REPORT ON EXAMINATION

of the

HOME BUILDERS ASSOCIATION OF TENNESSEE SELF-INSURED WORKERS' COMPENSATION TRUST

555 MARRIOTT DRIVE, SUITE 210
NASHVILLE, TENNESSEE

as of

DECEMBER 31, 2009

DEPARTMENT OF COMMERCE AND INSURANCE

STATE OF TENNESSEE

NASHVILLE, TENNESSEE

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Nashville, Tennessee
August 4, 2011

Honorable Julie Mix McPeak
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

HOME BUILDERS ASSOCIATION OF TENNESSEE SELF-INSURED WORKERS' COMPENSATION TRUST

555 MARRIOTT DRIVE, SUITE 210
NASHVILLE, TENNESSEE 37214

hereinafter and generally referred to as the "Trust," 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 25, 2010 in accordance with Tenn. Code Ann. § 50-6-405 and Tenn. Comp. R. & Regs. R. 0780-01-54-.20. On-site examination work commenced on December 6, 2010. 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 February 1, 1995 to the close of business on December 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 December 31, 2009. The financial condition of the Trust and its degree 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
Royalty Agreement
Fidelity Bonds and Other Insurance
Statutory Deposits
Market Conduct Activities
Excess of Loss Insurance
Loss Experience
Accounts and Records
Pecuniary Interest
Refunds or Distributions
Litigation and Contingent Liabilities
Subsequent Events
Financial Statement

This is the initial examination report prepared regarding the operations of the Trust.

HISTORY AND ORGANIZATION

The Home Builders Association of Tennessee ("HBAT") is a Tennessee non-profit trade association comprised of professional builders, developers and associated firms engaged directly or indirectly in home building, remodeling and light commercial construction. HBAT was organized in 1960. The HBAT has been a viable, continuing entity since its inception, and currently includes approximately 4,000 members in Tennessee. The Trust is an unincorporated association that was created by the HBAT to act as a self-insured workers' compensation pool. The operation of the Trust is confined to Tennessee where it is licensed to transact the business of workers' compensation and employers' liability insurance. Membership in the Trust is composed of qualifying members of HBAT that have pooled their liabilities under the Tennessee Workers' Compensation Act. The Trust at year-end 2009 included approximately 880 Members in Tennessee with approximately 4,000 covered employees.

The Trust was created on February 1, 1995, 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. R. 0780-1-54-04. The Trust's primary objective is to provide sound and economical workers' compensation insurance for its Members and to minimize the cost by using specialized claim processing services and loss prevention programs.

At December 31, 2009, the Trust was licensed in one state, Tennessee.

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

Fund Year	Members	Net Premium Revenue	Total Expenses	Assets	*Equity
1995	192	$1,850,840	$1,460,740	$2,318,105	$1,069,043
1996	Approx. 380	5,036,710	3,688.326	6,308,758	3,411,119
1997	809	5,934,558	4,946,349	9,271,219	4,764,654
1998	896	6,453,278	6,650,686	11,858,356	4,358,754
1999	804	5,857,064	4,058,109	13,451,950	5,888,154
2000	846	5,370,103	4,635,818	15,477,506	6,646,730
2001	794	5,043,137	5,696,734	15,475,195	6,570,130
2002	871	6,482,951	6,763,621	15,530,525	6,893,914
2003	924	8,268,642	8,312,154	16,907,141	6,596,302
2004	1015	10,263,039	7,394,500	18,902,883	9,853,573
2005	1191	11,675,326	9,604,217	22,793,161	12,702,377
2006	1236	12,137,522	12,066,364	26,287,891	13,505,254
2007	1182	9,822,690	7,991,188	28,659,240	16,231,032
2008	1049	8,028,511	7,048,593	29,827,280	17,827,342
2009	889	4,332,044	6,090,328	27,101,119	16,302,275

*Equity includes the member distribution payable (undistributed earnings) and member deposits. Distributions are only paid with the express written approval of the Commissioner of Commerce and Insurance.

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

The equity as of December 31, 2009 exhibited in the above exhibit will be adjusted based upon findings during this examination to $14,382,415. This is the result of the non-admission of the reinsurance recoverable from Reliance National Indemnity Company due to that company being placed into receivership by the state of Pennsylvania and the uncertainty of the actual amount which the receiver and the court will approve for payment, if any. Further discussion is contained under the caption, "Analysis of Changes in Financial Statement and Comments Resulting from Examination."

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 October 19, 1994 and formally approved by the TDCI effective February 1, 1995. The Trust was formed to act as a workers compensation self-insurance group in accordance with Tenn. Comp. R. & Regs. R. 0780-01-54 as authorized by Tenn. Code Ann. § 50-6-405. 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, partnerships or other legal entities which are members in good standing with HBAT and which contribute to the Fund as a participating member in the Trust. The term "Members" includes those individuals, corporations, partnerships or other legal entities executing, or otherwise being bound by the Indemnity Agreement.

The principal office of the Trust is established as follows:

555 Marriott Drive, Suite 210
Nashville, Tennessee 37214

The above location is also the office of the Gary Hughes & Associates, LLC, Administrator for the Trust.

INDEMNITY AGREEMENT

In accordance with Tenn. Comp. R. & Regs. R. 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 Member wishes to combine their liabilities with other members of the Pool in which the Pool shall pay all workers' compensation benefits.
>
> The Member agrees that the Pool and each member that has entered into this agreement will, jointly and severally, assume and discharge by payment; all expense, liabilities, and claims asserted against the Pool by any person or entity.
>
> The Pool shall cancel the Member if the Member is more than 120 days late in making a premium payment or if the Member does not pay an assessment when due. A Member who elects to terminate its membership or is cancelled by the Pool remains jointly and severally liable for the financial obligations of the Pool and its members incurred during any fund year in which the person was a Member of the Pool.
>
> The agreement shall be irrevocable and remain in effect for the entire year in which the Member receives any workers' compensation coverage through the Pool, shall bind any successor in interest, and shall remain in effect as long as there is any obligation or liability of the Pool in this State.

