

REPORT ON EXAMINATION
OF
SAWGRASS MUTUAL INSURANCE
COMPANY
DAVIE, FLORIDA
AS OF
DECEMBER 31, 2009

BY THE
OFFICE OF INSURANCE REGULATION

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TALLAHASSEE, FLORIDA

October 4, 2010

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

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, and 628.041 Florida Statutes, Rule 69O-138.005, Florida Administrative Code and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2009, of the financial condition and corporate affairs of:

**SAWGRASS MUTUAL INSURANCE COMPANY
351 SW 136 AVE., SUITE 205
DAVIE, FLORIDA 33325**

Hereinafter referred to as, the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of April 7, 2009, through December 31, 2009. This was the first examination of the Company. The examination commenced with planning at the Florida Office of Insurance Regulation (Office) on April 25, 2010, to April 30, 2010. The fieldwork commenced on May 16, 2010, and concluded as of October 4, 2010.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

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

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

This report of examination is confined to significant adverse findings, a material change in the financial statements or other information of regulatory significance or requiring regulatory action. The report comments on matters that involved departures from laws, regulations or rules, or which were deemed to require special explanation or description.

SUMMARY OF SIGNIFICANT FINDINGS

Current Exam Findings

There were no material findings or exceptions noted during the examination as of December 31, 2009.

Prior Exam Findings

This was a first year examination of the Company.

SUBSEQUENT EVENTS

During the 1st Quarter of 2010, the Company adopted investment guidelines and appointed Wells Fargo Bank National Association as its custodian. The Company entered into a custodial agreement with Wells Fargo in March of 2010.

HISTORY

General

The Company was organized in Florida on May 27, 2007, and commenced business in May of 2009, as Sawgrass Mutual Insurance Company.

The Company was party to Consent Order 103653-09-CO, filed April 7, 2009, regarding the application for the issuance of a Certificate of Authority. The Company was in compliance with Consent Order 103653-09-CO.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2009:

Fire
Homeowners Multi Peril
Inland Marine

Allied Lines
Commercial Multi Peril
Other Liability

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

Dividends

The Company paid no dividends in 2009.

Surplus Debentures

A surplus note executed February 24, 2009, was issued in the amount of ten million Dollars (\$10,000,000) between the Company and Verdant Holding Company, Ltd. The pay off for this note was set at eleven million Dollars (\$11,000,000), which was the original cash amount of ten million plus a one million dollar performance fee, plus interest. Interest was to be calculated at a rate equal to the three month LIBOR plus 600 basis points computed on the basis of a year of 360 days and actual days elapsed. The Principal amount is scheduled to be paid in full on December 31, 2018.

CORPORATE RECORDS

The recorded minutes of the Board of Directors (Board) and certain internal committees were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions and events in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

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

MANAGEMENT AND CONTROL

Management

Directors were elected at the annual Board meeting in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2009, were:

Directors

Name and Location	Principal Occupation
David Simon Miami, Florida	Certified Public Accountant
John Traver Hollywood, Florida	President of Sigma Underwriting Managers
James Esse Hollywood, Florida	President/CEO Sawgrass Mutual Insurance Company
James W. Newman Jr. Tallahassee, Florida	Executive VP/Chairman Sawgrass Mutual Insurance Company

Randell C. Chaffin
Coral Gables, Florida

Owner, President & CEO, Seacoast
Underwriters, Inc.

The Board in accordance with the Company's bylaws appointed the following senior officers:

Senior Officers

Name	Title
James Esse	President/CEO
James W. Newman Jr.	Executive Vice President
Michael Samach	CFO & Treasurer

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal committees and their members as of December 31, 2009:

Audit Committee

David Simon¹
John Traver
R.C. Chaffin

Investment Committee

Jay Newman ¹
Michael Samach

Underwriting Committee

Jay Carbine ¹
John Traver

¹ Chairman

Affiliated Companies

The Company is organized as a mutual insurance company and thus has no parent, subsidiaries or affiliates.

