

**REPORT ON EXAMINATION**  
**OF**  
**HOMESITE INSURANCE COMPANY OF**  
**FLORIDA**  
**TALLAHASSEE, FLORIDA**

**AS OF**  
**DECEMBER 31, 2004**

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

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Tallahassee, Florida

December 1, 2005

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 (FS), 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, 2004, of the financial condition and corporate affairs of:

**HOMESITE INSURANCE COMPANY OF FLORIDA  
301 S. Bronough Street, Suite 200  
TALLAHASSEE, FLORIDA 32301**

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, 2004 through December 31, 2004. The Company 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 August 17, 2005, to August 19, 2005. The fieldwork commenced on August 29, 2005, and was concluded as of December 1, 2005. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

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 (FAC), 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 assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

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 A.M. Best 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.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2004. Transactions subsequent to year-end 2004 were reviewed where relevant and deemed significant to the Company's financial condition.

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.

#### **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 Company in connection therewith.

#### **Certificate of Authority**

The Company had not written insurance coverage in the lines of business of fire, allied lines, earthquake, mobile home multi peril and mobile home physical damage in the last two years.

**Resolution:** The Company submitted a letter on July 19, 2005 requesting that fire, allied lines, earthquake, mobile home multi peril and mobile physical damage lines of business be removed from their certificate of authority. On September 20, 2005, the Office issued the Company a revised certificate of authority reflecting the removal of those lines of business from the Company's certificate of authority.

### **Examination Report Review**

The corporate records for the year 2003 did not contain documentation that the board of directors reviewed the previous examination report by the Office. The NAIC Financial Condition Examiners Handbook requires that the present examination report state whether or not the Company's board of directors reviewed the previous examination report. **Resolution: The Company's minutes of the board of directors meeting on June 22, 2005 stated that the board reviewed the exam report for the year 2003.**

### **Annual Meeting of Shareholders**

The Company did not hold its annual meeting of the shareholders in accordance with its bylaws. **Resolution: The Company held its 2005 shareholders meeting.**

### **Change in Articles of Incorporation**

The Company changed its articles of incorporation effective December 30, 2003. However, the Company did not indicate the change in the general interrogatories for the annual statement of 2003. **Resolution: The Company correctly answered the general interrogatories in the NAIC annual statements filed with the Office for the year 2004.**

### **Documentation of CPA Services Agreement**

The approval to appoint a CPA to perform the annual audit was not documented in the minutes of the meeting of the board of directors, as required by Section 624.424(8)(c), FS. **Resolution:**

The Company's minutes of the board of directors meeting on June 22, 2005 stated that the board approved the appointment of the CPA firm for the year 2005.

#### List of Officers on the Jurat Page

The list of officers on the jurat page of the Company's 2003 annual statement did not include Fabian John Fondriest as Chief Executive Officer of the Company. **Resolution:** The list of officers on the jurat page of the Company's 2004 annual statement included Fabian John Fondriest as Chief Executive Officer of the Company.

#### Actuarial Reconciliations

The data reconciliation provided by the opening actuary did not adequately reconcile or explain data differences between Schedule P and the data used. **Resolution:** The data reconciliation provided by the opening actuary for 2004 adequately reconciled Schedule P and the data used.

#### Reinsurance Risk Transfer Calculations

The Company did not supply an evaluation of whether it was reasonably possible for its reinsurers to realize a significant loss from the risk transfer calculation in accordance with SSAP No. 62. **Resolution:** The Company supplied an evaluation whether it was reasonably possible for its reinsurers to realize a significant loss from the risk transfer calculation in accordance with SSAP No. 62, for the 2004 examination.

## **Reinsurance Summary Statements**

The Company has not filed reinsurance summary statements for its reinsurance treaties as part of the required filings in the state of Florida. **Resolution: The Company filed its reinsurance summary statements for 2004 with the Office on August 31, 2005.**

## **Aging of Premiums Receivable**

The Company did not provide an electronic file of premiums receivable with the necessary data for a recalculation of the Company's aged premiums receivable. **Resolution: The Company again did not provide the information recommended.**

**This is a repeat violation from the 2003 examination.**

## **Advance Premiums**

The Company reported refunds due policyholders as a reduction in Accounts receivable in the amount of \$65,645. **Resolution: The Company continued to incorrectly report refunds due policyholders.**

**This is a repeat violation from the 2003 examination.**

## **HISTORY**

### **General**

The Company was incorporated in Florida on December 29, 2000 and commenced business on August 23, 2001 as Homesite Insurance Company of Florida.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2004:

Homeowners Multi Peril  
Allied Lines  
Other Liability  
Mobile Home Multi Peril

Fire  
Inland Marine  
Earthquake  
Mobile Home Physical Damage

As mentioned previously, the Company submitted a letter to the Office on July 19, 2005, requesting that fire, allied lines, earthquake, mobile home multi peril and mobile physical damage lines of business be removed from their certificate of authority. On September 20, 2005, the Office issued the Company a revised certificate of authority reflecting the removal of those lines of business from the Company's certificate of authority.

