

REPORT ON EXAMINATION
OF
SOUTHERN FAMILY INSURANCE COMPANY
TAMPA, FLORIDA
AS OF
DECEMBER 31, 2002

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
March 26, 2003

Kevin M. McCarty
Director
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, 2002, of the financial condition and corporate affairs of:

**SOUTHERN FAMILY INSURANCE COMPANY
302 KNIGHTS RUN AVENUE, SUITE 700
TAMPA, FLORIDA 33602**

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, 2002. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 1999. This examination commenced with planning at the Office on January 5, 2004 to January 9, 2004. The fieldwork commenced on January 12, 2004 and was concluded as of March 26, 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 (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, 2002. Transactions subsequent to year-end 2002 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 following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 1999, along with resulting action taken by the Company in connection therewith.

Affiliated Companies

The Company failed to include Poe Investments, Inc. in their holding company registration statement filing. **Resolution:** The Company included Poe Investments, Inc. in their subsequent holding company registration statement filing.

Conflict of Interest

The Company did not require its officers and directors to provide conflict of interest statements in accordance with Section 607.0832, FS. **Resolution:** The Company's officers and directors provided conflict of interest statements in accordance with Section 607.0832, FS.

Investment Agreement

The Company failed to request pre-approval for their investment agreement in accordance with the terms of a consent order. **Resolution:** The Company submitted current agreements to the Office for approval.

Audit Committee

The Company did not have an audit committee of three or more directors in accordance with Section 624.424(8)(c), FS. **Resolution:** The Company established an audit committee of three directors.

Reinsurance

The Company did not comply with the continuing terms and conditions in consent orders since it failed to notify the Office of proposed or prospective changes in its reinsurance before implementing the changes. **Resolution:** The Company has worked with the Office when revising its reinsurance agreements.

Accounts and Records

The Company did not establish an account for the property assumed abandoned and did not reported the abandoned property in accordance with Section 717.117, FS. **Resolution:** The Company has established an account for abandoned property.

HISTORY

General

The Company was incorporated in Florida on March 1, 1996 and commenced business on August 16, 1996 as Southern Family 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, 2002:

Fire	Commercial Automobile Liability
Allied Lines	Commercial Auto Physical Damage
Homeowners Multi Peril	Surety
Commercial Multi Peril	Glass
Inland Marine	Burglary and Theft
Other Liability	Boiler and Machinery
Fidelity	

The Company had not written insurance coverage in the last three years in the following lines of business:

Inland Marine	Surety
Fidelity	Burglary and Theft
Commercial Automobile Liability	Boiler and Machinery
Commercial Auto Physical Damage	

In accordance with Section 624.430, FS, the Company is required to request to have these lines of insurance removed from its certificate of authority.

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The articles of incorporation were amended in 2003 to show the Company's change of headquarters to 302 Knights Run Avenue, Suite 700, Tampa, Florida.

The bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	100
Total common capital stock	\$100
Par value per share	\$1.00

Control of the Company was maintained by its parent, Poe Insurance Holdings, Inc., who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Poe Financial Group, Inc., a Florida corporation.

Profitability of Company

The Company consistently reported net underwriting gains and net income for the last five years, including the recently filed annual statement for year 2003. The Company's net underwriting gains and net income for the last five years are as follows:

<u>Year</u>	<u>Net Underwriting Gains</u>	<u>Net Income Gains</u>	<u>Direct Written Premium</u>
2003	\$37,026,019	\$26,215,073	\$157,702,003
2002	\$11,504,017	\$1,770,042	\$107,898,212
2001	\$7,063,262	\$7,596,612	\$68,380,137
2000	\$6,542,497	\$4,857,266	\$48,255,659
1999	\$3,207,740	\$2,512,042	\$45,338,880

Dividends to Stockholders

In accordance with Section 628.371, FS, the Company declared and paid dividends to its stockholder in 2001 in the amount of \$13,000,000.

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, 2002, were:

Directors

Name and Location	Principal Occupation
James E. Wurdeman, Chairman Tampa, Florida	Chairman & CEO, Southern Family Ins. Co. & Florida Preferred Property Ins. Co.
Thomas S. Krzesinski Tampa, Florida	President, Southern Family Insurance Co.
William F. Poe, Sr. Tampa, Florida	Chairman & CEO, Poe Financial Group, Inc.
William F. Poe, Jr Tampa, Florida	President, Poe Financial Group, Inc.
Charles E. Poe Tampa, Florida	Senior Vice Pres., Poe Financial Group, Inc.
Marilyn P. Lunskis Tampa, Florida	Director, Poe Financial Group, Inc.
Janice P. Mitchell Tampa, Florida	Director, Poe Financial Group, Inc.
Keren P. Smith Tampa, Florida	Director, Poe Financial Group, Inc.

