

REPORT ON EXAMINATION

of the

WORKERS' COMPENSATION SELF-INSURANCE GROUP FUND

of the

COMPTRUSTAGC...TENNESSEE

**408 ELM STREET
NASHVILLE, TENNESSEE**

as of

MARCH 31, 2008

RECEIVED

DEC 10 2009

Dept. of Commerce & Insurance
Company Examinations

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

TABLE OF CONTENTS

<u>Item</u>	<u>Page</u>
Salutation.....	1
Introduction.....	1
Scope of Examination.....	1
History and Organization (includes exhibit of growth and financial history)	2
Trust Agreement and Declaration of Trust and Bylaws	5
Indemnity Agreement	6
Management and Control	7
Corporate Records	9
Management Agreements	10
Administrative Agreement	10
Claims Service Agreement	11
Related Party Services	13
Fidelity Bond and Other Insurance	14
Statutory Deposits	15
Market Conduct Activities	15
Excess of Loss Insurance.....	18
Loss Experience	20
Accounts and Records.....	21
Pecuniary Interest Tenn. Comp. R. & Regs. ch. 0780-1-54.07(6) and (7)	23
Dividends/Refunds or Distributions.....	23
Litigation and Contingent Liabilities	24
Subsequent Events	25
Financial Statement.....	27
Balance Sheet.....	27
Statement of Income.....	28
Statement of Changes in Members' Equity.....	29
Analysis of Changes in Financial Statement and Comments Resulting from Examination.....	31
Comments and Recommendations	32
Conclusion.....	35
Affidavit.....	36

Nashville, Tennessee
December 10, 2009

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

WORKERS' COMPENSATION SELF-INSURANCE GROUP FUND

Of the

COMPTRUSTAGC...TENNESSEE

408 ELM STREET
NASHVILLE, TENNESSEE 37203

hereinafter and generally referred to as the "Fund" and "Trust" respectively, 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 January 28, 2008 in accordance with Tenn. Code Ann. § 50-6-405 and Tenn. Comp. R. & Regs. 0780-1-54-.20. On-site examination work commenced on November 17, 2008. The examination was performed by duly authorized representatives of the Department of Commerce and Insurance, State of Tennessee ("TDCI").

With the Trust 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 January 13, 1994 which is the date of the Declaration of Trust and Bylaws to the close of business on March 31, 2008, 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, 2008. The financial condition of the Trust 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 Trust'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

This is the initial examination of the Trust.

HISTORY AND ORGANIZATION

The Associated General Contractors of Tennessee, Inc. (AGC of Tennessee), a general welfare non-profit corporation organized and existing under the laws of the State of Tennessee, was chartered on January 20, 1920. The purpose of this organization is to further the purposes of the Associated General Contractors of America, Inc., on a local level, and to promote the principles of Skill, Integrity, and Responsibility among the construction industry in Tennessee. The AGC of Tennessee has Branch Offices in

Memphis, Nashville, Knoxville and the Tri-Cities areas. Membership is comprised of General Contractors, Subcontractors and businesses who provide services or products used in the construction of Buildings, Highways and Municipal/Utility projects in Tennessee. A separate Chapter, the Associated General Contractors of East Tennessee, is located in Chattanooga and provides similar service to the construction industry in that area.

The primary purpose for which this organization is formed is to bring unity to the construction industry in Tennessee. Other purposes include the coordination of legislative activities among its members; constant liaison with the State and Federal agencies on construction rules and regulations important to the membership; constant development and coordination of training programs for construction craftsmen; promotion of better relations among its members; to maintain high professional standards in the conduct of business of its members; and to join together its members to improve the business conditions within the construction industry in Tennessee.

The Trust is an unincorporated association that was created by the AGC of Tennessee to act as a self-insurance group. The operation of the Trust is confined to Tennessee where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Trust is composed of qualifying members of the AGC of Tennessee who have pooled their liabilities under the Tennessee Workers' Compensation Law.

The Trust was created on January 13, 1994. The Fund subsequently went into operation on April 1, 1994 with contributions from the initial members equal to 25% of their first year estimated annual net premium for workers' compensation coverage (in accordance with Tenn. Comp. R. & Regs. 0780-1-54-.04). The Trust continues to maintain the members' deposits and new members in the Trust are also required to make a contribution equal to 25% of their first year estimated annual net premium if they are accounted for on a self-reporting basis.

Premiums are paid in advance if a member selects a quarterly or monthly payment option which is not on a self-reporting basis.

At December 31, 2008, the Trust was licensed in one state, Tennessee.

The following exhibit depicts certain aspects of the growth and financial history of the Company since inception, according to financial statements filed with the TDCI.

<u>Fund Year</u>	<u>Members</u>	<u>Earned Premium Revenue</u>	<u>Total Expenses</u>	<u>Assets</u>	<u>Equity*</u>
1995	78	\$3,773,119	\$3,865,333	\$3,553,360	\$26,948
1996	83	6,843,473	6,852,310	7,148,193	212,068
1997	88	8,857,411	9,633,314	10,655,002	26,131
1998	89	6,043,655	6,120,968	8,868,024	1,372,754
1999	95	5,567,509	5,952,922	8,674,835	1,450,621
2000	69	5,535,616	6,578,776	7,850,821	1,008,615
2001	69	5,508,268	5,800,265	8,432,208	1,032,894
2002	84	6,193,193	6,419,967	9,586,713	1,041,637
2003	81	7,975,449	8,040,814	11,342,660	1,166,877
2004	85	7,839,050	7,965,342	12,485,812	1,624,748
2005	85	8,860,753	8,797,336	15,103,007	**3,011,984
2006	81	8,812,828	8,920,931	17,333,094	3,554,075
2007	75	7,926,234	8,225,790	18,673,682	4,110,421
2008	66	7,739,731	***4,836,227	18,511,996	5,529,780

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 29 of this report under the caption, "Statement of Changes in Members' Equity."

*Equity does not include members' deposits (contributions) held by the Trust as a condition of membership

** The deferred tax liability was adjusted during the 2005 year increasing equity by \$1,096,032. The deferred liability had been calculated using conservative tax rates and methodologies from the inception of the Trust.