Even though the Company did not write insurance coverage in the last two years in the lines of business of inland marine and other liability, the Company requested that the Office approve the retention of these lines in order to service their homeowners multi peril policyholders. This request was approved by the Office.

The articles of incorporation and the bylaws were amended during the period covered by this examination.

### **Capital Stock**

As of December 31, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	100,000
Number of shares issued and outstanding	10,000
Total common capital stock	\$100,000
Par value per share	\$10.00

Control of the Company was maintained by its parent, Homesite Securities Company LLC, who owned 100 percent of the stock issued by the Company, who in turn was 100 percent owned by Homesite Group Incorporated (HGI), a Delaware corporation.

## Profitability of Company

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

	<b>2004</b>	<b>2003</b>	<b>2002</b>
Premiums Earned	11,256,696	1,030,565	43,875
Net Underwriting Gain/(Loss)	(1,577,166)	(207,340)	(142,571)
Net Income	(917,166)	123,615	36,838
Total Assets	13,418,253	8,704,449	7,923,659
Total Liabilities	6,699,844	1,055,097	383,985
Surplus As Regards Policyholders	6,718,409	7,649,352	7,539,674

## Dividends to Stockholders

The Company did not declare or pay dividends to its stockholder in 2004.

## Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, FS. Directors serving as of December 31, 2004, were:

### Directors

#### Name and Location

Fabian John Fondriest  
Boston, MA

James Thomas Morahan, Jr.  
Boston, MA

#### Principal Occupation

CEO, the Company  
CEO, Homesite Group, Inc.

Treasurer, the Company  
VP-Finance and Administration  
Homesite Group, Inc.

Manuel Zuniga Rios  
Boston, MA

Vice-President of Underwriting  
Homesite Group, Inc.

Anthony Matthew Scavongelli  
Boston, MA

Secretary and General Counsel, the  
Company  
VP and General Counsel  
Homesite Group, Inc.

Bennett Carl Verniero  
Boston, MA

VP-Marketing  
Homesite Group, Inc.

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

### Senior Officers

<b>Name</b>	<b>Title</b>
Fabian John Fondriest	CEO
Douglas Andrew Batting	President
James Thomas Morahan, Jr.	Treasurer and Vice President
Anthony Matthew Scavongelli	Secretary and Vice President
Robert Kempton Race (a)	Executive Vice President
Peter Benjamin Settel	Vice President
Stephen Douglas Stayton	Vice President
Manuel Zuniga Rios	Vice President
Bennett Carl Verniero	Vice President

(a) new for 2004.

The Company's board appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2004:

**Audit Committee**

Fabian J. Fondriest  
James T. Morahan, Jr.  
Anthony M. Scavongelli

**Investment Committee**

Fabian J. Fondriest  
James T. Morahan, Jr.  
Anthony M. Scavongelli

The Company maintained an audit committee, as required by Section 624.424(8), FS.

**Conflict of Interest Procedure**

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. No exceptions were noted during this examination period.

**Corporate Records**

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

The Company's directors reviewed the 2003 examination report during the Board meeting held on June 22, 2005.

The Company's information technology (IT) function did not have a formal asset management program for the Company's IT equipment, did not fully test its business contingency plan, did not have a formal IT strategy nor a formal E-Business strategy or insurance to cover e-business transactions and associated risks.

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

There were no acquisitions, mergers, disposals, dissolutions, or significantly different purchases or sales through reinsurance in the period examination.

## **Surplus Debentures**

The Company did not have any surplus debentures.

## **AFFILIATED COMPANIES**

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on September 30, 2004, as required by Section 628.801, FS, and Rule 69O-143.046, FAC. The Company subsequently filed an updated holding company registration statement on June 8, 2005.

The following agreements were in effect between the Company and its affiliates:

### **Tax Allocation Agreement**

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2004, the method of allocation between each respective company was based on the proportionate amount of each company's income taxes computed on a separate company basis.

### **Intercompany Service Agreement**

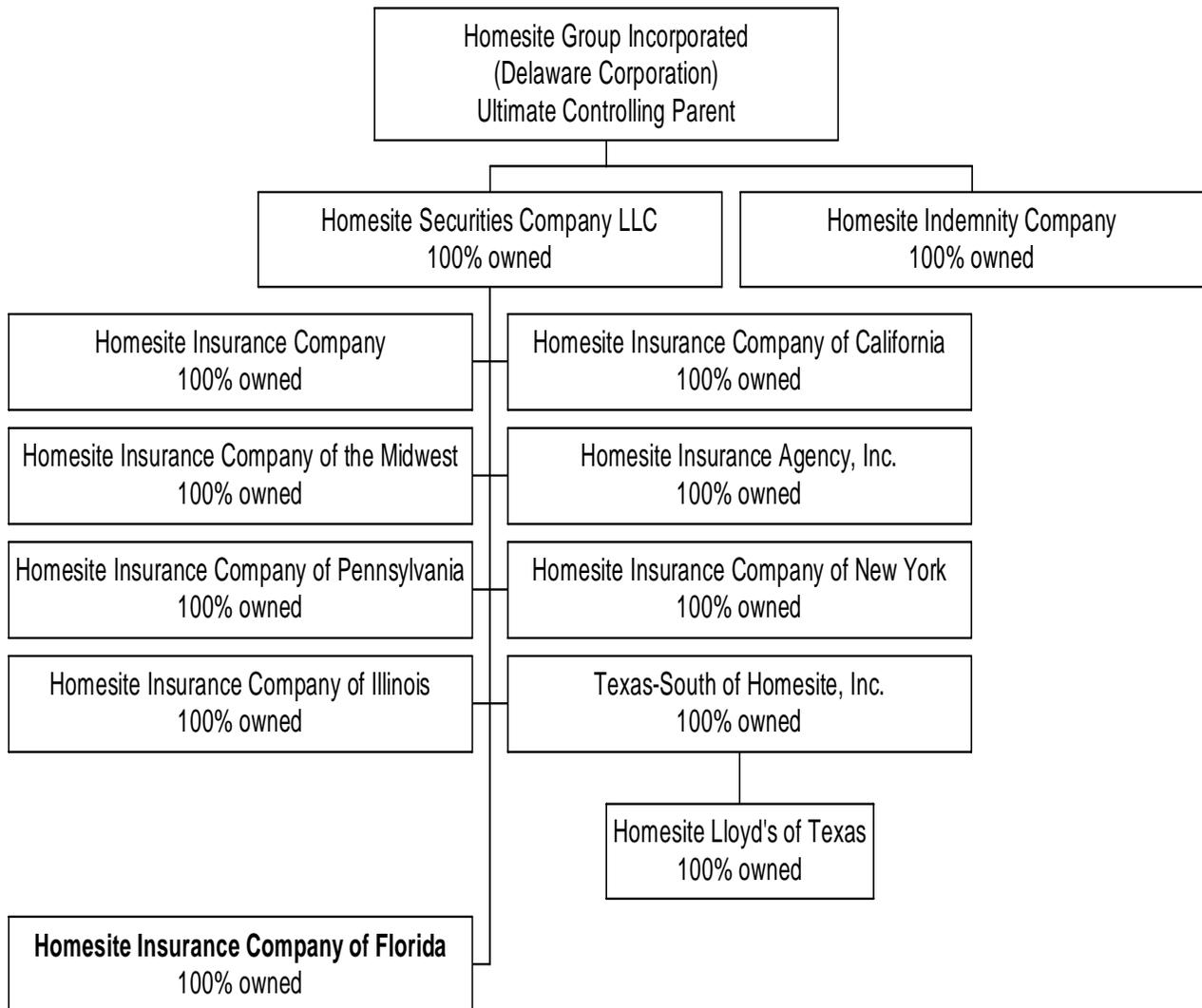
The Company entered into an intercompany service agreement with HGI on February 12, 2001. HGI provided personnel, management information systems support, facilities support, procurement support, legal services and other such services mutually agreed upon. All transactions were subject to the ultimate authority of the Company. During the contract period services were provided on a cost allocation/reimbursement basis. HGI was responsible for maintaining accounting records of all services rendered.

Premiums of the Company were received by HGI and deposited into a HGI account along with premiums of other Company affiliates. The premiums were not deposited into a trust account within 15 working days after collection, as required by Section 625.012(5), FS. However, HGI and the Company had a trust agreement wherein HGI prefunded a Company trust account with one month advance premium cash.

