not have a formal audit committee as required by Section 624.424(8)(c) FS. **The Company is directed to form an Audit Committee and to provide evidence of compliance to the Office within 90 days of the issuance of this report.**

SUBSEQUENT EVENTS

There were no material subsequent events.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of the **Machinery Insurance, Inc., an Assessable Mutual Insurer** 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 \$1,034,343, which was in compliance with Section 624.408, FS.

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

Respectfully submitted,

JOEL V. BENGIO
Financial Examiner/Analyst II
Florida Office of Insurance Regulation