*** Redundant reserve development of \$2.8 million in the 2008 year

TRUST AGREEMENT AND DECLARATION OF TRUST AND BYLAWS

The Trust was created through the adoption of the Declaration of Trust and Bylaws which was executed on January 13, 1994 and formally approved by the TDCI effective April 1, 1994. The Trust was formed to act as a workers compensation self-insurance group as defined by Tenn. Comp. R. & Regs. 0780-1-54-.02 and as authorized by Tenn. Code Ann. § 50-6-405. The Trust operated under its original name of "Associated General Contractors Self-Insured Workers' Compensation Trust" until 1996. On April 18, 1996, the Trust Agreement and Declaration of Bylaws was amended in order to change the Trust's legal name to: "CompTrustAGC... Tennessee."

The TDCI had knowledge of the name change since the date of the amendment; however, no formal filing of the amendment at that point in time could be documented in the TDCI office files. The copy of the amendment on file with the TDCI is stamped received September 5, 2006.

Tenn. Comp. R. & Regs. 0780-1-54.04(3) in effect on April 18, 1996, required the following:

"A group shall notify the commissioner of any change in the information required to be filed under subsection (1) of this section or in the manner of its compliance with subsection (2) of this section no later than 30 days after such change."

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

The Trust Agreement and Bylaws state the purpose of the Trust as follows:

"to hold and administer the Fund through which its Members can fulfill their responsibilities under the Tennessee Workers' Compensation Act; to form a workers' compensation self-insurance group pursuant to the Act; to provide for workers' compensation coverage and for benefits to employees and dependents of its Members; to provide, at such time as the solvency and reserves of the Fund permit, in the sole discretion of the Trustees, the discounts or dividends on contributions made by Members for workers' compensation coverage; and to contain the cost of providing workers' compensation coverage by developing and refining specialized claim techniques and a loss prevention program."

The Trust is an association which is owned by its Members. Membership in the Trust consists of individuals, corporations and partnerships or other legal entities which are members in good standing of the Associated General Contractors of Tennessee (AGC of Tennessee) and which contribute to the Fund as a participating member in the Trust. The term Members includes those individuals, corporations and partnerships executing, or otherwise being bound by, the Indemnity Agreement and Power of Attorney.

On April 1, 2006, the Trust amended its Declaration and Bylaws to change the definition of "Settlor" from "Associated General Contractors of Tennessee" to "Associated General

Contractors of Tennessee and Associated General Contractors of East Tennessee," hereinafter to be collectively referred to as "AGC." Documentation of this amendment which also referenced all prior amendments was filed with the TDCI on September 5, 2006.

Tenn. Comp. R. & Regs. 0780-1-54.05 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."

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

The principal office of the Trust was established as follows:

408 Elm Street
Nashville, Tennessee 37203

INDEMNITY AGREEMENT

In accordance with Tenn. Comp. R. & Regs. 0780-1-54-.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, and the Trust will pay any assessments lawfully levied against it by the State of Tennessee.

The members intend for this agreement to be 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 Board may admit as members of the Trust only those who meet the criteria for membership 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.

The Board will promulgate the rules and regulations for administering the Trust, the expulsion of or suspension of members and, subject to the Regulations, the

admission of members. Each member of the Group agrees to abide by such rules and regulations.

Each Member shall initiate and maintain a safety program to provide its employees safe and sanitary working conditions and shall follow the general recommendations of the Trust in this field to promote the general welfare of its employees.

MANAGEMENT AND CONTROL

The operation and administration of the Trust is the joint responsibility of a Board of Trustees consisting of not more than 15 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 which is in accordance with Tenn. Comp. R. & Regs. 0780-1-54-.06. All of the Trustees are required to be employees, officers or directors of members of the Trust. No affiliate of the administrator or the service agent shall serve as a Trustee. The Board of Trustees shall elect officers from among its members to serve for terms of one year. The officers of the Trust shall consist of a Chairman, a Vice-Chairman, and a Secretary.

At March 31, 2008 the following persons were serving as members of the Board of Trustees:

Name and Address

David Dando
MCDR, Inc.
Memphis, TN 38117

Chairman

Larry Parks
T.U. Parks Construction
Chattanooga, TN 37404

Vice-Chairman

Marv House
Merit Construction, Inc.
Knoxville, TN 37922

Secretary

Cecil Morgan, Jr.
Morgan, Inc.
Clarksville, TN 37041

Trustee

Becky Hill
HVAC, Inc.
Bristol, TN 37261

Trustee

Todd Wolf
Shoffner Acquisition Corporation, Inc.
Knoxville, TN

Associate Trustee

Bill Prince
BurWil Construction Co. Inc.
Bristol, TN 37261

Associate Trustee

The initial Board of Trustees elected at the organizational meeting was empowered by the Declaration of Trust and Bylaws and served until the first meeting of the members of the Trust which was the "First Tuesday in October of 1995." Thereafter, the Trustees shall be elected by the members of the Trust. Each Trustee shall serve for a term of three (3) years. A Trustee may resign and be fully discharged from all further duties or responsibilities by giving at least 30 days prior written notice to the Chairman of the Board of Trustees. 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 as stated in the Bylaws include the following:

- The Trustees shall be responsible for all monies collected or disbursed by the Trust and for the segregation of all monies into the claims fund account and the administrative fund account.
- The Trustees shall receive applications for membership from prospective new members of the Trust and shall approve or disapprove such applications in accordance with rules promulgated by the Trustees.
- The Trustees shall be responsible for establishing such trusts, loss funds, or other funds as may be required from time to time by the Rules or as may be established by the Trustees from time to time.
- The Trustees shall be responsible for and shall undertake the posting of such security deposits and/or security bonds as may be required to be posted with the TDCI.
- The Trustees shall be responsible for and shall cause to be filed with the TDCI and elsewhere such annual or other periodic audits, reports, disclosures as may be required from time to time by applicable federal or state statutes or governmental regulations.
- The Trustees shall take all necessary precautions to safeguard the Fund and the other assets of the Trust including designating the administrator and the service

agent of the Fund.