An organizational chart as of December 31, 2004, reflecting the holding company system is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

**HOMESITE INSURANCE COMPANY OF FLORIDA  
ORGANIZATIONAL CHART**

**DECEMBER 31, 2004**



## FIDELITY BOND AND OTHER INSURANCE

The Company's ultimate parent, HGI, maintained fidelity bond coverage up to \$2,000,000 with a deductible of \$25,000. This amount of insurance adequately covered the suggested minimum coverage for the Company as recommended by the NAIC.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, stock ownership or insurance plans.

## STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	USTNTS, 3.5%, 01/15/11	<u>\$ 345,606</u>	<u>\$ 420,449</u>
	TOTAL FLORIDA DEPOSITS	\$ 345,606	\$ 420,449
	TOTAL SPECIAL DEPOSITS	<u>\$ 345,606</u>	<u>\$ 420,449</u>

## INSURANCE PRODUCTS AND RELATED PRACTICES

The Company's records were reviewed for the accuracy of premium computation, policy construction and claim handling procedures.

### Territory

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

### **Treatment of Policyholders**

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

### **REINSURANCE**

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

#### **Assumed**

The Company assumed risk from Highpoint Insurance Company.

#### **Ceded**

The Company ceded risk on a quota share basis to AXA Reinsurance, SA, for certain written business. The Company ceded on a 50% basis until March 31, 2004. On April 1, 2004, the Company changed from 50% ceding to 25% ceding. The Company had per-risk catastrophe coverage excess of \$250,000. Starting on July 1, 2004, the Company retained 15% of the layer \$250,000 in excess of \$250,000.

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

## **ACCOUNTS AND RECORDS**

An independent CPA audited the Company's statutory basis financial statements annually for the years 2002, 2003 and 2004, in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

The Company's accounting records were maintained on a computerized system at the office of the Company's parent in Boston, MA. The Company's balance sheet accounts, except for federal income tax, were verified with the line items of the annual statement submitted to the Office.

The premium receivable file incorrectly contained premium refunds due policyholders. The proper reporting for the premium refunds is Amounts withheld or retained by the company for the account of others as required by the NAIC annual statement instructions.

The Company did not provide an electronic file of premiums receivable with the necessary data for a recalculation of the aged premiums receivable.

The Company's hardcopy records were maintained at the Company's office in Florida, as required by Section 628.271, FS, and paragraph 23 of Consent Order No. 41011-01-CO.

The Company maintained its principal operational offices in Boston, MA, where this examination was conducted.

The Company and non-affiliates had the following agreements:

**Custodial Agreement**

The Company had a custodial agreement with SRB Corporation and Wachovia Bank. The agreement was in compliance with Rule 69O-143.042, FAC. There was also a written investment management agreement between the Company and SRB Corporation. SRB Corporation was the investment manager for the Company.

**Independent Auditor Agreement**

The Company had an agreement with PriceWaterhouseCoopers to conduct an annual audit of their financial statements. Documentation in the form of board of director minutes was provided to evidence that the CPA was hired in accordance with Section 624.424(8)(c), FS.

**Actuarial Agreement**

The Company had an actuarial agreement with Pinnacle Actuarial Resources, Inc. to render an actuarial opinion for the year 2004.

**Risk-Based Capital**

The Company reported its risk-based capital at an adequate level.

**FINANCIAL STATEMENTS PER EXAMINATION**

The following pages contain financial statements showing the Company's financial position as of December 31, 2004, 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."

**HOMESITE INSURANCE COMPANY OF FLORIDA**  
**Assets**

**DECEMBER 31, 2004**

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	\$5,617,007		\$5,617,007
Common Stocks	419,549		419,549
Cash:			
On deposit	2,343,788		2,343,788
Short-term investments	4,324,500		4,324,500
Agents' Balances:			
Uncollected premium	(852,238)		(852,238)
Reinsurance recoverable from reinsurers	837,757		837,757
Receivables from parent	679,936		679,936
Interest and dividend income due & accrued	47,954		47,954
Totals	\$13,418,253	\$0	\$13,418,253