MANAGEMENT AND CONTROL

The operation and administration of the Trust is the joint responsibility of a Board of Trustees ("Board") consisting of not more than fifteen (15) nor less than five (5) persons, two (2) of which must be from each of the Grand Divisions of the State of Tennessee. The President and the Executive Vice President of HBAT shall be ex-officio members of the Board of Trustees without voting privileges.

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. R. 0780-1-54-.07. Except for the initial Trustees, all Trustees are required to be employees, officers or directors of Members of the Trust. The Board shall elect officers from among its members to serve for terms of three (3) years on a staggered basis. The officers of the Trust shall consist of a Chairman, a Vice-Chairman, and a Secretary.

At December 31, 2009 the following persons were serving as members of the Board of Trustees:

Name and Address	
John Benjamin Downey, Jr. Downey Development 6949 Charlotte Pike, St. 208 Nashville TN. 37209	Chairman
Tonya Gale Jones, Trustee Mark IV Development 209 10th Ave South Suite 411 Nashville, TN 37203	Secretary/Treasurer
James Ronald Carbine Carbine Development Company, G.P. 130 Seaboard Lane, Suite A-9 Franklin, TN 37067	Trustee
Robert Paul Gillespie, Trustee Landmark Point Development 254 Lane Hollow Road Sevierville, TN 37876	Trustee
Richard Welken Graf R. W. Graf Construction 3505 Bluff Point Drive Knoxville, TN. 37920	Trustee
John Moore Luttrell, Trustee Luttrell Development LLC 7529 Northshore Drive Knoxville, TN 37919	Trustee
Donald E. Moon, Trustee Don Moon Builder 1 Oliver Court Signal Mountain, TN. 37377	Trustee
Charles Oscar Morgan, Trustee Vintage Homes, LLC 865 Willow Tree Circle Cordova, TN 38018	Trustee

Bradford W. Rainey, Trustee
Rainey Homes
281 Germantown Bend Cove
Cordova, TN. 38018

Trustee

Key responsibilities of the Trustees summarized from the Bylaws include the following:

- The Trustees shall be responsible for all monies collected or disbursed by the Trust.

- 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, investments, 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:	Casualty Actuarial Consultants, Inc. 7101 Executive Center Drive, Suite 225 Brentwood, TN 37027
Auditing Services:	Shores, Tagman, Butler & Company, P.A. 17 South Magnolia Avenue Orlando, FL 32801
Accounting Review for Claims information:	Page Robble, CPA Faulkner Mackie and Cochran, P.C.

	One American Center 3100 West End Avenue, Suite 700 Nashville, TN 37203
Claims Processing Services:	Brentwood Services Administrators, Inc. 104 Continental Place, Suite 200 Brentwood, TN 37027
Premium Audit:	Overland Solutions, Inc. P. O. Box 413866 Kansas City, MO 64141
Loss Control & Safety Services:	Technical Insurance Services, Inc. P. O. Box 90076 Chattanooga, TN 37412

CORPORATE RECORDS

The members of the Board of Trustees shall meet three (3) times during the year or as often as required, the exact date and place of said meeting to be furnished to the Board members by the Chairman or Secretary. Special meetings may be called at any time by the Chairman or any three members of the Board. Notice of regular and special meetings shall be given by mail, cable telegram, telephone or personal delivery.

The Members of the Trust shall meet annually at such time and place as determined by the Trustees. Special meeting of Members may be called at any time by the Chairman and shall be called upon written request of not less than 20% of Members.

During the most recent 5 year period under examination there were 16 regular and special meetings of the Board of Trustees and 5 meetings of the members of the Trust. 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 Trust members were verified to be in accordance with the Rules of the TDCI.

MANAGEMENT AGREEMENTS

Administrative Agreement

The Trust entered into an Administration Agreement with Alexander and Alexander, Inc. (a Maryland Corp.) on December 27, 1994. This agreement was in effect until a new Administration Agreement with Palmer & Kay of Tennessee, Inc. went into effect January 1, 1999. On January 1, 2003 the Trust entered into an Administration Agreement with the Trust's current Administrator, Gary Hughes & Associates, LLC. The current agreement is an updated version of the 2003 document and was effective January 1, 2006. This agreement was first amended on January 1, 2008 to assign the operations to Gary Hughes & Partners, Inc. and extend the term until January 1, 2012 and then amended on April 1, 2010 to assign the operations to Gary Hughes & Associates, Inc. The same persons have continued performing the operating duties for the Trust. These amendments reflect changes in the legal name of the company.

Significant, "Program Administrative Services" for the Trust defined under the agreement are summarized as follows:

- Prepare for the Trust's review and approval prior to filing by Administrator such Insurance forms as are required under applicable Tennessee law to be filed by the Trust.

- Prepare for the Trust's review and approval prior to filing by Administrator the annual statement relating to the financial condition of the Trust.

- Obtain and maintain for the Administrator a fidelity bond and errors and omissions coverage or other appropriate liability insurance in an amount and written by an insurer approved by the Board of Trustees.

- Procure a surety bond or letter of credit covering the Trust.

- Procure on behalf of the Trust, (i) specific excess insurance in such amount and otherwise required by applicable Tennessee law, and (ii) aggregate excess insurance with an aggregate limit of $3,000,000 written by an insurer approved by the Board of Trustees.

- Procure errors and omissions coverage for the Trust / directors and officer coverage for the Board of Trustees of the Trust.

