REPORT ON EXAMINATION

of the

ASSOCIATED BUILDERS & CONTRACTORS OF TENNESSEE WORKERS' COMPENSATION SELF-INSURANCE FUND

1408 RIDGEWAY ROAD
MEMPHIS, TENNESSEE

as of

MARCH 31, 2009

RECEIVED
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Dept. of Commerce & Insurance
Company Examinations

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

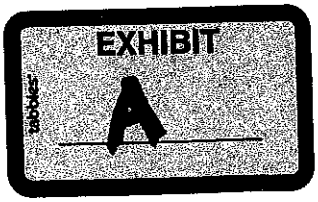

TABLE OF CONTENTS

Item	Page
Salutation	1
Introduction	1
Scope of Examination	1
History and Organization (includes exhibit of growth and financial history)	4
Trust Agreement and Declaration of Trust and Bylaws	6
Indemnity Agreement	7
Management and Control	8
Corporate Records	13
Management Agreements	13
Administrative Agreement	13
Claims Service Agreement	15
Service Company Agreement	17
Subcontractor Agreement (Loss Control)	18
Related Party Services	19
Fidelity Bond and Other Insurance	20
Statutory Deposits	21
Market Conduct Activities	22
Excess of Loss Insurance	24
Loss Experience	27
Accounts and Records	27
Pecuniary Interest TENN. COMP. R. & REGS. 0780-01-54.07(6) and (7)	28
Dividends/Refunds or Distributions	29
Litigation and Contingent Liabilities	30
Subsequent Events	30
Financial Statement	31
Balance Sheet	31
Statement of Income	32
Statement of Changes in Members' Equity	33
Analysis of Changes in Financial Statement and Comments Resulting from Examination	34
Comments and Recommendations	35
Conclusion	36
Affidavit	37

Nashville, Tennessee
September 7, 2010

Honorable Leslie A. Newman
Commissioner
State of Tennessee
Department of Commerce and Insurance
Nashville, Tennessee 37243

Dear Commissioner:

Pursuant to your instructions and in accordance with Tennessee Insurance Laws, regulations, and resolutions adopted by the National Association of Insurance Commissioners (NAIC), a financial examination and market conduct review was made of the condition and affairs of the

ASSOCIATED BUILDERS & CONTRACTORS OF TENNESSEE WORKERS' COMPENSATION SELF-INSURANCE FUND

1408 RIDGEWAY ROAD
MEMPHIS, TENNESSEE 38119

hereinafter and generally referred to as the "Fund," and a report thereon is submitted as follows:

INTRODUCTION

This examination was called by the Commissioner of Commerce and Insurance of the state of Tennessee on March 11, 2009 in accordance with TENN. CODE ANN. § 50-6-405, and TENN. COMP. R. & REGS. 0780-01-54-.20. On-site examination work commenced on March 1, 2010. The examination was performed by duly authorized representatives of the Department of Commerce and Insurance, state of Tennessee ("TDCI").

With the Fund having authority to write business only in the state of Tennessee, the examination was not classified as an Association Examination under NAIC Guidelines.

SCOPE OF EXAMINATION

This examination report covers the period from April 1, 2004, to the close of business on March 31, 2009, and includes any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

The examination of the financial condition was conducted in accordance with guidelines

and procedures contained in the NAIC Financial Condition Examiners Handbook. During the course of examination, assets were verified and valued and liabilities were determined and estimated as of March 31, 2009. The financial condition of the Fund and its amount of solvency were thereby established. Test checks were made of income and disbursement items for selected periods, and a general review was made of the Fund's operations, practices, and compliance with applicable statutes and regulations. All asset and liability items contained in the financial statement of this report were examined and verified with relative emphasis according to their amount and potential impact on solvency.

In addition, the following topics were reviewed:

History and Organization
Trust Agreement and Declaration of Trust and Bylaws
Indemnity Agreement
Management and Control
Corporate Records
Management Agreements
Related Party Services
Fidelity Bonds and Other Insurance
Statutory Deposits
Market Conduct Activities
Excess of Loss Insurance
Loss Experience
Accounts and Records
Pecuniary Interest
Dividends/Refunds or Distributions
Litigation and Contingent Liabilities
Subsequent Events
Financial Statement

The previous examination was conducted as of March 31, 2004, by authorized representatives of the TDCI. The report based on the 2004 examination contained in excess of 20 recommendations and comments; however, the Commissioner's Order No. 06-114 did not incorporate any specific Directives. The recommendations of the 2004 examination report, and subsequent corrective actions, are summarized as follows:

1. It was recommended that the indemnity agreement should have the current fiscal year for the Fund incorporated to replace the language listing the initial fiscal year, January 1 through December 31.

   Corrective Action: The Fund amended the indemnity agreement to reflect the current fiscal year, April 1 through March 31.

2. It was recommended that membership applications should be reviewed to

determine that the Chairman of the Board of Trustees signed the document for proof of approval for membership in the Fund. A sample of files reviewed during the previous examination indicated that approximately 19% of the sample did not have official approval.

Corrective Action: The Fund put in place controls to ensure that future applications were officially signed.

3. It was recommended that the Bylaws be amended to reflect the change in the term of Chairman of the Board to a two (2) year term.

   Corrective Action: Bylaw amendments were filed with the TDCI reflecting term changes on May 31, 2006 following the adoption of the examination report.

4. It was recommended that the Fund adopt an investment policy in accordance with TENN. CODE ANN. § 50-6-405(c)(2).

   Corrective Action: The Fund adopted a formal investment policy in accordance with the referenced statute on July 18, 2005.

5. It was recommended that the Fund revise its policy on drug free workplace premium credits in order to comply with TENN. CODE ANN. § 50-9-104.

   Corrective Action: The Fund put in place a policy which provided for pro rata application regardless of the period of time that the member is certified. This provision complies with the statute.

6. It was recommended that the Fund adhere to established NCCI procedures in the application of its schedule rating premium adjustments.

   Corrective Action: The Fund submitted a request to the TDCI for approval of its rating plan. The Fund now adheres to established NCCI procedures.

7. It was recommended that the Fund either remove the small deductible policy or request the required approval from the TDCI.

   Corrective Action: The Fund does not issue a specific small deductible policy. This is discussed further under the caption, "Market Conduct" in this report.

8. It was recommended that the Fund enhance its control environment to ensure payment of medical costs within the 45 day time line in accordance with TENN. COMP. R. & REGS. 0800-02-14-.07.

   Corrective Action: Controls were enhanced and a new medical bill review provider was employed. Testing during this examination is documented under the caption, "Market Conduct" in this report.

9. It was recommended that the Fund continue to work with the claim services provider and the medical bill review provider to ensure that the Fund receives all refunds to which it is entitled.

   Corrective Action: A contract with a new medical bill review provider was entered into in 2006, and the control environment has been enhanced.

10. It was recommended that the Fund develop membership procedures that will allow for verification that the member has been given written descriptions of the Fund's refund plan.

    Corrective Action: The refund plan is posted on the Fund's website and is also being provided to any new applicant for membership in the Fund.

11. It was recommended that the Fund revise its Bylaws to enhance compliance with TENN. RULES & REGS.

    Corrective Action: Amendments to the Bylaws were filed with the TDCI on May 31, 2006.