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

Senior Officers

Name	Title
Thomas S. Krzesinski	President
Jan Jacob Meder	Secretary/Treasurer

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. The following are the principal internal board committees and their members as of December 31, 2002:

Audit Committee

William F. Poe, Sr.
William F. Poe, Jr.
James E. Wurdeman
Charlie E. Poe

**Investment Committee –
Fixed**

Charlie E. Poe
Thomas S. Krzesinski
William F. Poe, Jr.
James E. Wurdeman
Jan J. Meder

**Investment Committee -
Equities**

Charlie E. Poe
William F. Poe, Sr.
James E. Wurdeman

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 audit and investment 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**

On January 5, 2001, the Company's parent, Poe Insurance Holdings, Inc., acquired 100 percent of the outstanding common stock of Atlantic Preferred Insurance Company. The Office approved the acquisition of the Company on December 29, 2000.

Surplus Debentures

The Company did not have any outstanding surplus debentures at December 31, 2002. The surplus note of \$2,500,000 at December 31, 2000 was contributed to capital during 2001 with Office approval.

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 February 13, 2004, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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

MGA Agreement

The Company had a Managing General Agency Agreement with Poe Insurance Managers, Inc. (PIM) formerly, Southern Family Insurance Managers, Inc., a licensed managing general agency (MGA), to provide services in connection with the management and administration of the affairs of the Company. The services included underwriting, policy administration and reinsurance negotiation on behalf of the Company. PIM was responsible for most of the charges and expenses incurred in its operation and received a fee from the Company of 20% to 26.5%, depending on the amount of the gross premiums written. The Company paid PIM commissions and policy fees of \$24,509,944 in 2002 and \$19,743,406 in 2001. The agreement was amended during 2002 to reflect the change in the fees and name as discussed above. The agreement met all of the required contract provisions in accordance with Section 626.7451, FS.

Subsequent Event:

The Company filed an amended MGA agreement with the Office on March 1, 2004. Pursuant to Consent Order number 39686-00-CO, the Company must get prior approval in writing before utilizing this new agreement.

Cost Sharing Agreement

The Company had a cost sharing agreement with the MGA, which clarified the responsibility of certain costs with respect to the MGA agreement. The agreement stated that PIM would pay substantially all operating costs of the Company, including costs of policy issuance, underwriting, and reinsurance management. The agreement also stated that the Company would pay direct costs unique to the Company, such as legal, actuarial, and accounting fees. The Company and its affiliate, Atlantic Preferred Insurance Company, were responsible for the salary and related employee benefit costs of the President and CEO.

Tax Allocation Agreement

The Company, along with its parent and other affiliates, filed a consolidated federal income tax return. On December 31, 2002, the method of allocation of tax liability between the companies was based upon calculations on a separate return basis.

Administrative Services Agreement

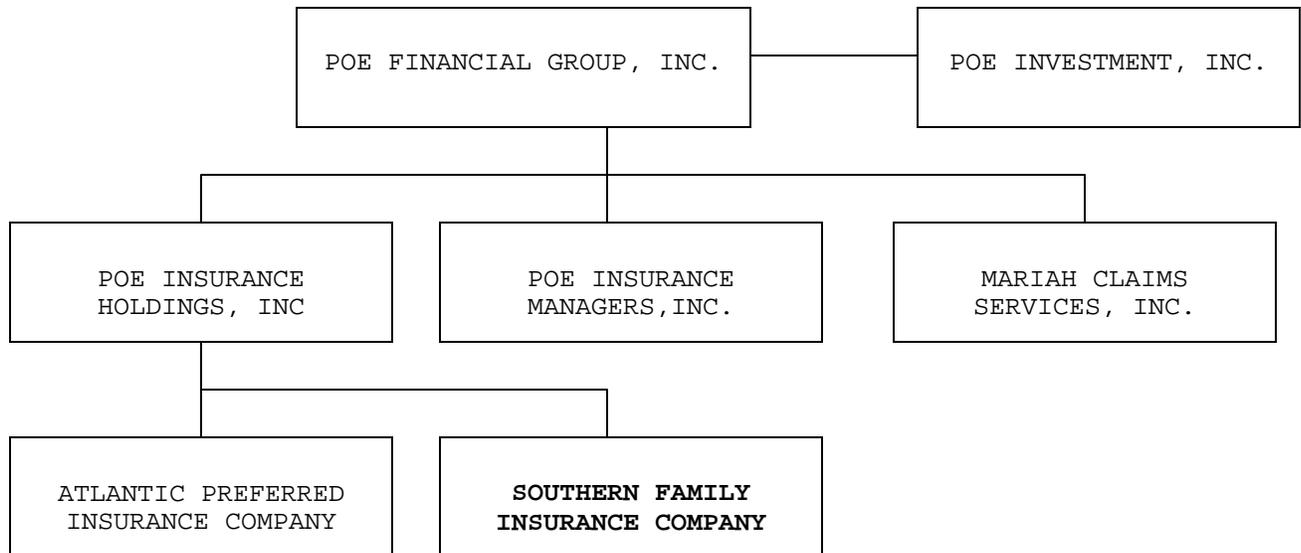
The Company had an administrative services agreement with Mariah Claims Services, Inc. (MCS), an affiliate, to provide claims administration services. The Company paid \$1,774,876 and \$1,361,682 to MCS for these services in 2002 and 2001, respectively.

