

EXAMINATION REPORT

OF

FLORIDA CITRUS, BUSINESS AND INDUSTRIES FUND

ALACHUA, FLORIDA

AS OF

March 31, 2014

BY THE

FLORIDA OFFICE OF INSURANCE REGULATION

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May 31, 2016

David Altmaier
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 69O-138.005, Florida Administrative Code, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of March 31, 2014, of the financial condition and corporate affairs of

FLORIDA CITRUS, BUSINESS AND INDUSTRIES FUND
16407 NORTH WEST 174TH DRIVE, SUITE E
ALACHUA, FLORIDA 32615

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

SCOPE OF EXAMINATION

This examination covered the period of April 1, 2009 through March 31, 2014. The Fund was last examined by representatives of the Florida Office of Insurance Regulation (Office) covering the period of April 1, 2004 through March 31, 2009. This examination commenced with planning at the Office on February 10, 2016 to February 12, 2016. The fieldwork commenced on March 2, 2016 and concluded as of May 31, 2016.

The examination was single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook. The Handbook requires that the examination is planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Fund and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Fund were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles.

This examination report includes significant findings of fact, as mentioned in Section 624.319, Florida Statutes and general information about the insurer and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report, but separately communicated to other regulators and/or the Fund.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The findings noted during the examination period have been resolved by the Fund subsequent to the examination date. However, the findings or exceptions are discussed in detail in the body of the examination report.

Prior Examination Findings

The following is a summary of material adverse findings, significant non-compliance findings or material changes in the financial statements in the Office's prior examination report as of March 31, 2009, along with resulting action taken by the Fund in connection therewith.

Custodial Agreement

The custodial agreement with Salem Trust Company was not in compliance with Rule 69O-143.042 (2) (o), Florida Administrative Code. **Resolution:** On May 6, 2011, the Fund's custodial agreement with Salem Trust Company was amended to comply with Rule 69O-143.042 (2) (o), Florida Administrative Code.

FUND HISTORY

General

The Fund was established in accordance with Section 440.57, Florida Statutes, to operate as a group self-insurance fund and commenced business on April 1, 1977. The Fund was licensed pursuant to Section 624.4621, Florida Statutes, which superseded Section 440.57, Florida Statutes.

The Fund was authorized to transact workers compensation insurance coverage in Florida on April 1, 1977 and continued to be authorized as of March 31, 2014.

Dividends to Policyholders

In accordance with Rule 69O-190.065, Florida Administrative Code, the Fund declared and paid dividends to its policyholders in 2014, 2013, 2012, 2011, and 2010 in the amounts of \$3,248,256, \$1,962,858, \$2,258,051, \$1,010,497, and \$1,980,573, respectively.

Surplus Notes

The Fund did not have any surplus notes during the period of this examination.

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

The Fund had no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Board of Trustees (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 Fund's transactions and events, in compliance with Rule 69O-190.064 (19) and (21), Florida Administrative Code, including the authorization of investments as required by Rules 69O-190.064 (14) and 69O-190.071, Florida Administrative Code.

Conflict of Interest

The Fund 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 members meeting for the election of trustees was held in accordance with Rule 69O-190.068, Florida Administrative Code. Trustees serving as of March 31, 2014 are shown below.

Trustees

Name and Location	Principal Occupation
John Lewis Minton, Sr. Vero Beach, Florida	President/Owner, Minton Sun, Inc.
Daniel Robert Richey Vero Beach, Florida	President/CEO, Riverfront Packing, LLC
Richard James Kinney Zephyrhills, Florida	Retired
Bobby Raphael Smith Hendersonville, North Carolina	Retired
Gasper Kovach, Jr. Lakeland, Florida	Director, HESCO
Jeffrey Kahle Jennings Maitland, Florida	President, Jane Jennings & Sons

In accordance with the Fund's Declaration of Trust Agreement, the Board appointed the following senior officers:

Senior Officers

Name	Title
James Edward Emerson (a)	President/Administrator
Samuel Dwight Oswald	Secretary/Treasurer

(a) Retired on April 1, 2016, and was replaced by Debra Cerre-Ruedisili as Chief Executive Officer (CEO) on April 1, 2016. The position of CEO replaced the positions of President/Administrator.

