

**REPORT ON EXAMINATION**  
**OF**  
**SUNZ INSURANCE COMPANY**  
**ST. PETERSBURG, FLORIDA**

**AS OF**  
**DECEMBER 31, 2006**

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

## TABLE OF CONTENTS

<b>LETTER OF TRANSMITTAL .....</b>	<b>-</b>
<b>SCOPE OF EXAMINATION .....</b>	<b>1</b>
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION .....	2
<b>HISTORY .....</b>	<b>7</b>
GENERAL .....	7
CAPITAL STOCK .....	8
PROFITABILITY OF COMPANY .....	8
DIVIDENDS TO STOCKHOLDERS .....	8
MANAGEMENT .....	9
CONFLICT OF INTEREST PROCEDURE.....	10
CORPORATE RECORDS .....	10
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	10
SURPLUS DEBENTURES .....	11
<b>AFFILIATED COMPANIES .....</b>	<b>11</b>
<b>ORGANIZATIONAL CHART .....</b>	<b>11</b>
EMPLOYEE AGREEMENT .....	12
MANAGING GENERAL UNDERWRITING AGREEMENT .....	12
<b>FIDELITY BOND AND OTHER INSURANCE.....</b>	<b>12</b>
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLANS .....</b>	<b>13</b>
<b>STATUTORY DEPOSITS.....</b>	<b>13</b>
<b>INSURANCE PRODUCTS.....</b>	<b>13</b>
TERRITORY .....	14
TREATMENT OF POLICYHOLDERS.....	14
<b>REINSURANCE .....</b>	<b>14</b>
ASSUMED.....	14
CEDED .....	14
<b>ACCOUNTS AND RECORDS.....</b>	<b>15</b>
CLAIMS PROCESSING AGREEMENT .....	16
INDEPENDENT AUDITOR AGREEMENT.....	16
<b>FINANCIAL STATEMENTS PER EXAMINATION.....</b>	<b>16</b>
ASSETS .....	17
LIABILITIES, SURPLUS AND OTHER FUNDS .....	18
STATEMENT OF INCOME.....	19
<b>COMMENTS ON FINANCIAL STATEMENTS.....</b>	<b>20</b>

LIABILITIES .....	20
CAPITAL AND SURPLUS .....	20
<b>COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....</b>	<b>21</b>
<b>SUMMARY OF FINDINGS .....</b>	<b>22</b>
<b>SUBSEQUENT EVENT.....</b>	<b>22</b>
COST ALLOCATION AGREEMENT .....	22
<b>CONCLUSION .....</b>	<b>23</b>

Tallahassee, Florida

February 7, 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 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, 2006, of the financial condition and corporate affairs of:

**SUNZ INSURANCE COMPANY  
100 SECOND AVENUE NORTH, SUITE 300  
ST. PETERSBURG, FLORIDA 33701**

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 November 19, 2007, to November 20, 2007. The fieldwork commenced on November 26, 2007, and was concluded as of February 7, 2008.

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 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.

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 CPA, after verifying the statutory requirements, for the following accounts:

Federal income tax recoverable  
Taxes, licenses and fees

### **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.

### **Management**

The Company did not hold its first annual shareholder meeting, which was to be held in 2006.

**Resolution: The Company held an annual shareholder meeting on May 21, 2007.**

### **Corporate Records**

The recorded minutes of the Board did not adequately document its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes. Additionally, there was no annual Board of Directors meeting in 2006 for the election officers. **Resolution:**

**The Company held an annual Board of Directors meeting on May 21, 2007 and**

**maintained minutes to adequately document the corporate transactions and actions taken by the Company's shareholders, Board of Directors, and committees.**

The Company entered into a managing general underwriting agreement with JAAG Underwriters, Inc. (JAAG). We concluded that JAAG met the definition of an MGA in accordance with Section 626.015(14)(a), Florida Statutes, as its employees who are principals of Sunz, participate in the placement of reinsurance. **Resolution: The Company amended the agreement as follows: Article II, paragraph (7)(a) of the agreement stated that JAAG may not negotiate or bind reinsurance or retrocession on behalf of the Company and paragraph (7)(g) stated that JAAG may not appoint a managing general agent.**