12. It was recommended that the Fund comply with Tennessee Unclaimed Property Laws.

    Corrective Action: The Fund started filing reports with the Unclaimed Property Division pursuant to TENN. CODE ANN. § 66-29-113. Examiner verified the filing of the report dated May 1, 2009 along with the payment of $4,727.67 remitted to the Treasurer, state of Tennessee.

HISTORY AND ORGANIZATION

The Tennessee Chapter of Associated Builders and Contractors, Inc., ("ABC") is a Tennessee non-profit trade association of licensed builders, suppliers, and service companies associated with the building industry which was organized under the laws of the state of Tennessee and chartered on May 6, 1971. The Chapter was originally incorporated as the Middle Tennessee Chapter, ABC. ABC is today made up of three (3) regional Chapters: the West, Middle and East.

On September 12, 1994, the Fund was created by members of ABC to act as a self-insured workers' compensation pool in accordance with TENN. CODE ANN. § 56-6-405(c)(1). A certificate of approval was issued to the Fund by the TDCI on January 4, 1995. The certificate had an effective date of January 1, 1995, and authorized the Fund to operate as a self-insured workers' compensation pool. The operation of the Fund is confined to the state of Tennessee where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Fund is composed of qualifying members of ABC that have pooled their liabilities in

accordance with the Tennessee Workers' Compensation Act.

The Fund was developed with the objective of bringing ABC membership a benefit package consisting of fair pricing, availability to qualifying members, superior service and an opportunity to share in the profits of the Fund.

The Fund lists the following as its Mission Statement:

> Providing more control over the influence of insurance cost by giving commercial contractors and suppliers in the state of Tennessee a workers' compensation self-insurance pool that is:
>
> - A viable alternative to the commercial insurance market
> - Designed to provide long term financial stability
> - Less susceptible to the pricing fluctuations of the commercial insurance market
> - A partnership between participating members and claims administration in hands on claims management
> - Supportive of safety with industry specific loss control methods and solutions

As of March 31, 2009, the Fund was licensed in one state, Tennessee.

The following exhibit depicts certain aspects of the growth and financial history of the Fund since the previous examination. The exhibit is based upon financial statements filed with the TDCI.

Fund Year	Members	Net Premium Revenue	Total Expenses	Assets	Equity
2005	91	$7,224,806	$7,331,237	$8,060,777	$845,838
2006	79	6,957,940	6,550,884	9,206,919	1,312.385
2007	67	5,758,572	5,821,895	9,223,791	1,583,747
2008	60	4,423,316	4,374,960	9,721,903	1,921,896
2009	53	3,475,623	3,851,553	9,231,591	1,950,438

The above schedule does not exhibit investment income which is taken into account in determining the net income or loss of the Trust for its years of operation. Net income or loss is exhibited on page 33 of this report under the caption, "Statement of Changes in Members' Equity."

Total expenses include the return of premium paid to members, which is formally approved by the TDCI and discussed under the caption, "Dividends/Refunds or Distributions" in this report.

TRUST AGREEMENT AND DECLARATION OF TRUST AND BYLAWS

The Fund was created through the adoption of the Declaration of Trust and Bylaws which was executed on September 12, 1994. The Fund was formed to act as a workers' compensation self-insurance group in accordance with TENN. COMP. R. & REGS. Chapter 0780-01-54 as authorized by TENN. CODE ANN. § 50-6-405. The Fund is established "as a collective fund to provide monies for payment of claims filed against the members under the Tennessee Workers' Compensation Law." The formal approval letter issued by the TDCI is dated November 3, 1994.

The Bylaws were amended May 27, 1998 in order to add provisions for resignation and termination of and reapplication for membership in the Fund. Effective March 8, 2000, the Bylaws were again amended in order to change the Fund Year to begin April 1 of each year and end April 1 of the following year. These amended changes were included and discussed in the prior examination report.

The revisions to the Bylaws and the Agreement which were made since the prior examination were filed with the TDCI on May 31, 2008. Payment of the proper filing fee was also made at this time. These revisions incorporated some suggestions from the prior examination of the Fund including:

Principal office location
Prohibition of loans to Members
Declaration of premium returns
Collection of past due premium
Underwriting guidelines
Powers and duties of Service Agents
Resignation and termination of membership
Quorum for voting at the annual meeting of Members

TENN. COMP. R. & REGS. 0780-01-54.05, in effect on April 1, 2006 requires:

> "Any amendments to the organizational documents or written contracts required to be provided to the Commissioner by Rule 0780-1-54-.04 shall be filed with the Commissioner with a non-refundable filing fee of ninety dollars ($90.00) no later than thirty (30) days prior to the proposed effective date of the amendments."

The principal office of the Fund is established as follows:

"ABC WC SIF
c/o Willis CAPS
26 Century Boulevard
Nashville, Tennessee 37214"

The above location is the office of the service company for the Fund.

INDEMNITY AGREEMENT

In accordance with TENN. COMP. R. & REGS. 0780-01-54-.04(2)(e)2, each member is required to execute and be bound by an indemnity agreement as a condition of membership in the Trust. Significant terms that each member agrees to include the following:

The Members, jointly and severally, will pay any final award based upon a claim against any of them under the workers' compensation laws of the state of Tennessee, and the Trust will pay any assessments lawfully levied against it by the state of Tennessee.

This agreement is a mutual covenant of assumption and not a partnership.

The Board of Trustees will set up, operate and enforce the administrative rules, regulations and bylaws of the Trust and the Fund.

The members ratify and confirm the appointment of the Service Agents: Willis Administrative Services Corporation dba Willis Pooling, Alternative Service Concepts, LLC, and Fortier Loss Control Consultants, Inc.

The Administrator shall deposit to the account of the Trust, at any bank or banks located in the state of Tennessee designated by the Board, all contributions as and when collected, and said monies shall be disbursed only as provided by:

the rules, regulations, and bylaws of the Trust;
the agreement between the Trust and the Service Agent(s); and
the rules of the TDCI.

The Trust shall procure excess insurance to protect its members against excess losses.

The Board may admit as members of the Trust only those who meet the criteria for membership as established by the Board. Except as otherwise provided by the regulations, the Board shall, subject to the approval by the TDCI, be the sole judge of whether an applying entity shall be admitted to membership and the

eligibility of an entity to remain a member.

Rules and regulations for administering the Trust and the admission and expulsion or suspension of Members shall be promulgated by the Board and furnished to the Members. Pending such promulgation, each Member agrees to abide by the following rules and regulations summarized as follows:

Initiate and maintain a safety program

In the event of an accident or reported claim, make immediate provision for remedial care for its employees and give immediate notice to the Service Agent on the prescribed forms

Promptly pay all contributions and assessments required by the Trust

Appoint the Service Agent(s) as its agent and attorney in fact in the settlement and adjudication of claims

Member shall assist the Trust in subrogation of the rights of the Member resulting from claims adjudication

Allow the Trust and its Agent(s) access to the Members' workplace, plant work, machinery, etc. covered by the Agreement

Allow the Trust to examine the Member's books, vouchers, contracts, documents and records which show or tend to show or verify the contribution which is payable under the terms of the agreement. This includes a time frame within two (2) years after the final termination of membership.