The Fund's Board appointed several internal committees. Following were the principal internal board committees and their members as of March 31, 2014:

<p>Audit Committee</p> <p>Jeffrey Kahle Jennings¹ Daniel Robert Richey</p>	<p>Executive Committee</p> <p>Gasper Kovach, Jr. ¹ Bobby Raphael Smith Daniel Robert Richey</p>	<p>Investment Committee</p> <p>Richard James Kinney ¹ Jeffrey Kahle Jennings John Lewis Minton, Sr.</p>
<p>Administrative & Budget Committee</p> <p>John Lewis Minton, Sr.¹ Richard James Kinney Gaspar Kovach, Jr.</p>	<p>Marketing, Membership & Agent Relations Committee</p> <p>Daniel Robert Richey¹ Bobby Raphael Smith Richard James Kinney</p>	<p>Strategic Planning Committee</p> <p>Bobby Raphael Smith ¹ John Lewis Minton, Sr. Jeffrey Kahle Jennings</p>
<p>Compensation & Benefits Committee</p> <p>Gaspar Kovach, Jr. ¹ John Lewis Minton, Sr.</p>		

¹ Chairman

Affiliated Companies

The Fund was not a member of an insurance holding company system as defined by Rule 69O-143.046, Florida Administrative Code.

TERRITORY AND PLAN OF OPERATIONS

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

Treatment of Policyholders

The Fund established procedures for handling written complaints in accordance with Section 626.9541 (1) (j), Florida Statutes. The Fund's third party administrator maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541 (1) (i) (3) (a), Florida Statutes.

REINSURANCE

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Fund did not assume any reinsurance during the period of this examination.

Ceded

The Fund purchased 2 layers of reinsurance coverage providing statutory limits (infinite) above a \$1,000,000 retention. The first layer provided coverage of \$2,000,000 in excess of \$1,000,000. This layer had 2 free reinstatements providing an aggregate limit of \$6,000,000 within the layer. The second reinsurance cover was placed in the excess insurance market and provided statutory limits in excess of \$3,000,000. The statutory limit provided followed the statutory requirements in the State of Florida which is infinite (no cap). This layer also had no aggregate limitation.

ACCOUNTS AND RECORDS

The Fund maintained its principal administrative office in Alachua, Florida and its accounts and records were located in Orlando, Florida.

The Fund and non-affiliates had the following agreements:

Custodial Agreement

The Fund maintained a custodial agreement with Salem Trust Company executed on June 23, 2005. The agreement was not in compliance with the following subsections of Rule 69O-143.042 (2), Florida Administrative Code:

- (g): "The custodian and its agents shall be required to send to the insurance company all reports which they receive from a clearing corporation their respective systems of

internal accounting control and reports prepared by outside auditors on the custodians or its agent's internal accounting control of custodied securities that the insurance company may reasonably request.”

- (i): “The custodian shall provide, upon written request from the Office or from an appropriate officer of the insurance company, the appropriate affidavits, on Forms OIR-A1-341 (A), (B), or (C) (rev. 12-07), or substantially similar forms with respect to custodied securities. Forms OIRA1- 341 (A), (B) and (C) (rev. 12-07), entitled "Custodian Affidavit," are hereby incorporated by reference. These forms shall become effective on the effective date of these rules and may be obtained from the Office of Insurance Regulation, Larson Building Tallahassee, Florida.”

- (j): “A national bank, state bank or trust company shall secure and maintain insurance protection in an adequate amount covering the bank's or trust company's duties and activities as custodian for the insurer's assets, and shall state in the custody agreement that protection is in compliance with the requirements of the custodian's banking regulator. A broker/dealer shall secure and maintain insurance protection for each insurance company's custodied securities in excess of that provided by the Securities Investor Protection Corporation in an amount equal to or greater than the market value of each respective insurance company's custodied securities.”

- (n): “In the event that the custodian gains entry in a clearing corporation through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian, provided, however, that, if the agent shall be subject to regulation under the

laws of a jurisdiction which is different from the jurisdiction the laws of which regulate the custodian, the Director may accept a standard of liability applicable to the agent which is different from the standard of liability applicable to the custodian.” **Subsequent Event:** The custodial agreement with Salem Trust Company was revised on June 22, 2016, and is in compliance with all of the provisions of Rule 69O-143.042, Florida Administrative Code.

Investment Advisory Agreement

The Fund entered into an investment advisory agreement with BPS Associates, Inc. (BPS), effective July 1, 2000. BPS provided advice and services with respect to the Fund’s investment portfolio. Fund management and trustees approved and authorized BPS to execute investment transactions.

