

REPORT ON EXAMINATION
OF
PONCE DE LEON LTC RISK RETENTION
GROUP, INC.
ST. AUGUSTINE, 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.....	3
SUBSEQUENT EVENTS	3
HISTORY	3
GENERAL	3
DIVIDENDS TO POLICYHOLDERS	4
CAPITAL STOCK AND CAPITAL CONTRIBUTIONS.....	4
SURPLUS NOTES	5
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE	5
CORPORATE RECORDS	5
CONFLICT OF INTEREST.....	5
MANAGEMENT AND CONTROL	6
MANAGEMENT	6
AFFILIATED COMPANIES	7
ORGANIZATIONAL CHART	8
FIDELITY BOND AND OTHER INSURANCE	9
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	9
TERRITORY AND PLAN OF OPERATIONS	9
TREATMENT OF POLICYHOLDERS	9
COMPANY GROWTH	10
PROFITABILITY OF COMPANY	10
LOSS EXPERIENCE	10
REINSURANCE	11
ASSUMED	11
CEDED	11
ACCOUNTS AND RECORDS	11
CUSTODIAL AGREEMENT	12
MANAGING GENERAL AGENT AGREEMENT.....	13
INDEPENDENT AUDITOR AGREEMENT	13
INFORMATION TECHNOLOGY REPORT	13
STATUTORY DEPOSITS	13
FINANCIAL STATEMENTS PER EXAMINATION	14

ASSETS	15
LIABILITIES, SURPLUS AND OTHER FUNDS	16
STATEMENT OF INCOME	17
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS	18
COMMENTS ON FINANCIAL STATEMENTS.....	19
LIABILITIES	19
CAPITAL AND SURPLUS	19
SUMMARY OF RECOMMENDATIONS.....	20
CONCLUSION.....	21

December 7, 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 and Section 624.486, Florida Statutes, Rule 69O-138.005 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:

**PONCE DE LEON LTC RISK RETENTION GROUP, INC.
475 WEST TOWN PLACE
ST. AUGUSTINE, FLORIDA 32092**

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, 2007, through December 31, 2011. The Company 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 on August 13, 2012, to August 17, 2012. The fieldwork commenced on August 20, 2012, and concluded as of December 7, 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 Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company, 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 Company 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

The following is a summary of material adverse findings, significant non-compliance findings, or material changes in the financial statements noted during this examination.

Loss Reserves

The Company's Loss and Loss Adjustment Expense Reserves were below the range of estimates prepared by the Office's appointed actuary. Based on the mid-point estimate, the Company was under-reserved by \$511,000 as of December 31, 2011.

Accounts and Records

There were significant delays in the delivery of documentation requested from the Company during the course of the examination due to the change in the president at Uni-Ter and the Company contact being out on indefinite leave. This resulted in both an increase to the examination budget and an extension of the completion date. This delay was a violation of Sections 624.318 and 624.418 (2)(b), Florida Statutes.

Prior Exam Findings

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

SUBSEQUENT EVENTS

The CEO & President of the Company's exclusive MGA, UniTer Underwriting Management Corp., is no longer with them. He has since been replaced by a new CEO.

HISTORY

General

The Company was incorporated in Florida on September 23, 2002 and commenced business on January 30, 2003 as LTC Risk Retention Group. The Company changed its name to Ponce De Leon LTC Risk Retention Group, Inc. after the approval by the Office on September 9, 2004. The Company was not a member of an insurance holding company as defined by Rule 69O – 143.045 (3), Florida Administrative Code.

The Company was party to Consent Order No. 90727-07-CO filed July 22, 2007 with the Office regarding requirements by Consent Order No. 65467-03-CO and certain transactions of the Company requiring prior written approval from the Office for any material deviation from the Plan of Operation which included any deviation from the stated investment strategy. The Company failed to seek approval from the Office relative to the investment with Sophia Palmer Nurses Risk Retention Group, Inc. in the amount of \$650,000 and was fined an administrative fine in the amount of \$20,000 plus administrative costs in the amount of \$1,000. The Company agreed to the terms of the consent order.

