

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

AS OF
DECEMBER 31, 2008

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	3
HISTORY	3
GENERAL	3
CAPITAL STOCK.....	4
PROFITABILITY OF COMPANY	4
DIVIDENDS TO STOCKHOLDERS	5
MANAGEMENT.....	5
CONFLICT OF INTEREST PROCEDURE.....	6
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	7
SURPLUS DEBENTURES	7
AFFILIATED COMPANIES	8
AGENCY AGREEMENT.....	8
ADMINISTRATIVE AGREEMENT.....	8
FIDELITY BOND.....	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
STATUTORY DEPOSITS.....	9
INSURANCE PRODUCTS.....	10
TERRITORY	10
TREATMENT OF POLICYHOLDERS.....	10
REINSURANCE	10
ASSUMED.....	10
CEDED	10
ACCOUNTS AND RECORDS.....	11
CUSTODIAL AGREEMENT	11
INDEPENDENT AUDITOR AGREEMENT.....	12
FINANCIAL STATEMENTS PER EXAMINATION.....	12
ASSETS	13
LIABILITIES, SURPLUS AND OTHER FUNDS	14
STATEMENT OF INCOME.....	15
COMMENTS ON FINANCIAL STATEMENTS.....	16
LIABILITIES	16

CAPITAL AND SURPLUS	16
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	17
SUMMARY OF FINDINGS	18
CONCLUSION	19

Tallahassee, Florida

February 12, 2010

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

Dear Sir:

Pursuant to your instructions, in compliance with Chapter 628, Florida Statutes, Section 624.316, Florida Statutes, 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, 2008, 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, 2004, through December 31, 2008. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced with planning at the Office on November 30, 2009, to December 4, 2009. The fieldwork commenced on December 14, 2009, and concluded as of February 12, 2010.

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, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

The Financial Condition Examiners Handbook requires that the examination be planned and performed to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation and management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

Risk-focused examinations consist of a seven-phase process that can be used to identify and assess risk, assess the adequacy and effectiveness of strategies/controls used to mitigate risk and assist in determining the extent and nature of procedures and testing to be utilized in order to

complete the review of that activity. The process should generally include a determination of the quality and reliability of the corporate governance structure and risk management programs. In addition, it can be used for verification of specific portions of the financial statements or other limited-scope reviews, increased focus on, and can result in increased substantive testing of, accounts identified as being at high risk of misstatement. Conversely, the risk assessment process should result in decreased focus on, and fewer substantive tests on the accounts identified as being at low risk of misstatement. The risk-focused surveillance process can be used to assist examiners in targeting areas of high-risk.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company as of December 31, 2008. Transactions subsequent to year-end 2008 were reviewed where relevant and deemed significant to the Company's financial condition.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

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 reports, 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) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination was confined to financial statements and comments on matters that involved departures from laws, regulations or rules, or which were 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, 2003, along with resulting action taken by the Company.

Management

The Company did not have a formal audit committee as required by Section 624.424 (8) (c) Florida Statutes. **Resolution:** The Company established an audit committee pursuant to Section 624.424(8) (c), Florida Statutes.

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. The Company was licensed to sell insurance only within the State of Florida, in accordance with Section 628.6011, Florida Statutes.

The Company was not party to any Consent Order(s) with the Office as of December 31, 2008.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2008:

Surety
 Inland Marine
 Ocean Marine

The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Capital Stock

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

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the field annual statements.

	2008	2007	2006	2005	2004
Premiums Earned	323,918	376,568	292,248	206,656	241,155
Net Underwriting Gain/(Loss)	190,146	112,926	86,708	94,572	117,007
Net Income	294,683	241,925	151,532	131,822	144,383
Total Assets	2,143,139	2,217,108	2,011,814	1,620,621	1,507,051
Total Liabilities	234,977	352,620	378,365	208,697	283,198
Surplus As Regards Policyholders	1,908,162	1,864,488	1,633,449	1,411,924	1,223,853

Dividends to Stockholders

The Company did not declare or pay dividends to its members during the period covered by this examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2008, were:

