

REPORT ON EXAMINATION
OF
FRSA SELF INSURERS FUND
WINTER PARK, FLORIDA
AS OF
DECEMBER 31, 2011

BY THE
FLORIDA OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
SUMMARY OF SIGNIFICANT FINDINGS	2
CURRENT EXAM FINDINGS.....	2
PRIOR EXAM FINDINGS.....	2
HISTORY	2
GENERAL	2
DIVIDENDS TO POLICYHOLDERS.....	3
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	3
SURPLUS NOTES	3
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	3
CORPORATE RECORDS	3
CONFLICT OF INTEREST.....	4
MANAGEMENT AND CONTROL.....	4
MANAGEMENT	4
AFFILIATED COMPANIES	5
ORGANIZATIONAL CHART.....	6
FIDELITY BOND AND OTHER INSURANCE.....	7
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	7
TERRITORY AND PLAN OF OPERATIONS.....	8
TREATMENT OF POLICYHOLDERS	8
COMPANY GROWTH	8
PROFITABILITY OF COMPANY	9
LOSS EXPERIENCE	9
REINSURANCE.....	9
ASSUMED.....	9
CEDED	10
ACCOUNTS AND RECORDS	10
CUSTODIAL AGREEMENT	11
CLAIMS AND MANAGED CARE SERVICING AGREEMENT.....	11
INVESTMENT ADVISORY AGREEMENT	11
INDEPENDENT AUDITOR AGREEMENT	11
EMPLOYEE AGREEMENT	11
INFORMATION TECHNOLOGY REPORT	12
STATUTORY DEPOSITS	12
FINANCIAL STATEMENTS PER EXAMINATION.....	13

ASSETS	14
LIABILITIES, SURPLUS AND OTHER FUNDS	15
STATEMENT OF INCOME	16
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	17
COMMENTS ON FINANCIAL STATEMENTS.....	18
LIABILITIES	18
CAPITAL AND SURPLUS	18
CONCLUSION.....	19

October 29, 2012

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, Florida Statutes, Section 624.486, Florida Statutes, Rule 69O-138.005, Florida Administrative Code and Rule 69O-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, 2011, 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, 2007, through December 31, 2011. The Fund was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2006. This examination commenced with planning at the Office from July 16, 2012 to July 20, 2012. The fieldwork commenced on July 23, 2012, and concluded as of October 29, 2012.

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 Fund by obtaining information about the Fund including corporate governance, identifying and assessing inherent risks within the Fund, 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 Fund were considered in accordance with a modification of 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, 2011.

Prior Exam Findings

There were no findings, exceptions or corrective action to be taken by the Fund for the examination as of December 31, 2006.

HISTORY

General

The Fund was established in accordance with Section 624.4621, Florida Statute, to operate as a Group Self-Insurance Fund under the name of FRSA Self Insurers Fund and commenced business on January 1, 1955.

The Fund was authorized to transact workers' compensation insurance coverage in Florida on January 1, 1955 and continues to be authorized as of December 31, 2011.

The Fund was not incorporated so there are no Articles of Incorporation. The Bylaws were revised and restated on March 19, 2009.

Dividends to Policyholders

In accordance with Section 624.4621, Florida Statutes, the Fund declared and paid dividends to its policyholders in 2011, 2010, 2009, 2008 and 2007 in the amounts of \$5,000,000, \$8,000,000, \$4,500,000, \$7,000,000, \$10,500,000 respectively.

Capital Stock and Capital Contributions

The Fund maintained no capital stock.

Surplus Notes

The Fund did not have any surplus notes during the period of this examination.

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

The Fund had no acquisitions, mergers, disposals, or purchases or sales through reinsurance during the period of this examination.

CORPORATE RECORDS

The recorded minutes of the Board of Trustees (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 Fund transactions and events, in compliance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code and including the authorization of investments as required by Section 625.304, Florida Statutes.

