

REPORT ON EXAMINATION
OF
SOUTH PINELLAS MEDICAL TRUST
ORLANDO, FLORIDA
AS OF
DECEMBER 31, 2004

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 26, 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 624.486, 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:

**SOUTH PINELLAS MEDICAL TRUST
300 First Avenue South, Suite 500
ST. PETERSBURG , FLORIDA 33701**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2002 through December 31, 2004. The Trust was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2001. This examination commenced, with planning at the Office, on November 28, 2005, to December 2, 2005. The fieldwork commenced on December 5, 2005, and was concluded as of January 27, 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 (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 Trust.

The examination included a review of the corporate records and other selected records deemed pertinent to the Trust's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Trust's independent audit reports and certain work papers prepared by the Trust'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 Trust's assets and liabilities as reported by the Trust in its annual statement as of December 31, 2004. Transactions subsequent to year-end 2004 were reviewed where relevant and deemed significant to the Trust'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 Trust's control environment and the materiality level set for this examination, reliance was placed on work performed by the Trust's CPAs, after verifying the statutory requirements, for the following accounts:

- Accrued Interest
- Other Assets
- Other Expenses
- Unearned Premiums
- Taxes, Licenses and Fees
- Reinsurance Balances Payable
- Trustee Account

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, 2001, along with resulting action taken by the Trust in connection therewith.

Custodial Agreement

The Trust utilized an investment broker as the custodian of the Trust's securities. An investment broker does not meet the requirements of a custodian as defined in Rule 69O-143.041(2), FAC.

Resolution: The Trust entered into a custodial agreement with SunTrust Bank, however the custodial agreement with SunTrust Bank did not meet the requirements of Rule 69O-143.042(2), FAC.

HISTORY

General

The Trust was organized January 1, 1976, under the laws of the State of Florida, as a medical malpractice self-insurance trust fund and commenced business on January 1, 1976, with the name of South Pinellas Medical Practice Risk Management Association doing business as South Pinellas Medical Trust.

In accordance with the Rule 69O-187.004, FAC, the Trust was authorized to self-insure professional medical malpractice liability insurance to its members in the State of Florida, on December 31, 2004.

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

Capitalization

The Trust's capitalization as of December 31, 2004 was the Trustee's account in the amount of \$106,044.

Control of the Trust was maintained by its policyholders.

Profitability of Trust

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

	2004	2003	2002
Premiums Earned	5,309,722	3,413,444	2,295,185
Net Underwriting Gain/(Loss)	281,139	(1,372,672)	(532,294)
Net Income	430,751	(1,242,564)	(313,318)
Total Assets	9,195,789	7,204,731	5,886,141
Total Liabilities	9,089,745	7,475,982	4,893,460
Surplus As Regards Policyholders	106,044	(271,251)	992,681

Dividends to Stockholders

In accordance with Section 628.371, FS, the Trust declared and paid no dividends to its policyholders in 2004, 2003 and 2002.

Management

The annual member meeting for the election of trustees was held in accordance with Rule 69O-187.010 (1), FAC. Serving as of December 31, 2004, were:

Trustees

Name and Location

Deborah S. Bart, M.D.
Pinellas County, Florida

Principal Occupation

Obstetrics/Gynecology

Mark R. Gordon, M.D. Pinellas County, Florida	Urology
Stephen, G. Nelson, M.D. Pinellas County, Florida	Pediatrics
Robert S. Nelson, M.D. Pinellas County, Florida	Ophthalmology
Michael T. Reilly, M.D. Pinellas County, Florida	Family Medicine
Stephen C. Anderson, M.D. Pinellas County, Florida	Radiology
Michael A. Zimmer, M.D. Pinellas County, Florida	Family Medicine
Nicholas Kozov, M.D. Pinellas County, Florida	Internal Medicine
Jeffrey K. Carlson, M.D. Pinellas County, Florida	Obstetrics/Gynecology
Trina E. Espinola, M.D. Pinellas County, Florida	Ear, Nose, Throat
Steven R. Cohen, M.D. Pinellas County, Florida	Neurology
Juan A. Escobales, M.D. Pinellas County, Florida	Family Practice Geriatrics
Eugene A. Murphy, M.D. Pinellas County, Florida	Vascular Surgery
Kitti Tuntasit, M.D. Pinellas County, Florida	Internal Medicine
Andrea Woods, M.D. St. Petersburg, Florida	Cardiology