Managing General Agent Agreement

The Fund utilized a non-affiliated Managing General Agent (MGA), United Association Services, Inc. The MGA agreement was effective as of April 1, 2010 and replaced the prior agreement, which had an effective date of April 1, 2005. The MGA provided various services, including: marketing, underwriting, policy quoting, policy issuance and policy services, premium billing and collection, payroll and audit review, audit review billing, and policy data transmission to the State of Florida.

Third Party Administrator (TPA) Service Company Agreement

The Fund utilized a third party administrator, USIS, Inc., for claims management and processing. The amended service company contract was effective as of April 1, 2014 and replaced the prior service contract, which had an effective date of July 1, 2000. Services under the agreement included: assisting the Fund in securing excess and/or reinsurance coverage, errors and omissions, fidelity and surety bond coverages, comprehensive claim and claims administration services, loss control and risk assessment services, and online access to company systems.

Reinsurance Intermediary Agreement

The Fund maintained a reinsurance intermediary agreement with Axiom Re, LP, which became effective as of April 1, 2013. Axiom Re, LP provided reinsurance brokerage and consulting services to the Fund.

Independent Auditor Agreement

An independent CPA, Shores, Tagman & Company, P.A., audited the Fund's statutory basis financial statements annually for the years 2010, 2011, 2012, 2013, and 2014, in accordance with Rule 69O-190.064 (10), Florida Administrative Code. Supporting work papers were prepared by the CPA as required by Rule 69O-190.064, Florida Administrative Code.

INFORMATION TECHNOLOGY REPORT

Francois Houde, CPA, CA, CFE, CISA, AES, of Carr, Riggs & Ingram, LLC, performed the review and evaluation of the information technology and computer systems of the Fund. Results of the evaluation were noted in the Information Technology Report provided to the Fund.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Rule 69O-190.063, Florida Administrative Code.

State	Description	Par Value	Market Value
FL	FFCB, 4.55%, 6/8/2020	\$ 1,050,000	\$ 1,182,804
FL	FFCB, 3.48%, 3/12/2031	2,000,000	1,867,040
FL	FHLB, 4.50%, 9/13/2019	1,000,000	1,133,340
FL	FHLB, 3.00%, 11/15/2027	2,000,000	1,798,180
FL	US Treasury Note, 1.63%, 8/15/2022	1,750,000	1,625,593
FL	FHLB, 5.63%, 6/11/2021	2,000,000	2,389,600
FL	FFCB, 3.04%, 4/17/2028	<u>1,000,000</u>	<u>896,090</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 10,800,000</u>	<u>\$ 10,892,647</u>

FINANCIAL STATEMENTS

The examination does not attest to the fair presentation of the financial statements included herein. If an adjustment is identified during the course of the examination, the impact of such adjustment will be documented separately following the Fund's financial statements. Financial statements, as reported and filed by the Fund with the Florida Office of Insurance Regulation, are reflected on the following pages:

Florida Citrus, Business and Industries Fund

Assets

March 31, 2014

	Per Fund	Examination Adjustments	Per Examination
Bonds	\$70,554,174		\$70,554,174
Cash and short-term investments	5,633,826		5,633,826
Investment income due and accrued	663,941		663,941
Agents' balances:			
Uncollected premiums	2,167,209		2,167,209
Deferred premiums	3,172,498		3,172,498
Reinsurance recoverable	10,807		10,807
Current federal income tax recoverable	1,249,165		1,249,165
Net deferred tax asset	1,142,019		1,142,019
Aggregate write-ins for other than invested assets	2,193,050		2,193,050
Totals	<u>\$86,786,689</u>		<u>\$86,786,689</u>

Florida Citrus, Business and Industries Fund
Liabilities, Surplus and Other Funds
March 31, 2014

	Per Fund	Examination Adjustments	Per Examination
Losses	\$40,730,083		\$40,730,083
Loss adjustment expenses	6,138,985		6,138,985
Commissions payable	1,302,115		1,302,115
Other expenses	1,415,520		1,415,520
Taxes, licenses and fees	432,363		432,363
Unearned premiums	5,173,508		5,173,508
Advance premium	1,393,623		1,393,623
Dividends declared: policyholders	2,123,183		2,123,183
Ceded reinsurance premiums payable	2,680,475		2,680,475
Aggregate write-ins for liabilities	2,803,942		2,803,942
Total Liabilities	\$64,193,797		\$64,193,797
Aggregate write-ins for other than special surplus funds	\$2,057,076		\$2,057,076
Unassigned funds (surplus)	20,535,816		20,535,816
Surplus as regards policyholders	\$22,592,892		\$22,592,892
Total liabilities, surplus and other funds	\$86,786,689		\$86,786,689