- Assist in the selection by the Trust of entities to provide accounting, claims, actuarial and other services to it ("service providers") and coordinate the activities of such service providers.

- Retain at the direction and approval of the Trust a person or entity to perform for the Trust on an annual basis (i) loss analysis and forecasting, and (ii) rating adequacy reviews to determine whether the then current rating scheme is appropriate for the projected expenses of the Trust.

- Retain at the direction and approval of the Trust a person or entity to perform a loss control survey for each Member of the Trust on an annual basis.

- Accept and evaluate all completed applications for coverage in the Trust in accordance with the guidelines approved by the Trust's Board of Trustees, and submit such applications to the Board of Trustees, together with the

Administrator's recommendations, for the action by the Board of Trustees.

- Provide quotations for coverage in the Trust to the Association members approved by the Trust's Board of Trustees and notify Association members of declination of coverage.

- Determine the experience modification factors for each Member of the Trust based on the information provided to the Administrator by such Member.

- The Administrator will carry out the policies of the Trustees of the Trust and provide the day-to-day management of the Trust.

"Program Development Services" for the Trust defined under the agreement are summarized as follows:

- Prepare a stewardship report on the activities and operations of the Trust.

- Consult with the Board of Trustees, employers of the Trust and "service providers", on the establishment and implementation of procedures and practices deemed necessary by the Trustees for the administration and operation of the Trust.

- Prepare at the expense of the Administrator, with Trustees' approval, promotional materials concerning the Trust for distribution to insurance agents within the state of Tennessee. The Administrator must use its best efforts at its own expense to promote the Trust.

Significant, "Financial Management Services" for the Trust defined under the agreement are summarized as follows:

- Maintain, subject to the Trust's review and approval, the Trust's books and records showing the financial condition of the Trust.

- Assist in the maintenance of the Trust's bank accounts as directed by the Trust. Execute investment transactions on behalf of the Trust and maintain records of any investment transactions.

- Provide the certified public accountants selected by the Trust such reports and information necessary and available to the Administrator to enable such accountants to prepare the Trust's tax forms and audited financial statements and to express their professional opinion as to the financial condition of the Trust.

- Bill each Member on the basis of payroll information provided to Administrator by such Member and rates established by the Trust and collect from each Member's premiums, including additional premiums as required by premium audits, taxes and assessments imposed by law or the Board of Trustees and deposit all amounts received in one or more accounts established by the Trust for such purpose.

- Disburse to the Members any refund of premium or dividend, as directed by the Trust, subject to the availability of funds from the Trust.

- Maintain books and records of all payments by or disbursements to Members, claims administrators or other parties.

- Submit to the Trust for payment by the Trust all bills received from any service provider for services rendered to the Trust.

- Follow the policies and procedures set forth by the Trustees to cancel all past due Members. Administrator shall ensure to the best of his ability that the Trust does not lose in excess of the 25% of premiums represented by the Member's deposit.

The Administrator's compensation is set by the Board of Trustees, and per the agreement, is based on a percentage of the premium collected by the Trust. The Board agreed in 2010 to pay the administrator a flat fee per month in lieu of the percentage rate which was acceptable to the Administrator. This compensation is in accordance with Tenn. Comp. R. & Regs. R. 0780-01-54-.07(5).

The Agreement shall continue in force and effect until terminated in accordance with its provisions, or by mutual agreement of the parties. It can be terminated by either party at any time upon not less than 120 days prior written notice. Mr. Hughes had signed the formal license application, "Application to Serve as Administrator of Group Self-Insurance Pool" dating back to 2001.

Gary Hughes & Associates continues to act as Administrator, as defined within the meaning of Tenn. Comp. R. & Regs. R. 0780-01-54-.02(1).

Claims Administration Agreement

The Trust's first claims service provider was Alexis which serviced the claims from February 1, 1995 until April 25, 1996. On June 27, 1996, the Trust signed and entered into an Agreement to Provide Specified Third Party Administrator Services with Brentwood Services Administrators, Inc. ("Brentwood"). This agreement was in effect from April 25, 1996 until a revised agreement became effective on April 25, 1998. Subsequent renewals have continued the existence of this agreement through the date of this examination.

The agreement in effect as of the date of examination was effective January 1, 2007 until January 1, 2010 and was signed by the Trust on February 8, 2007. 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.

No copy of the signed agreement was on file with the TDCI.

Tenn. Comp. R. & Regs. R. 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:

- Claims services for claims reported to Brentwood by the Trust during the term of the agreement for the day to day servicing of workers' compensation coverage provided to member employers of the Trust

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 my be required by any state regulatory agencies in connection with Brentwood's handling of claims as instructed by the Trust

The Trust agrees to pay to Brentwood a per claims service fee as follows:

Contract Term: January 1, 2007 through January 1, 2008

Lost Time Claims:	$945.00 per claim
Medical Only Claims:	$145.00 per claim
Information Only Claims:	$55.00 per claim

Contract Term: January 1, 2008 through January 1, 2009

Lost Time Claims:	$950.00 per claim
Medical Only Claims:	$150.00 per claim
Information Only Claims:	$55.00 per claim

Contract Term: January 1, 2009 through January 1, 2010

Lost Time Claims:	$955 per claim
Medical Only Claims:	$150 per claim
Information Only Claims:	$55 per claim

The Trust shall pay to Brentwood a minimum Annual Service Fee of $95,000.00 during the term of this agreement. Additionally, the Trust shall pay to Brentwood an Information Systems Utilization Fee of $5,500 and a Bank Reconciliation Fee of $4,000.

Medical bill review for claims adjudicated is also provided through Brentwood for a fee of 30% of the amount saved. There shall be no fee for this service for any bills processed which do not generate a savings to the Trust.

The old claims service agreement was on file for record with the TDCI; however, the current agreement had not been officially filed.

