



**EXAMINATION REPORT  
OF  
FRSA Self Insurers Fund**

**Florida Company Code: 10023**

**Winter Park, Florida  
as of  
December 31, 2016**

**BY THE  
FLORIDA  
OFFICE OF INSURANCE REGULATION**

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March 27, 2018

David Altmaier  
Commissioner  
Office of Insurance Regulation  
State of Florida  
Tallahassee, Florida 32399-0326

Dear Commissioner:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, Rule 69O-90.063, 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, 2016, 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, 2012, through December 31, 2016. The Fund was last examined by representatives of the Florida Office of Insurance Regulation ("Office") as of December 31, 2011. This examination commenced with planning at the Office from October 23, 2017, to October 27, 2017. The fieldwork commenced on October 23, 2017, and concluded as of March 27, 2018.

This financial examination was a statutory financial examination conducted in accordance with the NAIC Financial Condition Examiners Handbook ("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 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 Examination Findings

The findings noted during this examination period have been resolved by the Fund subsequent to the examination date. However, the findings or exceptions are discussed in detail in the body of the examination report.

### Previous Examination Findings

There were no material findings or exceptions noted during the examination as of December 31, 2011.

## COMPANY HISTORY

### General

The Fund was established in accordance with Section 624.4621, Florida Statutes, 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 continued to be authorized as of December 31, 2016.

The Fund was not incorporated so there are no Articles of Incorporation. The Bylaws were revised and restated on August 7, 2014.

### Dividends

In accordance with Section 624.4621, Florida Statutes, the Fund declared and paid dividends to its policyholders as follows:

|      |             |
|------|-------------|
| 2016 | \$6,000,000 |
| 2015 | \$5,750,000 |

|      |             |
|------|-------------|
| 2014 | \$5,997,954 |
| 2013 | \$6,495,557 |
| 2012 | \$4,000,000 |

### **Capital Stock and Capital Contribution**

The Fund maintained no capital stock and there were no capital contributions during the examination period.

### **Surplus Notes**

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

### **Acquisitions, Mergers, Disposals, Dissolutions**

The Fund had no acquisitions, mergers, disposals, or dissolutions during the period of this examination.

## **MANAGEMENT AND CONTROL**

### **Corporate Governance**

The annual Trustees meeting for the election of Trustees and Officers was held in accordance with Section 628.231, Florida Statutes. The Trustees serving as of December 31, 2016, were:

| <b>Trustees</b>                  |                      |   |
|----------------------------------|----------------------|---|
| <b>Name</b>                      | <b>City, State</b>   | <b>Principal Occupation,<br/>Company Name</b> |
| James Edwin Chesire <sup>1</sup> | Winter Park, Florida | Owner,<br>Dimensional Roof Systems            |
| Stephen Farland Sutter           | Sarasota, Florida    | Owner,<br>Sutter Roofing                      |

|                            |                          |  |
|----------------------------|--------------------------|--|
| Bradford Thomas Bowen, III | Sebring, Florida         | Owner,<br>Bowen & Son Roofing                              |
| Donely Oudgar Springer     | Lakeland, Florida        | Owner,<br>Springer - Peterson Roofing &<br>Sheet Metal Co. |
| Neil Arnold Samuels        | Daytona Beach, Florida   | Owner,<br>R & R Industries, Inc.                           |
| Ralph Blackson Davis, III  | Tallahassee, Florida     | Owner,<br>Streamline Roofing & Construction<br>Inc.        |
| Kenneth Gene Parent        | West Palm Beach, Florida | Owner,<br>State Pride Roofing of Florida Inc.              |
| Robert Bernard Hilson      | Homestead, Florida       | Owner,<br>Bob Hilson & Company Inc.                        |
| Adam Paul Purdy            | Pensacola, Florida       | Owner,<br>Edwards Roofing Company Inc.                     |
| Jack Douglas Lanier        | Longwood, Florida        | Owner,<br>Collis Roofing                                   |

<sup>1</sup> Chairperson

In accordance with the Fund's Bylaws, the Board of Trustees ("Board") appointed the following Senior Officers:

**Senior Officers**

| <b>Name</b>           | <b>City, State</b>   | <b>Title</b>            |
|-----------------------|----------------------|-------------------------|
| Raymond Brett Stiegel | Winter Park, Florida | Administrator           |
| Michael John Ricker   | Winter Park, Florida | Chief Financial Officer |



The Fund's Board appointed several internal committees. The following were the principal internal board committees and their members as of December 31, 2016:

