

**REPORT ON EXAMINATION**  
**OF**  
**FFVA MUTUAL INSURANCE**  
**COMPANY**  
**ORLANDO, FLORIDA**

**AS OF**  
**DECEMBER 31, 2004**

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

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October 21, 2005

Kevin M. McCarty  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Honorable Alfred W. Gross  
NAIC Financial Condition (E) Committee, Chair  
Commissioner of Insurance  
1300 East Main Street  
Richmond, Virginia 23219

Walter Bell  
Secretary, Southeastern Zone  
Commissioner  
Alabama Dept of Insurance  
201 Monroe Street, Suite 1700  
Montgomery, Alabama 3610

Dear Sirs:

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 of December 31, 2004, of the financial condition and corporate affairs of:

**FFVA Mutual Insurance Company  
800 Trafalgar Court, Suite 200  
Maitland, FL 32751**

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, 2002 through December 31, 2004. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2001. This examination commenced, with planning at the Office, from July 18, 2005, to July 22, 2005. The fieldwork commenced on July 25, 2005, and was concluded as of October 21, 2005. 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 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, 2004. Transactions subsequent to year-end 2004 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, 2001, along with resulting action taken by the Company in connection therewith.

### **Custodian Agreements**

The Company had securities held by Morgan Stanley Dean Witter, who was not a qualified custodian. The Company did not have a custodial agreement with First Union National Bank.

**Resolution:** As of December 31, 2004, all securities were held by SunTrust Bank. The amended custodial agreement with SunTrust Bank that was executed during 2005 met the requirement of Rules 69O-143.041 and 69O-143.042, FAC.

## HISTORY

### General

The Company was incorporated and commenced business on September 1, 1958 as a self insurer's fund providing workers' compensation coverage for the agricultural community and association members in Florida with the name of Florida Fruit and Vegetable Association Self Insurers Fund. The Company was regulated under the applicable provisions of the Florida Department of Labor and Employment Security, Bureau of Self-Insurance, which performed audits of the Fund. On September 1, 1996, the Company was converted from a self insurer's fund to a domestic non-assessable mutual insurance company with a new name FFVA Mutual Insurance Company. Effective September 1, 1996, the Company began reporting under the jurisdiction of the Office.

In accordance with Section 624.401(1), FS, the Company was authorized to transact workers' compensation insurance coverage in the following states, as of December 31, 2004:

Florida          Georgia          Kentucky          Mississippi          Alabama

The Company has not written workers compensation insurance coverage in Alabama.

The articles of incorporation and the bylaws were amended during the period covered by this examination.

## Capital Stock

The Company was a non-assessable mutual insurance company. Therefore, capital stock was not issued. Control of the Company was maintained by its policyholders.

## Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination.

|                                  | <b>2002</b>  | <b>2003</b> | <b>2004</b> |
|----------------------------------|--------------|-------------|-------------|
| Premiums Earned                  | 55,366,674   | 70,526,197  | 78,282,001  |
| Net Underwriting Gain/(Loss)     | 5,430,616    | 11,873,791  | 10,787,688  |
| Net Income                       | 3,260,679    | 7,169,460   | 9,094,042   |
| Total Assets                     | 129, 238,834 | 162,932,095 | 182,561,440 |
| Total Liabilities                | 90,237,500   | 102,694,742 | 112,351,994 |
| Surplus As Regards Policyholders | 39,001,334   | 60,237,353  | 70,209,446  |

## Dividends to Policyholders

The Board of Directors approved the payments of dividends to its policyholders for the policy years 2002, 2003, and 2004 in the amounts of \$3,554,971, \$4,085,601, and \$2,755,944, respectively.

