

REPORT ON EXAMINATION
OF
FRSA SELF INSURERS FUND
WINTER PARK, FLORIDA
AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

December 14, 2007

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 624.486, Florida Statutes, Rule 690-190.063, 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, 2006, of the financial condition and corporate affairs of:

**FRSA SELF INSURERS FUND
4099 METRIC DRIVE
WINTER PARK, FLORIDA 32792**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2004 through December 31, 2006. The Fund was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced, with planning at the Office, on September 17, 2007, to September 21, 2007. The fieldwork commenced on September 28, 2007, and was concluded as of December 14, 2007.

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.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Fund as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Fund's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Fund's operations and practices. In addition, the Fund's independent audit reports and certain work papers prepared by the Fund's independent certified public accountant (CPA) and other reports as considered necessary were reviewed and utilized where applicable within the scope of this examination.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Fund's control environment and the materiality level set for this examination, reliance was placed on work performed by the Fund's CPAs, after verifying the statutory requirements, for the following accounts:

- Investments
- Aggregate write-ins for other than invested assets
- Other expenses
- Federal income taxes
- Taxes, licenses and fees
- Aggregate write-ins for liabilities
- Aggregate write-ins for special surplus funds

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2003, along with resulting action taken by the Fund in connection therewith.

Conflict of Interest Policy

The Fund did not have a formal conflict of interest policy in place, in violation of Rule 69O-138.001, Section IV, Florida Administrative Code. **Resolution:** The Fund implemented a formal conflict of interest policy.

Fidelity Bonds

The Fund maintained two fidelity bonds to meet the minimum \$500,000 required coverage in compliance with Rule 69O-190.064(5), Florida Administrative Code. However, one of the Fund's

fidelity bonds was not in compliance with Rule 69O-190.064(5),(7a),(8), Florida Administrative Code as the deductible amount of \$250,000 was in excess of the \$5,000 deductible limitation. Additionally, the bond was not in compliance with Rule 69O-190.064(7)(a), Florida Administrative Code, as the Fund was not listed as the named insured. **Resolution:** The Fund obtained a letter of credit for the difference in the deductible amount and the deductible limitation. The Fund was listed as the named insured on the fidelity bond.

Real Estate

On Schedule A of the annual statement, the Fund reported the original cost for the office building but did not include the accumulated cost amount for additional improvements purchased over the prior three years, in violation of Rule 69O-137.001(4)(a), Florida Administrative Code. **Resolution:** The Fund included the additional improvement costs in subsequent annual and quarterly statement filings.

Losses and Loss Adjustment Expenses

The Fund did not disclose the annuity purchased in 2002 in the notes to the annual statement, in violation of SSAP No. 65, paragraph 19. **Resolution:** The Fund disclosed the structured settlement in its subsequent annual and quarterly statement filings.

Taxes, Licenses & Fees

The Fund did not accrue all taxes due on its annual statement as of December 31, 2003, in violation of Section 625.041, Florida Statutes. **Resolution:** The Fund non-admitted the refund accrual for taxes in subsequent annual statement filings.

HISTORY

General

The Fund commenced business in 1955 as the FRSA Self Insurers Fund.

The Fund was authorized to transact the following insurance coverage in Florida on December 31, 2006:

Workers' Compensation

The articles of trust and the bylaws were not amended during the period covered by this examination.

Capital Stock

The Fund maintained no capital stock.

Profitability of Fund

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

	2006	2005	2004
Premiums Earned	28,198,790	31,046,193	27,698,260
Net Underwriting Gain/(Loss)	6,411,206	8,974,897	6,843,129
Net Income	0	0	0
Total Assets	69,052,401	58,086,669	53,762,183
Total Liabilities	60,684,649	50,920,321	47,979,263
Surplus As Regards Policyholders	8,367,752	7,166,348	5,782,920

Dividends to Policyholders

In accordance with Rule 69O-190.063(18) and 69O-190.065, Florida Administrative Code, the Fund paid dividends to its policyholders in 2006, 2005, and 2004 in the amounts of \$11,000,000, \$10,000,000, and \$8,000,000 respectively.