**Nominating Committee**

| <b>Name</b>                        | <b>City, State</b>     | <b>Principal Occupation,<br/>Company Name</b>       |
|------------------------------------|------------------------|---|
| Robert Bernard Hilson <sup>1</sup> | Homestead, Florida     | Owner,<br>Bob Hilson & Company Inc.                 |
| Ralph Blackson Davis, III          | Tallahassee, Florida   | Owner,<br>Streamline Roofing &<br>Construction Inc. |
| Neil Arnold Samuels                | Daytona Beach, Florida | Owner,<br>R & R Industries, Inc.                    |
| Jack Douglas Lanier                | Longwood, Florida      | Owner,<br>Collis Roofing                            |
| James Edwin Chesire                | Winter Park, Florida   | Owner,<br>Dimensional Roof Systems                  |
| Stephen Farland Sutter             | Sarasota, Florida      | Owner,<br>Sutter Roofing                            |

<sup>1</sup> Chairperson

The Fund maintained an audit committee in accordance with Rule 69O-190.064(6)(g) Florida Administrative Code.

**Audit Committee**

| <b>Name</b>                            | <b>City, State</b>   | <b>Principal Occupation,<br/>Company Name</b>       |
|--|----------------------|---|
| Ralph Blackson Davis, III <sup>1</sup> | Tallahassee, Florida | Owner,<br>Streamline Roofing &<br>Construction Inc. |

|                            |                          |  |
|----------------------------|--------------------------|--|
| Bradford Thomas Bowen, III | Sebring, Florida         | Owner,<br>Bowen & Son Roofing                              |
| Neil Arnold Samuels        | Daytona Beach, Florida   | Owner,<br>R & R Industries, Inc.                           |
| Donely Oudgar Springer     | Lakeland, Florida        | Owner,<br>Springer - Peterson Roofing &<br>Sheet Metal Co. |
| James Edwin Chesire        | Winter Park, Florida     | Owner,<br>Dimensional Roof Systems                         |
| Stephen Farland Sutter     | Sarasota, Florida        | Owner,<br>Sutter Roofing                                   |
| Kenneth Gene Parent        | West Palm Beach, Florida | Owner,<br>State Pride Roofing of Florida<br>Inc.           |

<sup>1</sup> Chairperson

### **Holding Company System**

The holding company system contained two (2) business entities, FRSA Workers Compensation Trust and FRSA Self Insurers Fund, Inc. ("the Service Company"). The Fund created the Service Company on August 7, 2014 to handle all operations and personnel of the Fund. The service company is one hundred percent (100%) owned by the FRSA Workers' Compensation Trust.

The following agreement was in effect between the Fund and its subsidiary:

### **Service Company Contract**

Workers Compensation Trust Fund had an agreement with the Service Company to perform administrative services to the Fund. This agreement was entered as of June 22, 2015, but effective July 1, 2014. Under the terms of the original agreement, fees for 2014 were fifteen and nine-tenths percent (15.9%) of the direct business. Every fourth month of the calendar year the two (2) parties shall reach an agreement as to the applicable percentage rate of service fees paid to help ensure revenues to cover reasonable business expenses. The applicable percentage of

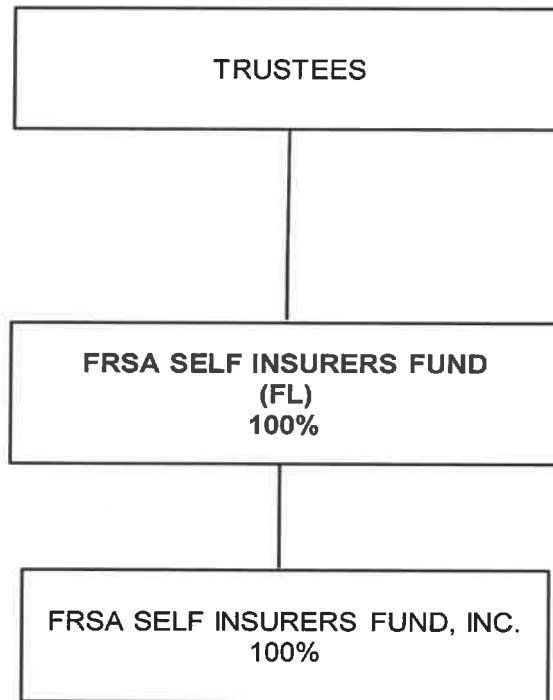
service fees paid by the Trust to the Service Company for 2016 was \$2,565,375, representing approximately ten and five-tenths percent (10.5%) of Direct Written Premium of \$24,392,121.

