

REPORT ON EXAMINATION

OF

PONCE DE LEON LTC

RISK RETENTION GROUP, INC.

ST. AUGUSTINE, FLORIDA

AS OF

DECEMBER 31, 2004

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

March 10, 2006

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, 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:

**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 30, 2003 through December 31, 2004. This is the first examination of the Company by representatives of the Florida Office of Insurance Regulation (Office). This examination commenced, with planning at the Office, on January 3, 2006, to January 6, 2006. The fieldwork commenced on January 9, 2006, and was concluded as of March 10, 2006. 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 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 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.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following account:

Federal Income Taxes

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 approval by the Office on September 9, 2004.

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

Medical Malpractice

Other Liability

The articles of incorporation and the bylaws were not 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	167,800
Number of shares issued and outstanding	13,259
Total common capital stock	\$13,259
Par value per share	\$1.00

Control of the Company was maintained by its policyholders, which were the shareholders, in accordance with the Federal Liability Risk Retention Act of 1986.

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 of the Company.

	2004	2003
Premiums Earned	3,718,043	1,138,785
Net Underwriting Gain/(Loss)	359,030	(524,030)
Net Income	449,883	(384,519)
Total Assets	12,024,527	8,335,658
Total Liabilities	4,775,507	2,097,868
Surplus As Regards Policyholders	7,269,019	6,237,790

Dividends to Stockholders

No dividends were declared or paid during the period of the examination.

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, 2004, were:

Directors

Name and Location	Principal Occupation
Ed Taylor Venice, Florida	Chairman, Vice President Public Relations Officer/Risk Manager Heron House Assisted Living Sarasota/Ft Meyers, Florida
Raymond M. Johnson Ponte Vedra Beach, Florida	President President, LCPS Management Co. Ponte Vedra Beach, Florida
Jamie Glavich Jacksonville, Florida	Secretary/Treasurer Owner, Almost Home Senior Services Jacksonville, Florida
Larry D. Law, Sr. (a) Mayo, Florida	Director Vice President, Oakbridge Assisted Living Mayo, Florida
Joseph Glucksman West Palm Beach, Florida	Director President of Florida Housing Corp. West Palm Beach, Florida

(a) Resigned August, 2005 and was replaced by John Mease Norton as Director on January 1, 2006.

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

Senior Officers

Raymond M. Johnson
Jamie L. Glavich
Ed Taylor

Title

President
Treasurer/Secretary
Vice President

The Company did not maintain an audit committee, as required by Section 624.424(8) (c), Florida Statutes. Subsequent event: An audit committee consisting of all five directors was appointed during the Company's Board of Directors meeting on February 7, 2006.

Conflict of Interest Procedure

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

Corporate Records

The recorded minutes of the meetings of the shareholders and Board of Directors 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, 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

The Company did not have any 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 provided by the State of Florida through the Agency for Health Care Administration (AHCA). The Company anticipated that the loan will only be repaid out of available capital and surplus after approval by the Office.

ORGANIZATIONAL CHART

The Company was not a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. Therefore, an organizational chart as of December 31, 2004, reflecting the holding company system was not required.

FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$250,000, 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 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 Deposit, Collateral Account	\$ 250,000	\$ 250,000
FL	Cash Interest, Collateral Account	<u>15,181</u>	<u>15,181</u>
TOTAL SPECIAL DEPOSITS		<u>\$ 265,181</u>	<u>\$ 265,181</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance only in 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.

REINSURANCE

There was no reinsurance for the Company as of the examination date. Subsequent to the examination date, the Company entered into a reinsurance contract on July 1, 2005 with US Re Corporation as intermediary.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2003 and 2004, 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 did not maintain its operating bank accounts in the State of Florida as required by Section 628.271 (2), Florida Statutes.

The Company maintained its principal office in Sarasota, Florida. Subsequent to this examination, on October 6, 2005, the Company relocated to 475 West Towne Place 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-Tier). Uni-Ter was the managing general agent (MGA) for the Company.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company entered into a custodial agreement with SouthTrust Bank on April 24, 2003. The agreement met the requirements of Rule 69O-143.042, Florida Administrative Code.

MGA Agreement

The Company entered into a 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.

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."