MANAGEMENT AND CONTROL

The operation and administration of the Fund is the joint responsibility of a Board of Trustees consisting of not more than nine (9) or less than five (5) individuals. All Trustees are required to be residents of the state of Tennessee or officers of corporations authorized to do business in the state of Tennessee in accordance with TENN. COMP. R. & REGS. 0780-01-54-.06. All of the Trustees are required to be the designated representative of a member in good standing of the Fund. No affiliate of the Administrator or the Service Agent shall serve as a Trustee, unless the Administrator is a wholly owned subsidiary of the sponsoring association whose directors are simultaneously trustees of the pool and members of the pool and all serve without compensation and expense reimbursement. The Board of Trustees shall elect officers from among its members to serve for terms of two (2) years. The officers of the Fund shall consist of a Chairman and Vice-Chairman. The Trustees may elect other officers which appear desirable to them. The Trustees shall include equal representation from

each region of the Fund.

As of March 31, 2009 the following persons were serving as members of the Board of Trustees:

Name and Address	
Ralph Harness, Secretary/Controller Joseph Construction Co., Inc. P.O. Box 10563 Knoxville, TN 37939	Chairman
Dale L. Denny Secretary/Treasurer CFO and General Counsel John Bouchard & Sons Co. 1024 Harrison Street Nashville, TN 37202	Vice-Chairman
Mike Hankins President Acoustics & Specialties, Inc. 3929 Senator Memphis, TN 38118	Trustee
Rusty Linkous Dir. of Business Development Linkous Construction Co., Inc 1661 Aaron Brenner Drive Ste 207 Memphis, TN 38120	Trustee
Susan Crawford Controller Dennis Electric, Incorporated 3885 Hammond Memphis, TN 38128	Trustee
Jerry L. Barrix President Wade Electric 503 Airways Blvd. Jackson, TN 38301	Trustee

Sheila Mathis — Trustee
Treasurer
R. G. Anderson Company, Inc.
1801 West End Avenue, Suite 1800
Nashville, TN 37203

Mike Webb — Trustee
President
Webb & Sons Construction Co., Inc.
815 South White Street
Athens, TN 37303

Jim Wakefield — Trustee
President
Wakefield Corporation
P.O. Box 31198
Knoxville, TN 37930

The Trustees shall be elected by the members of the Fund. Each Trustee shall be the designated representative of a member in good standing of the Fund and will serve for a term of three (3) years. A Trustee may be removed, with or without cause, by a majority vote of all Trustees. If a Trustee dies, becomes incapacitated, refuses to act, resigns or is removed, his successor shall be appointed by the remaining Trustees to fill the unexpired term of office, such appointment to be subject to confirmation by the Members at their next regularly scheduled meeting.

Responsibilities of the Trustees summarized from the Bylaws include the following:

- The Trustees shall have the rights and powers to the extent not inconsistent with or prohibited by the laws of the state of Tennessee, and such unspecified powers as may be required to accomplish the purposes of this Fund.

- The Trustees shall have the power to invest monies in the Fund Account, and may engage a Fund Account Fiduciary for that purpose. Loans from the Fund Account to any member or organization affiliated with the Fund are not permitted.

- The Trustees have Administrative Powers and Duties additionally noted as follows:

  To make, execute, acknowledge and deliver any and all documents required to be made in connection with the settlement and defense of any claim; to deliver documents required by any insurer, or reinsurer in connection with the issuance of any insurance policy, or in connection with the exercise of the rights of ownership of such policies; and to deliver all forms, returns, notices, transfers, conveyances and any and all other instruments that may be

necessary or appropriate to carry out the powers herein granted

To settle, compromise or submit to arbitration any claims, debts or damages due or owing to or from the Fund or arising in connection with any right, duty or obligation hereunder, to commence or defend suits or legal or administrative proceedings, and to represent the Fund, the Administrator and the Members in all suits and legal proceedings

To employ an Administrator, Service Agent, Fund Actuary, Fund Accountant and other agents and to pay reasonable expenses and compensation

To contract for Reinsurance with advice and direction of the Service Agent

To pay any and all expenses of administration, legal, actuarial, risk control management, claims management and like fees and costs

To establish and assess any and all rates, premiums, contributions and penalties under this Fund, as reviewed by the Fund Actuary and Administrator

To accept or reject any application for membership in the Fund

To declare premium returns as hereinafter provided

To terminate membership as hereinafter provided

To do all such acts, take all such proceeds, and exercise all such rights and privileges, although not specifically mentioned herein, as the Trustees may deem necessary to administer the Fund and to carry out the purposes of the Fund

To take all reasonable precautions to protect the members from losses and to enter into any suitable excess insurance contracts to fully and adequately protect said members against excess losses

To assess members a collection charge and/or fees, attorney fees and any other costs involved in the collection of past due premiums or audits at the sole discretion of the Trustees

To establish underwriting guidelines/policies necessary for the management of the Fund, including provisions to adjust current premiums based upon prior audits, all of which may be waived by the Trustees

Certain services are purchased from outside contractors if needed. Such services include actuarial analysis and independent audit.

Actuarial Services:	Willis HRH Casualty Actuarial Practice Greg Jones, ACAS, MAAA Vice President and Actuary One World Financial Center 200 Liberty Street New York, NY 10281
Auditing Services:	Frasier, Dean & Howard, PLLC 3310 West End, Suite 550 Nashville, TN 37203
Accounting Bookkeeping Services:	Alternative Service Concepts of Tennessee, LLC 2501 McGavock Pike Suite 802 PO Box 305148 (Zip 37214) Nashville, TN 37214
Claims Processing Services:	Alternative Service Concepts of Tennessee, LLC 2501 McGavock Pike Suite 802 PO Box 305148 (Zip 37214) Nashville, TN 37214
Underwriting/Marketing:	Willis Administrative Services Corporation dba Willis Pooling P. O. Box 305107 26 Century Boulevard Nashville, TN 37230-5107
Premium Audit:	Overland Solutions, Inc. P. O. Box 413866 Kansas City, MO 64141
Loss Control:	Fortier Loss Control Consultants, Inc. 2267 Jackson Downs Blvd. Nashville, TN 37214

CORPORATE RECORDS

The members of the Board of Trustees shall meet quarterly or as often as required at the principal office of the Fund or at such other location as the Board may designate. Special meetings may be called at any time by the Chairman or any two members of the Board. Notice of special meetings shall be given in writing or personally, by mail, phone or facsimile, not less than three (3) days before such meeting. By unanimous consent of the Trustees, special meetings may be held without notice at any time and place.

The members of the Fund shall meet annually at the offices of the Fund in Nashville, Tennessee or at such other location as may be determined by the Board of Trustees.

During the period under examination there were 58 regular and special meetings of the Board of Trustees and five (5) meetings of the members of the Fund. The minutes of the board meetings and the membership meeting/notification documents were reviewed and appear to reflect properly the acts of the respective bodies. Membership requirements, powers and duties of board members and Fund members were verified to be in accordance with the Rules of the TDCI.

MANAGEMENT AGREEMENTS

Administrative Agreement:

The Trust has used only two administrators since its inception in 1994. Mr. Walter Parr served from the creation of the Trust until January 1, 1997, when the current administrator, Ms. Sally Alston entered into an administration agreement with the Fund. This agreement was on file with the TDCI; however, it does not have a date received stamp affixed.