## 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, 2004, were:



**Directors**

| <b>Name and Location</b>                      | <b>Principal Occupation</b>                     |
|---|---|
| Morgan H. Roe<br>Winter Haven, Florida        | CEO<br>William G. Roe & Sons, Inc.              |
| Glenn R. Rogers<br>Zellwood, Florida          | President<br>Zellwin Farms Company              |
| *Alan C. Shapiro<br>Gainesville, Florida      | President<br>San Felasco Nurseries, Inc.        |
| Peter S. Harlee, Jr.<br>Palmetto, Florida     | President<br>Harlee Farms, Inc.                 |
| Frank C. Johns, Jr.<br>Hastings, Florida      | Owner<br>Tater Farms, LLC                       |
| Leslie W. Dunson III<br>Winter Haven, Florida | President<br>Dunson Harvesting, Inc.            |
| **Charles T. Ranson<br>Vero Beach, Florida    | Executive Vice-President<br>Graves Brothers Co. |

\* Alan C. Shapiro resigned in 2005. Replaced by Robert C. Barrett.

\*\*Charles T. Ranson retired in 2005.

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

**Senior Officers**

| <b>Name</b>  | <b>Title</b>              |
|--------------|---------------------------|
| Craig Menzl  | President                 |
| Alan E. Hair | Secretary/Treasurer & CFO |

The Company's Board appointed internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2004:

**Nominating Committee**

Morgan H. Roe  
Glenn R. Rogers  
Frank C. Johns, Jr.

**Audit Committee**

Morgan H. Roe  
Peter S. Harlee, Jr.  
Frank C. Johns, Jr.  
Glenn R. Rogers  
Charles T. Ranson  
Leslie W. Dunson III  
Alan C. Shapiro

**Conflict of Interest Procedure**

The Company 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 certain internal committee 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 acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

## **Surplus Debentures**

On May 22, 2003, the Company issued floating rate surplus notes in the amount of \$12,000,000 to InCapS Funding I, LTD in exchange for cash. The Company paid interest at the rate of LIBOR (London Interbank Offered Rate) plus 4.10% quarterly in arrears each year on these surplus notes. Total interest paid in 2004 and since inception totaled \$664,747 and \$992,220 respectively. All interest payments were approved by the Office. There have been no principal payments made since the notes were issued on May 22, 2003.

The issue of InCapS Funding I, LTD pooled surplus notes was underwritten by Sandler O'Neill & Partners, L.P., sole placement agent, and were administered by Wilmington Trust Company as trustee.

## **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 July 29, 2005, 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:

## **Management Agreement**

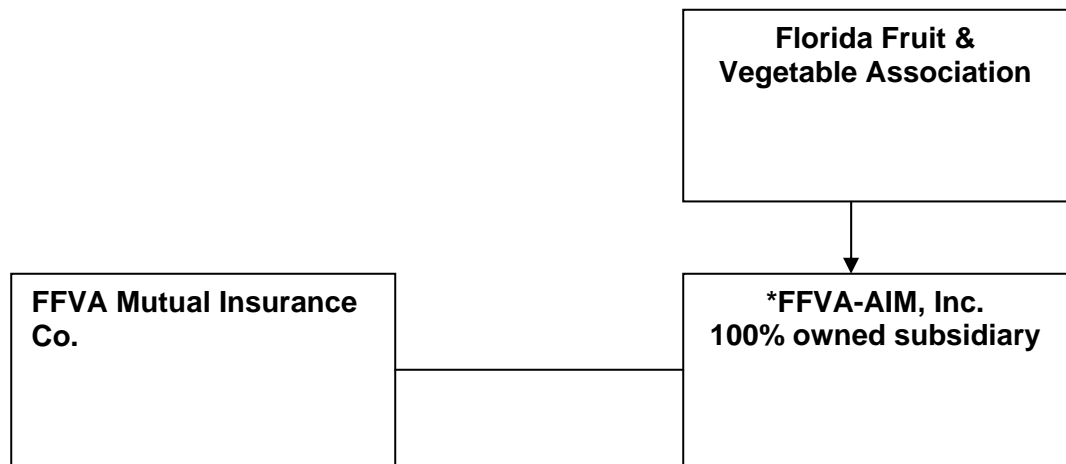
On January 1, 1996, the Company entered into a management contract with FFVA-AIM, Inc., to provide certain administrative services in connection with the workers' compensation insurance operations. FFVA-AIM Inc., was solely responsible for managing and administering the affairs of the Company, in accordance with the policies of the Directors. These policies included, but were not limited to marketing, underwriting, billing, collection, claims administration terminal and reinstatement of members, safety and loss prevention, excess insurance, issuance of evidence of coverage, accounting, regulatory reporting, investment, and auditing, budgeting and general administration. In exchange for these services, FFVA-AIM, Inc. received an annual fee based on a percentage of estimated normal premium payable in twelve monthly pro-rata installments. The total annual fee payable was adjusted based on the final earned normal premium as reported in the annual statement.