An organizational chart as of December 31, 2016, reflecting the holding company system, is shown on the following page.

**FRSA Workers Compensation Self Insurance Trust Fund**

**Organizational Chart**

**December 31, 2016**



## **ACCOUNTS AND RECORDS**

The Fund maintained its principal operational offices in Winter Park, Florida.

### **Corporate Records Review**

The minutes of the Board and certain internal committees were reviewed for the period under examination. The minutes of the Board adequately documented its meetings and approval of Fund transactions and events, in compliance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code, including the authorization of investments in accordance with Section 625.304, Florida Statutes.

### **Conflict of Interest**

The Fund adopted a policy statement requiring periodic disclosure of conflicts of interest in accordance with the Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

The Fund and non-affiliates had the following agreements:

### **Insurance Custody Agreement**

The Fund maintained an Insurance Custody Agreement with US Bank National Association executed on August 16, 2013. The agreement complied with Rule 69O-143.042, Florida Administrative Code.

### **Claims and Managed Care Servicing Agreement**

The Fund had a Claims and Managed Care Servicing 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 was combined with the previous managed care arrangement to include managed care services as well as servicing claims. This agreement was

terminated December 31, 2014. At that time, the Fund brought claims services in-house. Services related to managed care were retained through the agreement with AmeriSys Inc.

### **Managed Care Servicing Agreement**

The Fund contracted with AmeriSys Inc. ("ASI") and Focus Healthcare Management, Inc. ("Focus"), to provide managed care services in accordance with pre-arranged managed care plans approved by ASI and the Fund. Under the terms of the agreement, Focus will provide qualified healthcare providers within fifteen (15) to thirty (30) minutes of the insured's location.

### **Employment Agreement**

The Fund had an Employment Agreement with Brett Stiegel, Fund Administrator. The agreement (third revision) was effective January 1, 2014. The term of the agreement covers seven (7) successive one-year periods, terminating December 31, 2020. The administrator receives a base salary which is increased based on the Consumer Price Index – Urban Consumers as of December of each year for the succeeding year, in addition to a discretionary operational bonus and a profit sharing bonus. The agreement may be terminated by either party's desire with one hundred and eighty (180) days advance notice.

### **Investment Advisory Agreement**

The Fund had an Investment Advisory Agreement with BPS Capital Management, Inc. ("BPS Capital"), effective November 10, 2008. BPS Capital acts as an investment adviser and provides services with respect to its investment portfolio. Services will include, but are not limited to, analysis of the total securities portfolio, execution of trade dates, and analysis of securities and investment strategies. Compensation will be monthly at the end of each month, at the rate of fifteen (15) basis points times the adjusted par value from a minimum of \$3,000 to a maximum of \$4,000 per month, beginning November 15, 2008.

### **Independent Auditor Agreement**

An independent CPA, Shores, Tagman, Butler & Company, P.A., audited the Fund's statutory basis financial statements annually for the years 2012, 2013, 2014, 2015 and 2016, in accordance with Section 624.424(8), Florida Statutes. Supporting workpapers were prepared by the CPA firm in accordance with Rule 69O-137.002, Florida Administrative Code.

### **Fidelity Bond**

The examination noted that the Fidelity Bond deductible was \$15,000. Per Rule 69O-190.064(8) Florida Administrative Code - Trustee Responsibilities (8), all fidelity bonds or insurance policies required by subsection Rule 69O-190.064(5) and paragraph 69O-190.064(7)(a), Florida Administrative Code, may provide for a deductible of not more than \$5,000.

**Subsequent Event:** On March 6, 2018, the Fund obtained a new Fidelity Bond with the appropriate deductible in accordance with the statute.

## **TERRITORY AND PLAN OF OPERATIONS**

The Fund was authorized to transact insurance only in the State of Florida on January 1, 1955, and is currently authorized for Workers' Compensation coverage as of December 31, 2016.

### **Treatment of Policyholders**

The Fund established procedures for handling written complaints in accordance with Sections 626.9541(1)(i)(3)(a), Florida Statutes. The Fund maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Sections 626.9541(1)(j), Florida Statutes.

## **REINSURANCE**

The reinsurance agreements reviewed complied with NAIC standards with respect to the standard insolvency clause, arbitration clause, intermediary clause, transfer of risk, reporting and settlement information deadlines.

### **Reinsurance Assumed**

The Fund did not assume any reinsurance during the period of this examination.