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

Actuarial Services:	J. Edward Costner, ACAS, MAAA Casualty Actuarial Consultants, Inc. 7101 Executive Center Drive Suite 225 Brentwood, TN 37027
Auditing Services:	Crowe Horwath LLP 105 Continental Place, Suite 200 Brentwood, TN 37027
Bookkeeping Services:	Fox + Kolb Associates, PLLC 5141 Virginia Way, Suite 470 Brentwood, TN 37027
Claims Processing Services:	Brentwood Services Administrators, Inc. P. O. Box 1125 104 Continental Place, Suite 200 Brentwood, TN 37024-1125
Premium Auditing Services:	Millennium Insurance Solutions, Inc. 6150 Southard Trace, Suite 202 Cumming, GA 30040

CORPORATE RECORDS

The members of the Board of Trustees shall meet quarterly or as often as required at the principal office of the Trust or at such other location as may be acceptable to the Trustees. Special meetings of the Trustees may be called at any time and may be by telephone conference calls or other methods of communication by which all Trustees participating may simultaneously hear each other. The Members of the Trust shall meet annually on the first Tuesday in October of each year at the offices of the Trust or at such other place and time as may be determined by the Board of Trustees.

Some of the minutes from early meetings during 1995, 1996 and part of 1997 were accidentally destroyed; however, a summary was available for review. The examiners did review documentation of 100 regular and special meetings of the Board of Trustees. The minutes of those meetings were reviewed and appear to reflect properly the acts of the respective body. Membership requirements, powers and duties of board members and Trust members were verified to be in accordance with the Rules of the TDCI.

MANAGEMENT AGREEMENTS

Administrative Agreement:

The Trust has used only one administrator, Mr. William B. Young since its inception in 1994. The "Application To Serve As Administrator of Self-Insurance Group Pool" which was filed with the TDCI was dated January 26, 1994 and was filed as part of the license process. The document on file with the TDCI does not have a date received stamp affixed.

On March 21, 2003 the Trust and Mr. Young executed an "Administrator Agreement" whereas, the Trust desires to engage Administrator to carry out certain policies and perform day to day management of the Trust. The Administrator shall also conduct such other activities as required by applicable state laws and regulations. The Agreement on file with the TDCI was stamped received February 24, 2006.

Tenn. Comp. R. & Regs. 0780-1-54.04(3) in effect on March 21, 2003, required the following:

"A group shall notify the commissioner of any change in the information required to be filed under subsection (1) of this section or in the manner of its compliance with subsection (2) of this section no later than 30 days after such change."

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

Specific delineated areas of authority include the following:

- Purchase and selection of excess insurance;
- Purchase and selection of errors and omissions coverage for the Board;
- Purchase and selection of surety bond;
- Implementation of marketing policies approved by the Board;
- Final underwriting authority to the extent not retained by the Board;
- Payment of vendors and other expenses;
- Hiring and firing of staff of the Administrator; and
- Execution, on behalf of the Trust and with approval of the Board, of contracts for claims administration, accounting and actuarial services.

"Trust shall pay the Administrator for expenses incurred relating to the authority granted under this Agreement." "Trust and Administrator agree that all fees payable to Administrator under this Agreement are reasonable expenses pursuant to the engagement."

The Administrator does not receive a salary from the Trust. Mr. Young's formal employment is "Executive Vice President of the AGC of Tennessee." The Trust reimburses the administrator for travel expenses incurred on behalf of the Trust which are immaterial in relation to the Trust's overall financial operation. The Agreement does

not define the specific expense items to be reimbursed.

Either party may terminate the agreement without cause upon giving not less than 30 days written notice.

Mr. Young continues to act as "Administrator" as defined within the meaning of Tenn. Comp. R. & Regs. 0780-1-54-.02(1),

Claim Processing Agreement:

Effective July 1, 1999, the Trust entered into a "Service Agreement for Administration of a Claims Program" with Brentwood Services Administrators, Inc. ("Brentwood") in order to obtain third party administrator services in regards to claims processing and other related services. The Trust had contracted with Sedgwick James of Tennessee, Inc. for the same type of services since April 1, 1994 before changing Third Party Administrators.

The "Service Agreement for Administration of a Claims Program" between Brentwood and the Trust was stamped received by the TDCI on September 3, 1999. Brentwood had previously filed a specific request letter dated June 18, 1999 to act as the "Service Company" for the Trust effective July 1, 1999.

Tenn. Comp. R. & Regs. 0780-1-54.09(3) in effect on November 1, 1997, required the following:

"All service companies must file a request for approval by the Commissioner and have a letter or certificate of approval from the commissioner prior to engaging in any service to self-insured pools or groups."

Brentwood Services Administrators, Inc. had been an approved "Service Company" for self-insured pools and groups dating back to April 1, 1992. Brentwood is currently licensed as a Third Party Administrator with the TDCI.

The "Agreement to Provide Third Party Administrator Services" with Brentwood in effect as of the date of this examination was effective April 1, 2007 to remain in effect until April 1, 2010. The agreement shall be automatically renewed for consecutive one (1) month terms at the ending date unless written notice of termination is provided by one party to the other party 30 days prior to the ending date of the agreement or any one (1) month extension thereof, or a new agreement is entered into between the parties. Either party may terminate the agreement during its term by providing 120 days prior written notice of termination to the other party.

The 2007 agreement with Brentwood was not formally filed with the TDCI on behalf of the Trust. Brentwood does file copies of all their Third Party Administration Agreements as party of their annual renewal process in order to be licensed in Tennessee as a "Third Party Administrator."

Tenn. Comp. R. & Regs. 0780-1-54.05 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."

The agreement stipulates that Brentwood will provide the following services:

- Providing claims services
- Providing marketing and marketing assistance services
- Providing account management services

Examples of claims services to be provided are:

- Service, review, investigate, adjust, process and/or resist workers' compensation claims presented against the Trust
- Establish claim reserves and provide continuous review and update as necessary
- Prepare loss reports for Trust management no less than 15 days following the last day of the previous calendar month
- Prepare, maintain and file any and all records and reports that may be required by any state regulatory agencies in connection with Brentwood's handling of claims as instructed by the Trust
- Coordinate the assignment of and/or provide utilization management services on claims requiring or needing such services (Medical Case Management)

Examples of marketing and marketing assistance services to be provided:

- Develop and implement a marketing plan with the Trust's assistance to promote and present to prospective members

Examples of account management services to be provided:

- Develop underwriting rules for member employers to obtain workers' compensation coverage through the Trust in accordance with Trust rules and excess insurance carrier(s)'s rules and guidelines

- Review each prospective member employer with regard to the promulgated underwriting rules and guidelines for acceptance into the Fund.
- Maintain underwriting files which shall be available for review by the Fund
- Develop appropriate premium amounts for each member using classification codes, rates, modifiers, etc. consistent with appropriate law
- Present the appropriate billing to the participating member employer for payment by them to the Fund
- Promulgate experience modification factors for each participating member employer utilizing ModMaster
- Provide the Fund with documents evidencing the amount of any insurance producer commissions paid

The Trust agrees to pay to Brentwood a service fee equal to a percent of the Fund's participating employers' payroll subject to a minimum annual service fee.