Investment Management Advisory Consultant Fee Contract

The Company had an investment management advisory consultant fee contract with Poe Investments, Inc. (POE) to provide investment management services for a fee of .125 percent of the market value of the securities managed. The Company paid the amount of \$67,211 to POE in 2002 for these services.

A simplified organizational chart as of December 31, 2002, reflecting the holding company system, is shown below. Schedule Y of the Company's 2002 annual statement provided a list of all related companies of the holding company group.

**SOUTHERN FAMILY INSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2002**



FIDELITY BOND AND OTHER INSURANCE

As of year-end 2002, the Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000. This insurance adequately covered the suggested minimum amount of coverage for the Company only, as recommended by the NAIC. The coverage amount was not sufficient for all of the companies listed on the policy from Travelers Financial Institution Bond.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees, therefore, a retirement or pension plan was not provided.

STATUTORY DEPOSITS

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

State	Description	Par Value	Market Value
FL	Merck & Co., 6.30%, 01/1/26	<u>\$ 500,000</u>	<u>\$ 545,615</u>
	Total Special Deposits	<u>\$ 500,000</u>	<u>\$ 545,615</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

The Company provided commercial and homeowners property coverage throughout the State of Florida.

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. The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

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 did not assume risk as of December 31, 2002.

Ceded

The Company ceded risk on a quota share and excess of loss basis to Transatlantic Reinsurance Company, Everest Reinsurance Company, Converium Reinsurance, Inc., America Re-Insurance Company, Swiss Reinsurance American Corporation, Axis Specialty Ltd, AXA Reassurances and General Reinsurance Corporation. The quota share agreements covered catastrophic exposures as well as ordinary risks. The Company's quota share reinsurance agreements, brokered through an intermediary, were not fully executed within nine months of the effective date of the agreements. Paragraph 23 of Statement of Statutory Accounting Principle (SSAP) Number 62, states that a reinsurance contract must be finalized and executed within nine months of the effective date of the contract or become subject to retroactive accounting treatment.

Subsequent Event:

The Company's quota share reinsurance agreements were duly executed by the Company and all applicable reinsurers.

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 2000, 2001 and 2002, 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 recorded investments on the settlement date rather than the trade date. NAIC annual statement instructions require recording of bond acquisitions on the trade date.

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

Subsequent Event

The Company changed its principal operational office from 511 W. Bay Street, Suite 400, Tampa, Florida 33606 to 302 Knights Run Avenue, Suite 700, Tampa, Florida 33602.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company utilized Wachovia Bank, SalomonSmithBarney and PaineWebber as custodians for the safekeeping of some of the Company's securities as of December 31, 2002. An investment broker 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 either the state banking laws or is a member of the Federal Reserve System and which is legally qualified to accept custody of securities in accordance with the standards set forth in Rule 69O-143.042, FAC.

The Company executed a custodian agreement with SalomonSmithBarney on February 25, 1999. This agreement did not include the requirement set forth in Rule 69O-143.042(2)(o), FAC, which states that a custodian agreement must be terminable by the insurance company in not more than thirty days' notice.

The Company executed a money manager agreement with Wachovia Bank on September 3, 1998. This agreement did not include the requirements set forth in Rule 69O-143.042(2)(a) through (o), FAC.