The Administrator shall provide the following services for the Group:

- Maintain in effect the certificate of approval issued to the Fund by the TDCI.
- Maintain the accounting books and records, prepare the financial statement and arrange for an annual audit of the Fund by independent certified public accountants by working through the appointed service company.
- Prepare all reports furnished to the members through the appointed service company.
- Solicit applications for membership in the Fund if licensed as a property and casualty agent (Administrator is not licensed and does not solicit applications).
- Provide all clerical, secretarial and administrative support required by the Fund and the Board of Trustees, including keeping minutes of all Board of Trustee and

membership meetings, as recorded by an individual appointed by the service company.

- Oversee the service company's duties of receiving premium payments from the members, depositing funds in the claims account to pay claims expenses and excess insurance, and depositing the balance in the administrative account established by the Fund.

- Administer and invest, in accordance with the criteria established by the Board of Trustees, the claims fund and the administrative fund as handled by the Fund's investment firm.

- Negotiate and execute with the approval of the Fund, agreements with service companies.

- Direct the daily operations of the Fund in cooperation with the Service Agent, to ensure operations are conducted in a sound business-like manner.

The Administrator's compensation is set by the Board of Trustees, and per the agreement, is based on a percentage of the Fund's earned premium. The fee paid is based on invoiced premium and is subject to adjustment upon completion of the payroll audits of the members. The Board voted in 2008 to pay the administrator a flat fee of $50,000 per year in lieu of the percentage rate which was acceptable to the Administrator.

The Agreement automatically renews for successive one (1) year terms, unless terminated. It can be terminated for cause in the event of a breach of the agreement by either party, or can be terminated without cause by either party within 90 days written notice to the other party.

The Agreement directs the Administrator to furnish, on or before 120 days after the end of each fiscal year, an audited financial statement and, on or before 45 days after the end of each fiscal quarter, unaudited financial statements. These reports shall be in a form approved by the TDCI and shall include known claims and expenses, claims incurred but not reported, unearned premiums and bad debts.

The Agreement empowers the Administrator to execute agreements on behalf of the Fund with accountants, attorneys, custodians, brokers, investment advisors and other consultants and agents. Special emphasis is placed on empowering the placement of any funds in custodial accounts with a financial institution which has the authority to invest and reinvest such assets in accordance with polices and criteria approved by the Board of Trustees.

Ms. Alston continues to act as Administrator, as defined within the meaning of TENN. COMP. R. & REGS. 0780-01-54-.02(1).

Claims Service Agreement:

The Fund initially used Willis Administrative Services Company (WASC) as the provider of claims handling and accounting services. On May 1, 2002, WASC sold its property casualty claims operations to a group of investors. The investors named this new company Alternative Service Concepts, LLC (ASC). ASC has provided these services thereafter.

The claims service contract with ASC in effect the date of this examination was effective April 1, 2008 to remain in effect through March 31, 2009. This contract may be terminated with cause by either party by providing 30 days prior written notice by certified mail. ASC is currently licensed as a third party administrator with the TDCI. A summary of major provisions follows:

ASC agrees:

- To review all claim and/or loss reports with claim and/or loss dates incurred and reported during the term of the contract which involve Workers' Compensation claims against the Fund.

- To investigate, adjust, settle or resist all such losses and/or claims within the discretionary settlement authority limit of $30,000; and for cases in excess of the discretionary settlement authority limit, to only act with specific prior approval of the Fund.

- To furnish claim forms necessary for proper claims administration.

- To establish claims and/or loss files for each reported claim and/or loss. All files shall be exclusive property of the Fund and shall be available for review by the Fund at any reasonable time, with notice.

- To furnish the Fund with a monthly claim activity report.

- To provide financial statements to include the preparation and distribution of monthly balance sheets and income statements based on data provided by the underwriters and/or administrators; and reconcile the claims payment account.

- To assist independent auditors in their preparation of annual financial statements.

- To maintain adequate General Liability, Automobile Liability, Workers' Compensation, Fidelity Bond and Errors and Omissions Insurance Coverage.

- To indemnify, defend and hold harmless the Fund with respect to any claims asserted as a result of any errors, omissions, torts, intentional torts or other negligence on the part of ASC and/or its employees, unless the complained

actions of ASC were taken at the specific direction of the Fund.

The Fund agrees:

- To make funds available for ASC to draw from for claim and/or loss payments and for associated allocated expense within the discretionary settlement authority limit of $30,000.

- To pay all allocated loss expenses (i.e. attorney fees, expert fees, independent medical examinations, etc.) in addition to the claims service fee.

- To pay fees to ASC in accordance with the fee schedule attached to the contract.

- To relinquish authority to ASC in all matters relating to claims service within the discretionary settlement authority limit.

- If ASC acting at the specific direction of the Fund becomes liable to any third party, the Fund agrees to indemnify, defend and hold ASC and/or its employees harmless.

- If ASC or any of its employees are named as defendant in any action where the plaintiff's cause of action involves a claim and there are not allegations of errors, omissions, torts, intentional torts or other negligence on the part of ASC, the Fund will assume defense of the action on behalf of ASC and indemnify and hold ASC harmless from any judgment rendered as a result of the action.

ASC and the Fund mutually agree:

- The contract shall be construed and interpreted in accordance with the laws of the state of Tennessee.

- The contract covers claim service for the Fund in the United States of America and any gross receipt tax or assessments, in those cases where levied, will be in addition to the service fee.

- The contract represents the entire understanding of ASC and the Fund and supersedes all prior oral and written communications between the parties as to the subject matter; and neither this contract, nor any provisions of it, may be amended, modified or waived except in writing signed by a duly authorized representative of ASC and the Fund.

- To not employ a person who has been employed by the other party at any time during the term of the contract, unless the person to be employed has not been employed by the other party during the immediate preceding six (6) months or unless the hiring party has obtained the other party's prior written consent.

- During the terms of the contract, ASC will store at its expense, closed files for a period of three (3) years. After this period, files will either be returned to the Fund or stored by ASC at the Fund's expense.

The Fund agrees to pay to ASC a service fee equal to a percent of the Fund's earned Workers' Compensation premium. In the event that there is a material change to the method of premium calculation that causes the earned premium for the same members to decrease or increase greater than 10%, ASC reserves the right to renegotiate its fees accordingly for the remainder of the contract period. At the end of the annual policy period, adjustments are made based on the actual discounted standard premium as developed by actual audit of member's payroll for that period.

The Fund also agrees to pay for medical cost management such as, "26% of Savings from PPO Usage and Other Non Fee Schedule Savings."

The old claims service agreement was on file for record with the TDCI; however, the current agreement had not been officially filed. When this was brought to management's attention, a filing was completed during the course of this examination. The Fund had mistakenly interpreted filing to only be required if there was a material change in a contract.

TENN. COMP. R. & REGS. 0780-01-54.05 requires:

> "Any amendments to the organizational documents or written contracts required to be provided to the Commissioner by Rule 0780-1-54-.04 shall be filed with the Commissioner with a non-refundable filing fee of ninety dollars ($90.00) no later than thirty (30) days prior to the proposed effective date of the amendments."

Further discussion is included under the caption, "Comments and Recommendations."

