



**EXAMINATION REPORT
OF**

**MACHINERY INSURANCE, INC., AN
ASSESSABLE MUTUAL INSURER**

NAIC Company Code: 33502

**Jacksonville, Florida
as of
December 31, 2018**

**BY THE
FLORIDA
OFFICE OF INSURANCE REGULATION**

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June 2, 2020

David Altmaier
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Commissioner:

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 December 31, 2018, of the financial condition and corporate affairs of

Machinery Insurance, Inc., An Assessable Mutual Insurer

219 Newnan Street
Jacksonville, Florida 32202

hereinafter referred to as "the Company." Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2014 through December 31, 2018. The fieldwork commenced with planning at the Florida Office of Insurance Regulation (“the Office”) on January 6, 2020 and concluded as of June 2, 2020. The Company’s last full scope exam by representatives of the Office covered the period of January 1, 2009 through December 31, 2013.

The examination was a single state examination conducted in accordance with the NAIC Financial Condition Examiners Handbook (“Handbook”). The Handbook requires that the examination be planned and performed to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company, 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 Company 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 the NAIC Statements of Statutory Accounting Principles (SSAP).

This examination report includes information obtained from the examination of the records, accounts, files and documents of or relative to the Company and other information as permitted by Section 624.319, Florida Statutes. There may be other items identified during the examination that, due to their nature (for example, subjective conclusions or proprietary information), are not included within the examination report but separately communicated to other regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS

Current Examination Findings

The following is a summary of significant findings of fact; material adverse findings, significant non-compliance findings (such as non-compliance with state law(s), SSAPs, annual financial statement instructions, etc.) or material changes in the financial statements.

Management and Control

The Company had changes in officers and directors that occurred during the examination period, yet notice was not provided to the Office in a timely manner. As such, the Company was not in compliance with Section 628.261, Florida Statutes.

Accounts and Records

No annual Member meetings were held during the five-year period under examination as required by Section 628.231, Florida Statutes and Article II, Section 4 of the Company's bylaws.

Previous Examination Findings

There were no findings, exceptions or corrective action to be taken by the Company for the examination as of December 31, 2013.

COMPANY HISTORY

General

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

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

Dividends

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

Capital Stock and Capital Contributions

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

Surplus Notes

On November 11, 2015, the Company received approval from the Office to repay the \$163,500 in surplus notes held by its Members.

Acquisitions, Mergers, Disposals, Dissolutions

On December 11, 2015, the Company received approval from the Office for the withdrawal of one of its members, Ring Power Corporation.

MANAGEMENT AND CONTROL

Corporate Governance

Board of Directors (“the Board”) serving as of December 31, 2018, are shown below:

Directors		
Name	City, State	Principal Occupation, Company Name
Stephen Thomas Cumella ⁽¹⁾	Jacksonville, Florida	Chief Financial Officer & Secretary Mobro Marine, Inc.
John Windell Kirkland	Jacksonville, Florida	President A.J. Johns, Inc.
Benjamin Knox Powell	Jacksonville, Florida	Vice President Cecil W. Powell & Company
Fitzhugh Knox Powell, Jr.	Ponta Vedra Beach, Florida	President Cecil W. Powell & Company
Seth Louis Rothstein	Jacksonville, Florida	Attorney Adams, Rothstein & Siegel, P.A.

¹ Chairman

Senior Officers elected and serving the Company as of December 31, 2018:

Senior Officers		
Name	City, State	Title
Fitzhugh Knox Powell, Jr.	Ponta Vedra Beach, Florida	President & Treasurer
Stephen Thomas Cumella	Jacksonville, Florida	Secretary
Benjamin Knox Powell	Jacksonville, Florida	Vice President

The following committees were designated by the Board as of December 31, 2018, with the first person listed for each committee serving as the chairman:

Audit Committee		
Name	City, State	Title, Company Name
Stephen Thomas Cumella	Jacksonville, Florida	Chief Financial Officer & Secretary Mobro Marine, Inc.
Benjamin Knox Powell	Jacksonville, Florida	Vice President Cecil W. Powell & Company
Fitzhugh Knox Powell, Jr.	Ponta Vedra Beach, Florida	President Cecil W. Powell & Company

Investment Committee		
Name	City, State	Title, Company Name
Stephen Thomas Cumella	Jacksonville, Florida	Chief Financial Officer & Secretary Mobro Marine, Inc.
Benjamin Knox Powell	Jacksonville, Florida	Executive Vice President Cecil W. Powell & Company
Fitzhugh Knox Powell, Jr.	Ponta Vedra Beach, Florida	President Cecil W. Powell & Company

The Company had changes in officers and directors that occurred during the examination period. Notice of the changes was not provided to the Office on a timely basis. As such, the Company was not in compliance with Section 628.261, Florida Statutes.