The Company was party to Consent Order 107708-09-CO filed December 18, 2009 regarding a request to pay a profit sharing bonus to its managing general agent. The Office approved the request with two stipulations:

- For each dollar of profit sharing bonus paid to the managing general agent, three dollars shall be paid to the Agency for Health Care Administration (AHCA);
- No such payment can be made to the managing general agent or Agency for Health Care Administration if the Company's surplus is below six million.

The Company was authorized on January 30, 2003 to transact the following insurance coverage in Florida and continued to be authorized as of December 31, 2011:

Medical Malpractice	Other Liability
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The Articles of Incorporation and the Bylaws were not amended during the period covered by this examination.

Dividends to Policyholders

The Company did not declare or pay any dividends during the period of examination.

Capital Stock and Capital Contributions

As of December 31, 2011, the Company's capitalization was as follows:

Number of authorized common capital shares	167,800
Number of shares issued and outstanding	19,789
Total common capital stock	\$19,789
Par value per share	\$1.00

Control of the Company was maintained by its policyholders who owned 100% of the stock issued by the Company.

Surplus Notes

The Company's initial capital and surplus was derived from a \$6,000,000 subordinated surplus debenture dated March 3, 2004 provided by the State of Florida through AHCA. The surplus note may be paid out of available capital and surplus after approval has been received from the Office. The beginning balance at January 1, 2007 was \$5,830,457. As of December 31, 2011, the surplus note balance was \$5,349,951.

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

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

CORPORATE RECORDS

The recorded minutes of the Shareholders, Board of Directors (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 Company 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 Company adopted a policy statement requiring annual disclosure of conflicts of interest in accordance with the NAIC Financial Condition Examiners Handbook adopted by Rule 69O-138.001, Florida Administrative Code.

MANAGEMENT AND CONTROL

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 628.231, Florida Statutes. Directors serving as of December 31, 2011, were:

Directors	
Name and Location	Principal Occupation
Jamie Louise Glavich Jacksonville, Florida	Owner, Almost Home Senior Services
Raymond Mangess Johnson St. Augustine, Florida	President, Vicar's Landing
Jack Mease Norton Dunedin, Flo	President, Mease Manor
Brian Lee Robare Lakeland, Florida	Director of Operations, Carpenter's Home Estates
Edwin Darrington Taylor II Venice, Florida	Consultant
Deborah F. Franklin Dover, Florida	Director, Hawthorne Village Retirement

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

Senior Officers	
Name	Title
Jack Mease Norton	President
Brian Lee Robare	Vice President
Jamie Louise Glavich	Treasurer & Secretary

The Company's Board appointed an audit committee. Following are the audit committee members as of December 31, 2011:

Audit Committee

Raymond Mangess Johnson ¹
Edwin Darrington Taylor II
Brian Lee Robare
Jamie Louise Glavich
Jack Mease Norton

¹ Chairman

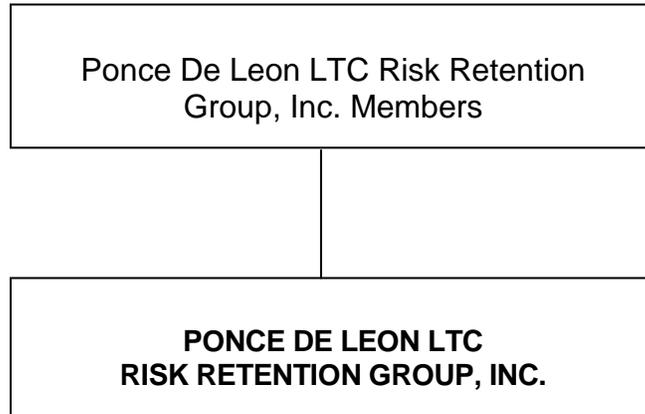
Affiliated Companies

The Company was not a member of an insurance holding company system as defined by Rule 690-143.045(3), Florida Administrative Code. The policyholders were the shareholders of the Company in accordance with the Federal Liability Risk Retention Act of 1986.

A simplified organizational chart as of December 31, 2011 is shown on the following page.

**PONCE DE LEON LTC RISK RETENTION GROUP, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2011



The Company had no affiliated agreements.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$50,000, which reached the suggested minimum as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance coverage with limits of \$5,000,000 and a deductible of \$50,000.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company did not have any type of pension, stock ownership, or insurance plans during the period of this examination.