The following seniors officers were appointed by the Board of Trustees in accordance with the Trust's bylaws:

Senior Officers

Name	Title
Howard Reese, M.D.	Chairman
Juan A. Escobales, M.D.	President
Jeffrey K. Carlson, M.D.	Vice President
Andrea Woods, M.D.	Treasurer
Trina Espinola, M.D.	Secretary
Bernard Fishalow, M.D.	Past President

The Trust'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:

Claims Committee

Full Board of Trustees

Membership Committee

Full Board of Trustees

The Trust did not maintain a formal audit committee, as required by Section 624.424(8), FS. However, the Full Board of Trustees acted as an audit committee.

Conflict of Interest Procedure

The Trust had 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 Trustees, and certain internal committee were reviewed for the period under examination. The Trustee meeting minutes did not document the hiring of the actuary as required by the NAIC annual statement instructions and did not document investment approvals, as required by Section 625.304, FS.

There was no documentation in the minutes reviewed that the Trustees reviewed the previous examination report.

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

There were no acquisitions, mergers, disposals, dissolutions, and purchases or sales through reinsurance during the current examination period.

Surplus Debentures

The Trust had no surplus debentures.

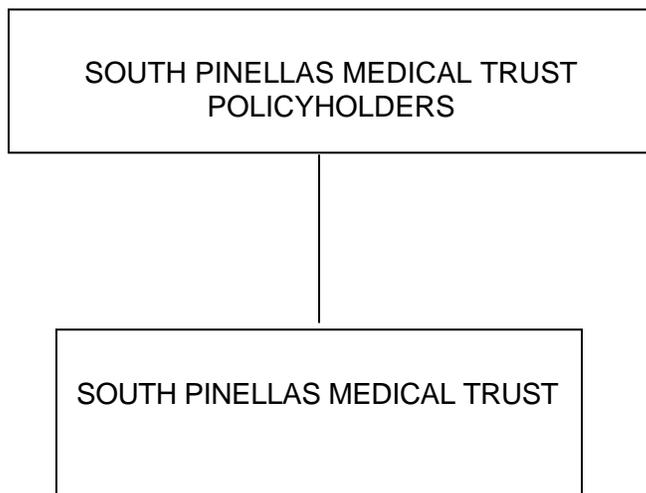
AFFILIATED COMPANIES

The Trust had no affiliated companies.

A simplified organizational chart as of December 31, 2004, is shown below.

**SOUTH PINELLAS MEDICAL TRUST
ORGANIZATIONAL CHART**

DECEMBER 31, 2004



FIDELITY BOND AND OTHER INSURANCE

The Trust maintained fidelity bond coverage up to \$500,000 with a deductible of \$2,500 which adequately covered the suggested minimum amount of coverage as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Trust had no employees.

STATUTORY DEPOSITS

The Trust was not required to have any securities deposited with the State of Florida.

INSURANCE PRODUCTS AND RELATED PRACTICES

Reliance was placed on the latest market conduct examination by the Office to determine the accuracy of premium computations, policy construction, claims handling procedures and use of filed rates and forms. The exceptions noted in the issued report did not affect the solvency of the Trust.

Territory

The Trust was authorized as a self-insurance trust fund to provide medical malpractice insurance to its members in the State of Florida.

Treatment of Policyholders

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

The Trust 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 Trust assumed no risk.

Ceded

The Trust ceded risk on an excess of loss basis to the General Reinsurance Corporation.

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

ACCOUNTS AND RECORDS

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

The Trust maintained its principal operational offices in St. Petersburg, Florida, where this examination was conducted.

The Trust and non-affiliates had the following agreements:

Custodial Agreement

The Trust had a custodial agreement with SunTrust Bank. The agreement was not in compliance with Rule 69O-143.042, FAC.

Management Agreement

The Trust had a five year management agreement with Wallace Welch & Willingham, Inc., (WWW), effective January 1, 2003, to provide all of the personnel and facilities necessary to perform the mission of the Trust and shall be responsible for all of the duties normally associated with the operation of an insurance trust. For these services WWW was paid four percent of billed premiums less return premiums and premiums written off as uncollectible. In addition to the commissions above, WWW was paid a monthly management fee of \$4,167, office rent of \$200 plus tax per month and the expenses of one employee. The total amount paid WWW in 2004 was \$339,000.