RELATED PARTY SERVICES

The AGC of Tennessee has furnished office space, clerical supplies and personnel for the operation of the Trust since its inception. The Administrator of the Trust who does not receive a salary from the Trust is also employed as the Executive Vice President of AGC of Tennessee. For a number of years, the Trust has paid a fee of approximately \$32,500 per quarter to AGC of Tennessee to reimburse for services and personnel.

Safety and Loss Control activities are performed by safety directors employed by the branches of the AGC of Tennessee which are located in Memphis, Nashville, Knoxville and the Tri-Cities, and the AGC of East Tennessee, whose office is located in Chattanooga. These activities are considered paramount to the operations of the Trust. Historically, the Trust has paid each branch a percentage of the premium generated from members of that specific branch. These funds are used to fund the safety and loss control activities including personnel, on site job inspections, various training seminars. The Trust also reimburses the AGC of Tennessee for the purchase of certain fixed assets used by the Safety Director such as automobiles for travel to job sites. During the fiscal year ending March 31, 2008, the Trust incurred safety and loss expenses to the Branches and AGC of Tennessee in excess of \$421,000.

No formal written agreement has been consummated between AGC of Tennessee and the Trust indicating services provided or reimbursement formulas.

No formal written agreement describing the services performed by the Branches or describing the how the reimbursements are calculated has been consummated. The

Trust did have documentation indicating the percentage of premium to be reimbursed to the Branches.

As no formal agreements existed, no filings could be made as required by Tenn. Comp. R. & Regs. 0780-1-54.05 which states:

“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.”

FIDELITY BOND AND OTHER INSURANCE

The Trust maintains fidelity coverage with St. Paul Fire & Marine Insurance Company in the form of a “Financial Institution Bond” with employee coverage in the amount of \$500,000. This policy was renewed on April 1, 2008 and is effective until April 1, 2011.

The Trust maintained a Private Company Directors, Officers and Private Company Liability Insurance Policy with National Specialty Insurance Company in the amount of \$5,000,000 aggregate with a deductible of \$50,000 each claim for securities and \$25,000 deductible for all other claims. This policy contains errors and omissions coverage which covers the Trust’s administrator in addition to the Trustees. 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 referenced policies also comply with Tenn. Comp. R. & Regs. 0780-1-54-.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 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;”

Brentwood Services Administrators, Inc. maintains certain insurance coverage as required under its “Agreement to Provide Specified Third Party Services” dated April 1,

2007. These include general liability, auto liability, workers' compensation, contractual liability and crime coverage. The various policies are issued by insurance companies within the Travelers umbrella of companies.

- The crime policy is issued by Fidelity and Deposit Company of Maryland and covers employee theft up to \$5,000,000 with a \$50,000 deductible.
- The workers compensation policy is issued by The Travelers Casualty and Surety Company with standard limits for both workers compensation and employers liability.
- The auto policy is issued by The Travelers Indemnity Company of America with a \$1,000,000 liability limit for one accident or loss and standard limits for medical and uninsured motorist.
- The general liability policy is issued by The Charter Oak Fire Insurance Company with a \$2,000,000 general aggregate and \$1,000,000 each occurrence limit with a \$1000 deductible for businessowners property coverage per occurrence and a \$250 deductible for building glass per occurrence.
- The commercial excess liability (umbrella) policy is issued by The Travelers Indemnity Company with a \$10,000,000 aggregate limit and a \$5,000 retained limit per occurrence.

All of the above insurance companies are licensed in the State of Tennessee.

STATUTORY DEPOSITS

In compliance with statutory requirements, the Trust maintained the following deposits at March 31, 2008.

<u>Where Deposited and Description</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Tennessee			
Williamson County TN 3.25%, due 4/1/2012	\$250,000	\$253,939	\$253,939
Shelby County TN 5.00%, due 4/1/2012	<u>250,000</u>	<u>263,135</u>	<u>263,135</u>
Total	<u>\$500,000</u>	<u>\$517,074</u>	<u>\$517,074</u>

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Trust as of March 31, 2008, in conjunction with this examination. The following items were addressed:

Policy (Certificate of Coverage) Forms and Underwriting Practices:

A review was made of the Trust'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 & Reg. 0780-1-54-.10(4).

No unusual findings were noted.

The Trust offers three payment plans to its members:

- Self Reporting – "Member pays one month in arrears (in April for March premiums) based upon actual payroll. Members are required to have a 25% deposit of anticipated annual premiums."
- Monthly – "Member pays monthly, with a deposit made at beginning of each Plan year covering first month and last two months' premiums. One deposit and nine monthly payments (ending in January) are made in each year."
- Quarterly – Member remits three months' worth of payments at the beginning of each quarter. No deposit required.

Advertising:

The advertising file was reviewed and the advertising material appears to be in compliance with applicable statutes and regulations. The Trust markets to members of the AGC of Tennessee with the coverage written through independent agents licensed in the State of Tennessee. The agents can only receive a commission on the transaction if they are an associate member of the AGC of Tennessee. Under terms of an agreement between the Trust and Brentwood Services Administrators, Inc., Brentwood provides "Specified Third Party Administrator Services" which include providing marketing and marketing assistance services.

The Trust maintains information concerning its services on the website <http://comptrustagctn.com>. This website can also be linked from the website of Associated General Contractors of Tennessee at www.tnagc.org.

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 Trust's liability.

Tenn. Comp. R. & Regs. 0800-2-14.07(1) requires: "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. 0800-2-14.05(1) requires: "Compensation payments for an injury shall be received by the claimant no later than 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 two claims. The two claims were within 4 to 6 days of the standard and the elapsed time related to clerical issues which do not appear to present a systemic problem:

Brentwood Services Administrators, Inc. which is the third party administrator processing the Trust's claims has an internal standard which requires all provider bills to be paid within 15 days of receipt of the bill. If a particular bill is not paid within the referenced time frame, the claims supervisor speaks directly with the claims adjuster or the appropriate Medical Bill Review personnel to determine the cause of the delay, with a view towards preventing any delay in the future.