Conflict of Interest

The Fund did not adopt a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 690-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual trustees meeting for the election of trustees and officers was held in accordance with Section 628.231, Florida Statutes. Trustees serving as of December 31, 2011, were:

Trustees

Name and Location

Principal Occupation

Brad Bowen, III
Sebring, Florida

Chairman, FRSA Self Insurers Fund

Neil Samuels
Daytona Beach, Florida

Trustee, FRSA Self Insurers Fund

Don Springer
Lakeland, Florida

Trustee, FRSA Self Insurers Fund

Milton E. Thompson, Jr. (a)
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
Homestead, Florida

Trustee, FRSA Self Insurers Fund

Jim Cheshire
Winter Park, Florida

Trustee, FRSA Self Insurers Fund

Terry Turner
San Mateo, Florida

Trustee, FRSA Self Insurers Fund

Richard Pepin (a)
West Palm Beach, Florida

Trustee, FRSA Self Insurers Fund

(a) The calendar year term for trustees Milton E. Thompson, Jr. and Richard Pepin ended on December 31, 2011. The Board appointed Ralph Davis and Kenneth Parent as trustees beginning January 1, 2012.

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

Senior Officers

Name	Title
Brett Stiegel	Administrator
Michael Ricker	Chief Financial Officer

The Fund's Board appointed several internal committees. Following were the principal internal board committees and their members as of December 31, 2011:

Audit Committee	Nominating Committee
Terry Turner ¹	Richard Pepin ¹
Bob Hilson	Bob Hilson
Brad Bowen III	Brad Bowen III
Neil Samuels	Neil Samuels
Don Springer	Don Springer
Jim Cheshire	Jim Cheshire
	Robert Purdy

¹ Chairman

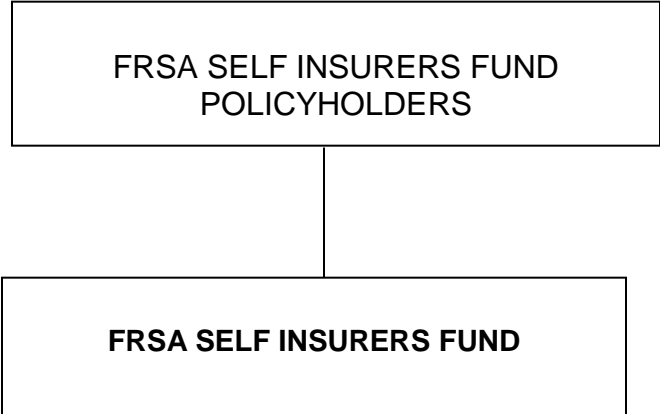
Affiliated Companies

The Fund had no affiliated companies.

A simplified organizational chart as of December 31, 2011, is shown below.

**FRSA SELF INSURERS FUND
ORGANIZATIONAL CHART**

DECEMBER 31, 2011



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 \$682,200 with \$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, USIS, Inc. dba United Self Insured Services ("USIS"), carried fidelity bond coverage of \$20,000,000 with a deductible of \$100,000 and a letter of credit for deductible coverage of \$95,000, 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 no pension, stock ownership or insurance plans in place during the period of this examination.

TERRITORY AND PLAN OF OPERATIONS

The Fund was authorized to transact insurance only 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.

COMPANY GROWTH

The Fund's assets and liabilities have steadily declined over the past five years. Surplus of \$387,644 decreased since prior year end's reported surplus of \$1,249,094, but surplus has remained positive. Net income before dividends to policyholders totaled \$4,521,101 compared to prior year to date's total of \$7,289,487. Due to the nature of the business, the Fund's held reserves, although they contain no explicit reserve for future ULAE payments, is reasonable in the aggregate with respect to loss, ALAE and ULAE liabilities on a combined basis.

Profitability of Company

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

	2011	2010	2009	2008	2007
Premiums Earned	8,842,370	8,882,058	9,677,917	12,267,845	19,485,417
Net Underwriting Gain/(Loss)	3,205,870	5,296,499	5,166,065	5,608,267	5,907,419
Net Income	0	0	0	0	0
Total Assets	38,759,323	42,516,624	51,016,192	51,616,437	58,901,350
Total Liabilities	38,371,679	41,267,530	48,674,790	50,172,031	54,256,783
Surplus As Regards Policyholders	387,644	1,249,094	2,341,402	1,444,406	4,644,567

LOSS EXPERIENCE

The Fund has not experienced significant changes to their loss development. The Fund's net loss ratio increased slightly over the last year, ending at 40.22%.

