



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

UNIVANTAGE INSURANCE COMPANY

of

Murray, Utah

as of

December 31, 2008

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April 21, 2010

Honorable Neal T. Gooch, Commissioner
State of Utah
3110 State Office Building
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination, as of December 31, 2008, has been made of the financial condition and business affairs of:

UNIVANTAGE INSURANCE COMPANY
Murray, Utah

hereinafter referred to in this report as the Company, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

Univantage Insurance Company, herein after referred to as “Univantage” was last examined as of December 31, 2004. There were no prior examination comments and recommendations.

The current examination covers the period from January 1, 2005 through December 31, 2008, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Examination Procedures Employed

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) *Financial Condition Examiners Handbook* to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, and insurance rules promulgated by the Utah Insurance Department (Department). The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles (SSAPs) and annual statement instructions

when applicable to domestic state regulations. The Company is exempt from the requirement to file audited financial statements.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. The initial phase of the examination focused on evaluating the Company's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment, work performed by external audit functions, and work performed by internal audit functions being performed by the Company's parent, Workers Compensation Fund. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk, examination procedures were reduced where considered appropriate.

A letter of representation certifying that management disclosed all significant matters and records was obtained from management and included in the examination working papers.

SUMMARY OF EXAMINATION FINDINGS

Number of Directors

- 1) According to the Univantage Articles of Incorporation, Article VII, Directors, "*The business and affairs of the Corporation shall be conducted by a Board of Directors consisting of not less than five or more than nine persons...*" According to the Univantage Bylaws, Article III, Section 3.01, "The number of Directors of the Corporation shall be not less than three or more than nine persons..." As of December 31, 2008, the Company had three Directors.

Recommendation

The Company's Articles of Incorporation and Bylaws should be consistent.

SUBSEQUENT EVENTS

There were no subsequent events impacting the Company.

COMPANY HISTORY

General

In December 1995, Workers Compensation Fund entered into an agreement with the Utah Insurance Commissioner, acting in his capacity as court-appointed liquidator of Bonneville Life Insurance Company, to purchase Bonneville Life Insurance Company's corporate charter and the right to its state licenses. The purchase agreement was executed on January 8, 1996.

As of December 31, 2008, the Company was authorized to transact life, annuity and disability lines of insurance. Subsequent to the formation of the Company, Workers Compensation Fund was restricted by statute from offering insurance lines other than workers' compensation, either directly or through subsidiaries. The Company has not transacted insurance business since its acquisition by Workers Compensation Fund.

Capital Stock

As of December 31, 2008, the Company had 1,000,000 shares of \$10.00 par value common stock authorized and 500,000 shares issued with 90,000 shares outstanding. The Company holds the remaining 410,000 of its issued shares as treasury stock that were purchased from its parent company in 1998. Workers Compensation Fund owns 100 percent of the outstanding shares of common stock.

Dividends to Stockholders

The Company neither declared nor paid any dividends during the examination period.

CORPORATE RECORDS

The board of directors meeting minutes indicated the board of directors adequately approved and supported the Company's transactions and events. In accordance with U.C.A. § 31A-2-204(8), the Company promptly furnished a copy of the prior examination report to each member of the board of directors.

MANAGEMENT AND CONTROL

The Bylaws of the Company indicated the number of directors would consist of not less than three or more than nine persons. The Articles of Incorporation indicated the number of directors would consist of not less than five or more than nine persons. On December 31, 2008, a three-member board of directors, consisting of the President and two former directors from Workers Compensation Fund, governed the Company.

The following persons served as directors of the Company as of December 31, 2008:

<u>Name</u>	<u>Principal Occupation</u>
Ray David Pickup Chairman Salt Lake City, Utah	President, Chief Executive Officer Workers Compensation Fund
Melvin Carl Green Salt Lake City, Utah	Owner, Chairman Creative Color
Robert Day Myrick Salt Lake City, Utah	Retired Formerly President and Chief Executive Officer Morgan Stanley Dean Witter Bank

The 2007 and 2008 annual statements incorrectly list Mark Heugly as a director. Mr. Heugly's term expired in March 2007. Mr. Robert Myrick was appointed in March 2007. This was corrected in the 2009 annual statement.