Tenn. Comp. R. & Regs. R. 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."

LOSS PREVENTION CONSULTING AGREEMENT

Beginning March 1, 1995, the Trust entered into a consulting agreement with Technical Insurance Services, Inc., Chattanooga, TN, (TIS) whereby TIS is to provide job site surveys, accident investigations, loss prevention materials and conduct loss prevention seminars for the Members of the Trust. In exchange, TIS receives a specified fee for each type of service. TIS has continued to provide Member loss prevention and work site inspection services for the Trust since that time. The agreement in effect as of the examination date was made effective from January 1, 2009 through December 31, 2012 with a signature date of October 22, 2008.

The fee schedule is as follows:

- $265 per job-site inspection, unless there are special trips required with 72 hours notice, then the fee is $550.

- $80 per new Member registration and mailing of Loss Prevention Program I.
- $45 per Member for annual loss prevention material.
- $1,650 per each of a minimum of 16 OSHA 10-hour safety seminars held throughout the state.
- $1,150 each for a minimum of six safety review seminars each year.
- Up to a maximum of $10 per each newsletter to all active members three times per year.
- And any additional services or expenses agreed upon during the contract period.

ROYALTY AGREEMENT

The Royalty Agreement in effect as of the examination date was effective January 1, 2007 for a period of three (3) years ending December 31, 2010. The agreement between the Trust and HBAT calls for HBAT to grant a non-exclusive endorsement to the Trust. In turn, the Trust pays a flat $93,000 fee plus a $12,000 Titanium Sponsorship for HBAT meetings and activities. This agreement is dated January 1, 2007 and is on file with the TDCI. The agreement on file did not exhibit a receipt date.

Under the terms of the agreement, HBAT provides marketing services which include but are not limited to:

Legislative Involvement

Assistance, promotion and enhancement of the relationship with the TDCI

Access to the Trust's website from the HBAT website

Coverage in the HBAT magazine

It is noted that this same type agreement have been in place since January 1, 1997. This arrangement is accordance with Tenn. Comp. R. & Regs. R. 0780-1-54.

FIDELITY BOND AND OTHER INSURANCE

The Administrator maintains a commercial crime policy with Fidelity and Deposit Company of Maryland with a limit of $500,000 per each claim for employee theft, forgery or alteration and with a $500,000 aggregate limit, including $10,000 retention per claim. The policy additionally covers losses from computer fraud with a limit of $5,000 for each claim, including $1,000 retention per claim.

The policy complies with Tenn. Comp. R. & Regs. R. 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 administrator's 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;"

The above insurance company listed is licensed in the state of Tennessee.

The Trust has elected since November of 2002 not to purchase errors and omissions coverage for its Trustees based on the language in Tenn. Code Ann. §§ 48-58-601(c) and 48-58-601(d)(11) which references §501(c)(6) of the Internal Revenue Code (26 U.S.C., § 501(c)(6)) and grants limited immunity to the Trustees from suit arising the breach of fiduciary duty. Prior to November of 2002, the Trust maintained errors and omissions coverage issued by Royal Surplus Lines Insurance Company exhibiting the Trustees as named insureds.

Brentwood Services Administrators, Inc. maintains certain insurance coverage as required under its "Agreement to Provide Specified Third Party Services" dated January 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 various companies within The Travelers umbrella of companies based upon employee location 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 Travelers Property and Casualty Company of America with a $2,000,000 general aggregate and $1,000,000 each occurrence limit with a $1000 deductible for business owners 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 $10,000 retained limit per occurrence.

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

STATUTORY DEPOSITS

In compliance with Tenn. Comp. R. & Regs. R. 0780-1-54-04(3)(e), the Trust maintained a Letter of Credit in the amount of $500,000 issued by Regions Bank, formerly known as AmSouth Bank, at December 31, 2009.

Tenn. Comp. R. & Regs. R. 0780-01-54-.04(3)(e) as amended March 16, 2009 now states:

> "The pool has deposited with the Commissioner, in a form approved by the Commissioner, one of the following types of security in the amount of one hundred thousand dollars ($100,000) to be used for the payment of claims in the event the pool becomes insolvent:
>
> 1. Negotiable securities;
> 2. Certificates of deposit;
> 3. Letters of credit; or
> 4. Surety bonds."

In accordance therewith, the Trust obtained Letter of Credit number 600183240 issued by Pinnacle Bank effective January 27, 2010 in the amount of $100,000 as a replacement for the Letter of Credit formerly issued by Regions Bank.

MARKET CONDUCT ACTIVITIES

A market conduct review was made of the Trust as of December 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 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. R. 0780-01-54-.10(4).

No unusual findings were noted.

The Trust offers a payment plan to its members which requires a 25% deposit based on expected premium. The premium is payable in 12 equal monthly payments. If a member has over $20,000 per year in premium, that member qualifies to make the monthly payment calculated on actual payroll for the month.

Advertising:

The Fund markets on a direct basis to the members of the Home Builders Association of Tennessee. The coverage is written by independent agents licensed in the state of Tennessee. The managing member of the Administrator of the Trust is also a licensed agent in Tennessee for property and casualty lines of insurance. The Administrator receives no commission from the production or renewal of business.

Tenn. Comp. R. & Regs. R. 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 Trust posts information about its operations on the website of the Home Builders Association of Tennessee, www.hbat.org. Such information includes eligibility requirements, workplace safety resources and contact information.

The Trust also advertises in the publications of the Association.

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

Claims Review:

A sample of paid and open 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. R. 0800-02-14.07(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. R. 0800-02-14.05(1) requires: "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 on most of the claims sampled. The claims which were late had the indemnity paid within a few days of the standard with the exception of claims which had legal questions or claims on which the employer was late in reporting the accident or documenting wage information.