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 any reinsurance during the period of this examination.

Ceded

The Fund reinsured its worker' compensation line of business on an excess of loss basis with New York Marine and General Insurance Company, through Arthur J. Gallagher, a reinsurance intermediary. The Fund's retention was \$1,000,000 per occurrence.

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.

An independent CPA audited the Fund's statutory basis financial statements annually for the years 2007, 2008, 2009, 2010 and 2011 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 Fund's accounting records were maintained using Great Plains software also known as Microsoft Dynamics. The Fund's balance sheet accounts were verified with the line items of the annual statement and submitted to the Office.

The Fund and non-affiliates had the following agreements:

Custodial Agreement

The Fund maintained a custodial agreement with M&I Institutional Trust Services executed on November 19, 2008.

Claims and Managed Care Servicing Agreement

The Fund had an agreement with United Self Insured Services (USIS) effective October 1, 1998 to receive and process claims submitted by the insured. USIS had the authority to process and pay claims up to a certain value without approval from the Fund. USIS was also charged with recovering Special Disability Trust Funds on an incentive percentage basis. This agreement has been combined with the previous managed care arrangement to include managed care services as well as servicing claims.

Investment Advisory Agreement

The Fund contracted with BPS Capital Management, Inc. ("BPS Capital") to provide services with respect to its investment portfolio. BPS Capital acted as an investment advisor and provided services such as analysis of the total securities portfolio, execution of trade dates, and analysis of securities and investment strategies.

Independent Auditor Agreement

The Fund contracted with an external independent CPA firm to perform the annual audit of its financial statements as required by Rule 69O-137.002 (7) (c), Florida Administrative Code.

Employee Agreement

The Fund had an employee agreement with Brett Stiegel, Administrator. The agreement (first revision) was effective December 6, 2002. The second revision signed at the October 5, 2007

Board meeting will encompass seven consecutive years beginning January 1, 2008 and expiring December 31, 2014. The agreement may be terminated by either party with 90 days advance notice.

INFORMATION TECHNOLOGY REPORT

INS Services, Inc. performed an evaluation of the information technology and computer systems of the Fund. Results of the evaluation were noted in the Information Technology Report provided to the Fund.

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	Bank of America, 5.420% 3/15/17	\$ 50,000	\$ 45,110
FL	Citigroup Inc., 6.00% 8/15/17	250,000	261,990
FL	Colgate Palm Co., 5.2% 11/07/16	155,000	181,777
FL	Gen Elec. Cap 4.875% 3/04/15	500,000	542,470
FL	Gen Elec. Cap 5.625% 9/15/17	275,000	304,364
FL	Goldman Sachs 6.25% 9/01/17	100,000	104,544
FL	Merck Co. Inc. 4.375% 2/15/13	500,000	521,485
FL	Progressive Corp 7.00% 10/1/13	350,000	378,843
FL	Wal Mart Stores, Inc.	275,000	300,726
FL	F H L B DEB 5.00% 11/17/17	1,000,000	1,200,100
FL	F H L B DEB 5.375% 8/15/18	<u>1,000,000</u>	<u>1,232,470</u>
TOTAL SPECIAL DEPOSITS		<u><u>\$ 4,455,000</u></u>	<u><u>\$ 5,073,879</u></u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Fund's financial position as of December 31, 2011, 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." There were several errors on the annual statement. The Jurat Page included a NAIC Code that is incorrect and not needed since the Fund is not regulated by the NAIC. The Jurat page did not list the full names of the officers and trustees. The Statement of Deposition was complete; however, it was only signed by the Administrator. This was a violation of the Annual Statement instructions and Rule 69O-190.59 (3), Florida Administrative Code.

