

REPORT ON EXAMINATION
OF
PONCE DE LEON LTC RISK
RETENTION GROUP, INC.
ST. AUGUSTINE, FLORIDA

AS OF
DECEMBER 31, 2006

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	2
GENERAL	2
CAPITAL STOCK	3
PROFITABILITY OF COMPANY	4
DIVIDENDS TO STOCKHOLDERS	4
MANAGEMENT	4
CONFLICT OF INTEREST PROCEDURE.....	5
CORPORATE RECORDS	6
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	6
SURPLUS DEBENTURES	6
AFFILIATED COMPANIES	6
FIDELITY BOND AND OTHER INSURANCE.....	7
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	7
STATUTORY DEPOSITS.....	7
INSURANCE PRODUCTS.....	7
TERRITORY	7
TREATMENT OF POLICYHOLDERS.....	8
REINSURANCE	8
ASSUMED.....	8
CEDED	8
ACCOUNTS AND RECORDS.....	9
CUSTODIAL AGREEMENT	9
MANAGING GENERAL AGENT AGREEMENT	9
INDEPENDENT AUDITOR AGREEMENT.....	10
FINANCIAL STATEMENTS PER EXAMINATION.....	10
ASSETS	11
LIABILITIES, SURPLUS AND OTHER FUNDS	12
STATEMENT OF INCOME.....	13
COMMENTS ON FINANCIAL STATEMENTS.....	14
LIABILITIES	14
CAPITAL AND SURPLUS.....	14

COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS..... 15
SUMMARY OF FINDINGS 16
SUBSEQUENT EVENT 16
CONCLUSION 17

Tallahassee, Florida

January 30, 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 627.943, 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:

**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, 2006 through December 31, 2006. 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 August 20, 2007 to August 21, 2007 and September 4, 2007, to September 5, 2007. The fieldwork commenced on September 10, 2007, and was concluded as of January 30, 2008. 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, 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 reports, 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) and other reports as considered necessary 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.

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, 2005, along with resulting action taken by the Company in connection therewith.

Losses and Loss Adjustment Expenses

The Company's Loss reserves were deficient \$706,000. **Resolution:** The Company increased reserves \$706,000 on the subsequent quarterly financial statement dated March 31, 2007.

HISTORY

General

The Company was incorporated in Florida on September 23, 2002 and commenced business on January 30, 2003 as LTC Risk Retention Group, Inc. 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. 65467-03-CO filed January 3, 2003 with the Office regarding the application for the issuance of a certificate of authority. The Company was in compliance with the provisions of the consent order.

The Company was party to a subsequent Consent Order No. 90727-07 filed July 23, 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 \$600,000 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 authorized to transact medical malpractice and other liability insurance coverage in Florida on December 31, 2006.

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2006, the Company's capitalization was as follows:

Number of authorized common capital shares	167,800
Number of shares issued and outstanding	16,443
Total common capital stock	\$16,443
Par value per share	\$1.00

Control of the Company was maintained by its policyholders, which were the shareholders.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination and the prior two years, as reported in the filed annual statements.

	2006	2005	2004
Premiums Earned	5,592,456	5,047,832	3,718,043
Net Underwriting Gain/(Loss)	(558,673)	(455,426)	359,030
Net Income	(72,247)	(333,817)	449,883
Total Assets	18,002,040	15,430,732	12,024,527
Total Liabilities	10,309,984	7,951,071	4,755,507
Surplus As Regards Policyholders	7,692,056	7,479,661	7,269,019

Dividends to Stockholders

The Company did not declare or pay any dividends to its stockholders in 2006.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2006, were:

Directors

Name and Location

Edwin Taylor
Venice, Florida

Raymond M. Johnson
Ponte Vedra Beach, Florida

Principal Occupation

Heron House Assisted Living
Public Relations Officer/Risk Manager

LCPS Management Co.
President

Jamie Glavich
Jacksonville, Florida

Almost Home Senior Services
Owner

Joseph Glucksman
West Palm Beach, Florida

Florida Housing Corp.
President

John Norton
Dunedin, Florida

Mease Manor
Executive Director

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

Senior Officers

Name	Title
Raymond M. Johnson	President
Ed Taylor	Vice President
Jamie Glavich	Treasurer/Secretary

The Company's board appointed an audit committee in accordance with Section 607.0825, Florida Statutes. Following is the audit committee members as of December 31, 2006:

Audit Committee

Edwin Taylor ¹
Raymond Johnson
Jamie Glavich
Joseph Glucksman
John Norton
¹Chairman

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.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, 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 accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance.

Surplus Debentures

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 the Agency for Health Care Administration (AHCA). The surplus note may be repaid out of available capital and surplus after approval has been received from the Office. The Company paid \$149,736 in the two prior years. The beginning balance at January 1, 2006 was \$5,850,264. As of December 31, 2006, the Company paid a total of \$19,807 on the surplus note which left a balance at year-end of \$5,830,457.