One of the claims sampled also exhibited a material case reserve increase. The claim originated in 2006 and the increase was made in January, 2009 as the severity of the potential impairment became apparent.

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 or items warranting criticism of the Company were noted.

Privacy of Non-Public Personal Information

The Trust's members (policyholders) are commercial businesses. Tenn. Comp. R. & Regs. 0780-1-72, "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 service for business, commercial or agricultural purposes."

Brentwood Services Administrators, Inc. processes the claims of the beneficiaries of the workers' compensation policies issued by the Trust to its members. In the agreement for "Specified Third Party Administrator Services" with the Trust, Brentwood includes confidentiality and protection language in an Exhibit F. "Part 1." of the exhibit states the parties hereto agree:

"all electronically stored information made accessible by Brentwood to the Fund will not under any circumstance be revealed or released to any person or entity not directly in the decision making process of handling the claim to which the information refers;"

The relationship of a beneficiary is addressed by Tenn. Comp. R. & Regs. 0780-1-72-.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 under "rules 0780-1-72-.14, 0780-1-72-.15, and 0780-1-72-.16."

EXCESS OF LOSS INSURANCE

The Trust's excess of loss policies have historically covered the one (1) year period of time commencing April 1 for each year since inception of the Trust. The contracts have been with different carriers and have had different specific retentions ranging from \$250,000 to \$600,000 per policy year. The Trust obtained aggregate retention coverage in its early years and then requested approval from the TDCI to maintain specific coverage only after its financial position strengthened. A request is made each policy year to the TDCI to forgo aggregate excess insurance and is accompanied by an actuarial analysis supporting the request. For the policy year, April 1, 2008 to March 31, 2009, the request was made on March 17, 2008 and was approved by the TDCI via letter dated March 19, 2008.

The Trust had in effect for the period April 1, 2007 to March 31, 2008 an excess of loss agreement for workers compensation and employers liability claims with ACE American insurance Company in accordance with Tenn. Comp. R & Reg. ch. 0780-1-54-.04(3)(c). Under the agreement's specific coverage, the excess insurer agrees to indemnify the Trust for the amount in excess of the Trust's \$600,000 specific retention for each accident or employee disease up to the statutory limit for workers' compensation and up to \$1,000,000 for employers liability.

A summarization by policy year follows:

Policy Year	Specific Retention	Aggregate Formula	Aggregate Retention	Maximum Policy Limit	Insurer
4/1/94 - 3/31/95	\$250,000	90% of Std. Premium	\$3,472,500	\$5,000,000	National Union Fire Insurance Company of Pittsburgh, PA (AIG)
4/1/95 - 3/31/96	250,000	90% of Std. Premium	6,160,108	5,000,000	New Hampshire Insurance Company

4/1/96 – 3/31/97	250,000	90% of Std. Premium	6,300,000	5,000,000	(AIG) New Hampshire Insurance Company
4/1/97 – 3/31/98	250,000	90% of Std. Premium	6,000,000	5,000,000	(AIG) National Union Fire Insurance Company of Pittsburgh, PA
4/1/98 – 3/31/2000	200,000	85% of Std. Premium for two-year period	9,579,717	10,000,000	(AIG) National Union Fire Insurance Company of Pittsburgh, PA
4/1/2000 – 9/1/2000 cancelled	250,000				(AIG) Reliance National in Liquidation canceled
9/1/2000 – 3/31/2002	250,000	No Aggregate	n/a	n/a	National Union Fire Insurance Company of Pittsburgh, PA (AIG)
4/1/2000- 3/31/2002		94% of Normal Premium for two-year premium	8,523,400*	5,000,000	Midwest Employers Casualty Company
4/1/2002 – 3/31/2003	500,000	110% of Standard Premium	7,355,500	2,000,000	Midwest Employers Casualty Company
4/1/2003 – 3/31/2004	500,000	No aggregate	n/a		National Union Fire Insurance Company of Pittsburgh, PA (AIG)
4/1/2004 – 3/31/2005	500,000	No aggregate	n/a		National Union Fire Insurance Company of Pittsburgh, PA (AIG)
4/1/2005 – 3/31/2006	500,000	No aggregate	n/a		ACE American Insurance Company

4/1/2006 – 3/31/2007	500,000	No aggregate	n/a	ACE American Insurance Company
4/1/2007 – 3/31/2008	600,000	No aggregate	n/a	ACE American Insurance Company

*Minimum aggregate retention for policy period of 4/1/2000 – 3/31/2002

The policies provide coverage for losses sustained by the Trust 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.

The Trust's exposure to the insolvency of Reliance National is not considered to be a material amount. Only one claim has hit the \$250,000 retention on a paid basis. Reliance covered five months (April 1 – September 1) in the year 2000 and was then cancelled as the carrier. The Reliance Companies were placed in liquidation on October 3, 2001 by the Commonwealth Court of Pennsylvania.

LOSS EXPERIENCE

<u>Year</u>	<u>Premiums Earned</u>	<u>Incurred Losses & LAE</u>	<u>Underwriting Ratio</u>	<u>General & Adm. Exp.</u>	<u>Gen. & Adm. Exp. to Prem.</u>	<u>Combined Ratio</u>
1995	\$3,773,119	\$2,641,183	70%	\$1,224,150	32.4%	102.4%
1996	6,843,473	4,790,431	70%	2,061,879	30.1%	100.1%
1997	8,857,411	6,200,188	70%	3,433,126	38.8%	108.8%
1998	6,043,655	3,022,368	50%	3,098,600	51.3%	101.3%
1999	5,567,509	3,550,751	63.8%	2,402,171	43.1%	106.9%
2000	5,535,616	4,735,650	85.5%	1,843,126	33.3%	118.8%
2001	5,508,268	3,945,758	71.6%	1,854,507	33.7%	105.3%
2002	6,193,193	4,402,075	71.1%	2,017,892	32.6%	103.7%
2003	7,975,449	4,962,042	62.2%	3,078,772	38.6%	100.8%
2004	7,839,050	4,703,054	60%	3,262,288	41.6%	101.6%
2005	8,860,753	5,188,646	58.6%	3,608,690	40.7%	99.3%

Year	Premiums Earned	Incurred Losses & LAE	Underwriting Ratio	General & Adm. Exp.	Gen. & Adm. Exp. to Prem.	Combined Ratio
2006	8,812,828	5,610,155	63.7%	3,310,776	37.6%	101.3%
2007	7,926,234	4,953,033	62.5%	3,272,757	41.3%	103.8%
2008	7,739,731	1,791,442	23.1%	3,044,785	39.3%	62.4%

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

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 2004, 2005, 2006, 2007 and 2008 in order to verify the reasonableness of the financial presentation for all 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 Trust at the date of examination.