Directors

Name and Location	Principal Occupation
Fitzhugh K. Powell Sr. ¹ Jacksonville, Florida	President/Treasurer Machinery Insurance, Inc.,
Ronald T. Roy Jacksonville, Florida	Secretary Machinery Insurance, Inc.,
Rosemary G. Klemmt Jacksonville, Florida	Asst. Secretary/Treasurer Machinery Insurance, Inc.,
Randal L. Ringhaver St. Augustine, Florida	President Ring Power Corporation
Stephen C. Cumella Jacksonville, Florida	Controller Morbro Marine, Inc.
Fitzhugh K. Powell Jr. Jacksonville, Florida	President Cecil Powell & Company
Timothy J. Geddes (a) St. Augustine, Florida	Vice President Ring Power Corporation

¹ Chairman

(a) Resigned as of April 1, 2009

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

Senior Officers

Name	Title
Fitzhugh K. Powell Sr.	President/Treasurer
Ronald T. Roy	Secretary
Randal L. Ringhaver	Vice President
Rosemary G. Klemmt	Asst. Secretary/Asst. Treasurer

The Company's Board appointed internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2008:

Audit Committee

Fitzhugh K. Powell, Sr.¹
Randal L. Ringhaver
Ronald T. Roy
Stephen C. Cumella

¹ Chairman

Investment Committee

Fitzhugh K. Powell, Sr.¹
Randal L. Ringhaver
Ronald T. Roy
Stephen C. Cumella

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the Board of Directors, and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section

607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

There were no mergers, disposals, dissolutions, purchase, or sales through reinsurance as of December 31, 2008.

Surplus Debentures

The Surplus Notes of \$163,500 represented the contribution to surplus by the following members of the Company:

Ring Power Corporation	\$ 83,025
Morbro Marine, Inc.	40,100
Cecil W. Powell & Co.	40,375
Total	\$163,500

On September 10, 2004, the Company executed a Subordinated Surplus Debenture with Cecil W. Powell & Company for \$40,375 to increase its surplus. This surplus note was approved by the Office.

On June 16, 2005, the Company executed a Subordinated Surplus Debenture with Ring Power Corporation for \$83,025 to increase its surplus. This surplus note was approved by the Office.

On October 1, 1992, the Company executed a Subordinated Surplus Debenture with Mobro Marine, Inc for \$40,100 to increase its surplus. This surplus note was approved by the Office.

The Company's subordinated, non-interest bearing debentures were to be repaid only with the prior approval of the Office.

AFFILIATED COMPANIES

The Company was not a member of an insurance holding company system as defined by Rule 69O-143.045 (30), Florida Administrative Code.

The Company had the following agreements:

Agency Agreement

The Company had an agency agreement with Cecil W. Powell & Company, an independent agency, in which it was agreed that the agent solicited and submitted applications for surety bonds on behalf of the Company. The agent collected premiums and retained commission as full compensation on business placed with the Company by or through the agent at a rate of thirty-five (35) percent. The maximum annual premium volume written by the Agent was limited to \$450,000.

Administrative Agreement

The Company had an administrative agreement with Cecil W. Powell & Company, which provided for all day-to-day activities including accounting, data processing and administrative services.

The accounting services included, but were not limited to, preparation and submission of both the Annual and Quarterly statements of financial condition to the Office and to the NAIC; the

preparation and submissions of the state tax returns; calculation, establishment and maintenance of an “unearned premium reserve”; maintenance of a listing of policies by total premiums written, by business originated by each member, and by policy expiration dates; providing accounting data to the CPA; and providing bookkeeping for all payable and receivables of the Company. A quarterly fee was agreed upon for these services.

FIDELITY BOND

The Company maintained fidelity bond coverage up to \$250,000 with a single deductible of \$10,000, which covered the suggested minimum recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Cash	<u>\$ 250,000</u>	<u>\$ 250,000</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 250,000</u>	<u>\$ 250,000</u>

INSURANCE PRODUCTS

The Company wrote surety business for its policyholders (members) who promised to perform certain specified obligation to third parties. The Company, by writing these bonds, obligated itself to indemnify the third party should policyholders fail to perform as promised.

Territory

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

Treatment of Policyholders

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), Florida Statutes.

The Company maintained a claims manual that included detailed procedures for handling each type of claim in accordance with Section 626.9541(1) (i) 3a, Florida Statutes.

REINSURANCE

Assumed

The Company did not assume risk during the period covered by the examination.

Ceded

The Company did not cede risk during the period covered by the examination.