The following agreements were in effect with the Company:

Managing General Agent Agreement

The Company had a five year exclusive Managing General Agent (MGA) agreement with Cladium, LLC which had certain overlapping officers and directors. Under this agreement the Company wrote all direct business through Cladium, LLC, which provided policy services, underwriting services, marketing services, customer service, sub-producer contracting and reinsurance advisement services to the Company. The Agreement remained in force until terminated and could be terminated at any time by either party upon one-hundred eighty days prior written notice to the other party, provided the termination date was not earlier than sixty months from the effective date of the agreement. Termination of the agreement on the part of the Company is contingent upon repayment of the Surplus Note in full including all accrued interest. The agreement remained in force through the examination period.

Cost Sharing Agreement

The Company entered into a cost allocation agreement with the MGA that provides for an allocation of certain common expenses between the two companies.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$500,000 with a deductible of \$25,000, which adequately covered the suggested minimum as recommended by the NAIC and Section 628.171, Florida Statutes.

The Company also maintained Directors and Officers (D&O) liability insurance with limits of \$1,000,000 and a deductible of \$25,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, or other insurance plans for its employees as of December 31, 2009.

TERRITORY AND PLAN OF OPERATIONS

The Company was authorized to transact business solely in the State of Florida.

Treatment of Policyholders

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

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

COMPANY GROWTH

Profitability of Company

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

	2009
Premiums Earned	(281,321)
Net Underwriting Gain/(Loss)	(4,893,792)
Net Income	(4,339,884)
Total Assets	11,048,405
Total Liabilities	3,559,851
Surplus As Regards Policyholders	7,488,554

LOSS EXPERIENCE

This is a first year examination for the Company.

REINSURANCE

Ceded

The Company purchased catastrophe reinsurance from private reinsurers and the Florida Hurricane Catastrophe Fund. In addition, the Company purchased a reinstatement premium protection policy and an excess reinsurance policy that limits the amount of risk to \$600,000 per claim for non-catastrophe claims.

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines. The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

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

Unaffiliated Companies

The Company and non-affiliates had the following agreements:

Technical Support

The Company entered into an agreement with Phoenix Network Solutions, to provide computer hardware, software, communication and network support for a period of thirty-six months. This agreement automatically renews for each successive twelve month period thereafter, unless either party provides written notice of non-renewal.

Custodial Agreement

The Company had no investments as of December 31, 2009 and had no Custodial Agreement in place.

Independent Auditor Agreement

The Company appointed BDO Seidman, LLP as its independent auditor. This appointment is to be reviewed on an annual basis during the annual Board meeting.

An independent CPA audited the Company's statutory basis financial statements for the 2009 period, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

Information Technology Report

Mr. Tracy Gates, CISA of Highland Clark, LLC, performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	Cert. of Deposit, SunTrust Bank – 1 Yr – 1.00% Int	<u>\$ 300,000</u>	<u>\$ 300,000</u>
	TOTAL FLORIDA DEPOSITS	\$ 300,000	\$ 300,300
	TOTAL SPECIAL DEPOSITS	<u><u>\$ 300,000</u></u>	<u><u>\$ 300,000</u></u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2009, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

SAWGRASS MUTUAL INSURANCE COMPANY
Assets

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Cash	\$ 9,458,329		\$ 9,458,329
Premiums and considerations:			
Uncollected premiums and agent bal	522,013		522,013
Net deferred tax asset	1,068,063		1,068,063
Total	<u>\$ 11,048,405</u>	<u>\$ -</u>	<u>\$ 11,048,405</u>