**HOMESITE INSURANCE COMPANY OF FLORIDA**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2004**

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$4,136,682		\$4,136,682
Reinsurance payable on paid loss and loss adjustment expenses	371,456		371,456
Loss adjustment expenses	250,701		250,701
Commissions payable, contingent commissions	50,109		50,109
Other expenses	15,419		15,419
Taxes, licenses and fees	88,075		88,075
Federal and foreign income taxes payable	396,752		396,752
Unearned premium	1,171,112		1,171,112
Advance premiums	71,170		71,170
Ceded reinsurance premiums payable	114,129		114,129
Aggregate write-in for liabilities	34,239		34,239
Total Liabilities	\$6,699,844		\$6,699,844
Common capital stock	\$100,000		\$100,000
Gross paid in and contributed surplus	7,404,780		7,404,780
Unassigned funds (surplus)	(786,371)		(786,371)
Surplus as regards policyholders	\$6,718,409		\$6,718,409
Total liabilities, capital and surplus	\$13,418,253	\$0	\$13,418,253

**HOMESITE INSURANCE COMPANY OF FLORIDA**  
**Statement of Income**

**DECEMBER 31, 2004**

**Underwriting Income**

Premiums earned	\$10,692,555
DEDUCTIONS:	
Losses incurred	8,167,323
Loss expenses incurred	1,946,429
Other underwriting expenses incurred	2,155,969
Total underwriting deductions	<u>\$12,269,721</u>
Net underwriting gain or (loss)	(\$1,577,166)

**Investment Income**

Net investment income earned	\$296,978
Net realized capital gains or (losses)	(24,995)
Net investment gain or (loss)	<u>\$271,983</u>

**Other Income**

Net gain or (loss) from agents' or premium balance charged off	\$0
Finance and service charges not included in premiums	4,628
Total other income	<u>\$4,628</u>

Net income before dividends to policyholders and before federal & foreign income taxes	(\$1,300,555)
Dividends to policyholders	<u>0</u>
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$1,300,555)
Federal & foreign income taxes	<u>(383,389)</u>
Net Income	(\$917,166)

**Capital and Surplus Account**

Surplus as regards policyholders, December 31 prior year	\$7,649,352
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**Gains and (Losses) in Surplus**

Net Income	(\$917,166)
Net unrealized capital gains or losses	(13,777)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	(930,943)
Surplus as regards policyholders, December 31 current year	<u><u>\$6,718,409</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

#### Losses and Loss Adjustment Expenses \$4,387,383

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2004, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

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

**HOMESITE INSURANCE COMPANY OF FLORIDA  
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

**DECEMBER 31, 2004**

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 per December 31, 2004, Annual Statement	\$6,718,409
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No adjustment necessary.			
<b>LIABILITIES:</b>			
No adjustment necessary.			
Net Change in Surplus:			0
Surplus as Regards Policyholders Per December 31, 2004, Examination			\$6,718,409

## SUMMARY OF FINDINGS

### **Compliance with previous directives**

The Company has not taken the necessary actions to comply with the comments made in the 2003 examination report issued by the Office as follows.

### **Aging of Premiums Receivable**

The Company did not provide an electronic file of premiums receivable with the necessary data for a recalculation of the Company's aged premiums receivable.

### **Advance Premiums**

The Company reported refunds due policyholders as a reduction in Accounts receivable in the amount of \$65,645.

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

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2004.

The Company did not test its business contingency plan. **We recommend that the Company fully test its business contingency plan and modify the plan if required.**

### **Federal Income Tax**

The Company failed to properly compute the 2004 federal income tax expense as required by NAIC annual statement instructions. **We recommend that the Company comply with their**

**independent CPA firm's findings and implement the proper calculation for future federal income tax expense.**

#### **Premium Refunds Due Policyholders**

The Company incorrectly reported the premium refunds due policyholders. **We recommend that the Company properly calculate and report premium refunds as required by the NAIC annual statement instructions.**

#### **Aging of Premiums Receivable**

The Company did not provide an electronic file of premiums receivable with the necessary data for a recalculation of the Company's aged premiums receivable. **We recommend that the Company provide electronic files of premiums receivable to facilitate the recalculation of aged premiums receivable. This is a repeat violation from the 2003 examination. Failure to follow this recommendation may result in the application of Section 624.318(3), FS, which will require employing experts to reconstruct the records at the expense of the Company.**

### **SUBSEQUENT EVENT**

The Company corrected its accounting error on the Federal income tax expense on the March 31, 2005 quarterly statement filed with the NAIC.

## CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Homesite Insurance Company of Florida, Inc.** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$6,718,409, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, Jay Ambler, Financial Examiner/Analyst II and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

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Roger Kelley  
Financial Examiner/Analyst II  
Florida Office of Insurance Regulation