ACCOUNTS AND RECORDS

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

An independent CPA audited the Company's statutory basis financial statements annually for the years 2004, 2005, 2006, 2007 and 2008, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

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 and non-affiliates had the following agreements:

Custodial Agreement

The Company's custodian agreement executed with SunTrust Bank effective, November 8, 2001, did not meet all of the requirements of Rule 69O-143.042, Florida Administrative Code.

Subsequent event: The Company amended its custodian agreement with SunTrust Bank on February 11, 2010. The amended agreement met all of the requirements of Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Harbeson, Beckerleg & Fletcher, Certified Public Accountants, to audit the balance sheet and related statements. The firm also prepared and submitted quarterly statements and annual statement to the Office. The independent CPA also prepared exempt income tax (form 990) and Florida Department of Revenue premium taxes & fees.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2008, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

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

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Bonds	\$259,574		\$259,574
Stocks:			
Common	165,544		165,544
Cash:	1,608,774		1,608,774
Interest and dividend income due & accrued	30,286		30,286
Agents' Balances:			
Uncollected premium	22,911		22,911
Aggregate write-in for other than invested assets	56,050		56,050
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Totals	\$2,143,139	\$0	\$2,143,139
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**MACHINERY INSURANCE COMPANY, INC.
AN ASSESSABLE MUTUAL INSURER
Liabilities, Surplus and Other Funds**

DECEMBER 31, 2008

	Per Company	Examination Adjustments	Per Examination
Losses	\$96,000		\$96,000
Taxes, licenses and fees	1,085		1,085
Borrowed money	10,000		10,000
Unearned premium	127,413		127,413
Amounts withheld or retained by compay for account	479		479
Total Liabilities	\$234,977	\$0	\$234,977
Aggregate Write-ins for other than special surplus	\$56,050		\$56,050
Surplus notes	163,500		163,500
Unassigned funds (surplus)	1,688,612		1,688,612
Surplus as regards policyholders	\$1,908,162		\$1,908,162
Total liabilities, surplus and other funds	\$2,143,139	\$0	\$2,143,139

MACHINERY INSURANCE COMPANY, INC.
AN ASSESSABLE MUTUAL INSURER
Statement of Income
DECEMBER 31, 2008

Underwriting Income

Premiums earned		\$323,918
	Deductions:	
Losses incurred		(25,900)
Loss expenses incurred		0
Other underwriting expenses incurred		159,672
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		\$133,772
Net underwriting gain or (loss)		\$190,146

Investment Income

Net investment income earned		\$107,084
Net realized capital gains or (losses)		(730)
Net investment gain or (loss)		\$106,354

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		0
Total other income		\$0

Net income before dividends to policyholders and before federal & foreign income taxes		\$296,500
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$296,500
Federal & foreign income taxes		1,817
Net Income		\$294,683

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$1,864,488
Net Income		\$294,683
Net unrealized capital gains or losses		(151,505)
Change in non-admitted assets		0
Change in provision for reinsurance		0
Change in excess statutory over statement reserves		0
Surplus adjustments: Paid in		0
Aggregate write-ins for gains and losses in surplus		(99,504)
Examination Adjustment		0
Change in surplus as regards policyholders for the year		\$43,674
Surplus as regards policyholders, December 31 current year		\$1,908,162

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$96,000

The Company was exempt from filing a statement of actuarial opinion.

The Office contracted actuary reviewed work papers provided by the Company and recommended no changes to the reserves established by the Company as of December 31, 2008.

Capital and Surplus

The amount reported by the Company of \$1,908,162, exceeded the minimum of \$250,000 required by Section 624.408, Florida Statutes.

A comparative analysis of changes in surplus is shown below.

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

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

DECEMBER 31, 2008

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 December 31, 2008, per Annual Statement	\$1,908,162
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustments			
LIABILITIES:			
No adjustments			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2008, Per Examination			<u>\$1,908,162</u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Company took the necessary actions to comply with the recommendations made in the 2003 examination report issued by the Office.

Current examination comments and corrective action

There were no examination findings in the examination as of December 31, 2008.

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, 2008, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$1,908,162 in compliance with Section 628.161, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, and Mary Frances Miller, FCAS, MAAA of Select Actuarial Services, participated in the examination.

Respectfully submitted,

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