### **Reinsurance Ceded**

The Fund reinsured Workers Compensation and Employers Liability on an excess of loss basis. Workers Compensation reinsurance was provided by 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 to determine the ultimate loss opinion.

## **INFORMATION TECHNOLOGY REPORT**

Tracy D. Gates, CISA, CFE of Highland Clark, LLC, 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 in accordance with Section 624.411, Florida Statutes:

| <b>State</b>                  | <b>Description</b>                            | <b>Par Value</b>   | <b>Market Value</b> |
|-------------------------------|---|--------------------|---------------------|
| Florida                       | Federal Home Loan Bank, 5.00%<br>11/17/2017   | \$1,000,000        | \$1,001,700         |
| Florida                       | Federal Home Loan Bank, 5.38%<br>08/15/2018   | 1,000,000          | 1,023,900           |
| Florida                       | General Electric, 5.63% 09/15/2017            | 275,000            | 275,303             |
| Florida                       | Federal Farm Credit Bank, 2.37%<br>04/01/2025 | 250,000            | 243,875             |
| Florida                       | Federal Farm Credit Bank, 2.91%<br>10/07/2024 | 500,000            | 509,250             |
| <b>TOTAL SPECIAL DEPOSITS</b> |   | <b>\$3,025,000</b> | <b>\$3,054,028</b>  |

## **FINANCIAL STATEMENTS**

The examination does not attest to the fair presentation of the financial statements included. If an adjustment is identified during course of the examination, the impact of such adjustment will be documented separately following the Fund's financial statements. Financial statements, as reported and filed by the Fund with the Office, are reflected on the following pages.

**FRSA Self Insurers Fund**

**Assets**

**December 31, 2016**

|  | <b>Per Company</b>  | <b>Examination<br/>Adjustments</b> | <b>Per Examination</b> |
|--|---------------------|------------------------------------|------------------------|
| Bonds  | \$31,209,087        |                                    | \$31,209,087           |
| Real Estate:   |                     |                                    |                        |
| Properties occupied by the Company   | 449,488             |                                    | 449,488                |
| Cash, cash equivalents and short-term investments  | 2,107,889           |                                    | 2,107,889              |
| Aggregate write-ins for invested assets  | 125,938             |                                    | 125,938                |
| Investment income due and accrued  | 237,201             |                                    | 237,201                |
| Premiums and Considerations:   |                     |                                    |                        |
| Deferred premiums, agents' balances and installments booked but deferred and not yet due | 2,380,295           |                                    | 2,380,295              |
| Reinsurance:   |                     |                                    |                        |
| Amounts recoverable from reinsurers  | 1,066,814           |                                    | 1,066,814              |
| Aggregate write-ins for other-than-invested assets                                       | 1,469,279           |                                    | 1,469,279              |
| Totals   | <u>\$39,045,991</u> |                                    | <u>\$39,045,991</u>    |

**FRSA Self Insurers Fund**  
**Liabilities, Surplus and Other Funds**  
**December 31, 2016**

|   | Per Company         | Examination<br>Adjustments | Per<br>Examination  |
|---|---------------------|----------------------------|---------------------|
| Losses  | \$16,746,900        |                            | \$16,746,900        |
| Loss adjustment expenses                          | 2,691,100           |                            | 2,691,100           |
| Other expenses                                    | 20,297              |                            | 20,297              |
| Taxes, licenses and fees                          | 126,416             |                            | 126,416             |
| Unearned premiums                                 | (310,648)           |                            | (310,648)           |
| Dividends declared and unpaid:                    |                     |                            |                     |
| Policyholders                                     | 16,395,305          |                            | 16,395,305          |
| Aggregate write-ins for liabilities               | 1,907,342           |                            | 1,907,342           |
| <b>Total Liabilities</b>                          | <b>\$37,576,712</b> |                            | <b>\$37,576,712</b> |
| <br>  |                     |                            |                     |
| Aggregate write-ins for special surplus funds     | 1,469,279           |                            | 1,469,279           |
| <br>  |                     |                            |                     |
| Surplus as regards policyholders                  | \$1,469,279         | \$0                        | \$1,469,279         |
| <br>  |                     |                            |                     |
| <b>Total liabilities, surplus and other funds</b> | <b>\$39,045,991</b> | <b>\$0</b>                 | <b>\$39,045,991</b> |