Brentwood Services Administrators, Inc. which is the third party administrator processing the Trust's claims also 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 claim sampled was denied by the Trust for late filing and questions concerning whether the claim was covered by the automobile policy of the vehicle causing the accident. This claim denial was overturned by the Department of Labor and the Trust's claims administrator, Brentwood promptly paid the indemnity and processed the medical payments. Another claim sampled which indicated late indemnity payment involved an accident and the subsequent death shortly thereafter of the employee. Legal counsel assisted the widow with the settlement of this claim. This does not appear to present a systemic problem based on the unusual circumstances of the claims.

The Trust has an anti-fraud plan on file with the TDCI pursuant to Tenn. Code Ann. § 56-47-112(a).

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 Trust were noted.

Privacy of Non-Public Personal Information

The Trust's members (policyholders) are commercial businesses. Tenn. Comp. R. & Regs. R. 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 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 Addendum D. "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. R. 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 Trust purchased and maintained an excess of loss agreement initially with Reliance National Indemnity Company, effective from their February 1, 1995 inception date through September 14, 2000. From September 15, 2000 and throughout the remaining period of examination the Trust has purchased and maintained a specific / aggregate excess policy from Midwest Employers Casualty Company, a Delaware domiciled company.

Under the agreement's specific coverage, the excess insurer currently agrees to indemnify the Trust for the amount in excess of the Trust's $1,000,000 specific retention for losses over $500,000 for each accident or employee disease up to the statutory limit for workers' compensation and up to $1,000,000 for employers' liability.

The aggregate portion of the agreement limits the Trust's obligation for losses and claim expenses incurred during 2009 to a formula of (Payroll/100)* 6.972 which equates to a minimum retention of $10,018,583. Under the agreement's aggregate coverage, the excess insurer agrees to indemnify the Trust for the sum of losses and claims expenses in excess of the Fund's limitation subject to a limit of indemnity of $3,000,000.

The change from Reliance to Midwest was prompted by the Trust's inability to recover all past excess insurance recoverable balances due to Reliance's deteriorating financial position. Reliance was placed in liquidation by the Commonwealth Court of Pennsylvania on October 3, 2001. As of the date of this examination the Trust had not received any payment from Reliance for excess insurance recoverables since August 1, 2001.

If the Trust receives no further compensation from Reliance, the Trust will incur $3,287,631 of uncollectable excess insurance. This amount is made up of $2,123,220 recoverable on paid losses plus $1,164,411 of recoverable on unpaid losses (case reserves).

To address the potential uncollectable recoverable, the Trust has cumulatively written off approximately $822,000 of paid loss receivable and $442,000 of unpaid loss receivable. These adjustments are based upon the findings of the bankruptcy receiver's published financial statements made public in December 2009 which indicated that Reliance had sufficient assets to pay 60.3% of their recorded liabilities. The Trust has therefore written off 39.7% of their recoverable from Reliance. Further discussion is included under the caption, "Litigation and Contingent Liabilities."

At December 31, 2009, the Trust reports an approximate balance still on their books due from Reliance of $1,248,000 in paid loss recoverable and $671,000 in unpaid loss recoverable. Total amount equals $1,919,000.

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

Fund Year	Specific Retention	Aggregate Retention Minimum	Basis for Aggregate by Formula	Insurer
2/1//95-12/31/95	*$250,000	$1,604,055	100% of manual premium	Reliance National *Midwest
1/1/96-97	250,000	3,500,000	100% of earned premium	Reliance National
1/1/97-98	250,000	4,704,095	80% of normal premium	Reliance National
1/1/98-99	250,000	6,000,000	80% of normal premium	Reliance National
1/1/99-9/14/00	250,000	5,505,541	80% of earned premium	Reliance National
9/15/00-1/1/02	250,000	00 = 4,547,200 01 = 4,213,600	80% of normal premium 81% of normal premium	Midwest Employers
1/1/02-03	500,000	5,907,900	92.1% of normal premium	Midwest Employers
1/1/03-04	500,000	8,120,900	98.6% of normal premium	Midwest Employers
1/1/04-05	750,000	9,270,299	105.19% of normal prem.	Midwest Employers
1/1/05-06	**750,000	11,240,548	105.14% of normal prem.	Midwest Employers
1/1/06-07	1,000,000	14,423,983	114.75% of normal prem.	Midwest Employers
1/1/07-08	1,000,000	10,350,886	100.01% of normal prem.	Midwest Employers
1/1/08-09	1,000,000	11,311,086	100% of normal premium	Midwest Employers
1/1/09-10	1,000,000	10,018,583	(Payroll/100)*6.972	Midwest Employers

*Midwest is responsible for the $1,000,000 layer excess of $3,034,847.

**Corridor deductible of $500,000 for losses over $750,000 for policy period 1/1/05-06.

ALAE is pro rata from 2/1/95 through 9/14/00. ALAE is included in the Specific Retention from 9/15/00 to present. The specific maximum is set by statute.

Policy Year	Aggregate Limit	Insurer
2/1//95- 12/31/95	$2,000,000	Reliance National *Midwest
1/1/96-97	2,000,000	Reliance National
1/1/97-98	5,000,000	Reliance National
1/1/98-99	5,000,000	Reliance National
1/1/99- 9/14/00	5,000,000	Reliance National
9/15/00- 1/1/02	5,000,000	Midwest Employers
1/1/02-03	5,000,000	Midwest Employers
1/1/03-04	5,000,000	Midwest Employers
1/1/04-05	3,000,000	Midwest Employers
1/1/05-06	3,000,000	Midwest Employers
1/1/06-07	3,000,000	Midwest Employers
1/1/07-08	3,000,000	Midwest Employers
1/1/08-09	3,000,000	Midwest Employers
1/1/09-10	3,000,000	Midwest Employers

The Trust has not exceeded its aggregate retention limit for any fund year.