Medical bill review including PPO application and other services for the claims adjudicated by ASC on behalf of the Fund is provided by MCMC, LLC. These services are contracted under the MCMC Service Agreement which is between ASC and MCMC.

Service Company Agreement:

The Fund initially used Public Entities National Company (PENCO), a subsidiary of Willis Corporation, as its service company. On January 9, 2001, the TDCI received notification from PENCO that, as a result of a corporate sell off, PENCO would be changing its name. In an addendum to the service company agreement, the service company's name was changed to Willis Administrative Service Corporation, d.b.a. Willis Pooling/Willis Affinity, effective April 1, 2003. In April 2005, the Willis Affinity part of the name was dropped. Willis Pooling has acted as the service company thereafter.

The service company contract with Willis Administrative Services Corporation d.b.a. Willis Pooling which was in effect on the date of this examination was effective April 1,

2008 to remain in effect through March 31, 2009. After expiration of the original term, the agreement will be automatically extended for future one (1) year terms, unless 120 days prior written notice by certified mail is given by either party. This agreement may be terminated for a material breach by either party by providing 30 days prior written notice to the other party. A summary of major provisions follows:

Services to perform:

- Administrative and data services including the preparation of premium calculations for members, preparation of various reports as required by the members, Trustees, NCCI excess and reinsurance carriers or the TDCI;

- Marketing the Fund to prospective members (coverage written by independent licensed agents);

- Assist the Fund in obtaining insurance, excess and/or reinsurance.

Other key provisions:

- The Fund agrees to not appoint or recognize any other service company or broker for the program and/or for any insurance coverage provided for in the contract during term of the contract.

- The Fund agrees to pay the service company compensation based on a percentage of the Fund's premiums earned.

- The service company shall retain the entire commissions accruing from placement of any primary or excess insurance coverage written for the Fund.

- The contract lists provisions for non-renewal of insurance coverage and gives the service company as much as 180 days beyond expiration of any insurance coverage to present an alternate proposal or proposals. If the proposal is accepted, the agreement will continue in full force unless otherwise sooner terminated.

- The service company shall indemnify and hold harmless the Fund for any and all loss, cost or expense incurred by the service company as a result of performance of this contract, unless caused by the negligent act or wrong committed by a Fund employee or contractor other than the service company.

Subcontractor Agreement (Loss Control)

On April 1, 2000, the Fund entered into a subcontractor agreement with Fortier Loss Control Consultants, Inc. of Nashville, Tennessee, to provide loss control services. Fortier has provided these services since that date. A new contract is executed for each fiscal year.

The subcontractor agreement which was in effect on the date of this examination was effective on April 1, 2008, and is to remain in effect through March 31, 2009. This agreement may be terminated by the Fund immediately for cause or with 30 days written notice. Fortier may terminate the agreement with 30 days written notice. A summary of major provisions follows:

Services to provide:

- Field safety inspection and consultative services to members of the Fund
- Written inspection reports to members inspected with a copy furnished to the Administrator of the Fund

Other key provisions:

- Fortier performs all services as an independent contractor, not as an agent or employee of the Fund, and shall have no authority to negotiate any contract on behalf of the Fund.
- Fortier will hold, in a fiduciary capacity for the benefit of the Fund, all secret or confidential information, knowledge, or data relating to the Fund or the Fund members. Fortier will not without prior written consent of the Fund, communicate or divulge any information, knowledge, or data to anyone other that the Fund and those designated by it.
- The Fund agrees to pay Fortier compensation in an amount equal to a percentage of the Fund's premiums earned.
- Fortier agrees to maintain errors and omissions and/or professional liability insurance policies providing protection to the Fund to cover loss by reason of negligence on the part of Fortier providing services pursuant to the agreement. The Fund shall be named as an additional insured on the policy which shall be evidenced on the certificate of insurance to be delivered to the Fund.
- The agreement contains standard hold harmless language for both parties.

The Fund received a letter from the TDCI dated November 29, 2005, approving the loss control contract with this subcontractor.

Related Party Services/Royalty Agreement

The Fund filed a letter with the TDCI dated July 1, 2004, which stated that there were no written agreements between the Fund and the Tennessee Chapter of Associated Builders and Contractors. The letter further stated that the Board of Trustees had periodically made contributions to the Association (ABC) because of its assistance in promoting the Fund to its members and its monitoring of workers' compensation issues

and other matters relevant to the operation of the Fund. These contributions had been less than .0032% of earned premium.

During the year April 1, 2008, through March 31, 2009, the Fund made no contributions to the Association (ABC).

FIDELITY BOND AND OTHER INSURANCE

The Administrator maintains a miscellaneous professional liability policy with Westchester Fire Insurance Company with a limit of $1,000,000 per each claim and with a $2,000,000 aggregate limit, including $5,000 retention per claim. The policy covers professional services in the performance of providing fund administration services and consulting services for others.

The policy complies with TENN. COMP. R. & REGS. 0780-01-54-.07(3)(b) and (c) which exhibit the following requirements under the heading, "Administrators":

- "Evidence that the applicant has obtained a fidelity bond in the amount of $200,000 written by a company licensed to transact business in this state, which may be obtained either by the administrator or the pool on the administrators' behalf;"

- Evidence that the applicant has obtained an errors and omissions insurance policy for the protection of the pool in the amount of $200,000 written by a company licensed to transact business in this state, unless waived by the Commissioner upon a showing of proof that the applicant is unable to obtain such coverage;"

The Fund maintains a directors' and officers' liability policy with RSUI Indemnity Company with a $1,000,000 limit which includes errors and omissions. This policy's definition of "insured" includes the Trustees and Officers. The policy complies with TENN. COMP. R. & REGS. 0780-1-54-.04(2)(b)(5.) which requires each applicant for a certificate of authority to have in place an errors and omissions policy, "for the board of trustees issued to protect the pool from damages, if any."

The above insurance companies listed are licensed in the state of Tennessee.

Alternative Service Concepts of Tennessee, LLC maintains certain insurance coverage as required under its claims service contract dated April 1, 2008. These include general liability, auto liability, workers' compensation, fidelity bond and errors and omission coverage. The various coverage types are issued by various companies under one certificate as follows:

- The general liability policy is issued by Hartford Underwriters Insurance Company with a $2,000,000 general aggregate and $1,000,000 each occurrence

limit.

- The auto liability policy is issued by Sentinel Insurance Company, Ltd. a $1,000,000 combined limit.

- The workers compensation policy is issued by Hartford Casualty Insurance Company with standard limits for both workers compensation and employers liability.

- The excess/umbrella policy is issued by Hartford Casualty Insurance Company with a $10,000,000 aggregate limit and a $10,000 retained limit per occurrence.

- The errors and omissions policy is issued by Chartis Specialty Insurance Company with a $10,000,000 aggregate limit and $100,000 retention.

The above insurance companies listed are licensed in the state of Tennessee.

Fortier Loss Control Consultants, Inc. maintains certain insurance coverage as required under its subcontractor agreement dated April 1, 2007. The coverage required is errors and omissions and/or professional liability.

The professional liability policy is issued by the Frank Neal Agency through A & B Insurance and utilizes the surplus lines market with a $1,000,000 limit per claim and a $1,000,000 aggregate limit. Fortier's general liability coverage is provided by Ansur Insurance Company with a $1,000,000 limit per claim and a $2,000,000 aggregate limit. Ansur Insurance Company is licensed in the state of Tennessee.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Fund maintained the following deposits at March 31, 2009.