SAWGRASS MUTUAL INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2009

	Per Company	Examination Adjustments	Per Examination
Losses	\$ 82,025		\$ 82,025
Loss adjustment expenses	37,044		37,044
Commissions payable, contingent commissions	159,364		159,364
Other expenses	384,806		384,806
Taxes, licenses and fees	121,136		121,136
Unearned premiums	2,188,606		2,188,606
Advance premiums	66,130		66,130
Ceded reinsurance premiums payable	520,740		520,740
Total liabilities	<u>\$ 3,559,851</u>		<u>\$ 3,559,851</u>
Surplus notes	\$ 11,000,000		\$ 11,000,000
Unassigned funds	<u>(3,511,446)</u>		<u>(3,511,446)</u>
Surplus as regards policyholders	<u>\$ 7,488,554</u>		<u>\$ 7,488,554</u>
Totals	<u>\$ 11,048,405</u>	<u>\$ -</u>	<u>\$ 11,048,405</u>

SAWGRASS MUTUAL INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2009

UNDERWRITING INCOME

Premiums earned	\$	(281,321)
DEDUCTIONS		
Losses incurred		82,893
Loss adjustment expenses incurred		40,522
Other underwriting expenses incurred		3,489,056
Aggregate write-ins for underwriting deductions		1,000,000
Total underwriting deductions	<u>\$</u>	<u>4,612,471</u>
 Net underwriting gain (loss)	 \$	 (4,893,792)

INVESTMENT INCOME

Net investment income earned	\$	105,598
Total investment gain (loss)	<u>\$</u>	<u>105,598</u>

OTHER INCOME

Net gain (loss) from agents' or premium balances charged off	\$	(358)
Finance and service charges not included in premiums		448,668
Total other income (loss)	<u>\$</u>	<u>448,310</u>

Net income before dividends to policyholders	\$	(4,339,884)
Dividends to policyholders		-
Net income after dividends to policyholders	<u>\$</u>	<u>(4,339,884)</u>

Net income	<u>\$</u>	<u>(4,339,884)</u>
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CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders	\$	(210,334)
 Net income	 \$	 (4,339,884)
Change in deferred income tax		1,493,374
Change in non-admitted assets		(454,602)
Change in surplus notes		11,000,000
Change in Surplus as regards policyholders for the year	<u>\$</u>	<u>7,698,888</u>
 Surplus as regards policyholders December 31 current year	 <u>\$</u>	 <u>7,488,554</u>

A comparative analysis of changes in surplus is shown below.

**SAWGRASS MUTUAL INSURANCE COMPANY
Comparative Analysis of Changes In Surplus**

DECEMBER 31, 2009

Surplus as regards policyholders
December 31, 2009 per Annual Statement

\$ 7,488,554

PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS
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ASSETS:

No Adjustment

LIABILITIES:

No Adjustment

Net Change in Surplus:

\$0

Surplus as regards policyholders
December 31, 2009 per Examination

\$ 7,488,554

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$119,069

An outside actuarial firm, appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2009, met the requirements of the insurance laws of Florida, were consistent with reserves computed in accordance with accepted actuarial standards and principals, and made a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements.

The examination actuary, Dennis R. Henry, FCAS, MAAA of The Actuarial Advantage, Inc., reviewed work papers provided by the Company and the outside actuary. He determined that the results of the outside actuarial firm's review fell within a reasonable range and therefore, that Company reserves were considered reasonable for the 2009 period.

Capital and Surplus

The amount reported by the Company of \$7,488,554, exceeded the minimum of \$4,000,000 required by Section 624.408 Florida Statutes.

SUMMARY OF RECOMMENDATIONS

There were no findings noted during the examination as of December 31, 2009.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Sawgrass Mutual Insurance Company** as of December 31, 2009, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$7,488,554, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Sara Baylock, Reinsurance Financial Specialist, of the Office; Sheri Kenney, CFE and Brad Hazelwood, of Highland Clark, LLC participated in the examination. We also recognize Tracy Gates, CPA, CISA, of Highland Clark, LLC and Dennis R. Henry, FCAS, MAAA, of The Actuarial Advantage Inc. participation in the examination.

Respectfully submitted,

Kethessa Carpenter, CPA
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation