

**REPORT ON EXAMINATION**  
**OF**  
**HEALTHCARE UNDERWRITERS GROUP**  
**OF FLORIDA**  
**DANIA, FLORIDA**

**AS OF**  
**DECEMBER 31, 2006**

**BY THE**  
**OFFICE OF INSURANCE REGULATION**

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Tallahassee, Florida

February 28, 2008

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 629, Florida Statutes, 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:

**HEALTHCARE UNDERWRITERS GROUP OF FLORIDA**  
**1815 Griffin Road, Suite 401**  
**Dania, Florida 33004**

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

## **SCOPE OF EXAMINATION**

This examination covered the period of January 1, 2006 through December 31, 2006. This was the Company's third financial examination. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2005. This examination commenced, with planning at the Office, on November 26, 2007 to November 30, 2007. The fieldwork commenced on December 3, 2007, and was concluded as of February 28, 2008.

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 Company as of December 31, 2006. Transactions subsequent to year-end 2006 were reviewed where relevant and deemed significant to the Company's financial condition.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) 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.

## **HISTORY**

### **General**

The Company was a non-assessable reciprocal to which subscribers jointly enter into agreements of indemnity, essentially insuring each other. The Company applied for a certificate of authority in Florida on August 19, 2003 and was issued a full license to bind coverage or issue insurance contracts for professional medical malpractice on March 23, 2004 in accordance with Chapters 625 and 629 of the Florida Statutes. The Subscribers form a Subscribers Advisory Committee (SAC) that is responsible for the supervision of the Company. The Company was not a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact Medical Malpractice insurance coverage in Florida during 2006.

The SAC Charter was not amended during the period covered by this examination.

### **Capital Stock**

The Company was a non-assessable reciprocal and had no capital stock.

## Profitability of Company

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

|                              | <b>2006</b> | <b>2005</b> | <b>2004</b> |
|------------------------------|-------------|-------------|-------------|
| Premiums Earned              | 8,053,689   | 6,131,409   | 2,055,638   |
| Net Underwriting Gain/(Loss) | (935,979)   | (395,011)   | (528,818)   |
| Net Income                   | (301,895)   | (205,689)   | (668,236)   |
| Total Assets                 | 28,954,799  | 22,770,839  | 12,739,663  |
| Total Liabilities            | 15,231,177  | 10,709,751  | 4,402,571   |
| Surplus Funds required       | 13,723,622  | 12,061,088  | 8,337,092   |

## Contributions to Insurers

Contributions were not paid during this examination period.

## Management

The annual SAC meeting for the election of members was held in accordance with Section 629.201, Florida Statutes. Members serving as the SAC as of December 31, 2006, were:

### SAC Members

#### Name and Location

#### Principal Occupation

Scot N. Ackerman, MD  
Jacksonville, Florida

Physician - Radiation Oncology

Siva P. Bellam, MD  
Port St. Lucie, Florida

Physician - Oncology/Hematology

Alberto R. Tano, MD  
Miami, Florida

Physician - Pediatric Intensivist

|  |   |
|--|---|
| Edward J. Feller, MD<br>Miami, Florida               | Physician - Gastroenterology                                |
| Alicia Rodriguez- Jorge, MD<br>Miami, Florida        | Physician - Internal Medicine                               |
| Steven L. Salman, JD<br>Dania, Florida               | President/CEO – Global Insurance<br>Management Company, LLC |
| Steven D. Shapiro, MD<br>Palm Beach Gardens, Florida | Physician - Dermatology                                     |
| Kenneth J. Budowsky, MD<br>Hollywood, Florida        | Physician - Pediatrics                                      |
| James V. Talano, MD<br>Naples, Florida               | Physician - Cardiology                                      |

The SAC in accordance with its charter appointed the following senior officers:

**Senior Officers**

| <b>Name</b>                | <b>Title</b>                             |
|----------------------------|--|
| Edward J. Feller, MD       | President                                |
| Steven D. Shapiro, MD      | Chairperson                              |
| Siva P. Bellam , MD        | Vice-Chairperson                         |
| Alicia Rodriguez-Jorge, MD | Secretary                                |
| Scot N. Ackerman, MD       | Treasurer                                |
| Steven L. Salman, JD       | Chief Executive Officer                  |
| David W. Lester, CPA       | Vice President & Chief Financial Officer |

The Company's SAC appointed several internal committees in accordance with Section 607.0825, Florida Statutes.