The Company executed agreements with PaineWebber on December 19, 2000 and January 31, 2003. These agreements do not include the general requirements set forth in Rule 69O-143.042(2)(a) through (o).

Independent Auditor Agreement

The Company had an agreement with Deloitte & Touche LLP, Tampa, Florida to perform a certified audit of their financial statements for the years 2000, 2001 and 2002.

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, 2002, 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."

SOUTHERN FAMILY INSURANCE COMPANY
Assets

DECEMBER 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$21,144,659		\$21,144,659
Stocks:			
Preferred	2,823,950		2,823,950
Common	13,184,266		13,184,266
Cash & Short-term investments	28,517,859	(\$1,750,000)	26,767,859
Agents' Balances:			
Uncollected premium	7,808,268	1,750,000	9,558,268
Reinsurance recoverable	2,880,510		2,880,510
Federal income tax recoverable	2,637,698		2,637,698
Interest and dividend			
income due & accrued	259,819		259,819
Receivable from parent, subsidiaries & affiliates	20,991		20,991
Aggregate write-ins for other than invested assets	302,169		302,169
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Totals	\$79,580,189	\$0	\$79,580,189
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SOUTHERN FAMILY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2002

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$4,807,957		\$4,807,957
Loss adjustment expenses	893,544		893,544
Other expenses	1,124,651		1,124,651
Taxes, licenses and fees	1,224,925		1,224,925
Federal income taxes	709,964	2,018,272	2,728,236
Unearned premium	27,457,840		27,457,840
Ceded reinsurance premiums payable	10,460,642		10,460,642
Amounts withheld	69,964		69,964
Payable to parent, subsidiaries and affiliates	0		0
Total Liabilities	\$46,749,487	\$2,018,272	\$48,767,759
Common capital stock	100		100
Gross paid in and contributed surplus	26,346,716		26,346,716
Unassigned funds (surplus)	6,483,886	(2,018,272)	4,465,614
Surplus as regards policyholders	32,830,702	(2,018,272)	30,812,430
Total liabilities, capital and surplus	\$79,580,189	\$0	\$79,580,189

SOUTHERN FAMILY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2002

Underwriting Income

Premiums earned	\$35,938,904
DEDUCTIONS:	
Losses incurred	10,746,221
Loss expenses incurred	1,986,926
Other underwriting expenses incurred	11,701,740
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$24,434,887</u>
Net underwriting gain or (loss)	\$11,504,017

Investment Income

Net investment income earned	\$1,303,358
Net realized capital gains or (losses)	(4,781,037)
Net investment gain or (loss)	<u>(\$3,477,679)</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	886
Total other income	<u>\$886</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$8,027,224
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	\$8,027,224
Federal & foreign income taxes	<u>6,257,182</u>
Net Income	\$1,770,042

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$28,644,720
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Gains and (Losses) in Surplus

Net Income	\$1,770,042
Net unrealized capital gains or losses	(867,057)
Change in net deferred income tax	3,596,231
Cumulative effect of changes in accounting principles	735,847
Change in nonadmitted assets	(1,599,578)
Surplus adjustments: Paid in	791,878
Aggregate write-ins for gains and losses in surplus	(241,381)
Examination Adjustment	(2,018,272)
Change in surplus as regards policyholders for the year	<u>\$2,167,710</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$30,812,430</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash & Short-Term Investments

\$26,767,859

The amount reported by the Company of \$28,517,859, was decreased by \$1,750,000 due to a deposit in transit reported on the annual statement at December 31, 2002 which was not transferred by the MGA to the Company until January 8, 2003.

Agents' Balances

\$9,558,268

The amount reported by the Company of \$7,808,268 was increased by \$1,750,000 due to a deposit in transit from the Company's MGA which was not electronically sent to the Company until January 8, 2003.

The Company's agents' balances of \$9,558,268 were due from PIM, the affiliated MGA. PIM collected premiums on behalf of the Company but did not transfer these funds to the Company when collected. Instead, PIM made 10 transfers of net premium in 2002 to the Company. The December 31, 2002 agents' balances were subsequently remitted to the Company in the amount of \$1,750,000 and \$7,808,268 on January 8, 2003 and February 28, 2003, respectively. Pursuant to Section 625.012(5)(a)1, FS, the MGA, a controlling person, must deposit premiums collected into a trust account within 15 working days after collection.