Where Deposited and Description	Par Value	Statement Value	Market Value
Tennessee			
Johnson City TN Elec Rev @ 4.000% due 05/01/2013	$100,000	$101,613	$107,246
Metro Gov Nash & Davison Cnty TN Elec Rev @ 3.500% due 05/15/2012	100,000	101,531	105,484
Putnam Cnty TN @ 5.250% due 04/01/2020	100,000	108,839	107,485
Rhea Cnty TN Gen Oblig @ 4.400% due 04/01/13	100,000	103,521	106,757
Sevier Cnty TN Pub Bldg Auth @ 3.000% due			

06/01/10	100,000	100,817	101,514
Total	**$500,000**	**$516,321**	**$528,486**

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Fund as of March 31, 2009, in conjunction with this examination. The following items were addressed:

Policy (Certificate of Coverage) Forms and Underwriting Practices

A review was made of the Fund's filed indemnity agreement and underwriting policies.

Formal application requirements for the trust were reviewed.

Regulatory Rate Exhibits which exhibit the "loss cost multiplier" are filed yearly with the TDCI in compliance with TENN. COMP. R. & REGS. 0780-01-54-.10(4).

No unusual findings were noted.

The Fund's payment plan to its members:

- Monthly – "Member pays monthly, with a deposit made at beginning of each Plan year covering first month and last two months' premiums (25%.) One deposit and nine monthly payments (ending in January) are made in each year."

Advertising

The Fund markets on a direct basis to the members of the Tennessee Chapter of Associated Builders and Contractors. Under terms of an agreement between the Fund and Willis Pooling, the service company, Willis is to assist in marketing of the Fund to prospective members utilizing independent licensed agents.

TENN. COMP. R. & REGS. 0780-01-54-.17 requires that "any person soliciting membership in a pool must be appropriately licensed as an insurance producer authorized to sell property and casualty lines of insurance."

The Fund maintains a website, www.abcsif.com which posts membership application requirements as well as considerable other information concerning the operations of the Fund.

The advertising material reviewed appears to be in compliance with applicable statutes and regulations.

Claims Review

A sample of paid claim files reviewed during the examination indicated that claims were being paid in accordance with policy (certificate of coverage) provisions and settlements were made properly upon receipt of proper evidence of the Fund's liability.

TENN. COMP. R. & REGS. 0800-02-14.07(1) requires that: "All medical costs owed under the Tennessee Workers' Compensation Law shall be paid within forty-five (45) days of receipt of bill or invoice." The examiners tested a sample of the Trust's claim payments and noted that the payments for medical costs were made within the required time frame.

TENN. COMP. R. & REGS. 0800-02-14.05(1) requires that: "Compensation payments for an injury shall be received by the claimant no later that fifteen (15) days after notice of injury. " The examiners tested a sample of the Trust's claim payments and noted that the payments for the indemnity portion of the claims sampled were made within the required time frame with the exception of one claim. The claim was within two days of the standard and the elapsed time related to clerical issues at month end and over the weekend which do not appear to present a systemic problem.

If a claim is considered by a member to be relatively minor, the member sends the claim as "information only" to the Fund's third party administrator. Some of the members choose to pay the first $250 to $500 in "medical" expenses on small claims. If the bills exceed this small amount, the claim office (ASC) assumes handling of the claim which is then classified as active with a reserve worksheet being prepared within 15 days of the change to active status.

Policyholder Complaints

Inquiries made to the various sections within the Division of Insurance indicated no specific regulatory concerns with the Company during the period under examination. No unusual practices, transactions or items warranting significant concern with regard to the Fund were noted.

Privacy of Non-Public Personal Information

The Fund's members (policyholders) are commercial businesses. TENN. COMP. R. & REGS. 0780-01-72, "Privacy of Consumer Information Regulations" includes in the definition of "Scope" the following:

> "These rules do not apply to information about companies or about individuals who obtain products or services for business, commercial or agricultural purposes."

Alternative Service Concepts, LLC processes the claims of the beneficiaries of the workers' compensation policies issued by the Fund to its members. The claims service

contract with the Fund includes the following language:

> "10. All Tennessee Insurance Laws, Regulations and lawful orders of the Commissioner shall be followed and fully adhered to, including, but not limited to, TENN. CODE ANN. § 50-6-405 and TENN. COMP. R. & REGS, 0780-01-81."

The relationship of a beneficiary is addressed by TENN. COMP. R. & REGS. 0780-01-72-.04(6)(b)5. A beneficiary in a workers' compensation plan is not solely considered a consumer of the licensee provided that the licensee does not disclose nonpublic information about the individual to a nonaffiliated third party other than as permitted.

EXCESS OF LOSS INSURANCE

The Fund had in effect for the period April 1, 2008, to March 31, 2009, an excess of loss agreement for workers compensation and employers liability claims with Midwest Employers Casualty Company in accordance with TENN. COMP. R & REGS. 0780-01-54-.04(3)(c). The agreement contains both specific and aggregate coverage.

Under the agreement's specific coverage, the excess insurer agrees to indemnify the Fund for the amount in excess of the Fund's $750,000 specific retention for each accident or employee disease up to the statutory limit for workers' compensation and up to $2,000,000 for employers' liability.

The aggregate portion of the agreement limits the Fund's obligation for losses and claim expenses incurred during 2008/2009 to a formula of (Payroll/100)*6.2346 which equates to a minimum retention of $5,490,958. Under the agreement's aggregate coverage, the excess insurer agrees to indemnify the Fund for the sum of losses and claims expenses in excess of the Fund's limitation subject to a limit of indemnity of $2,000,000.

The Fund's excess of loss polices have historically covered the one (1) year period of time commencing on April 1 for each year since the year 2000. The contracts have been with different carriers and have had different retentions and levels of loss with the aggregate retention.

A summary of all companies providing coverage during the history of the Fund follows:

Policy Year	Specific Retention	Aggregate Retention	Aggregate Limit	Insurer
1/1/95-96	$250,000	$2,713,406	$1,000,000	Zurich
1/1/96-97	250,000	4,580,954	5,000,000	Zurich
1/1/97-98	250,000	3,594,038	5,000,000	Zurich
1/1/98-99	250,000	2,566,790	5,000,000	Zurich
1/1/99-3/31/00	250,000	2,873,650	5,000,000	Zurich
4/1/00-01	250,000	2,357,775	5,000,000	Midwest Employers
4/1/01-02	300,000	2,556,616	5,000,000	Midwest Employers
4/1/02-03	500,000	3,988,475	5,000,000	Midwest Employers
4/1/03-04	*500,000	5,807,030	5,000,000	Midwest Employers
4/1/04-05	**750,000	9,215,312	5,000,000	Midwest Employers
4/1/05-06	***750,000	6,911,404	3,000,000	Midwest Employers
4/1/06-07	***750,000	7,006,174	3,000,000	Midwest Employers
4/1/07-08	750,000	9,310,738	2,000,000	Ace
4/1/08-09	750,000	5,490,958	2,000,000	Midwest Employers

*Corridor deductible of $250,000 for losses over $500,000 for policy periods 4/1/03-04

**Corridor deductible of $150,000 for losses over $750,000 for policy periods 4/1/04-05

***Corridor deductible of $250,000 for losses over $750,000 for policy periods 4/1/05-06 and 4/1/06-07

The retentions listed above include allocated loss adjustment expenses.