Independent Auditor Agreement

The Trust retained the firm of Gregory, Sharer & Stuart, P. A. to conduct an annual audit of their financial statements.

Actuary Agreement

The Trust retained the firm of Madison Consulting Group to render an actuarial opinion.

FINANCIAL STATEMENTS PER EXAMINATION

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

SOUTH PINELLAS MEDICAL TRUST
Assets

DECEMBER 31, 2004

Assets	Per Company	Examination Adjustments	Per Examination
Cash on demand deposit	\$1,699,594		\$1,699,594
Certificates of deposit	100,000		100,000
Securities at market value	6,190,242		6,190,242
Accrued interest	33,210		33,210
Premiums due	1,085,000		1,085,000
Other assets	87,743		87,743
Totals	<u>\$9,195,789</u>	<u>\$0</u>	<u>\$9,195,789</u>

SOUTH PINELLAS MEDICAL TRUST
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$5,487,837		\$5,487,837
Loss adjustment expenses	1,084,806		1,084,806
Taxes, licenses and fees	21,374		21,374
Unearned premium	2,446,858		2,446,858
Reinsurance balances payable	48,870		48,870
	<hr/>		<hr/>
Total Liabilities	\$9,089,745		\$9,089,745
Trustees Account	\$106,044		\$106,044
	<hr/>		<hr/>
Total liabilities, capital and surplus	\$9,195,789		\$9,195,789
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**SOUTH PINELLAS MEDICAL TRUST
Statement of Income**

DECEMBER 31, 2004

Underwriting Income

Premiums earned	\$5,309,722
DEDUCTIONS:	
Losses incurred	3,141,314
Loss expenses incurred	1,241,046
Other underwriting expenses incurred	646,223
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$5,028,583</u>
Net underwriting gain or (loss)	\$281,139

Investment Income

Net investment income earned	<u>\$149,612</u>
Net investment gain or (loss)	\$149,612

Net Income \$430,751

Capital and Surplus Account

Trustee's account, December 31 prior year (\$271,252)

Gains and (Losses) in Surplus

Net Income	\$430,751
Net unrealized capital gains or losses	(53,457)
Change in non-admitted assets	2
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$377,296</u>
Trustee's account, December 31 current year	<u><u>\$106,044</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses

\$6,572,643

An outside actuarial firm appointed by the Board of Trustees, 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 Trust under the terms of its policies and agreements.

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

**SOUTH PINELLAS MEDICAL TRUST
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2004

The following is a reconciliation of surplus as regards policyholders between that reported by the Trust and as determined by the examination.

Trustee's account per December 31, 2004, Annual Statement	\$106,044
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment needed			
LIABILITIES:			
No adjustment needed			
Net Change in Surplus:			0
Trustee's account December 31, 2004, Per Examination			\$106,044

SUMMARY OF FINDINGS

Compliance with previous directives

The Trust has not taken the necessary actions to comply with the comments made in the 2001 examination report issued by the Office.

The Trust entered into a custody agreement with SunTrust Bank which did not meet the requirements of Rule 69O-143.042(2), FAC. **It was recommended that the Trust enter into a custody agreement that meets the requirements of Rule 69O-143.042(2), FAC. This is a repeat violation for the current examination.**

Current examination comments and corrective action

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

Management

The Trustees did not appoint the actuary for the required annual actuarial opinion in accordance with NAIC annual statement instructions. **We recommend that Trustees appoint the actuary and document the appointment in the meeting minutes as required by the NAIC annual statement instructions.**

The Trustees did not review the previous examination report. **We recommend that the Board of Trustees review the examination report and document the review in the meeting minutes as required by NAIC Financial Condition Examiners Handbook.**

The Trustees did not authorize or approve the Trust's investments as required by Section 625.304, FS. **We recommend that the Board of Trustees authorize or approve the Trust's investments and document the authorization or approval of the investments in the meeting minutes.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **South Pinellas Medical Trust** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Trust's Trustee account was \$106,044, which was in compliance with Section 624.408, FS.

In addition to the undersigned, John C. Berry, Financial Examiner/Analyst Supervisor, and Joseph Boor, FCAS, Office Actuary, participated in the examination.

Respectfully submitted,

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