FRSA SELF INSURERS FUND

Assets

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	\$32,621,366		\$32,621,366
Real Estate:			
Properties occupied by Company	523,500		523,500
Cash and Short-Term Investments	3,271,622		3,271,622
Investment income due & accrued	253,063		253,063
Agents' Balances:			
Deferred premium	951,644		951,644
Reinsurance recoverable	410,569		410,569
Current federal tax recoverable	200,000		200,000
Net deferred tax asset	163,569		163,569
Aggregate write-in for other than invested assets	363,990		363,990
Totals	<u>\$38,759,323</u>	<u>\$0</u>	<u>\$38,759,323</u>

FRSA SELF INSURERS FUND
Liabilities, Surplus and Other Funds

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	\$19,741,050		\$19,741,050
Loss adjustment expenses	4,418,950		4,418,950
Other expenses	63,861		63,861
Taxes, licenses and fees	18,101		18,101
Unearned premium	(285,229)		(285,229)
Dividends declared and unpaid: Policyholders	12,662,623		12,662,623
Aggregate write-ins for liabilities	1,752,323		1,752,323
Total Liabilities	\$38,371,679	\$0	\$38,371,679
Aggregate write-ins for special surplus	\$387,644		\$387,644
Surplus as regards policyholders	\$387,644	\$0	\$387,644
Total liabilities, surplus and other funds	\$38,759,323	\$0	\$38,759,323

FRSA SELF INSURERS FUND
Statement of Income

DECEMBER 31, 2011

Underwriting Income

Premiums earned		\$8,842,370
	Deductions:	
Losses incurred		\$3,280,806
Loss expenses incurred		275,683
Other underwriting expenses incurred		2,080,011
Total underwriting deductions		<u>\$5,636,500</u>
Net underwriting gain or (loss)		\$3,205,870

Investment Income

Net investment income earned		\$983,953
Net realized capital gains or (losses)		145,414
Net investment gain or (loss)		<u>\$1,129,367</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off		\$24,246
Aggregate write-ins for miscellaneous income		161,618
Total other income		<u>\$185,864</u>

Net income before dividends to policyholders and before federal & foreign income taxes		\$4,521,101
Dividends to policyholders		4,521,101
Net Income, after dividends to policyholders, but before federal & foreign income taxes		\$0
Federal & foreign income taxes		<u>0</u>
Net Income		<u><u>\$0</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year		\$1,249,094
Net Income		\$0
Change in non-admitted assets		(31,013)
Aggregate write-ins for gains and losses in surplus		(830,437)
Change in surplus as regards policyholders for the year		<u>(\$861,450)</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$387,644</u></u>

A comparative analysis of changes in surplus is shown below.

FRSA SELF INSURERS FUND
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2011

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, 2011, per Annual Statement	\$387,644
---	-----------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS: No Adjustment			
LIABILITIES: No Adjustment			
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2011, Per Examination			<u><u>\$387,644</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$24,160,000

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, 2011, made a reasonable provision for all unpaid loss and loss expense obligations of the Fund under the terms of its policies and agreements.

The Office consulting actuary, Gustave A. Krause, FCAS MAAA, FCA of Actuaries, Inc. reviewed the loss and loss adjustment expense work papers provided by the Fund and he was in concurrence with this opinion.

Capital and Surplus

The amount of Capital and surplus reported by the Fund of \$387,644 exceeded the amount as required by Section 624.4621 (10), Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **FRSA Self Insurers Fund** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Fund's surplus as regards policyholders was \$387,644, which exceeded the amount required by Section 624.4621 (10), Florida Statutes.

In addition to the undersigned, Tracy Gates, CISA, CPA (North Carolina), Exam Manager, of Highland Clark, LLC, participated in the examination. In addition, Gustave A. Krause, FCAS MAAA, FCA consulting actuary of Actuaries, Inc`., and Robert E. Ficken, CPA, CIA, CISA, CFE, AES, Senior IT Examiner of INS Services, Inc also participated in the examination.

Respectfully submitted,

Vetrecia Smith, MBA
Financial Specialist
Florida Office of Insurance Regulation