Liabilities

Federal Income Tax Payable \$2,728,236

The amount reported by the Company of \$709,964 was increased by \$2,018,272. This increase consisted of two amounts, \$1,880,982 and \$137,290. The increase of \$1,880,982 was attributable to interest on a notice of tax due from the Internal Revenue Service (IRS) for an audit of prior years income taxes. The interest totaling \$1,880,982 was not accrued in the annual statement at December 31, 2002. In September 2002, the Company received the notice of tax due from the IRS for \$5.9 million, plus interest of approximately \$2.8 million, for its income tax examination for the years 1996 through 1999. The additional tax amounts relate to the taxation of the policy take-out bonuses from Citizens Property Insurance Company (Citizens), formerly Florida Residential Property and Casualty Joint Underwriting Association. The IRS states that the take-out bonuses are taxable income to the Company at the time they are deposited into escrow, which is three years or more before the funds are released. The Company has taken the position that the policy take-out bonuses are non-shareholder contributions to capital. As a precedent of the Company defending its position in Federal District Court, the Company paid the \$5.9 million tax to the IRS in October 2002. At December 31, 2002, the Company recorded an accrual for interest on the tax of \$942,901.

The increase of \$137,290 was attributable to using an incorrect income tax rate when the federal income tax amount was calculated.

Losses and Loss Adjustment Expenses\$5,701,501

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, 2002, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

**SOUTHERN FAMILY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2002

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, 2002, Annual Statement	\$32,830,702
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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:			
Cash	\$ 28,517,859	\$ 26,767,859	\$ (1,750,000)
Agents' Balances	7,808,268	9,558,268	1,750,000
LIABILITIES:			
Federal Income Tax	709,964	2,728,236	(2,018,272)

Net Change in Surplus:	<u>(2,018,272)</u>
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Surplus as Regards Policyholders December 31, 2002, Per Examination	<u><u>\$30,812,430</u></u>
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SUMMARY OF FINDINGS

Compliance with previous directives

The Company has 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 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, 2002.

General

The Company did not write insurance coverage in certain lines of business for a period of three years. **The Company is directed to request that these lines of insurance be removed from its certificate of authority in accordance with Section 624.430, FS., and is to provide documentation of compliance to the Office within 90 days after this report is issued.**

Fidelity Bond

The Company maintained fidelity bond coverage in an amount that adequately covered the suggested minimum amount of coverage for the Company only, as recommended by the NAIC. The coverage was not sufficient for all of the companies listed on the policy. **The Company is directed to increase its fidelity bond coverage to account for all the companies listed on the fidelity bond, and to provide documentation of compliance to the Office within 90 days after this report is issued.**

Accounts and Records

The Company recorded investments on the settlement date rather than the trade date. The NAIC annual statement instructions require recording bond acquisitions on the trade date. **The Company is directed to record investments on the settlement date in all future filings with the Office.**

Custodial Agreement

The Company executed custodial agreements with Wachovia Bank, SalomonSmithBarney and PaineWebber for the safekeeping of Company securities at December 31, 2002. These agreements were not in compliance with Rule 69O-143.042, FAC. **The Company is directed to utilize a qualified custodian and execute a custodial agreement with a custodian approved by the Office.**

Agents' Balances

The MGA collected premiums on behalf of the Company but did not transfer these funds to the Company or into a trust account pursuant to Section 625.012(5)(a)1, FS, when collected and some of the amounts were not remitted to the Company until after 60 days. **The Company is directed to require that a trust account for the benefit of the Company be established and that the MGA promptly deposit the premium collections into the trust account. A written copy of the trust agreement must be filed with and approved by the Office prior to its becoming effective, pursuant to Section 625.012(5)(a)1, FS. The Company is to provide documentation of compliance to the Office within 90 days after the report is issued**

Cash & Short-term investments

The Company reported a deposit in transit of \$1,750,000 on the annual statement at December 31, 2002. The deposit was not transferred to the Company until January 8, 2003, by the Company's MGA. **The Company is directed to correctly report its cash in all future filings with the Office.**

Federal Income Tax Payable

The Company did not accrue interest on a notice of tax due from the IRS for an audit of prior years income taxes. Additionally, the Company utilized an incorrect income tax rate to calculate the federal income tax amount. **The Company is directed to correctly report its federal income taxes in all future 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 **Southern Family Insurance Company** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$30,812,430, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael Hampton, CFE, CPA, DABFA, CFE, Financial Examiner/Analyst Supervisor, Samita Lamsal, Financial Examiner/Analyst II and Larry Steinert, FCAS, Actuary, participated in the examination.

Respectfully submitted,

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