Following are the principal internal committees and their members as of December 31, 2006:

| <b>Investment Committee</b> | <b>Audit Committee</b> | <b>Claims Committee</b> | <b>Underwriting Committee</b> |
|-----------------------------|------------------------|-------------------------|-------------------------------|
| Steven Shapiro, MD *        | Steven Shapiro, MD *   | Edward J. Feller, MD *  | Scot Ackerman, MD *           |
| Scot Ackerman, MD           | Scot Ackerman, MD      | Scot N. Ackerman, MD    | Edward J. Feller, MD          |
| Siva P. Bellam, MD          | Siva P. Bellam, MD     | Siva P. Bellam, MD      | Roberto Palenzuela, JD        |
| James V. Talano, MD         | James V. Talano, MD    | Leonard Calodney, MD    | Albert R. Tano, MD            |
| Edward J. Feller, MD        | Edward J. Feller, MD   | Scott Plantz, MD        | Donna M. Bridge, MD           |
| Alicia R. Jorge, MD         | Alicia R. Jorge, MD    | Richard A. Proctor, DO  | Kenneth Budowsky, MD          |
| Steven Salman, JD           | Steven Salman, JD      | Ronald J. Trapani, MD   |                               |
| Kenneth Budowsky, MD        | Kenneth Budowsky, MD   | Raul I. Vila, MD        |                               |
| Albert R. Tano, MD          | Albert R. Tano, MD     |                         |                               |

\* Chairman

### **Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with the NAIC Financial Condition Examiners Handbook. No conflicts of interest were noted on the disclosure statements reviewed during this examination period.

### **Corporate Records**

The recorded minutes of the SAC and certain internal committees were reviewed for the period under examination and to the end of the examination field work. The recorded minutes of the SAC adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes. The entire SAC served as the Investment Committee and the Audit Committee.

## **Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales through Reinsurance**

The Company had no acquisitions, mergers, disposals, dissolutions and purchase or sales through reinsurance during the period under examination.

## **Surplus Debentures**

The Company had no surplus debentures at December 31, 2006.

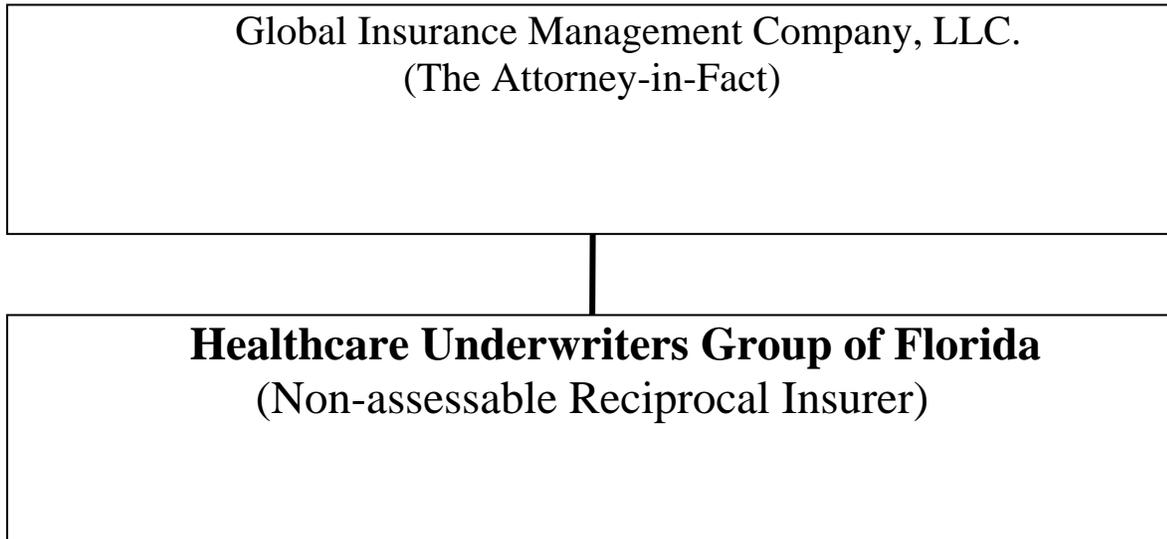
## **AFFILIATED COMPANIES**

The Company was not a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code.

An organizational chart, as of December 31, 2006, reflecting the Company's system as a non-assessable reciprocal insurer, is shown below. Schedule Y of the Company's 2006 annual statement was not applicable due to the Company not being a member of a holding company group.