Management

The annual trustees meeting for the election of trustees and officers was held in accordance with Rule 69O-190.064, Florida Administrative Code. Trustees serving as of December 31, 2006, were:

Trustees

Name and Location	Principal Occupation
Terry Turner San Mateo, Florida	Chairman, FRSA Self Insurers Fund
Brad Bowen, III Sebring, Florida	Trustee, FRSA Self Insurers Fund
Don Springer Lakeland, Florida	Trustee, FRSA Self Insurers Fund
Milton E. Thompson, Jr. Opa Locka, Florida	Trustee, FRSA Self Insurers Fund
Steve Sutter Sarasota, Florida	Trustee, FRSA Self Insurers Fund
Robert Purdy Pensacola, Florida	Trustee, FRSA Self Insurers Fund
Bob Hilson Miami, Florida	Trustee, FRSA Self Insurers Fund
Joseph Rutkowski Tampa, Florida	Trustee, FRSA Self Insurers Fund
Greg Hageman Ormond Beach, Florida	Trustee, FRSA Self Insurers Fund
William Greene ^(a) Jacksonville, Florida	Trustee, FRSA Self Insurers Fund

^(a) Resigned and replaced by Richard Pepin on March 29, 2007.

The Board of Trustees, in accordance with the Fund's bylaws, appointed the following officers:

Officers

Name	Title
Brett Stiegel	Administrator
Michael Ricker	Chief Financial Officer

The Fund's board appointed an audit committee in accordance with Rule 69O-190.064(6), Florida Administrative Code as of December 31, 2006:

Audit Committee

Bob Hilson ¹
Brad Bowen III
Don Springer
Steve Sutter

¹Chairman

Conflict of Interest Procedure

The Fund adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with Rule 69O-138.001(1) and Rule 69O-190.064(6) Florida Administrative Code. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the Board of Trustees and the internal audit committee meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Fund transactions and events in accordance with Rule 69O-190.064(19) and (21), Florida Administrative Code, including the authorization of investments.

The Board reviewed the previous examination report completed by the Office and noted the review in its minutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

Surplus Debentures

The Fund had no surplus debentures.

AFFILIATED COMPANIES

The Fund provided workers' compensation insurance to members of the Florida Roofing, Sheet Metal & Air Conditioning Contractors Association. The Fund had no affiliated companies.

FIDELITY BOND AND OTHER INSURANCE

The Fund maintained fidelity bond coverage up to \$500,000 with a deductible of \$5,000, which adequately covered the suggested minimum amount of coverage for the Fund as recommended by the NAIC.

The Fund also maintained commercial crime coverage of \$500,000 with a deductible of \$5,000, directors and officers (D&O) and errors & omissions (E&O) liability insurance coverage with limits of \$1,000,000 with a deductible of \$50,000. The Fund carried replacement cost coverage on building and contents of \$612,200 with a \$1,000 deductible, including computer equipment, commercial auto coverage with \$1,000,000 liability limits, and umbrella business liability coverage with \$1,000,000 individual and \$2,000,000 aggregate limits.

The Fund's claim servicer, United Self Insured Services, carried fidelity bond coverage of \$20,000,000 with a deductible of \$250,000 and a letter of credit for deductible coverage of \$245,000, fraud coverage of \$500,000 with a 50,000 deductible, and \$5,000,000 E&O coverage on its employees for benefit of the Fund.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Fund had a non-qualified retirement plan for the benefit of selected employees. The Fund purchased certain insurance contracts for the plan. The Fund recorded the investment in insurance contracts on the annual statement in the amount of \$1,052,704, and non-admitted the amount.

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	USTN, 5.625%, 05/15/08	\$ 600,000	\$ 604,740
FL	USTN, 4.0%, 02/15/14	1,000,000	980,800
FL	USTN, 3.875%, 09/15/10	<u>2,550,000</u>	<u>2,527,815</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 4,150,000</u></u>	<u><u>\$ 4,113,355</u></u>

INSURANCE PRODUCTS

Territory

The Fund was authorized to transact insurance in the State of Florida.

Treatment of Policyholders

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

The Fund 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.

REINSURANCE

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.

Assumed

The Fund did not assume risk.

Ceded

The Fund ceded insurance to various companies through Axiom Re, a reinsurance intermediary. The Fund ceded on an excess of loss basis. The Fund reinsured its workers' compensation line of business.

The Fund utilized two levels on its reinsurance treaty. The Fund's retention was \$1,000,000 per occurrence and \$2,000,000 in the aggregate. The Fund also had a ten times reinstatement clause.

The reinsurance contracts were reviewed by the Fund's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

The Fund maintained its principal operational offices in Winter Park, Florida, where this examination was conducted.

An independent CPA audited the Fund's statutory basis financial statements annually for the years 2004, 2005 and 2006, in accordance with Rule 69O-190.064(10), Florida Administrative Code. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

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

The Fund and non-affiliates had the following agreements:

Custodial Agreements

The Fund maintained a custodial agreement with Wachovia Bank, NA, and Evergreen Investment Management Company. The agreements were in compliance with Rule 69O-143.042(1), Florida Administrative Code.