Holding Company System

Part VI of Chapter 628 which contains statues for the regulation of holding companies is not applicable to assessable mutual insurers.

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

Agency Agreement

The Company entered into an agency agreement with Cecil W. Powell & Company effective March 16, 2009, to solicit and submit applications for the lines of business the Company was authorized to write: surety bonds, inland marine and ocean marine. In accordance with the terms of the agreement, the agent collected premiums and retained commissions as full compensation for business placed with the Company. The agent rendered the premiums due on business placed by the agent within ten days of the end of each month. The Company's gross written premiums for 2018 were \$326,658.

Administrative Agreement

The Company entered into an administrative agreement with Cecil W. Powell & Company effective March 3, 2014. Under the terms of the agreement, Cecil W. Powell and Company will provide an office, accounting services, serve as a liaison with the Office, Internal Revenue Service, and the NAIC, and supervise and oversee the day to day management of the Company. The agreement was amended July 1, 2016 to increase the quarterly fee from \$7,750 to \$8,750

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with Branch Banking and Trust Company executed on August 6, 2014. The agreement was approved by the Office on August 7, 2014. The agreement was amended October 19, 2016 to allow for the disclosure required by the Securities and Exchange Commission Rule No. 14b-2(b).

Independent Auditor Agreement

An independent CPA, Harbeson, Fletcher & Bateh, LLP audited the Company's statutory basis financial statements for the year 2014, and Carr, Riggs & Ingram audited the statutory basis financial statements for the years 2015, 2016, 2017, and 2018.

Corporate Records Review

The recorded minutes of the Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board documented its meetings and approval of Company transactions and events.

No annual Member meetings were held during the period under examination as required by Section 628.231, Florida Statutes and Article II, Section 4 of the Company's bylaws.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact insurance only in the State of Florida during the period under examination.

The Company was authorized to transact insurance in Florida on October 1, 1992, and is currently authorized for the following coverages as of December 31, 2018:

Ocean Marine

Inland Marine

Surety

REINSURANCE

Reinsurance Assumed

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

Reinsurance Ceded

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

INFORMATION TECHNOLOGY REPORT

Joseph Detrick, CPA, CFE, CISA, AES, of Jennan Enterprises, LLC, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

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

State	Description		Par Value	Market Value
FL	Cash Deposit	1.91%	\$250,000	\$250,000
Total FL Deposits			\$250,000	\$250,000
Total Other Deposits			\$0	\$0
Total All Deposits			\$250,000	\$250,000

FINANCIAL STATEMENTS

The following includes the Company's statutory Statement of Assets, Liabilities, Surplus and Other Funds; the statutory Statement of Operations; the statutory Statement of Cash Flow; and the statutory Analysis of Changes in Surplus for the year ended December 31, 2018. The financial statements are based on the statutory financial statements filed by the Company with the Florida Office of Insurance Regulation and present the financial condition of the Company for the period ending December 31, 2018. (Note: Failure of the columns to add to the totals reflected in this Report is due to rounding.)

Machinery Insurance, Inc., An Assessable Mutual Insurer

Assets

December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Bonds	\$1,767,884		\$1,767,884
Stocks			
Preferred	135,891		135,891
Common	371,640		371,640
Cash, cash equivalents and short-term investments	1,034,855		1,034,855
Interest income due and accrued	4,000		4,000
Agents' balances			
Uncollected premium	14,115		14,115
Aggregate write-in for other than invested assets	206,842		206,842
Totals	\$3,535,227	\$0	\$3,535,227

Liabilities, Surplus and Other Funds

December 31, 2018

	Per Company	Examination Adjustments	Per Examination
Losses	\$24,600		\$24,600
Taxes, licenses and fees	1,314		1,314
Unearned premiums	98,331		98,331
Amounts withheld	440,904		440,904
Total liabilities	\$565,149		\$565,149
Aggregate write-in for other than special surplus funds: Future Investment Income	206,842		206,842
Unassigned funds (surplus)	2,763,236		2,763,236
Surplus as regards policyholders	\$2,970,078	\$0	\$2,970,078
Total liabilities, surplus and other funds	\$3,535,227	\$0	\$3,535,227