**HEALTHCARE UNDERWRITERS GROUP OF FLORIDA  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2006**



## ATTORNEY'S BOND AND OTHER INSURANCE

Global Insurance Management Company, LLC, (GIMC), the Company's Attorney-in-Fact (AIF), managed the affairs of the Company. The AIF filed with the Office, a bond in the sum of \$100,000 in aggregate form in favor of the State of Florida, for the benefit of all persons damaged as a result of a breach by the AIF from the conditions of the bond. This adequately adhered to the suggested minimum amount of coverage as required in Section 629.121, Florida Statutes.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

GIMC managed all of the business affairs of the Company by providing administrative, underwriting and claim services. The Company had no employees and therefore had no pension, stock ownership and insurance plans.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes or permitted by law:

| <b>STATE</b>           | <b>DESCRIPTION</b> | <b>PAR<br/>VALUE</b>     | <b>MARKET<br/>VALUE</b>  |
|------------------------|--------------------|--------------------------|--------------------------|
| FLORIDA                | CASH               | \$ 250,000               | \$ 250,000               |
| TOTAL FLORIDA DEPOSITS |                    | <u>\$ 250,000</u>        | <u>\$ 250,000</u>        |
| TOTAL SPECIAL DEPOSITS |                    | <u><u>\$ 250,000</u></u> | <u><u>\$ 250,000</u></u> |

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Company was authorized to transact insurance only in the State of Florida. The certificate of authority was issued to the AIF in accordance with Section 629.091, Florida Statutes.

### **Treatment of Subscribers**

The Company established procedures for handling written complaints in accordance with Section 626.9541(1) (j), 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 Company had no assumed business at December 31, 2006.

### **Ceded**

Losses and a pro rata share of allocated loss adjustment expenses on such losses were reinsured under an excess of loss reinsurance contract. The Company reinsured, on a claims made basis, per insured, all risks in excess of its initial \$200,000 retention up to \$1,000,000

through a primary excess of loss contract. Effective April 1, 2006, the Company retained 10% of the risks above \$200,000. The Company had clash loss coverage per event of \$1,000,000 excess \$400,000. The Company had Extra-Contractual Obligations and Excess Policy Limits of \$1,000,000 excess \$400,000. The Company's total recovery from reinsurers was limited to 250% of the maximum reinsurance premiums paid or payable per each underwriting year.

The ultimate reinsurance premiums paid by the Company on the primary excess of loss contract were based on 105% of cumulative losses and loss adjustment expenses paid and reserved under the contracts plus a percentage of written premiums, subject to certain minimum and maximum limitations. The Company expensed reinsurance premiums based on its estimate of ultimate reinsurance premiums to be paid. Estimates of ultimate reinsurance premiums to be paid are continually reviewed by management and independent actuaries and updated, with any resulting adjustment reflected in current operating results.

The adjusted premium shall be subject to a minimum adjusted premium equal to \$2,200,000 for the period from inception to June 30, 2007, allocated \$400,000 to the first underwriting year and \$1,800,000 to the second and third underwriting years split pro rata to the gross net premium written in each underwriting year.

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

The contracts contained the required statutory clauses and were signed by the lead reinsurers within nine months of the effective date. The contracts had a three-year term, but were cancelable by either party at June 30, given 90 days notice.

## **ACCOUNTS AND RECORDS**

An independent certified public accountant (CPA) audited the Company's statutory basis financial statements annually for the years 2004, 2005 and 2006 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. Underwriting and claims were maintained on excel spread sheets. The AIF signed a contract in December, 2003 for an operating system to handle underwriting and claims; however, it was not yet operational.

The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

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

The Company and non-affiliates had the following agreements:

### **Custodial Agreement**

The Company entered into a custodial agreement with Regions National Bank dated July 21, 2004, which was amended on March 2, 2007. The custodial agreement provided the proper safeguards and controls indemnifying the Company as provided by Rule 69O-143.042, Florida Administrative Code.

## **Attorney-in-Fact Agreement**

The Company, being a non-assessable reciprocal insurer and as prescribed by Chapter 629, Florida Statutes, entered into an AIF agreement with GIMC on October 28, 2003. The agreement provided, in general, that GIMC manage the affairs of the Company which included premiums and claims administration services and also periodic reporting of the Company's financials to the SAC. GIMC was subject to the control, supervision and direction of the SAC of the Company which retained all powers not specifically delegated by the Company and its Subscribers to GIMC.