**FRSA Self Insurers Fund**  
**Statement of Income**  
**December 31, 2016**

**Underwriting Income**

|                                      |                    |                     |
|--------------------------------------|--------------------|---------------------|
| Premiums earned                      |                    | \$22,558,133        |
|                                      | <b>Deductions:</b> |                     |
| Losses incurred                      |                    | \$10,297,874        |
| Loss adjustment expenses incurred    |                    | 1,447,886           |
| Other underwriting expenses incurred |                    | 3,102,795           |
| Total underwriting deductions        |                    | <u>\$14,848,555</u> |
| Net underwriting gain or (loss)      |                    | \$7,709,578         |

**Investment Income**

|  |  |               |
|--|--|---------------|
| Net investment income earned           |  | \$878,048     |
| Net realized capital gains or (losses) |  | <u>83,237</u> |
| Net investment gain or (loss)          |  | \$961,285     |

**Other Income**

|  |  |                  |
|--|--|------------------|
| Aggregate write-ins for miscellaneous income |  | <u>\$295,592</u> |
| Total other income                           |  | <u>\$295,592</u> |

|  |  |                   |
|--|--|-------------------|
| Net income before dividends to policyholders and<br>before federal & foreign income taxes  |  | 8,996,455         |
| Dividends to policyholders   |  | 8,955,522         |
| Net Income, after dividends to policyholders, but<br>before federal & foreign income taxes |  | \$10,933          |
| Federal & foreign income taxes incurred  |  | <u>10,933</u>     |
| Net Income   |  | <u><u>\$0</u></u> |

**Capital and Surplus Account**

|  |  |                           |
|--|--|---------------------------|
| Surplus as regards policyholders, December 31 prior year   |  | \$1,257,508               |
| Net Income   |  | \$0                       |
| Change in non-admitted assets                              |  | (7,130)                   |
| Aggregate write-ins for gains and losses in surplus        |  | 218,901                   |
| Change in surplus as regards policyholders for the year    |  | <u>\$211,771</u>          |
| Surplus as regards policyholders, December 31 current year |  | <u><u>\$1,469,279</u></u> |

**FRSA Self Insurers Fund**  
**Reconciliation of Capital and Surplus**  
**December 31, 2016**

No adjustments were made to surplus as regards policyholders as a result of this examination.

**Capital/Surplus Change during Examination Period**

|   |                 |                 |                           |
|---|-----------------|-----------------|---------------------------|
| Surplus at December 31, 2011, per Examination       |                 |                 | \$387,644                 |
|   | <u>Increase</u> | <u>Decrease</u> |                           |
| Net Income (loss)                                   | \$3             |                 | \$3                       |
| Change in net deferred income tax                   |                 | \$149,461       | (\$149,461)               |
| Change in non-admitted assets                       | \$1,027,568     |                 | \$1,027,568               |
| Aggregate write-ins for gains and losses in surplus | \$203,525       |                 | \$203,525                 |
| Net increase (or decrease)                          |                 |                 | <u>\$1,081,635</u>        |
| Surplus at December 31, 2016, per Examination       |                 |                 | <u><u>\$1,469,279</u></u> |

## **COMMENTS ON FINANCIAL STATEMENTS**

### **Liabilities**

#### **Losses and Loss Adjustment Expenses**

An external actuary, Simon K. Wong, FCAS, FSA, MAAA of Milliman, Inc., appointed by the Board, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2016, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office consulting actuary, Michael Solomon, FCAS, MAAA, CERA of The Actuarial Advantage, Inc., reviewed the loss and loss adjustment expense workpapers provided by the Company and he was in concurrence with this opinion.

### **Capital and Surplus**

Capital and Surplus reported by the Fund of \$1,469,279 was maintained in a positive amount, in accordance with Sections 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, 2016, consistent with the insurance laws of the State of Florida.

Per examination findings, the Fund's surplus as regards policyholders was \$1,469,279, which was maintained in a positive amount, in accordance with Sections 624.4621(10), Florida Statutes.

In addition to the undersigned, Tracy D. Gates, CFE, CISA, Examiner-In-Charge / IT Specialist, Travis Harrison, CPA (Michigan), Sheri Kenney and Lori Greene, Participating Examiners of Highland Clark, LLC, also participated in the examination. Members of the Office who participated in the examination include Kyra Brown, MBA, APIR, Financial Examiner/Analyst Supervisor, Examination Manager. Additionally, Michael Solomon, FCAS, MAAA, CERA, of The Actuarial Advantage, Inc. is recognized for participation in the examination.

Respectfully submitted,



Brian Sewell, CFE, MCM  
Chief Examiner  
Florida Office of Insurance Regulation