An annual audit of the Trust is performed by an independent accounting firm, Crowe Horwath LLP.

Books and records of the Company are kept at the home office location:

408 Elm Street
Nashville, Tennessee 37203

Claims records are kept at the office of Brentwood Service Administrators, Inc. (Third Party Administrator) located at:

104 Continental Place
Suite 200
Brentwood, Tennessee 37027

During the course of this examination, the Trust requested that First Tennessee Bank effect account name changes to their demand deposit bank accounts which still exhibited the original legal name, "Associated General Contractors Self-Insured Workers' Compensation Trust." The accounts were changed on June 24, 2009 to reflect the name, CompTrustAGC...Tennessee.

The Trust 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 Trust is not exposed to any significant credit risk related to cash and cash equivalents.

During the course of this examination, the Trust in cooperation with their Third Party Administrator also formalized a process to monitor compliance with unclaimed property disposition pursuant to Title 66, Part 1, Tennessee Code Annotated known as the "Uniform Disposition of Unclaimed (Personal) Property Act."

The Trust is required to maintain 85% of its assets pursuant to Tenn. Comp. R. & Regs. 0780-1-54.13(1) and (2) as follows:

"(1) Each pool shall maintain an amount equal to at least eighty-five percent (85%) of its net assets in the following:

(a) Cash and cash equivalents;

(b) A certificate of deposit issued by a bank or other financial institution whose deposits qualify for Federal Deposit Insurance Corporation protection, provided, that if the Commissioner determines that the amount of the certificate of deposit purchased by an insurer in any one bank is not a sound investment, the Commissioner may require the insurer to liquidate that portion found to be an unsound investment,

(c) A share of savings account of savings and loan or building and loan association, to the extent that an account is insured by the Federal Deposit Insurance Corporation; or

(d) A rated credit instrument that is issued, assumed, guaranteed, or insured by the United States or Canada or by a government-sponsored enterprise of the United States or Canada or is otherwise backed or supported by the full faith and credit of the United States or Canada.

(2) Notwithstanding any other provision in this Chapter, funds not needed for current obligations may be invested by the board of trustees in "Tennessee Securities" as defined in § Tenn. Code Ann. 56-4-210(b)".

On March 31, 2008, the Trust held cash and bonds totaling \$14,657,785 which equated to 79.2% of total assets. However; the Trust held cash and bonds totaling \$15,525,802 at December 31, 2008 (calendar year end) which equated to 86.5% of its total assets as exhibited on their unaudited statement of the same date.

PECUNIARY INTEREST

Tenn. Comp. R. & Regs. 0780-1-54.07(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 his knowledge and belief that it is in compliance with the rule.

REFUNDS OR DISTRIBUTIONS

Pursuant to Tenn. Comp. R. & Regs. 0780-1-54.15, self-insured workers' compensation pools are allowed to provide refunds to the members of the pool when there is an excess amount of premium above what is necessary to fund all obligations for that fund year. The Board of Trustees must declare the refund not less than 18 months after the end of the fund year and if the refund is declared, 10% of the refundable amount must be retained by the pool to cover any obligations that may not yet have been reported.

The following table is a summary of the refunds approved by the Department and distributed by the Trust categorized by policy year:

Policy Year	Amount of Refund
4/1/94-95	\$459,229
4/1/95-96	1,007,989
4/1/96-97	492,490
4/1/97-98	0
4/1/98-99	0
4/1/99-00	0
4/1/00-01	0
4/1/01-02	0

4/1/02-03	0
4/1/03-04	1,000,000
4/1/04-05	1,000,000
4/1/05-06	0
4/1/06-07	0
4/1/07-08	0
Total	<u>\$3,959,708</u>

The approval history of distributions categorized by calendar year:

<u>Amount</u>	<u>Date of Request from Trust</u>	<u>Fund Year for Refund</u>	<u>Date of Written Approval by TDCI</u>
\$463,001.40	February, 1997	4/1/94-95	March 10, 1997
1,012,104.90	January, 1998	4/1/95-96	January 30, 1998
500,000.00	March 17, 1999	4/1/96-97	March 27, 1999
1,000,000.00	February 10, 2008	4/1/03-04	March 17, 2008
1,000,000.00	February 2, 2009	4/1/04-05	March 6, 2009

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 Trust is not declaring refunds for any given fund year until the mandated time required by statute has elapsed. For example, the \$1,000,000 refund approved March 6, 2009 is from fund year April 1, 2004 to March 31, 2005 which would exhibit a policy year ending three years and eleven months prior.

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

LITIGATION AND CONTINGENT LIABILITIES

As of March 31, 2008, the Trust has committed no reserves to cover any contingent liability. Various lawsuits against the Trust have arisen in the normal course of business relating to workers' compensation claims' settlements. Contingent liabilities arising from such litigations are not considered material in relation to the financial position of the Trust.

The Trust was also a defendant party to a litigation filed by a former member who contended that their premium had been incorrectly calculated based upon the absence of certain technical disclosures which should have been disclosed at the time of the renewal calculation. Attorneys considered the suit unfounded and had intended to

vigorously defend the Trust's position at March 31, 2008.

Negotiations between the Trustees and the member determined that a refund of premium was in order based upon the information which was subsequently disclosed by the member and also in accordance with National Council on Compensation Insurance (NCCI) rules and guidelines. The refund was made on June 22, 2009 pursuant to a signed agreement between the parties.

A consent order was entered on July 10, 2009 in the Thirtieth District Chancery Court in Memphis, Tennessee dismissing the legal proceedings, CH-08-1101-3 with Prejudice. The amount of the premium refund is not deemed material to the overall financial position of the Trust.