Under the terms of the agreement, GIMC provided services and facilities detailed in the agreement including underwriting premiums agents, etc.

For providing the services, facilities, personnel, and other functions, GIMC was paid 20% of the total gross written premium for the first \$10 Million and 10.25% on all premiums over \$10 Million for each 12 month period. In addition, GIMC earned a bonus outlined as an incentive to produce and manage to a profitable loss ratio, if it can deliver a better than anticipated loss ratio in any policy year. To qualify, the loss ratio in the subject year must be at least 1% better than that calculated and included in that years rates by the Company's independent actuary. The measurement was to be made twelve months from the end of a calendar year and be based upon the incurred losses for that year, as determined by the Company's independent actuary. The bonus would be equal to 33% of the additional income derived by the lower loss ratio that is less than that anticipated in the rates calculated by the Company's independent actuary.

At December 31, 2006, the Company accrued \$514,069 consisting of \$1,453 for calendar year 2004 and \$512,616 for calendar year 2005. Payment was made to GIMC in early 2007.

The agreement continued for 84 months from October 28, 2003, the date of execution of the agreement. If the Company non-renew the agreement, it must give GIMC 36 months notice. There were termination provisions on short notice for a material act of fraud or theft by a senior officer of GIMC.

### **Intercompany Expense Allocation and Repayment Agreement**

The Company, through its AIF, GIMC, entered into an intercompany expense allocation and repayment agreement with the AIF affiliates, Global Insurance Management Company of Ohio and Global Insurance Management Company of Kentucky, who had employees common to each company. The agreement stipulated that financial management of the companies determined when it was practical and efficient to pay expenses from one company on behalf of the other companies.

### **Information Technology Report**

Mike Masuen of Reinsurance Solutions International, LLC performed a computer systems evaluation on the Company. No exceptions were noted.

## **FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2006, and the results of its operations for the year then ended as determined by this examination.

**HEALTHCARE UNDERWRITERS GROUP OF FLORIDA**  
**Assets**

**DECEMBER 31, 2006**

|   | <b>Per Company</b>   | <b>Examination<br/>Adjustments</b> | <b>Per Examination</b> |
|---|----------------------|------------------------------------|------------------------|
| Bonds   | \$ 23,623,475        |                                    | \$ 23,623,475          |
| Cash and short-term investments                         | 3,940,632            |                                    | 3,940,632              |
| Investment income due and accrued                       | 319,827              |                                    | 319,827                |
| Net deferred tax asset                                  | 932,695              |                                    | 932,695                |
| Receivable from parents,<br>subsidiaries and affiliates | 113,363              |                                    | 113,363                |
| Aggregate write-ins for other<br>than invested assets   | 24,807               |                                    | 24,807                 |
|   |                      |                                    |                        |
| Totals  | <u>\$ 28,954,799</u> | <u>\$0</u>                         | <u>\$ 28,954,799</u>   |

**UNDERWRITERS GROUP OF FLORIDA**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2006**

| <b>Liabilities</b>                            | <b>Per Company</b>         | <b>Examination<br/>Adjustments</b> | <b>Per<br/>Examination</b> |
|---|----------------------------|------------------------------------|----------------------------|
| Losses  | \$5,221,818                |                                    | \$5,221,818                |
| Loss adjustment expenses                      | 4,914,512                  |                                    | 4,914,512                  |
| Commissions payable                           | 24,152                     |                                    | 24,152                     |
| Other expenses                                | 260,639                    |                                    | 260,639                    |
| Taxes, licenses and fees                      | 25,606                     |                                    | 25,606                     |
| Current federal and foreign income taxes      | 143,072                    |                                    | 143,072                    |
| Unearned premium                              | 4,059,327                  |                                    | 4,059,327                  |
| Advanced premium                              | 416,802                    |                                    | 416,802                    |
| Ceded reinsurance premiums payable            | <u>165,249</u>             |                                    | <u>165,249</u>             |
| <b>Total Liabilities</b>                      | <u><b>\$15,231,177</b></u> |                                    | <u><b>\$15,231,177</b></u> |
| Gross paid in and contributed surplus         | 14,864,204                 |                                    | 14,864,204                 |
| Unassigned funds (surplus)                    | <u>(1,140,582)</u>         |                                    | <u>(1,140,582)</u>         |
| Surplus funds required                        | <u>\$13,723,622</u>        |                                    | <u>\$13,723,622</u>        |
| <b>Total liabilities, capital and surplus</b> | <u><b>\$28,954,799</b></u> | <u><b>\$0</b></u>                  | <u><b>\$28,954,799</b></u> |