PONCE DE LEON LTC RISK RETENTION GROUP, INC.
Assets

DECEMBER 31, 2004

Classification	Per Company	Examination	Per Examination
		Adjustments	
Bonds	\$7,356,968		\$7,356,968
Cash:			
On hand	811,566		811,566
Short-term investments	3,438,482		3,438,482
Interest and dividend income due & accrued	53,630		53,630
Agents' Balances:			
Uncollected premium	336,331		336,331
Net deferred tax asset	0	\$269,491	269,491
Aggregate write-in for other than invested assets	27,550		27,550
Totals	<u>\$12,024,527</u>	<u>\$269,491</u>	<u>\$12,294,018</u>

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

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$1,950,572		\$1,950,572
Loss adjustment expenses	146,266		146,266
Other expenses	127,734		127,734
Taxes, licenses and fees	69,259		69,259
Current federal & foreign income tax	232,769	\$149,948	382,717
Unearned premium	<u>2,228,907</u>		<u>2,228,907</u>
Total Liabilities	\$4,755,507	\$149,948	\$4,905,455
Common capital stock	\$13,259		\$13,259
Surplus notes	5,926,045		5,926,045
Gross paid in and contributed surplus	1,312,684		1,312,684
Unassigned funds (surplus)	<u>17,031</u>	119,544	<u>136,575</u>
Surplus as regards policyholders	<u>\$7,269,019</u>	\$119,544	<u>\$7,388,563</u>
Total liabilities, capital and surplus	<u><u>\$12,024,526</u></u>	<u>\$269,492</u>	<u><u>\$12,294,018</u></u>

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

DECEMBER 31, 2004

Underwriting Income

Premiums earned	\$3,718,043
DEDUCTIONS:	
Losses incurred	1,664,512
Loss expenses incurred	307,546
Other underwriting expenses incurred	1,386,955
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$3,359,013</u>
Net underwriting gain or (loss)	\$359,030

Investment Income

Net investment income earned	\$354,322
Net realized capital gains or (losses)	(30,700)
Net investment gain or (loss)	<u>\$323,622</u>

Other Income

Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	\$682,652
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$682,652</u>
Federal & foreign income taxes	<u>232,769</u>
Net Income	\$449,883

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$6,237,790
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Gains and (Losses) in Surplus

Net Income	\$449,883
Net unrealized capital gains or losses	0
Change in non-admitted assets	998,698
Change in surplus notes	(73,955)
Capital changes: Paid in	6,082
Surplus adjustments: Paid in	(349,480)
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	119,544
Change in surplus as regards policyholders for the year	<u>\$1,150,772</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$7,388,562</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Deferred Tax Assets \$269,491

The Company did not report any Net deferred tax assets in accordance with SSAP No. 10, paragraphs 5 - 11. We calculated the Net deferred tax asset for the amount of \$269,491.

Subsequent event: The Company began reporting deferred taxes on subsequent quarterly financial statements for the periods ending June 30, 2005 and September 30, 2005.

Liabilities

Losses and Loss Adjustment Expenses \$2,096,838

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.

Federal Income Tax Payable \$382,717

The amount reported by the Company of \$232,769 was increased by \$149,948 due to the calculation of Deferred income taxes. The annual statement will be adjusted to reflect the increase in Federal income taxes payable.

**PONCE DE LEON LTC RISK RETENTION GROUP, INC.
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	\$7,269,019
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Deferred Tax Asset	\$0	\$269,491	\$269,491
LIABILITIES:			
Federal Income Tax Payable	\$232,769	\$382,717	(\$149,948)
 Net Change in Surplus:			<u>119,543</u>
 Surplus as Regards Policyholders December 31, 2004, Per Examination			<u>\$7,388,562</u>

SUMMARY OF FINDINGS

Compliance with previous directives

This is the first year examination; therefore, there were no previous comments issued by the Office.

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.

Accounts and Records

The Company failed to comply with Section 628.271(2), Florida Statutes, by not maintaining its operating bank accounts in the State of Florida. **We recommend that the Company comply with Section 628.271(2), Florida Statutes, and maintain its operating bank accounts in the State of Florida.**

Deferred Income Taxes and Federal Income Taxes Payable

The Company failed to report deferred income taxes in accordance with SSAP No. 10, paragraphs 5 - 11. A financial adjustment of \$269,491 was made to the annual statement. Additional, the Federal income tax payable account was increased due to the calculation of deferred income taxes. A financial adjustment in the amount of \$149,948 was made to the annual statement. **We recommend that the Company comply with SSAP No. 10, paragraphs 5 - 11, when reporting deferred income taxes.**

SUBSEQUENT EVENTS

Reinsurance

The Company entered into a casualty excess cessions reinsurance agreement on July 1, 2005 with US Re Corporation as the intermediary. The agreement covered all business classified by the Company as long term care professional and general liability. Limits were included in the contract as follows: 100% of \$750,000 ultimate net loss each and every claim, each insured excess of \$250,000 ultimate net loss each and every claim, each insured. The maximum amount recoverable was \$2,000,000 or 250% of the ceded premium, whichever is greater.

CONCLUSION

The customary 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, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$7,388,562, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, John Berry, Financial Examiner/Analyst Supervisor, Joel Bengo, Financial Examiner/Analyst II, and Joe Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

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