SUBSEQUENT EVENTS

Refunds of \$1,000,000 from the Fund Year of April 1, 2004 thru March 31, 2005 were distributed to the Members during the last weeks of March, 2009. The request for this distribution was made to the TDCI on February 8, 2009 and subsequently approved by the TDCI on March 6, 2009.

The Trust and its custodian, First Tennessee Bank National Association, completed a new custodian agreement during the course of the examination to ensure compliance with the technical requirements of Tenn. Comp. R. & Regs. 0780-1-46-.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 the Trust on July 28, 2009 exhibited language compliant with Tenn. Comp. R. & Regs. 0780-1-46-03(2)(a).

For a few months in late 2008 and early 2009, the Trust had its securities on deposit with Charles Schwab, a brokerage firm which also owned a federal savings bank. The

Trust determined that under Tenn. Comp. R. & Regs. 0780-1-46 the custodial relationship must be with a member bank of the federal reserve system or a state-chartered bank which has redeposited securities with a member bank for participation in the Federal Reserve book entry program and subsequently moved all its securities back under the custodial care of First Tennessee Bank. All securities were back under custody with First Tennessee by May 20, 2009.

The Trust also formalized a written fraud plan during the course of the current examination. Fraud detection procedures were in place and the required fraud statement was exhibited on beneficiary claimant forms as required by Tenn. Code Ann. § 56-47-112(b).

The CompTrustAGC Fraud Plan executed on June 10, 2009 is in compliance with Tenn. Code Ann. § 56-47-112(a).

FINANCIAL STATEMENT

There follows a balance sheet and a statement of operations and fund balance as of March 31, 2008, 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	\$ 209,049
Municipal bonds	14,448,736
Common stocks	2,046,908
Preferred stocks	30,060
Accounts receivable: Regular premiums	216,466
Accounts receivable: Reinsurance	167,992
Accounts receivable: Audit premiums	729,914
Accrued investment income	207,212
Prepaid expenses	55,407
Refundable income taxes	296,463
Tax deposit (FIT)	92,289
Other current assets	<u>11,500</u>
	<u>\$18,511,996</u>

Liabilities and Members' Equity

Liabilities	
Loss and loss adjustment reserves	\$10,967,407
Audit premiums payable	291,955
Deposits (Members)	586,148
Advance premiums	4,100
Accounts payable and accrued expenses	618,248
Premiums taxes payable	173,428
Deferred tax liability	<u>340,930</u>
Total liabilities	12,982,216
Members' equity	
Net unrealized losses on marketable securities	(35,072)
Retained earnings	<u>5,564,852</u>
Total members' equity	<u>5,529,780</u>
	<u>\$18,511,996</u>

STATEMENT OF INCOME

Revenues

Premiums earned	\$7,739,731
Investment income	<u>899,135</u>
Total revenues	8,638,866

Expenses

Claims and claim adjustments	1,791,442
Service fees	462,475
Excess insurance	716,988
Premium taxes	173,943
Commissions	377,507
Safety and loss control	781,534
General an administrative expense	<u>532,338</u>

Total expenses 4,836,227

Income before income taxes 3,802,639

Provision for income tax 1,068,620

Net income \$2,734,019

STATEMENT OF CHANGES IN MEMBERS'S EQUITY

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>
Total members' equity prior year	\$0	\$26,948	\$212,068	\$26,131	\$1,372,754
Adjustment to actual actuarial reserve estimate from 70% of earned premium used from onset of Trust	0	0	0	1,056,733	0
*Adjustment for refund – expensed and counted in net income or net loss for the subject year	0	0	459,229	1,007,989	492,490
Refunds paid to members	0	0	(459,229)	(1,007,989)	(492,490)
Net income for current fiscal year	26,948	185,120	(185,937)	289,890	68,206
Net unrealized gains (losses) on marketable securities, net of reclassification adjustment	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>9,661</u>
Total members equity, March 31	<u>\$26,948</u>	<u>\$212,068</u>	<u>\$26,131</u>	<u>\$1,372,754</u>	<u>\$1,450,621</u>

*GAAP Accounting Principles utilized during years 1995 through 1999, treated refunds paid to members of the Trust 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 above adjusting entry is required due to the amount of the payment having already been included in the calculation of "Net income for current fiscal year."

The \$459,229 refund paid during the 1997 calendar year was from fund year April 1, 1994 through March 3, 1995.

The \$1,007,989 refund paid during the 1998 calendar year was from fund year April 1, 1995 through March 31, 1996.

The \$492,490 refund paid during the 1999 calendar year was from fund year April 1, 1996 through March 31, 1997.

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Total members' equity prior year	\$1,450,621	\$1,008,615	\$1,032,894	\$1,041,637	\$1,166,877
Prior period adjustments	0	0	0	0	0
Dividends paid to members	0	0	0	0	0
Net income for current fiscal year	(414,897)	17,518	53,914	128,308	98,451
Net unrealized gains (losses) on marketable securities, net of reclassification adjustment	<u>(27,109)</u>	<u>6,761</u>	<u>(45,171)</u>	<u>(3,068)</u>	<u>359,420</u>
Total members equity, March 31	<u>\$1,008,615</u>	<u>\$1,032,894</u>	<u>\$1,041,637</u>	<u>\$1,166,877</u>	<u>\$1,624,748</u>

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total members' equity prior year	\$1,624,748	\$3,011,984	\$3,554,075	\$4,110,421
Prior period adjustment for 2004, overstatement of deferred tax liabilities including \$154,765 unrealized gain	1,150,259	0	0	0
Dividends paid to members	0	0	0	(1,000,000)
Net income for current fiscal year	451,722	513,769	454,189	2,734,019
Net unrealized gains (losses) on marketable securities, net of reclassification adjustment	<u>(214,745)</u>	<u>28,322</u>	<u>102,157</u>	<u>(314,660)</u>
Total members equity, March 31	<u>\$3,011,984</u>	<u>\$3,554,075</u>	<u>\$4,110,421</u>	<u>\$5,529,780</u>

**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**

No schedule applicable.