Independent Auditor Agreement

The Fund maintained an agreement contract with an external CPA to perform the annual audit, in compliance with Rule 69O-190.064(10), Florida Administrative Code.

Claims Servicing Agreement

The Fund had an agreement with United Self Insured Services to receive and process claims submitted by the insured. United Self Insured Services had the authority to process and pay claims up to a certain value without approval from the Fund. United Self Insured Services was also charged with recovering Special Disability Trust Funds on an incentive percentage basis.

Workers' Compensation Managed Care Arrangement

The Fund, FOCUS Healthcare Management, Inc., and Amerisys, Inc. entered into a workers' compensation management care arrangement. FOCUS Healthcare Management, Inc. and Amerisys, Inc. developed a network of health care providers, health care facilities and procedures for utilizing a managed care arrangement.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Fund's financial position as of December 31, 2006, 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."

FRSA SELF INSURED FUND

Assets DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$51,101,024		\$51,101,024
Real Estate:			
Properties occupied by Company	594,252		594,252
Cash	3,943,499		3,943,499
Investment income due & accrued	485,707		485,707
Agents' Balances:			
Uncollected premium	62,852		62,852
Deferred premium	3,713,960		3,713,960
Reinsurance recoverable	76,078		76,078
Current federal tax recoverable	747,079		747,079
Net deferred tax asset	513,829		513,829
Aggregate write-in for other than invested assets	7,814,121		7,814,121
Totals	<u>\$69,052,401</u>	<u>\$0</u>	<u>\$69,052,401</u>

FRSA SELF INSURED FUND

Liabilities, Surplus and Other Funds DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$37,994,563		\$37,994,563
Loss adjustment expenses	8,939,022		8,939,022
Other expenses	309,431		309,431
Taxes, licenses and fees	308,017		308,017
Dividends declared and unpaid: Policyholders	10,834,713		10,834,713
Ceded reinsurance premiums payable	630,783		630,783
Aggregate write-ins for liabilities	1,668,120		1,668,120
Total Liabilities	\$60,684,649	\$0	\$60,684,649
Aggregate write-ins for special surplus funds	7,814,121		7,814,121
Unassigned funds (surplus)	553,631		553,631
Surplus as regards policyholders	\$8,367,752		\$8,367,752
Total liabilities, surplus and other funds	\$69,052,401	\$0	\$69,052,401

FRSA SELF INSURED FUND

Statement of Income DECEMBER 31, 2006

Underwriting Income	
Premiums earned	\$28,198,790
Deductions:	
Losses incurred	\$14,885,292
Loss expenses incurred	2,972,416
Other underwriting expenses incurred	3,929,876
Total underwriting deductions	<u>\$21,787,584</u>
Net underwriting gain or (loss)	\$6,411,206
Investment Income	
Net investment income earned	\$2,515,427
Net realized capital gains or (losses)	220,227
Net investment gain or (loss)	<u>\$2,735,654</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	(\$50,743)
Aggregate write-ins for miscellaneous income	410,182
Total other income	<u>\$359,439</u>
Net income before dividends to policyholders and before federal & foreign income taxes	\$9,506,299
Dividends to policyholders	<u>9,653,378</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$147,079)
Federal & foreign income taxes	<u>(147,079)</u>
Net Income	\$0
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$7,166,348
Net Income	0
Change in non-admitted assets	187,966
Aggregate write-ins for gains and losses in surplus	1,013,438
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$1,201,404</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$8,367,752</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$46,933,585

An outside actuarial firm appointed by the Board of Trustees, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Fund under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Fund and was in concurrence with this opinion.

Capital and Surplus

The amount reported by the Fund of \$8,367,752, was in compliance with Section 624.4621 (10), Florida Statutes.

A comparative analysis of changes in surplus is shown below.

FRSA SELF INSURED FUND

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS DECEMBER 31, 2006

The following is a reconciliation of Surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders
December 31, 2006, per Annual Statement \$8,367,752

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:	No Adjustments		
LIABILITIES:	No Adjustments		
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2006, Per Examination			<u><u>\$8,367,752</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Fund has taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office.

Current examination comments and corrective action

There were no findings in the examination as of December 31, 2006.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FRSA Self Insured Fund** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the amount reported by the Fund was \$8,367,752, in compliance with Section 624.4621 (10), Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, and James Collins, Reinsurance/Financial Specialist, participated in the examination.

Respectfully submitted,

Tina Hancock
Financial Examiner/Analyst II
Florida Office of Insurance Regulation