FFVA-AIM utilized the services of United Self Insurers Services (USIS), a third party administrator, to provide claims handling service for all states in which the Company was licensed. USIS received an annual service fee calculated based on a percentage of estimated earned normal premium for the calendar year. The fee payable for each year covered by this contract was adjusted based on payroll/premium information utilized in the preparation of the Company's annual statement.

An organizational chart as of December 31, 2004, reflecting the holding company system, is shown below.

**FFVA MUTUAL INSURANCE CO.  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2004**



\*Relationship is due to a management contract.

## FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company maintained other insurance coverage typical to the operation of an insurer.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees and therefore had no retirement benefit plans.

## STATUTORY DEPOSITS

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

| State                  | Description                           | Par Value           | Market Value        |
|------------------------|---------------------------------------|---------------------|---------------------|
| FL                     | FL ST RFDG-DEPT OF TRANS, 5 %, 7/1/19 | \$ 975,000          | \$ 1,046,770        |
| FL                     | FL ST BRD CAP OUTLAY , 4.75%, 6/1/22  | 1,100,000           | 1,109,185           |
| FL                     | FL ST BRD CAP OUTLAY , 4.75%, 6/1/29  | 1,705,000           | 1,713,150           |
| FL                     | FL ST BRD CAP OUTLAY , 4.75%, 6/1/29  | 1,200,000           | 1,257,516           |
| TOTAL FLORIDA DEPOSITS |                                       | <u>\$ 4,980,000</u> | <u>\$ 5,126,621</u> |
| GA                     | UTAH HOUSING CORP, 5.15%, 7/1/23      | \$ 100,000          | \$ 100,800          |
| TOTAL SPECIAL DEPOSITS |                                       | <u>\$ 5,080,000</u> | <u>\$ 5,227,421</u> |

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

Reliance was placed on the latest market conduct examination dated January 30, 2004 by the Office to determine the accuracy of premium computation, policy construction, claim handling procedures and use of filed rates and forms. The Company offered regular workers' compensation policies, self-reporting or non-self-reporting, as well as retrospectively rated policies.

### **Territory**

The Company was authorized to transact insurance in the following states, in accordance with Section 624.401(2), FS:

|          |             |
|----------|-------------|
| Florida  | Alabama     |
| Georgia  | Mississippi |
| Kentucky |             |

### **Treatment of Policyholders**

The Company 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**

During 2004, the Company assumed risk from the Workers Compensation Assigned Risk Plans for the states of Georgia and Alabama.

### **Ceded**

During 2004, the Company ceded risk on an excess of loss basis to American Reinsurance through an intermediary, Guy Carpenter.

The Company also ceded risk on an excess of loss basis to Everest Reinsurance Company and Renaissance Reinsurance, Ltd, respectively.

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 2002, 2003 and 2004, 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 Maitland, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

As of December 31, 2004, all investments were maintained with SunTrust Bank. The Company had a custodial agreement with SunTrust Bank of Florida that was not in compliance with Rule 69O-143.042, FAC. The Company subsequently amended the custodial agreement with SunTrust Bank during the examination. The amended custodial agreement met the requirement of Rule 69O-143.042, FAC.

### **Lease Agreement**

During 2003, the Company purchased an office building to be used as its headquarters in Maitland, Florida. The Company is renting a portion of unoccupied space to tenants pursuant to a lease agreement. USIS, a third party claims service provider, FFVA-AIM, Inc. and the Florida Fruit & Vegetable Association also leased a portion of the building during 2004. Rental income for 2004 & 2003 was \$605,329 and \$80,535, respectively including a self-occupancy charge of \$124,968 in 2004.

### **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, 2004, 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."

**FFVA MUTUAL INSURANCE COMPANY**  
**Assets**

**DECEMBER 31, 2004**

| Classification   | Per Company   | Examination<br>Adjustments | Per Examination |
|--|---------------|----------------------------|-----------------|
| Bonds  | \$123,149,326 |                            | \$123,149,326   |
| Stocks:  |               |                            |                 |
| Common   | 13,371,204    |                            | 13,371,204      |
| Preferred  | 2,624,467     |                            | 2,624,467       |
| Real Estate:   |               |                            |                 |
| Properties   |               |                            |                 |
| occupied by the Company  | 6,484,643     | \$534,643                  | 5,950,000       |
| Cash:  |               |                            |                 |
| On deposit   | 1,625,578     |                            | 1,625,578       |
| Short-term investments   | 7,985,051     |                            | 7,985,051       |
| Interest & dividend due & accrued                                      | 1,258,433     |                            | 1,258,433       |
| Agents' Balances:  |               |                            |                 |
| Uncollected premium  | 1,572,580     |                            | 1,572,580       |
| Deferred premium   | 18,328,359    |                            | 18,328,359      |
| Accrued retrospective premiums   | 3,096,190     |                            | 3,096,190       |
| Reinsurance recoverable  | (81,103)      |                            | (81,103)        |
| Current federal & foreign income<br>tax recoverable & interest thereon | 555,586       |                            | 555,586         |
| Net deferred tax assets  | 2,982,905     |                            | 2,982,905       |
| Aggregate write-in for<br>other than invested assets                   | 142,864       |                            | 142,864         |
|  | <hr/>         |                            |                 |
| Totals   | \$183,096,083 | \$534,643                  | \$182,561,440   |
|  | <hr/> <hr/>   |                            |                 |

**FFVA MUTUAL INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2004**

| Liabilities  | Per Company          | Examination<br>Adjustments | Per<br>Examination   |
|--|----------------------|----------------------------|----------------------|
| Losses   | \$60,551,122         |                            | \$60,551,122         |
| Reinsurance payable on paid losses and loss<br>adjustment expenses | 11,486               |                            | 11,486               |
| Loss adjustment expenses   | 16,106,089           |                            | 16,106,089           |
| Commissions payable  | 1,745,917            |                            | 1,745,917            |
| Other expenses   | 380,492              |                            | 380,492              |
| Taxes, licenses and fees   | 1,126,640            |                            | 1,126,640            |
| Unearned premium   | 26,801,620           |                            | 26,801,620           |
| Advance premiums   | 3,172,449            |                            | 3,172,449            |
| Ceded reinsurance premiums payable                                 | 424,498              |                            | 424,498              |
| Amount withheld or retained by company for account of others       | 1,926,281            |                            | 1,926,281            |
| Provision for reinsurance  | <u>105,400</u>       |                            | <u>105,400</u>       |
| <br>Total Liabilities  | <br>\$112,351,994    |                            | <br>\$112,351,994    |
| <br>Common capital stock   | <br>\$0              |                            | <br>\$0              |
| Surplus notes  | 12,000,000           |                            | 12,000,000           |
| Unassigned funds (surplus)   | <u>58,744,089</u>    | 534,643                    | <u>58,209,446</u>    |
| Surplus as regards policyholders                                   | <u>\$70,744,089</u>  | \$534,643                  | <u>\$70,209,446</u>  |
| Total liabilities, capital and surplus                             | <u>\$183,096,083</u> | \$534,643                  | <u>\$182,561,440</u> |

**FFVA MUTUAL INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2004**

**Underwriting Income**

|   |                     |
|---|---------------------|
| Premiums earned                                 | \$78,282,001        |
| DEDUCTIONS:                                     |                     |
| Losses incurred                                 | 34,304,762          |
| Loss expenses incurred                          | 9,570,082           |
| Other underwriting expenses incurred            | 23,619,469          |
| Aggregate write-ins for underwriting deductions | 0                   |
| Total underwriting deductions                   | <u>\$67,494,313</u> |
| Net underwriting gain or (loss)                 | \$10,787,688        |

**Investment Income**

|  |                    |
|--|--------------------|
| Net investment income earned           | \$5,012,324        |
| Net realized capital gains or (losses) | 462,639            |
| Net investment gain or (loss)          | <u>\$5,474,963</u> |

**Other Income**

|  |                   |
|--|-------------------|
| Net gain or (loss) from agents' or premium balances charged off                            | (\$58,906)        |
| Finance and service charges not included in premiums                                       | 0                 |
| Aggregate write-ins for miscellaneous income   | 20,580            |
| Total other income   | <u>(\$38,326)</u> |
| Net income before dividends to policyholders and<br>before federal & foreign income taxes  | \$16,224,325      |
| Dividends to policyholders   | <u>2,755,944</u>  |
| Net Income, after dividends to policyholders, but<br>before federal & foreign income taxes | \$13,468,381      |
| Federal & foreign income taxes   | <u>4,374,339</u>  |
| Net Income   | \$9,094,042       |

**Capital and Surplus Account**

|  |              |
|--|--------------|
| Surplus as regards policyholders, December 31 prior year | \$60,237,353 |
|--|--------------|

**Gains and (Losses) in Surplus**

|  |                            |
|--|----------------------------|
| Net Income   | \$9,094,042                |
| Change in net unrealized capital gains or (losses)         | 413,991                    |
| Change in net deferred income tax                          | 312,744                    |
| Change in nonadmitted assets                               | 678,359                    |
| Change in provision for reinsurance                        | 7,600                      |
| Examination Adjustment                                     | (534,643)                  |
| Change in surplus as regards policyholders for the year    | <u>\$9,972,093</u>         |
| Surplus as regards policyholders, December 31 current year | <u><u>\$70,209,446</u></u> |

## COMMENTS ON FINANCIAL STATEMENTS

### Assets

**Real Estate occupied by the Company** \$5,950,000

The amount of real estate reported in the annual statement was \$6,484,643. This amount was reduced by \$534,643 to reflect the fair market value as stated in the appraisal report completed on January 13, 2004. The fair market value of the real estate reported in the annual statement should be \$5,950,000. Pursuant to Section 625.161(1), FS, the real property owned by an insurer which is reported in financial statements filed with the Office shall be valued at the lower of depreciated cost or fair market value.

### Liabilities

**Losses and Loss Adjustment Expenses** \$76,657,211

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, 2004, 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 actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

**FFVA MUTUAL INSURANCE COMPANY  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2004**

|   |              |
|---|--------------|
| Surplus as Regards Policyholders<br>per December 31, 2004, Annual Statement | \$70,744,089 |
|---|--------------|

|  | <u>PER<br/>COMPANY</u> | <u>PER<br/>EXAM</u> | <u>INCREASE<br/>(DECREASE)<br/>IN SURPLUS</u> |
|--|------------------------|---------------------|---|
| <b>ASSETS:</b>   |                        |                     |   |
| Real Estate  | \$6,484,643            | \$5,950,000         | (\$534,643)                                   |
| <b>LIABILITIES:</b>  |                        |                     |   |
| No adjustment necessary.   |                        |                     |   |
| Net Change in Surplus:   |                        |                     | (534,643)                                     |
| Surplus as Regards Policyholders<br>December 31, 2004, Per Examination |                        |                     | \$70,209,446                                  |

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

The Company has taken the necessary actions to comply with the comments made in the 2001 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, 2004.

### **Real Estate occupied by the Company**

The Company reported the value of the Real estate occupied as \$6,484,643 in the 2004 annual statement. The fair market value of the real estate, \$5,959,000, should be reported in the annual statement. **It is recommended that the Company report the value of the real estate occupied at the lower of depreciated cost or fair market value as required under Section 625.161 (1), FS in future annual and quarterly statements.**

## **SUBSEQUENT EVENTS**

On April 7, 2005, the Company sold 50% interest in the headquarters building located at 800 Trafalgar Court, Maitland, Florida to the Florida Fruit & Vegetable Association.



## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FFVA Mutual Insurance Company** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$70,209,446 which was in compliance with Section 624.408, FS.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Jerry Golden, Financial Examiner/Analyst II and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

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Samita Lamsal  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation

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Stephen Szypula, CFE  
Financial Administrator  
Florida Office of Insurance Regulation