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.

For the 2005 funds year and prior, the Administrator collected the commission for the placing of excess coverage. Tenn. Comp. R. & Regs. R. 0780-1-54-.07(7) was amended effective November 14, 2005 to prohibit the Administrator or the Board of Trustees from accepting such a commission for a reinsurance transaction and the Administrator no longer received such a commission.

LOSS EXPERIENCE

Year	Net Premiums Earned	Incurred Losses & LAE	Underwriting Ratio	General & Adm. Exp.	Gen. & Adm. Exp. to Prem.	Combined Ratio
1995	$1,850,840	$940,000	50.8%	$520,740	28.1%	78.9%
1996	5,036,710	2,417,815	48%	1,270,511	25.2%	73.2%
1997	5,934,558	3,107,601	52.4%	1,838,748	31%	83.4%
1998	6,453,278	4,686,250	72.6%	1,964,436	30.4%	103%
1999	5,857,064	2,424,255	41.4%	1,633,854	27.9%	69.3%
2000	5,370,103	2,796,577	52.1%	1,839,241	34.2%	86.3%
2001	5,043,137	3,642,887	72.2%	2,053,847	40.7%	112.9%
2002	6,482,951	4,056,573	62.6%	2,707,048	41.8%	104.4%
2003	8,268,642	4,941,286	59.8%	3,370,868	40.8%	100.6%
2004	10,263,039	3,072,072	29.9%	4,322,428	42.1%	72%
2005	11,675,326	5,426,947	46.5%	$4,177,270	35.8%	82.3%
2006	12,137,522	7,247,592	59.7%	4,818,772	39.7%	99.4%
2007	9,822,690	3,956,363	40.3%	4,034,825	41.1%	81.4%
2008	8,028,511	3,733,497	46.5%	3,315,096	41.3%	87.8%
2009	4,332,044	3,586,065	82.8%	2,504,263	57.8%	140.6%

The above comparison is based upon the numbers exhibited in the audited statement for each given year filed with the TDCI.

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 any given year.

The Trust states its reserves on a discounted basis (2%) which is consistent with GAAP presentation.

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 all years of operation of the Trust.

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, Shores, Tagman, Butler & Company, P.A.

Books and records such as "Declaration of Trust and Bylaws," board minutes, membership files, accounting records and general correspondence of the Trust are kept at the office location of the administrator, Gary Hughes & Associates, LLC:

555 Marriott Drive, Suite 210
Nashville, TN 37214

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

104 Continental Place, Suite 200
Brentwood, TN 37027

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. The majority of the Trust's certificates of deposit are maintained with Pinnacle Bank in Nashville who is a CDARS Network Member. The CDARS institution uses the network to place funds in order that all amounts are eligible for FDIC Insurance.

It was also determined that the Trust was using some custodians which had not completed custodial agreements which comply with Tenn. Comp. R. & Regs. R. 0780-1-46. One custodian was Pinnacle National Bank which has a relationship with Raymond James Financial Services and the other custodian was US Bank, N.A. The agreements with First Tennessee Bank National Association, AmSouth Bank now Regions Bank, and Wachovia Bank had language compliant to the Regulation. This situation is being rectified due to the Trustees deciding to transfer all the investments to a custodial account with Bank of America, N.A. The new custodial agreement is discussed under "Subsequent Events."

Pinnacle National Bank was instructed to deposit all maturing CD's in the operating account so that the funds could be transferred to the new custodian. Presently, only one CD remains at Pinnacle and it matures on August 11, 2011 in an amount of approximately $2,036,000.

PECUNIARY INTEREST

Tenn. Comp. R. & Regs. R. 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 his knowledge and belief that the Trust is in compliance with the rule.

REFUNDS OR DISTRIBUTIONS

Pursuant to Tenn. Comp. R. & Regs. R. 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 Trust categorized by fund year:

Amount	Date of Approval by TDCI I	Fund Years ending
$ 300.000	April 23, 1997	1995
1,000,000	May 13, 1998	1995, 1996
1,000,000	August 14, 2000	1995, 1996, 1997
1,000,000	July 25, 2003	1997, 2000
$2,819,474	March 5, 2010	1995, 1997, 2000, 2001, 2003, 2004, 2005

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.

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."

The Trust stated that according to its charter that it is a member owned trust with all its assets and liabilities belonging to its members. The Trust expenses its member distribution payable each year which results in a zero profit each year. This accounting treatment is to ensure that those monies earned by the members of the Trust are not unduly taxed and thus reducing those earned monies and adding stability to the fund.

LITIGATION AND CONTINGENT LIABILITIES

As of December 31, 2009, 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 which are known to exist are not considered to have a material adverse affect on its financial examination as of the examination date.

The December 31, 2009 Independent Auditors' Report on behalf of the Trust which is filed with the TDCI does make the following statement pertaining to the amounts recoverable from Reliance National Indemnity Company:

> "In December 2009, the receiver for the Reliance Bankruptcy published financial statement which indicated Reliance had sufficient assets to pay 60.3% of their recorded liabilities. As such, it appears Reliance will be unable to pay 39.7% of their reinsurance recoverable on paid and unpaid losses and loss adjustment expenses. Accordingly, the Trust has elected to write off 39.7% of their reinsurance recoverable on paid and unpaid losses and loss adjustment expenses. As of December 31, 2009, the Trust has cumulatively written off reinsurance recoverable on paid and unpaid losses and loss adjustment expenses of approximately $822,000 and $442,000 respectively, due from

Reliance of which approximately $20,000 and $(98,000) were written off during the year.