Florida Citrus, Business and Industries Fund
Statement of Income and Capital and Surplus Account
March 31, 2014

Underwriting Income

Premiums earned		\$54,376,459
	Deductions:	
Losses incurred		\$34,313,051
Loss adjustment expenses incurred		5,653,270
Other underwriting expenses incurred		17,540,486
Total underwriting deductions		\$57,506,807
Net underwriting gain (loss)		(\$3,130,348)

Investment Income

Net investment income earned		\$2,353,075
Net realized capital gains or (losses)		(92,162)
Net investment gain (loss)		\$2,260,913

Other Income

Net gain (loss) from agents' or premium balances charged off		(\$222,797)
Aggregate write-ins for miscellaneous income		1,770,205
Total other income		\$1,547,408
Net income before dividends to policyholders and before federal & foreign income taxes		\$677,973
Dividends to policyholders		4,159,082
Net income (loss), after dividends to policyholders, but before federal & foreign income taxes		(\$3,481,109)
Federal & foreign income taxes		(\$220,963)
Net income (loss)		(\$3,260,146)

Capital and Surplus Account

Surplus as regards policyholders, March 31 prior year		\$24,198,068
Net income (loss)		(3,260,146)
Change in net deferred income tax		(130,237)
Change in nonadmitted assets		467,064
Aggregate write-ins for gains and losses in surplus		1,318,143
Examination Adjustment		0
Change in surplus as regards policyholders for the year		(\$1,605,176)
Surplus as regards policyholders, March 31 current year		\$22,592,892

Florida Citrus, Business and Industries Fund
Comparative Analysis of Changes in Surplus
March 31, 2014

Surplus at March 31, 2014, per Annual Financial Statement		\$ 24,198,068
	<u>Increase</u>	<u>Decrease</u>
Net income (loss)	\$	(3,260,146)
Change in net deferred income tax	\$	(130,237)
Change in nonadmitted assets	\$ 467,064	
Aggregate write-ins for gains and losses in surplus	\$ 1,318,143	
Net increase (or decrease)		\$ (1,605,176)
Surplus at March 31, 2014, per Examination		<u>\$ 22,592,892</u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

An actuarial firm, Casualty Actuarial Consultants, Inc., appointed by the Board, rendered an actuarial analysis that the amounts carried in the balance sheet as of March 31, 2014, made a reasonable provision for all unpaid loss and loss expense obligations of the Fund under the terms of its policies and agreements.

The Office's consulting actuary, Chris Burkhalter, FCAS, MAAA of Bickerstaff, Whatley, Ryan & Burkhalter, reviewed the loss and loss adjustment expense work papers provided by the Fund and he was in concurrence with this analysis.

Capital and Surplus

The amount of capital and surplus reported by the Fund of \$22,592,892 exceeded the minimum of \$5,624,014 required by Section 624.408, Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FLORIDA CITRUS, BUSINESS AND INDUSTRIES FUND** as of March 31, 2014, consistent with the insurance laws of the State of Florida.

Per examination findings, the Fund's surplus as regards policyholders was \$22,592,892 which exceeded the minimum of \$5,624,014 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Dale Miller, CFE, CPA, Examiner-in-Charge, and Sharon Stuber, CPA, and Andrew Mole, CPA, Participating Examiners, of Carr, Riggs & Ingram, LLC, also participated in the examination. Members of the Office who participated in the examination include Lonnie Salimone CFE (Fraud), Financial Examiner/Analyst Supervisor, and Connie Hare AFE, CFE (Fraud), Financial Examiner/Analyst Supervisor, Examination Managers, and Renata Denis, Financial Examiner/Analyst II, and Casey Hengstebeck, Reinsurance Financial Specialist, Participating Examiners. Additionally, Chris Burkhalter, FCAS, MAAA of Bickerstaff, Whatley, Ryan & Burkhalter, and Francois Houde, CPA, CA, CFE, CISA, AES, IT Specialist of Carr, Riggs & Ingram, LLC, are recognized for participation in the examination.

Respectfully submitted,

Lamar Downs, CPA
Deputy Chief Examiner
Florida Office of Insurance Regulation