Policy Year	Basis for Aggregate Retention	Insurer
1/1/95-96	110% of Std. Premium	Zurich
1/1/96-97	105% of Std. Premium	Zurich
1/1/97-98	90% of Std. Premium	Zurich
1/1/98-99	77.5% of Std. Premium	Zurich
1/1/99-3/31/00	77.5% of Std. Premium	Zurich
4/1/00-01	(Payroll/100)*3.066	Midwest Employers
4/1/01-02	(Payroll/100)*3.480	Midwest Employers
4/1/02-03	(Payroll/100)*4.433	Midwest Employers
4/1/03-04	(Payroll/100)*4.832	Midwest Employers
4/1/04-05	(Payroll/100)*6.2789	Midwest Employers
4/1/05-06	(Payroll/100)*5.4076	Midwest Employers
4/1/06-07	(Payroll/100)*5.73099	Midwest Employers
4/1/07-08	(Payroll/100)*9.3355	Ace
4/1/08-09	(Payroll/100)*6.2346	Midwest Employers

The policies provide coverage for losses sustained by the Fund as a result of injury by accident occurring during the policy period or by disease caused or aggravated by

exposure to conditions causing the disease occurring during the policy period. The policies have provisions for the continuation of coverage in the event of plan insolvency. The policies were written by companies authorized to do business in the state of Tennessee.

LOSS EXPERIENCE

Year	Net Premiums Earned	Incurred Losses & LAE	Underwriting Ratio	General & Adm. Exp.	Gen. & Adm. Exp. to Prem.	Combined Ratio
2005	$7,224,806	$4,380,341	60.6%	2,950,646	40.8%	101.4%
2006	6,957,940	4,089,950	58.8%	2,460,934	35.4%	94.2%
2007	5,758,572	2,837,990	49.3%	2,233,905	38.8%	88.1%
2008	4,423,316	2,180,500	49.3%	1,694,460	38.3%	87.6%
2009	3,475,623	2,298,838	66.1%	1,552,715	44.7%	110.80%

General and administrative expenses as stated above includes safety and loss control expense and excess insurance premium.

General and administrative expenses do not include return of premium expensed in that year.

ACCOUNTS AND RECORDS

During the course of examination, such tests and audit procedures were made as were considered necessary, including substantial verification of postings, extensions and footings, and reconciliation of subsidiary ledgers to control accounts where necessary. General ledger trial balances were reconciled with copies of the Independent Auditors' Financial Statements for the years 2005, 2006, 2007, 2008 and 2009 in order to verify the reasonableness of the financial presentation for the years since the prior examination.

Accounting records conform to generally accepted insurance accounting practices and appear to properly reflect the operations during the period under examination and the status of the Fund at the date of examination.

An annual audit of the Fund is performed by an independent accounting firm: Frasier, Dean & Howard, PLLC.

Books and records such as Declaration of Trust and Bylaws, board minutes and general correspondence of the Fund are kept at the office location of the Administrator:

1408 Ridgeway Road
Memphis, Tennessee 38119

Accounting and claims records are kept at the office of Alternative Service Concepts, LLC, (Third Party Administrator) located at:

2501 McGavock Pike
Suite 802
Nashville, Tennessee 37214

Membership and underwriting files are kept at the office of Willis Pooling:

Willis Administrative Services Corporation dba Willis Pooling
26 Century Boulevard
Nashville, TN 37214

The Fund maintained cash and cash equivalents on deposit at banks in excess of federally insured amounts. No losses have been experienced in such accounts, and management believes the Fund is not exposed to any significant credit risk related to cash and cash equivalents.

PECUNIARY INTEREST

TENN. COMP. R. & REGS. 0780-01-54.07(6) and (7) state:

> "No administrator or its employees or the pool's board of trustees shall accept, or be the beneficiary of, either directly or remotely, any fee, brokerage, commission, gift or other consideration for or on account of any loan, deposit, sale payment, exchange, or reinsurance transaction made by or on behalf of such pool, or be pecuniarily interest in such purchase, sale, loan, either as borrower, principle, coprinciple, agent or beneficiary, except that if a member, such person shall be entitled to all of the benefits accruing under the terms of the membership.
>
> "No administrator or its employees or the pool's board of trustees shall take or receive for their own use any fee, brokerage, commission, gift or other consideration of the pool except for reasonable compensation for services performed or sales or purchases made to or for the pool in accordance with the terms of the administrator contract approved by the Commissioner. No administrator or its employees or the pool's board of trustees shall collect a commission for the procurement of excess insurance for the pool."

The Administrator certifies and documents that to the best of her knowledge and belief that there is compliance with these rules.

REFUNDS OR DISTRIBUTIONS

Pursuant to TENN. COMP. R. & REGS. 0780-01-54.15, any monies in excess of the amount necessary to fund all obligations for that fund year may be declared to be refundable by the board of trustees not less than 18 months after the end of the fund year with the written approval of the Commissioner. If a refund is declared and approved by the Commissioner, 10% of the refundable amount must be retained by the pool for an additional year to cover any obligations that may not yet have been reported.

The following table is a summary of the refunds approved by the TDCI and distributed by the Fund categorized by fund year:

Fund Year	Amount of Refund
1995, 1996	$1,000,000
1996	500,000
1997	500,000
1997	500,000
1998	300,000
1996,1998	200,000
1995,1996, 1998	200,000
1995,1996,1998	250,000
1996,1998,2002	300,000
2002	250,000
2004	500,000
2004	250,000
2005	500,000
Total	$5,250,000

Refunds totaling $1,500,000 have been approved and paid since the prior examination. The approval history categorized by calendar year follows:

Amount	Date of Request from Fund	Fund Year for Refund	Date of Written Approval by TDCI
$250,000	March 10, 2005	4/1/02-03	March 28, 2005
500,000	August 31, 2006	4/1/04-05	September 28, 2006
250,000	March 7, 2007	4/1/04-05	March 31, 2007
500,000	December 5, 2007	4/1/05-06	*February 6, 2008

*Effective December 31, 2007, per the issued approval letter.

Disbursals are only made pursuant to the prior written approval granted by the TDCI. When the Board votes to approve a refund, it is always contingent upon the approval of the TDCI.

The Fund is not declaring refunds for any given fund year until the mandated time required by statue has elapsed. For example, the $500,000 refund approved on February 6, 2008, is from fund year April 1, 2005, to March 31, 2006, which would exhibit a fund year ending 21 months prior.

From April 8, 1986, up until the Rule was amended to become effective on November 14, 2005, the time frame was not less than, "12 months after the end of the fund year."

The refunds have typically been disbursed in the form of premium credits to current members, and as cash to former members no longer in the Fund.

LITIGATION AND CONTINGENT LIABILITIES

As of March 31, 2009, the Fund has committed no reserves to cover any contingent liability. Various lawsuits against the Fund have arisen in the normal course of business relating to workers' compensation claims' settlements. Contingent liabilities arising from such litigations which are known to exist are not considered to have a material adverse affect on its financial examination as of the examination date.