COMMENTS AND RECOMMENDATIONS

Comments:

- The Trust effected a new custodial agreement with First Tennessee 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 Trust also formalized a "Fraud Plan" prior to the completion of this examination. Fraud detection procedures were in place and the compliant language was exhibited on the policy forms. The written plan is compliant with Tenn. Code Ann. § 56-47-112(a) and discussed previously in the report under the caption "Subsequent Events."
- During the course of this examination, the Trust in cooperation with their Third Party Administrator also formalized a process to monitor compliance with unclaimed property disposition pursuant to Title 66, Part 1, Tennessee Code Annotated known as the "Uniform Disposition of Unclaimed (Personal) Property Act."

Recommendations:

- It is recommended that the Trust put in place controls in order to monitor compliance with Tenn. Comp. R. & Regs. 0780-1-54.05 pertaining to the filing of amendments to agreements and written contracts. 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. 0780-1-54.05 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."

- It is recommended that a formalized written agreement subject to Tenn. Comp. R. & Regs. 0780-1-54-.04(2)(b) be effected between the Trust and the AGC of Tennessee and the AGC of East Tennessee describing the services to be provided to the Trust including office space, clerical supplies and personnel for its business operations and describing the reimbursement calculation and payment method.
- It is recommended that a formalized written agreement subject to Tenn. Comp. R. & Regs. 0780-1-54-.04(2)(b) be effected between the Trust and the Branches

of the AGC of Tennessee and the AGC of East Tennessee describing the Safety and Loss Control activities to be performed by safety directors of each respective branch and describing the reimbursement calculation and payment method.

- It is recommended that a formalized written agreement subject to Tenn. Comp. R. & Regs. 0780-1-54-.04(2)(b) be effected between the Trust and the AGC of Tennessee and the AGC of East Tennessee describing the reimbursement formula for the purchase of certain fixed assets such as automobiles made by the AGC of Tennessee to be used by the Safety Director/Directors for safety and loss control activities.

Tenn. Comp. R. & Regs. 0780-1-54-.04(2)(b) states:

“An application for a certificate of authority shall include the following documentation, together with such other information or documentation as the Commissioner may require:

(b) Written contracts.

1. All contracts between the pool and the pool's expected administrator;
2. All contracts between the pool and pools expected third party administrator
3. Any and all royalty agreements or contracts;
4. Any and all service fee agreements or contracts; and
5. The errors and omissions insurance policies for the board of trustees issued to protect the pool from damages, if any.

- It is recommended that the Trust put in place controls in order to monitor compliance with Tenn. Comp. R. & Regs. 0780-1-54.13(1) and (2) concerning the 85% asset allocation. The rule states:

“(1) Each pool shall maintain an amount equal to at least eighty- five percent (85%) of its net assets in the following:

(a) Cash and cash equivalents;

(b) A certificate of deposit issued by a bank or other financial institution whose deposits qualify for Federal Deposit Insurance Corporation protection, provided, that if the Commissioner determines that the amount of the certificate of deposit purchased by an insurer in any one bank is not a sound investment, the Commissioner may require the insurer to liquidate that portion found to be an unsound investment,

(c) A share of savings account of savings and loan or building and loan association, to the extent that an account is insured by the Federal Deposit Insurance Corporation; or

(d) A rated credit instrument that is issued, assumed, guaranteed, or insured by the United States or Canada or by a government-sponsored enterprise of the United States or Canada or is otherwise backed or supported by the full faith and credit of the United States or Canada.

(2) Notwithstanding any other provision in this Chapter, funds not needed for current obligations may be invested by the board of trustees in "Tennessee Securities" as defined in § Tenn. Code Ann. 56-4-210(b)."

Discussion of the fluctuation of the asset mix was discussed previously in the examination report under the caption, "Accounts and Records."

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 CompTrustAGC...Tennessee.

In such manner, it was determined that, as of March 31, 2008, the Trust had assets of \$18,511,996 and liabilities of \$12,982,216, inclusive of \$586,148 in member deposits. Thus, there existed for the additional protection of the policyholders, the amount of \$5,529,780 in the form of total members' equity in the form of retained earnings net of unrealized losses on marketable securities.

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

In addition to the undersigned, James T. Pearce, 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 CompTrustAGC...Tennessee dated December 10, 2009, and made as of March 31, 2008, 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.

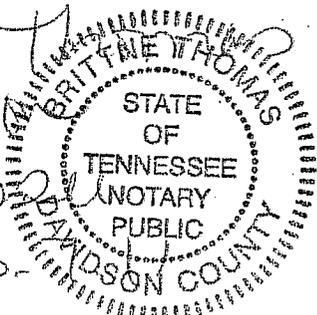


Keith M. Patterson
Insurance Examiner
State of Tennessee
Southeastern Zone, N.A.I.C.

Subscribed and sworn to before me

this 10 day of
December, 2009

Notary Brittne Thomas
County Davidson
State Tennessee
Commission Expires 3-



CompTrustAGC

... *Tennessee*

Workers' Comp From People You Know
TENNESSEE AGC SELF-INSURED TRUST

December 21, 2009

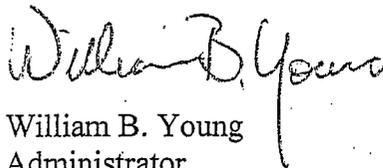
State of Tennessee
Department of Commerce
500 James Robertson Parkway
Nashville, TN 37243
ATTN: Horace E. Gaddis, Jr., CFE

Dear Mr. Gaddis,

We would like to inform you the CompTrust AGC...*Tennessee* Trustees have reviewed the Report on the Financial Examination recently performed and we have no corrections or modifications to recommend. As a matter of fact, the report provides us tasks which will only improve our fund. For your information, we will be taking the recommended corrective actions immediately. The report also indicates to anyone reading our review the financial strength our fund has experienced over the past 15 years. It was a pleasure to work with the two examiners, Mr. James Pearce and Mr. Keith Patterson. They were very professional and thorough in their approach to our investigation.

If you have any questions regarding our fund, do not hesitate contacting us.

Sincerely,


William B. Young
Administrator

RECEIVED

JAN 05 2010

Dept. of Commerce & Insurance
Company Examinations

Bill Young
Administrator
408 Elm Street
Nashville, Tennessee 37203
Phone (615) 244-4555 • (800) 341-8242 • FAX (615) 248-8817

Stacy Sutcliffe, CPCU
Service Agent
P.O. Box 1125
Brentwood, Tennessee 37021-1125
Phone (615) 363-1500 • (800) 524-0604 • FAX (615) 263-1301