TERRITORY AND PLAN OF OPERATIONS

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

Treatment of Policyholders

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

The Company 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 Company's written premium declined in each of the past four years. The decrease in the Company's written premium was due substantially to foreign insurers offering potential and former policyholders combined insurance coverage. The Company was not licensed to write in property or any lines of insurance to combine and offer to potential policyholders.

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 statements.

	2011	2010	2009	2008	2007
Premiums Earned	4,918,494	4,861,149	4,773,427	5,388,202	6,285,827
Net Underwriting Gain/(Loss)	(1,255,893)	(1,152,260)	407,019	307,355	683,208
Net Income	(527,189)	(523,262)	140,399	566,143	1,042,931
Total Assets	16,788,868	18,726,842	18,527,795	18,354,530	19,239,189
Total Liabilities	8,595,122	10,104,392	9,363,020	10,546,111	11,312,654
Surplus As Regards Policyholders	8,193,746	8,622,451	9,164,774	7,808,419	7,926,535

LOSS EXPERIENCE

The Company has experienced favorable reserve development over the last five years, overall. However, the December 31, 2009 loss reserves adversely developed in 2010 (one year development of 12%) and the 2011 (grew to a two year development of 17.2%).

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

Ceded

The Company ceded risk on a casualty excess of loss reinsurance agreement. The reinsurers were Aspen Insurance UK Limited, Meacock & Company Limited, and Beazley Syndicate, all of whom were authorized.

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

ACCOUNTS AND RECORDS

The Company maintained its principal operational offices in St. Augustine, Florida. The examination was conducted in Atlanta, Georgia, where the Company's records were maintained by Uni-Ter Underwriting Management Corporation (Uni-Ter).

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

There were significant delays in the delivery of documentation requested from the Company during the course of the examination due to the change in the president at Uni-Ter and the Company contact being out on indefinite leave. This resulted in both an increase to the examination budget and an extension of the completion date. Pursuant to Rule 69O-142.011 (8)(d) Florida Administrative Code, fines may be assessed for the "failure of insurer or any of its officers to properly respond to or cooperate with the Office in reporting, or providing information to the Office, or producing or making reasonably available, any of its accounts, records, or files, as requested by the Office, pursuant to Sections 624.318 and 624.418(2)(b), Florida Statutes."

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with the US Bank executed on July 19, 2006.

The agreement was in compliance with Rule 69O-143.042 (c), Florida Administrative Code.

Managing General Agent Agreement

The Company utilized a non-affiliated managing general agent (MGA) to produce insurance business. The MGA was responsible for quoting policies to customers, claims administration, and billing and collecting premiums on behalf of the insurer. The Company retains the right for binding authority and ensures all policies meet Company underwriting guidelines.

Independent Auditor Agreement

The Company 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.

INFORMATION TECHNOLOGY REPORT

Tom Baxter of Baxter Enterprises Inc. performed an evaluation of the information technology and computer systems of the Company. Results of the evaluation were noted in the Information Technology Report provided to the Company.

STATUTORY DEPOSITS

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

STATE	Description	Par Value	Market Value
FL	Cash Interest	\$ 90,383	\$ 90,383
FL	Cash Deposit	<u>250,000</u>	<u>250,000</u>
TOTAL FLORIDA DEPOSITS		\$ 340,383	\$ 340,383
TOTAL SPECIAL DEPOSITS		<u><u>\$340,383</u></u>	<u><u>\$340,383</u></u>

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company'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."

PONCE DE LEON LTC RISK RETENTION GROUP, INC.
Assets

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Bonds	\$11,667,674		\$11,667,674
Stocks:			
Common	2,161,308		2,161,308
Real Estate:			
Properties			
occupied by Company			0
Other properties			0
Cash and Short-Term Investments	530,013		530,013
Other investments			0
Aggregate write-in for invested assets			0
Agents' Balances:			
Uncollected premium	782,490		782,490
Deferred premium			0
Reinsurance recoverable	536,831		536,831
EDP Equipment			0
Interest and dividend income due & accrued	95,491		95,491
Federal and Foreign Income Tax			
Recoverable	437,000		437,000
Net Deferred Tax Asset	207,410		207,410
Aggregate write-in for other than invested assets	370,651		370,651
	<hr/>		<hr/>
Totals	\$16,788,868	\$0	\$16,788,868
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PONCE DE LEON LTC RISK RETENTION GROUP, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2011