Machinery Insurance, Inc., An Assessable Mutual Insurer
Statement of Income

December 31, 2018

Underwriting Income	
Premiums earned	\$350,738
Deductions:	
Losses Incurred	(\$2,200)
Loss expenses incurred	0
Other underwriting expenses incurred	221,274
Aggregate write-ins for underwriting deductions	0
Total Underwriting deductions	\$219,074
Net underwriting gain (loss)	\$131,664
Investment Income	
Net investment income earned	\$51,353
Net realized capital gains or (losses)	88,618
Net investment gain or (loss)	\$139,971
Other Income	
Net income before dividends to policyholders and before federal & foreign income taxes	\$271,635
Dividends to policyholders	0
Net income, after dividends to policyholders, but before federal & foreign income taxes	\$271,635
Federal & foreign income taxes	0
Net Income	\$271,635

Capital and Surplus Account	
Surplus as regards policyholders December 31 prior year	\$2,839,998
Net Income	\$271,635
Change in net unrealized capital gains or losses	(203,123)
Aggregate write-ins for gains in surplus	61,568
Change in surplus as regards policyholders for the year	\$130,080
Surplus as regards policyholders, December 31, current year	\$2,970,078

Machinery Insurance, Inc., An Assessable Mutual Insurer
Reconciliation of Capital and Surplus
December 31, 2018

No adjustments were made to surplus as regards policyholders as a result of this examination.

Capital/Surplus Change during Examination Period			
Surplus at December 31, 2013, per Examination			\$2,411,664
	Increase	Decrease	
Net Income	\$1,023,656		
Change in net unrealized capital gain		\$58,256	
Change in surplus notes		\$163,500	(\$411,765)
Aggregate write-ins:			
Change in future investment income	\$154,322		
Payment to withdrawing member		\$397,808	
Net increase (or decrease) in surplus as regards policyholders			\$558,414
Surplus at December 31, 20018 per examination			\$2,970,078

COMMENTS ON FINANCIAL STATEMENT ITEMS

Liabilities

Losses and Loss Adjustment Expenses

The Company was exempt from filing a Statement of Actuarial Opinion in conjunction with its financial statement filed with the Office as of December 31, 2018.

The Office consulting actuary, Gustave A Krause, FCAS, MAAA, FCA, of Actuaries, Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and concluded the amounts carried in the balance sheet as of December 31, 2018, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

Capital and Surplus

The amount of capital and surplus reported by the Company of \$2,970,078, exceeded the minimum of \$250,000 required by Section 628.161, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Management and Control

The Company had changes in officers and directors that occurred during the examination period, yet notice was not provided to the Office in a timely manner. As such, the Company was not in compliance with Section 628.261, Florida Statutes.

We recommend the Company notify the Office of all changes in officers and directors in accordance with Section 628.261, Florida Statutes.

Accounts and Records

No annual Member meetings were held during the period under examination in accordance with Section 628.231, Florida Statutes and Article II, Section 4 of the Company's bylaws.

We recommend the annual Member meetings be held in accordance with Section 628.231, Florida Statutes and Article II, Section 4 of the Company's bylaws.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Machinery Insurance, Inc., An Assessable Mutual Insurer** as of December 31, 2018, consistent with the insurance laws of the State of Florida.

In addition to the undersigned, the following also participated in the examination:

Marie Stuhlmuller	Examination Manager	Office
Thomas L. Mayberry, CPA, CFE	Participating Examiner	EWM Group, PC
Paul Sliwinski, CPA, ARe	Participating Examiner	EWM Group, PC
Chris Davis, CPA	Participating Examiner	EWM Group, PC
Jenny Jeffers, AES, CISA, CFE (Fraud)	IT Specialist	Jennan Enterprises, LLC
Joseph Detrick, AES, CISA, CPA, CFE	IT Specialist	Jennan Enterprises, LLC
Gustave A. Krause, FCAS, MAAA, FCA	Actuary	Actuaries, Inc.
Anthony J. Pipia, FCAS, MAAA	Actuary	Actuaries, Inc.

Respectfully submitted,



Philip D. Englehart, CPA, AIAF, CFE
Examiner-in-Charge
EWM Group, PC
Representing the Florida Office of Insurance Regulation



Daniel W. Applegarth, CFE, CPA, PIR
Chief Financial Examiner
Property & Casualty Oversight
Florida Office of Insurance Regulation