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. The policyholders were the shareholders of the Company in accordance with the Federal Liability Risk Retention Act of 1986.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$5,000,000 with a deductible of \$75,000 which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

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

STATUTORY DEPOSITS

The following amounts were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	Description	Par Value	Market Value
FL	Cash Deposit	\$ 250,000.00	\$ 250,000.00
FL	Cash Interest	<u>\$ 38,170.50</u>	<u>\$ 38,170.50</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 288,170.50</u>	<u>\$ 288,170.50</u>

INSURANCE PRODUCTS

Territory

The Company was authorized to transact insurance 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(i) 3a, 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 did not assume any reinsurance.

Ceded

The Company ceded risk on a casualty excess of loss reinsurance agreement. The reinsurers were Aspen Insurance UK Limited and four syndicates of Lloyds of London, all of whom were authorized.

ACCOUNTS AND RECORDS

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with U.S. Bank National Association dated June 27, 2006. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code.

Managing General Agent Agreement

The Company entered into a Managing General Agent (MGA) agreement with Uni-Ter on January 30, 2003, with an effective period of seven years and automatically renewed for an additional seven years thereafter. Uni-Ter was responsible for managing all underwriting, administrative, accounting and claims of the Company.

Independent Auditor Agreement

The Company had an agreement with Marcum & Kliegman LLP CPA to perform an audit of its generally accepted accounting principles and statutory financial statements for the years 2005 and 2006.

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. 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, 2006

	Per Company	Examination Adjustments	Per Examination
Bonds	\$15,150,913		\$15,150,913
Cash:	1,661,653		1,661,653
Investment income due and accrued	97,616		97,616
Agents' Balances:			
Uncollected premium	447,691		447,691
Net deferred tax asset	586,957		586,957
Receivable from parents, subsidiaries and affiliates	51,258		51,258
Aggregate write-in for other than invested assets	5,952		5,952
Totals	\$18,002,040	\$0	\$18,002,040

PONCE DE LEON LTC RISK RETENTION GROUP, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2006

	Per Company	Examination Adjustments	Per Examination
Losses	\$6,127,624		\$6,127,624
Loss adjustment expenses	852,468		852,468
Other expenses	63,796		63,796
Taxes, licenses and fees	140,712		140,712
Current federal and foreign income taxes	12,875		12,875
Unearned premium	3,047,652		3,047,652
Advance premiums	13,822		13,822
Ceded reinsurance premiums payable	51,035		51,035
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Total Liabilities	\$10,309,984	\$0	\$10,309,984
Common capital stock	\$16,443		\$16,443
Surplus notes	5,830,457		5,830,457
Gross paid in and contributed surplus	1,631,830		1,631,830
Unassigned funds (surplus)	<u>213,326</u>		<u>213,326</u>
Surplus as regards policyholders	<u>\$7,692,056</u>		<u>\$7,692,056</u>
Total liabilities, surplus and other funds	<u>\$18,002,040</u>	<u>\$0</u>	<u>\$18,002,040</u>

PONCE DE LEON LTC RISK RETENTION GROUP, INC.
Statement of Income

DECEMBER 31, 2006

Underwriting Income		
Premiums earned		\$5,952,456
	Deductions:	
Losses incurred		3,566,152
Loss expenses incurred		1,043,313
Other underwriting expenses incurred		1,901,664
Aggregate write-ins for underwriting deductions		0
Total underwriting deductions		<u>\$6,511,129</u>
Net underwriting gain or (loss)		(\$558,673)
Investment Income		
Net investment income earned		\$587,306
Net realized capital gains or (losses)		0
Net investment gain or (loss)		<u>\$587,306</u>
Other Income		
Total other income		\$0
Net income before dividends to policyholders and before federal & foreign income taxes		\$28,633
Dividends to policyholders		0
Net Income, after dividends to policyholders, but before federal & foreign income taxes		<u>\$28,633</u>
Federal & foreign income taxes		<u>100,880</u>
Net Income		(\$72,247)
Capital and Surplus Account		
Surplus as regards policyholders, December 31 prior year		\$7,479,661
Net Income		(\$72,247)
Net unrealized capital gains or losses		0
Change in net deferred income tax		133,762
Change in non-admitted assets		51,045
Change in surplus notes		(19,807)
Capital changes: Paid in		1,092
Surplus adjustments: Paid in		118,550
Examination Adjustment		0
Change in surplus as regards policyholders for the year		<u>\$212,395</u>
Surplus as regards policyholders, December 31 current year		<u><u>\$7,692,056</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$6,980,092

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, 2006, make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

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

Capital and Surplus

The amount reported by the Company of \$7,692,056, exceeds the minimum of \$4,000,000 required by Section 624.408, Florida Statutes.

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, 2006

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, 2006, per Annual Statement	\$7,692,056
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment			\$0
LIABILITIES:			
No adjustment			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, per Examination			\$7,692,056

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2005 examination report issued by the Office.

Current examination comments and corrective action

There were no adverse findings noted during the examination.

SUBSEQUENT EVENT

Mr. Brian Robare, of Lakeland, Florida was elected to the Board of Directors in 2007. Mr. Robare is Director of Operations at the Estates at Carpenters.

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, 2006, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$7,692,056, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Michael Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, and Charles Letourneau, FCAS, MAAA, American Actuarial Consulting Group, LLC, participated in the examination.

Respectfully submitted,

Jerry Golden
Financial Examiner/Analyst II
Florida Office of Insurance Regulation