**HEALTHCARE UNDERWRITERS GROUP OF FLORIDA**  
**Statement of Income**

**DECEMBER 31, 2006**

|  |                            |
|--|----------------------------|
| Losses incurred  | 2,695,314                  |
| Loss expenses incurred   | 3,185,355                  |
| Other underwriting expenses incurred   | 3,108,999                  |
| Aggregate write-ins for underwriting deductions  | 0                          |
| Total underwriting deductions  | <u>\$8,989,668</u>         |
| Net underwriting gain or (loss)  | (\$935,979)                |
| <b>Investment Income</b>   |                            |
| Net investment income earned   | \$1,003,335                |
| Net realized capital gains or (losses)   | (710)                      |
| Net investment gain or (loss)  | <u>\$1,002,625</u>         |
| <b>Other Income</b>  |                            |
| Net gain or (loss) from agents' or premium balances charged off                            | \$0                        |
| Total other income   | \$0                        |
| Net income before dividends to policyholders and<br>before federal & foreign income taxes  | \$66,646                   |
| Dividends to policyholders   | 0                          |
| Net Income, after dividends to policyholders, but<br>before federal & foreign income taxes | \$66,646                   |
| Federal & foreign income taxes   | <u>368,541</u>             |
| Net Income   | (\$301,895)                |
| <b>Capital and Surplus Account</b>   |                            |
| Surplus funds required, December 31 prior year   | \$12,061,088               |
| <b>Gains and (Losses) in Surplus</b>   |                            |
| Net Income   | (\$301,895)                |
| Change in net deferred income tax  | 302,651                    |
| Change in non-admitted assets  | 247,950                    |
| Surplus adjustments: Paid in   | 1,413,828                  |
| Aggregate write-ins for gains and losses in surplus  | 0                          |
| Examination Adjustment   | 0                          |
| Change in surplus funds required for the year  | <u>\$1,662,534</u>         |
| Surplus funds required, December 31 current year   | <u><u>\$13,723,622</u></u> |

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities, Surplus and Other Funds

**Losses and Loss Adjustment Expenses** \$10,136,330

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

An independent actuarial firm performed its own analysis of reserves for losses and Loss adjustment expenses and determined the reserves as reasonable.

### Capital and Surplus

The surplus amount of \$13,723,622 met the requirement of Section 629.071 Florida Statutes, as regards surplus funds.

A comparative analysis of changes in surplus is shown below.

**HEALTHCARE UNDERWRITERS GROUP OF FLORIDA  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2006**

The following is a reconciliation of surplus funds required between that reported by the Company and as determined by the examination.

Surplus Funds  
per December 31, 2006 Annual Statement \$ 13,723,622

|  | <u>PER<br/>COMPANY</u> | <u>PER<br/>EXAM</u> | <u>INCREASE<br/>(DECREASE)<br/>IN SURPLUS</u> |
|--|------------------------|---------------------|---|
| <b>ASSETS:</b>                                     |                        |                     |   |
| No adjustment needed.                              |                        |                     | 0   |
| <b>LIABILITIES:</b>                                |                        |                     |   |
| No adjustment needed.                              |                        |                     | 0   |
| Net change in Surplus:                             |                        |                     | <u>0</u>                                      |
| Surplus Funds<br>December 31, 2006 Per Examination |                        |                     | <u><u>\$ 13,723,622</u></u>                   |

## **SUMMARY OF FINDINGS**

### **Compliance with previous directives**

There were no comments made in the 2005 examination.

### **Current examination comments and corrective action.**

There were no items of interest or corrective action to be taken by the Company regarding findings in the examination as of December 31, 2006.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Healthcare Underwriters Group of Florida** as of December 31, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus Funds was \$13,723,622, which was in compliance with Section 629.071, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Robert Moore, CFE, Examiner-In-Charge, Mike Masuen, IT Examiner both of Reinsurance Solutions International LLC and Andrew Chandler, FCAS, MAAA participated in the examination.

Respectfully submitted,

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Mary James, CFE, CPM  
Financial Administrator  
Florida Office of Insurance Regulation