The following persons served as officers of the Company as of December 31, 2008:

<u>Principal Officer</u>	<u>Office</u>
Ray David Pickup	President
Dennis Vaughn Lloyd	Secretary
Scott Edward Westra	Treasurer

Conflict of Interest Procedure

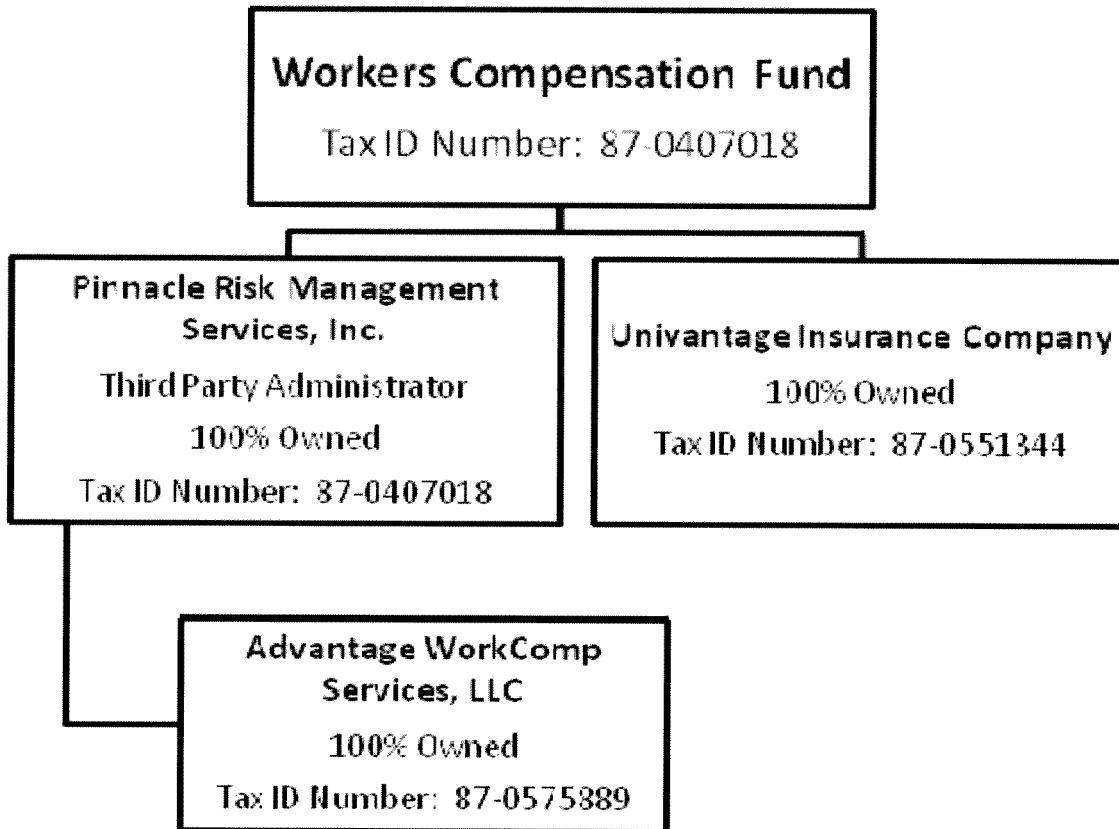
During the period covered by the examination, directors and officers of the Company completed conflict of interest statements annually. No exceptions were noted.

Corporate Records

The board of directors meeting minutes indicated the board of directors adequately approved and supported the Company's transactions and events. In accordance with U.C.A. § 31A-2-204(8), the Company promptly furnished a copy of the prior examination report to each member of the board of directors.

AFFILIATED COMPANIES

The Company is wholly owned and controlled by Workers Compensation Fund. An organizational chart illustrating the holding company system follows:



Transactions with Affiliates

Workers Compensation Fund (WCF), a nonprofit, quasi-public, property and casualty insurance company, is the ultimate controlling member of the insurance holding company system. Pinnacle Risk Management Services, Inc. (Pinnacle) is a third-party administrator of workers' compensation claims. Advantage WorkComp Services, Inc. is a workers' compensation products and services company. On January 1, 2005, WCF transferred its shares of Advantage WorkComp Services, Inc. to Pinnacle.

Effective June 15, 1998, the Company, WCF, Pinnacle, and Advantage WorkComp Services, Inc. entered into an agreement for cooperative and joint use of personnel, property, equipment, and services. WCF agreed to provide for its subsidiaries; personnel, property, equipment, and services to enable the subsidiaries to conduct business and other corporate functions. Pinnacle agreed to provide personnel, property, equipment, and services to the Company to enable the Company to conduct its insurance business and other corporate functions. The agreement requires the amount charged be fair, reasonable, equitable, and in accordance with the prevailing market rates.

FIDELITY BOND AND OTHER INSURANCE

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is \$25,000. The Company was a named insured on Worker Compensation Fund's fidelity coverage in the form of an aggregate bond with a single loss limit of \$2,000,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company has no direct employees and is not a party to any pension, stock ownership, or insurance plans. The Company's parent was responsible for the business operations of the Company under a cooperative and joint use agreement.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2008, the Company was authorized to transact life, annuity, and disability insurance in the State of Utah. No insurance business was conducted during the examination period.