At December 31, 2009, the Trust had approximately $1,248,000 and $671,000 undiscounted in net reinsurance recoverable on paid and unpaid losses and loss adjustment expenses, respectively, due from Reliance which has not been written off. It is uncertain what portion, if any, of the remaining net reinsurance recoverable may ultimately prove to be uncollectible."

SUBSEQUENT EVENTS

The Trust moved its assets to a new custodian, Bank of America, N.A. during the course of the examination. Investments will be purchased as directed by the Board of Trustees pursuant to the Trust's Investment Policy by Merrill Lynch, Pierce, Fenner & Smith, Incorporated (Merrill Lynch) which is a subsidiary of Bank of America.

The Trust and its custodian, Bank of America, N.A., completed a new custodian agreement during the course of the examination to ensure compliance with the technical requirements of Tenn. Comp. R. & Regs. R. 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 Bank of America and the Trust on May 11, 2011 exhibited language compliant with Tenn. Comp. R. & Regs. R. 0780-01-46-03(2)(a).

FINANCIAL STATEMENT

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

BALANCE SHEET

Assets	
Cash and cash equivalents	$ 3,062,450
Certificates of deposit	14,720,436
Investment in debt securities available for sale	4,834,792
Accrued interest receivable	70,556
Net premiums receivable	421,102
Net excess of loss insurance recoverable on paid losses and loss adjustment expenses	21,622
Net excess of loss insurance recoverable on unpaid losses and loss adjustment expenses	1,190,487
Refundable income taxes	60,000
Deferred tax asset	401.912
Refundable administrative service fees	182,070
Refundable reinsurance premiums	122,729
Prepaid expense and other assets (see detail below)	93,103
	$25,181,259

Prepaid expense and other assets detail

Adjusting Entry into claim system upon receipt of recovery, prior to deposit in bank account. Cleared in January, 2010.	$93,103
Total other assets	$93,103

Liabilities and Members' Surplus

Liabilities	
Loss and loss adjustment reserves	$9,656,218
Member distribution payable	11,522,608
Member deposits	1,894,185
Member overpayments	812,761
Advance premiums	140,728
Premium taxes payable	126,155
Accounts payable and other accrued liabilities (see detail below)	62,982
Total liabilities	24,215,637
Surplus/Members' Surplus	
Statutory surplus	965,622
	$25,181,259

Accounts payable and accrued liabilities detail

Escheatable funds	$1,017
Agent commissions payable	37,799
Claims administration fee payable	750
Vendor payables	23,416
Total accounts payable and accrued expenses (liability	$62,982

STATEMENT OF INCOME

Revenues	
Premiums earned	$4,332,044
Investment income	489,861
Total revenues	4,821,905
Expenses	
Losses and loss adjustment	3,586,065
Excess insurance premiums	1,342,201
Agents' Commissions	329,844
Administrative service fees	115,937
State premium taxes	126,646
Loss control fees	225,745
Claims service fees (Brentwood)	99,905
Association expense (Royalty)	93,250
Other administrative expenses	170,735
Total expenses	6,090,328
Income before member distribution	(1,268,423)
Member distribution, reduction in accrual	(1,268,423)
Net income	$0
Other Comprehensive Earnings Net of Tax	
Unrealized gains on securities:	
Unrealized holding gains arising during the period net of deferred taxes of $31,349	60,854
Increase in accrual of excess earnings as distributable to the members	(60,854)
Other Comprehensive Earnings	0
Comprehensive Earnings	$0

STATEMENT OF CHANGES IN MEMBERS'S EQUITY

	2005	2006	2007	2008	2009
Total members' equity prior year	$9,853,573	$12,702,377	$13,505,254	$16,231,032	$17,827,342
Net income before taxes and return of premium to members	2,495,620	719,016	2,799,888	1,746,836	(1,268,423)
*Return of premium paid to members	0	0	0	0	0
Income tax benefit (expense)	83,395	24,519	0	50,048	0
Change in member deposits	310,616	62,744	(137,172)	(209,100)	(317,497)
Reduction in accrual of excess income as distributable to members	(40,828)	(3,402)	0	0	0
Addition in accrual of excess income as distributable to members	0	0	63,062	8,526	60,854
(Reduction) in previously accrued member distribution resulting from examination	0	0	0	0	(1,919,860)
Rounding	1	0	0	0	(1)
Total members equity, December 31	$12,702,377	$13,505,254	$16,231,032	$17,827,342	$14,382,415

Detail by Year of Member Equity

	2005	2006	2007	2008	2009
Member distribution payable by year	$10,207,167	$10,947,300	$13,810,250	$15,615,660	$11,522,608
Member deposits	2,495,210	2,557,954	2,420,782	2,211,682	1,894,185
Statutory surplus	0	0	0	0	965,622
Total members equity, December 31	**$12,702,377**	**$13,505,254**	**$16,231,032**	**$17,827,342**	**$14,382,415**

The above reconciliation is prepared using the audited financial statements filed with the

TDCI. Unrealized losses and unrealized gains to the bond portfolio as well as adjustments to loss reserves influence the addition in accrual to excess income as distributable to members.

The adjustments for the 2009 year relate to non-admission of the amounts recoverable from Reliance National Insurance Company under an excess of loss policy as well as the establishment of a statutory surplus as required by Tenn. Comp. R. & Regs. R. 0780-1-54.11 which became effective March 16, 2009.

ANALYSIS OF CHANGES IN FINANCIAL STATEMENT AND COMMENTS RESULTING FROM EXAMINATION

Item	Amount
Net excess of loss insurance recoverable on paid losses and loss adjustment expenses	**$ 21,622**

The above amount reflects a decrease to the amount stated in the Audited Financial Statement for this asset in the amount of $1,248,444.43.