SUBSEQUENT EVENTS

The Fund and its custodian, SunTrust Bank, completed a new custodian agreement during the course of the examination to ensure compliance with the technical requirements of TENN. COMP. R. & REGS. 0780-01-46-.03(2)(a), which became effective on July 12, 2005. The rule states:

"The custodial agreement required by this rule shall contain the following:

1. A provision stating that the standard of responsibility on the part of the custodian shall not be less than that of the responsibility of a bailee for hire or a fiduciary under statutory or case law of Tennessee;

2. A provision stating that the securities held by the custodian are subject to instructions of the insurance company;

3. A provision stating that the securities may be withdrawn immediately upon demand of the insurance company; and

4. A provision stating that the agreement is between the custodian and the insurance company, and not the parent or affiliate of the insurance company."

The new agreement signed by SunTrust Bank on May 17, 2010 and by the Fund on May 18, 2010 exhibited language compliant with TENN. COMP. R. & REGS. 0780-01-46-03(2)(a).

FINANCIAL STATEMENT

There follows a balance sheet and a statement of operations and fund balance as of March 31, 2009, together with a reconciliation of member deposits and distributions due to members for the period under review, as established by this examination:

BALANCE SHEET

Assets	
Cash and cash equivalents	$ 234,801
Marketable debt securities (Munic. Bonds)	7,655,305
Marketable debt securities held in trust	516,321
Premiums receivable (audit premium)	353,028
Accounts receivable: Excess Reinsurance	53,562
Accrued investment income	131,664
Prepaid expenses	13,910
Income taxes refundable	135,000
Deferred income taxes	138,000
	$9,231,591
Liabilities and Members' Surplus	
Liabilities	
Loss and loss adjustment reserves	$6,565,500
Audit premiums (refunds)payable	477,023
Premium taxes payable	109,054
Management fees payable (ASC)	9,757
Service fees payable (Willis)	12,236
Loss control fees payable (Fortier)	4,605
Payroll audit fees payable (Overland)	17,335
Accrued expenses (other)	14,891
Unearned premiums	70,752
Total liabilities	7,281,153
Surplus/Members' Surplus	
Retained earnings	1,950,438
Total surplus/members' equity	1,950,438
	$9,231,591

STATEMENT OF INCOME

Revenues	
Premiums earned	$3,475,623
Investment income	294,662
Total revenues	3,770,285
Expenses	
Losses and loss adjustment	2,298,838
Excess insurance premiums	492,967
General and administrative	258,221
Commissions	244,384
Administrative fees (ASC)	217,922
Management fees (Willis)	173,781
Premium taxes	83,415
Safety and loss control	82,025
Total expenses	3,851,553
Income before income taxes	(81,268)
Income tax (benefit) expense	(109,810)
Net income	$28,542

STATEMENT OF CHANGES IN MEMBERS'S EQUITY

	2005	2006	2007	2008	2009
Total members' equity prior year	$751,022	$845,838	$1,312,385	$1,583,747	$1,921,896
Net income before taxes and return of premium to members	547,811	655,162	1,008,774	876,649	(81,268)
*Return of premium paid to members	(452,995)	0	(750,000)	(500,000)	0
Income tax benefit (expense)	0	(188,615)	12,588	(38,500)	109,810
Total members equity, March 31	**$845,838**	**$1,312,385**	**$1,583,747**	**$1,921,896**	**$1,950,438**

*GAAP Accounting Principles utilized treat refunds paid to members of the Fund during a given year as operating expense which required the amount of the refund to be deducted from total income prior to the calculation of net income or net loss for federal income tax purposes.

The $452,995 expensed paid during the 2005 calendar year was from fund year April 1, 2002, through March 31, 2003; fund year April 1, 1997, through March 31, 1998; and fund year April 1, 1995, through March 31, 1996.

The $750,000 refund expensed during the 2007 calendar year was from fund year April 1, 2004, through March 31, 2005.

The $500,000 refund expensed during the 2008 calendar year was from fund year April 1, 2005, through March 31, 2006.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Differences in various items were noted during the course of examination; however, none were considered to produce a material effect on surplus funds, as regards policyholders, either singly or in aggregate.

SUMMARY SCHEDULE FOR "ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION" AS THEY AFFECT SURPLUS

All noted differences were within tolerable error and planning materiality established for examination purposes.

COMMENTS AND RECOMMENDATIONS

Comments:

- The Fund effected a new custodial agreement with SunTrust Bank, NA, during the course of the examination to clarify some technical language pursuant to Tennessee Regulations. The agreement was discussed previously in the report under the caption, "Subsequent Events".

- The Fund is in compliance with TENN. COMP. R. & REGS. 0780-01-54-.11(1), which became effective March 16, 2009, requiring the following:

  "A pool shall establish and maintain an aggregate surplus equal to:

  (a) thirty percent (30%) of the unpaid claims liability of the pool. The pool may accumulate the surplus at a rate of ten percent (10%) per fund year over the next three (3) years. However, each pool shall have an aggregate surplus of thirty (30%) of the unpaid claims liability three years from the effective date of this Chapter."

- The minutes of the Board of Trustees meetings document that a new Chairman was elected; however there was no record of the voting or appointment by acclamation in the record.

Recommendations:

- It is recommended that the Fund put in place controls in order to monitor compliance with TENN. COMP. R. & REGS. 0780-01-54.05 pertaining to the filing of amendments to agreements and written contracts. This recommendation includes working with the TDCI in order to determine if a copy of the unsigned agreement can be filed no later than 30 days prior in order to meet the time line for effective date. Documents including amendments to the Claims Servicing Agreements were filed with the TDCI; however, the filing was not within the required time line.

  TENN. COMP. R. & REGS. 0780-01-54.05 requires:

  "Any amendments to the organizational documents or written contracts required to be provided to the Commissioner by Rule 0780-01-54-.04 shall be filed with the Commissioner with a non-refundable filing fee of ninety dollars ($90.00) no later than thirty (30) days prior to the proposed effective date of the amendments."

CONCLUSION

Insurance examination practices and procedures, as promulgated by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities of Associated Builders & Contractors of Tennessee Workers' Compensation Self-Insurance Fund.

In such manner, it was determined that, as of March 31, 2009, the Fund had assets of $9,231,591 and liabilities of $7,281,153. Thus, there existed for the additional protection of the policyholders, the amount of $1,950,438 in the form of surplus (members equity).

The courteous cooperation of the officers and employees of the Fund extended during the course of the examination is hereby acknowledged.

In addition to the undersigned, Donnie R. Nicholson, Insurance Examiner participated in the work of this examination.

Respectfully submitted,

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

AFFIDAVIT

The undersigned deposes and says that he has duly executed the attached examination report of Associated Builders & Contractors of Tennessee Workers' Compensation Self-Insurance Fund dated September 7, 2010, and made as of March 31, 2009, on behalf of the Department of Commerce and Insurance, state of Tennessee. Deponent further says he is familiar with such instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 7th day of

September, 2010

Notary Helen W. Dorsey

County Davidson

State Tennessee

Commission Expires 03/03/2014

HELEN W DORSEY
STATE OF TENNESSEE NOTARY PUBLIC
DAVIDSON COUNTY