	Per Company	Examination Adjustments	Per Examination
Losses	\$4,441,412	\$511,000	\$4,952,412
Loss adjustment expenses	807,585		807,585
Commissions Payable	159,538		159,538
Other expenses	463,382		463,382
Taxes, licenses and fees	85,407		85,407
Unearned premium	2,320,775		2,320,775
Ceded Reinsurance Premiums Payable	317,023		317,023
Amounts withheld			0
Drafts outstanding			0
Payable to parent, subsidiaries and affiliates			0
Aggregate write-ins for liabilities			0
Total Liabilities	\$8,595,122	\$511,000	\$9,106,122
Common capital stock	\$19,789		\$19,789
Surplus Note	5,349,951		\$5,349,951
Gross paid in and contributed surplus	1,964,999		1,964,999
Unassigned funds (surplus)	859,007	(511,000)	348,007
Surplus as regards policyholders	<u>\$8,193,746</u>	<u>(\$511,000)</u>	<u>\$7,682,746</u>
Total liabilities, surplus and other funds	<u>\$16,788,868</u>	<u>\$0</u>	<u>\$16,788,868</u>

PONCE DE LEON LTC RISK RETENTION GROUP, INC.

Statement of Income

DECEMBER 31, 2011

Underwriting Income

Premiums earned	\$4,918,494
Deductions:	
Losses incurred	\$1,875,433
Loss expenses incurred	2,215,079
Other underwriting expenses incurred	2,083,875
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$6,174,387</u>
Net underwriting gain or (loss)	(\$1,255,893)

Investment Income

Net investment income earned	\$326,792
Net realized capital gains or (losses)	171,104
Net investment gain or (loss)	<u>\$497,896</u>

Other Income

Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	3,839
Total other income	<u>\$3,839</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$754,158)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$754,158)
Federal & foreign income taxes	<u>(226,969)</u>
Net Income	<u><u>(\$527,189)</u></u>

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$8,622,449
Net Income	(\$527,189)
Net unrealized capital gains or losses	4,433
Change in non-admitted assets	98,183
Change in surplus notes	(7,773)
Change in Net Deferred Income Tax	(87,925)
Capital Changes: Paid In	458
Surplus adjustments: Paid in	91,110
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	(511,000)
Change in surplus as regards policyholders for the year	<u>(\$939,703)</u>
Surplus as regards policyholders, December 31 current year	<u>\$7,682,746</u>

A comparative analysis of changes in surplus is shown below.

PONCE DE LEON LTC RISK RETENTION GROUP, INC.
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	\$8,193,746
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No Adjustment			
LIABILITIES:			
Losses	\$4,441,412	\$4,952,412	(\$511,000)
Net Change in Surplus:			(511,000)
Surplus as Regards Policyholders December 31, 2011, per Examination			\$7,682,746

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$5,759,997

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, 2011, 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, Kay Kufera, FCAS, MAAA of Kufera Consulting Inc., reviewed the loss and loss adjustment expense work papers provided by the Company and she was not in concurrence with this opinion. The reserves were increased by \$511,000.

Capital and Surplus

The amount of Capital and surplus per the examination of \$7,682,746, exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

SUMMARY OF RECOMMENDATIONS

Loss and Loss Adjustment Expense Reserves

We recommend that the Company increase their loss and loss adjustment expense reserves by \$511,000 to adequately cover losses as required in Section 624.468 (6), Florida Statutes.

Accounts and Records

We recommend that the Company respond accurately and in a timely manner to all requests during financial examinations in accordance with Rule 69O-142.011(8)(d), Florida Administrative Code and Sections 624.318 and 624.418 (2)(b), Florida Statutes.

CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Ponce De Leon LTC Risk Retention Group, Inc.** as of December 31, 2011, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$7,682,746, which exceeded the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

In addition to the undersigned, Tracy Gates, CPA, of Highland Clark LLC, Examination Manager participated in the examination. In addition, Kay Kufera, FCAS MAAA, consulting actuary of Kufera Consulting Inc., and Tom Baxter, CISA, IT Manager of Baxter Enterprises Inc. also participated in the examination.

Respectfully submitted,

Maurice Fuller
Financial Examiner/Analyst II
Florida Office of Insurance Regulation