At December 31, 2009, the Trust had approximately $1,248,000 and $671,000 undiscounted in net reinsurance recoverable on paid and unpaid losses and loss adjustment expenses, respectively, due from Reliance National Insurance Company which had not been written off. No payments had been received since August, 2001; therefore, the remaining recoverable from Reliance is non-admitted.

Reliance was placed in liquidation by the Commonwealth Court of Pennsylvania on October 3, 2001. It is uncertain at this date what amount if any may ultimately be approved for payment by the Court.

Net excess of loss insurance recoverable on unpaid paid losses and loss adjustment expenses	**$ 1,190,487**

The above amount reflects a decrease to the amount stated in the Audited Financial Statement for this asset in the amount of $671,415.78.

The non-admitting of the Reliance portion of this recoverable is due to the circumstances and uncertainty of payment due to the liquidation of Reliance put in place by the Commonwealth Court of Pennsylvania on October 3, 2001. No payments have been received by the Trust since August, 2001.

Statutory surplus	**$ 965,622**

The above amount is transferred from Member distribution payable in order to comply with Tenn. Comp. R. & Regs. R. 0780-1-54.11(1) which was amended March 16, 2009. The regulation states:

> "(1) 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 percent (30%) of the unpaid claims liability three (3) years from the effective date of this Chapter.

The required surplus for the Group is $965,622; therefore, the Trust complies with the

Rule.

The Trust presents member distributions payable declared as operating expenses and deducts from total income prior to the calculation of net income or net loss for federal income tax purposes. The intent of this treatment is to designate the excess monies earned by the Fund as distributions payable back to its members.

The Member Distribution Payable to Members as represented on the GAAP financial statements of the Trust represents retained earnings which have not been approved for payment to the members by the TDCI; however, these earnings are being treated as declared for payment under the accounting treatment approved by the Board of Trustees and recorded as a liability.

Member distribution payable **$11,522,608**

The above amount reflects a decrease of $2,885,482 from the amount stated in the Audited Financial Statement and results from the summation of the three (3) changes mentioned previously.

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

Item	Member Equity	
	Increase	Decrease
Net excess of loss insurance recoverable on paid losses and loss adjustment expenses		$1,248,444
Net excess of loss insurance recoverable on unpaid paid losses and loss adjustment expenses		671,416
Statutory surplus	965,622	
Member distribution payable	0	965,622
Totals	$965,622	$2,885,482
Net change in member equity		$1,919,860

COMMENTS AND RECOMMENDATIONS

Comments:

- The Trust effected a new custodial agreement with Bank of America. N.A. during the course of the examination and moved their investments to this custodian. The Agreement is compliant with Tenn. Comp. R. & Regs. R. 0780-1-46. The agreement was discussed previously in the report under the caption "Subsequent Events."

Recommendations:

- It is recommended that the Trust put in place controls in order to monitor compliance with Tenn. Comp. R. & Regs. R. 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 the Claims Servicing Agreements and Excess of Loss policies were filed with the TDCI; however, the filing was not within the required time line.

    Tenn. Comp. R. & Regs. R. 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."

- It is recommended that the Trust in cooperation with their Third Party Administrator review the formalized process to monitor compliance with unclaimed property disposition pursuant to Tenn. Code Ann. § 66-20-101, *et seq.* known as the "Uniform Disposition of Unclaimed (Personal) Property Act." An immaterial amount of small claim checks is outstanding for some back years which exceed the dormancy threshold of five years. The amount is approximately $5,000 and it is expected that these checks were reissued.

    The Trust's operating account is in compliance with the Act.

- The Trust should continue its efforts to comply with Tenn. Comp. R. & Regs. R. 0780-01-54-.15 which states that "any monies for a fund year in excess of the amount necessary to fund all obligations for that fund year may be declared refundable by the board of trustees not less that eighteen (18) months after the end of the fund year, after written approval is granted to the pool by the Commissioner to disburse such funds."

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 Home Builders Association of Tennessee Self-Insured Workers' Compensation Trust.

In such manner, it was determined that, as of December 31, 2009, the Trust had assets of $25,181,259 and liabilities exclusive of member distribution payable and member deposits of $10,798,844. Thus, there existed for the additional protection of the members of the Trust/policyholders, the amount of $14,382,415 in the form of member distribution payable (retained earnings), member deposits and statutory surplus.

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

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 Home Builders Association of Tennessee Self-Insured Workers' Compensation Trust dated August 4, 2011, and made as of December 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 4th day of

August, 2011

Notary Stacey Schroeder

County Maury

State TN

Commission Expires 8/20/2011

STACEY SCHROEDER STATE OF TENNESSEE NOTARY PUBLIC MAURY COUNTY, TENN.

Gary Hughes & Associates, Inc.

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AUG 12 2011
Dept. of Commerce & Insurance
Company Examinations

August 10, 2011

Mr. Horace E. Gaddis
Insurance Examinations Director
Department of Commerce and Insurance
500 James Robinson Parkway, 4th Floor
Nashville, TN 37243

Re: Report on Financial Condition
Home Builders Association of Tennessee
Self Insured Workers Compensation Trust

Dear Mr. Gaddis:

We hereby waive our right to rebuttal as we are in agreement with the report. We would like to thank and commend our auditor, Keith Patterson, for his professional, courteous and expeditious manner in carrying out this audit.

Sincerely,

Gary K. Hughes
Administrator

EXHIBIT
B

555 Marriott Drive, Suite 210 • Nashville, TN 37214 • 615-874-3390 • Fax 615-874-8784

GH

Gary Hughes & Associates, Inc.
557 Marriott Drive, Suite 210
Nashville, TN 37214

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Dept. of Commerce & Insurance
Company Examinations

Mr. Horace E. Gaddis
Insurance Examinations Director
Department of Commerce and Insurance
500 James Robinson Parkway, 4th Floor
Nashville, TN 37243