REINSURANCE

During the period covered by the examination, the Company neither ceded nor assumed reinsurance.

ACCOUNTS AND RECORDS

WCF maintains the Company's accounting records. The general ledger is maintained on a full accrual basis of accounting. The annual statement is prepared by mapping the general ledger account balances to the appropriate to annual statement line items in conformity with the annual statement instructions and requirements.

An examination trial balance, as of December 31, 2008 was prepared from the Company trial balance sheet. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary.

The Company had investments held by a custodian pursuant to a written custodial agreement dated February 4, 2002. As of December 31, 2008, this custodial agreement was not in compliance with Utah Administrative Code (U.A.C.) Rule 590-178, requiring certain provisions for the protection of Utah insurers and policyholders. A revised custodial agreement was subsequently executed on April 19, 2010 and written board of directors approval was obtained. The reported investments were considered admitted assets at December 31, 2008, by subsequent revision of the custodial agreement, for examination purposes.

STATUTORY DEPOSITS

Pursuant to U.C.A. § 31A-5-211(2) (a) and U.C.A. § 31A-4-105, the Company is required to maintain a statutory deposit equal to \$400,000. The examination confirmed the Company maintained a statutory deposit with the State of Utah consisting of U.S. Treasury Notes with a statement value of \$697,703 and a market value of \$767,348.

FINANCIAL STATEMENTS

The Company's financial condition as of December 31, 2008, and the results of its operations during the twelve months then ended, as determined by examination, are reported in the following financial statements:

BALANCE SHEET as of December 31, 2008

STATEMENT OF REVENUE AND EXPENSES for the Year Ended December 31, 2008

RECONCILIATION OF CAPITAL AND SURPLUS – 2005 through 2008

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

UNIVANTAGE INSURANCE COMPANY
BALANCE SHEET
as of December 31, 2008

ASSETS

	<u>Amount</u>
Bonds	\$ 697,703
Cash, cash equivalents and short-term investments	1,084,216
Investment income due and accrued	5,845
Current federal and foreign income tax recoverable and interest thereon	<u>2,490</u>
Total assets	<u><u>1,790,254</u></u>

LIABILITIES, SURPLUS AND OTHER FUNDS

General expenses due or accrued	216
Taxes, licenses and fees due or accrued	<u>(898)</u>
Total liabilities	(682)
Common capital stock	5,000,000
Gross paid in and contributed surplus	34,123
Unassigned funds (surplus)	856,813
Less treasury stock, at cost	<u>(4,100,000)</u>
Total capital and surplus	<u>1,790,936</u>
Total liabilities, capital and surplus	<u><u>\$ 1,790,254</u></u>

UNIVANTAGE INSURANCE COMPANY
STATEMENT OF REVENUE AND EXPENSES
for the Year Ended December 31, 2008

Net investment income	\$ 72,474
Total	<u>72,474</u>
General insurance expenses	9,661
Insurance taxes, licenses and fees excluding federal income taxes	4,502
Totals	<u>14,163</u>
Federal and foreign income taxes incurred	10,511
Net income (loss)	<u>\$ 47,800</u>

UNIVANTAGE INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS
2005 through 2008

	2005	2006	2007	2008
Capital and surplus, December 31, previous year	\$ 1,587,979	\$ 1,634,881	\$ 1,684,261	\$ 1,743,136
Net Income or (loss)	46,902	49,380	58,875	47,800
Change in net unrealized capital gains (losses)	-	-	-	-
Change in net deferred income tax	-	-	-	-
Change in nonadmitted assets	-	-	-	-
Dividends to stockholders	-	-	-	-
Net change in capital and surplus for the year	46,902	49,380	58,875	47,800
Capital and surplus, December 31, current year	<u>\$ 1,634,881</u>	<u>\$ 1,684,261</u>	<u>\$ 1,743,136</u>	<u>\$ 1,790,936</u>

NOTES TO FINANCIAL STATEMENTS

No adverse findings, material changes in the financial statements, or other significant regulatory information was disclosed by the examination.

ACKNOWLEDGEMENT

In addition to the undersigned, Clarissa Crisp, AFE and Hermoliva Abejar, participated in the examination representing the Utah Insurance Department. Jacob W. Garn, CPA, MBA, CFE, Chief Examiner and Colette Hogan Sawyer, CFE, CPM, PIR, Assistant Chief Examiner supervised the examination. Participants in the examination from RSM McGladrey, Inc. were Jan M. Moenck, CFE, LeeAnne Creevy, CISA, and Alan Gutierrez, CISA. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read 'S. Carroll', with a long horizontal flourish extending to the right.

Susan L. Carroll, CFE
Examiner-in-Charge
RSM McGladrey, Inc.
Representing the Utah Insurance Department