The Company's transactions did not correspond with the affiliated agreements in effect. The following transactions were not in accordance with any affiliated agreement in place:

1. The Company was not sharing in any leasing expense of its office space through the service agreement with JAAG. The total leasing expense was being paid by SUNZ Group, LLC.
2. The Company had an equipment lease; however, SUNZ Group, LLC paid the expense.
3. There were credit cards issued under the Company's name to Shelli Elmer and Doug Lilak, which included office expenditures which were covered by JAAG in accordance with the service agreement.

**Resolution: The Company has allocated expenditures in accordance with SSAP No. 70 of the NAIC Accounting Practices and Procedures Manual. The allocation was properly reflected in the 2006 Annual Statement and in the cost allocation agreement.**

## Policy Review

### *Policyholders*

A total of 29 errors were found, involving all 10 policies and 2 client employers. The errors were as follows:

1. One error was due to the Company's failure to obtain a notarized application. Rule 69O-189.003(2)(b), Florida Administrative Code, states that the applicant's signature shall be notarized. **Resolution: Three policyholder's 2007 Accord applications were reviewed and each one was notarized in accordance with Rule 69O-189.003(2)(b), Florida Administrative Code.**
2. Three errors were due to the Company's failure to perform a timely audit. Section 627.191, Florida Statutes, states that no insurer shall issue a contract or policy except in accordance with the filings which are in effect for such insurer. Florida Miscellaneous Rules of the National Council Compensation Insurance, Inc. (NCCI) manual requires that the audit be completed within 90 days of the policy expiration. **Resolution: Three final audits were reviewed for 2007 and all were timely performed within 90 days.**
3. Four errors were due to the Company's failure to complete and obtain audit forms. Rule 69O-189.003(4)(f), Florida Administrative Code, states that a carrier, in order to comply with the signature requirements shall use forms OIR-B1-1560, OIR-B1-1561 and OIR-B1-1562. **Resolution: Several 2007 policyholder files were reviewed for the above forms. All of the required forms were included. Note that all of the three forms, OIR-B1-1560, OIR-B1-1561 and OIR-B1-1562, did not have to be included. The particular form to be included depended on the reviewer's position such as auditor, other than partner, sole proprietor or corporate officer.**

4. Ten errors were due to the Company's failure to obtain quarterly reports. Rule 69O-189.003(4)(b)(1), Florida Administrative Code, states that each employer shall submit a copy of the quarterly earning report required by Chapter 443, Florida Statutes, to the carrier at the end of each quarter. **Resolution: The Company added new procedures to require quarterly reports which included reminders to the client. Several quarterly reports were reviewed and no exceptions were noted.**
  
5. Two errors were due to not obtaining onsite inspection reports timely. These inspections were conducted by the Professional Employers Organization (PEO). The PEO failed to submit an inspection report timely on two inspections of 14 risks for which the Company requested an onsite inspection. Of these two inspections, one inspection report was missing and the other inspection report was late. **Resolution: The Company established procedures requiring the PEO to submit onsite inspection reports to the Company in a timely manner. Several 2007 reports were reviewed.**

#### *Client Employers*

Fifty certificates of insurance were reviewed. Thirty-eight errors were found, which were due to the insured's failure to timely notify the Company of client employer terminations. Section 627.192(6), Florida Statutes, states that the insured shall notify the Company of its intent to terminate a client employer prior to the termination when feasible. **Resolution: The Company continued to enforce its procedure for the above. In addition, the Company added another procedure to strengthen its procedure review.**

## **Reinsurance**

The ceded reinsurance contracts did not include a provision making the agreement the entire contract between the parties as required by SSAP No. 62, Paragraph 8. **Resolution: The Company amended the reinsurance contracts to include an entire contract provision.**

## **Cash**

The Company's cash collateral accounts offsetting the liability, Amounts withheld, of \$2,354,769 were restricted to pay for losses for the respective PEOs. It is appropriate to separate these cash collateral assets from the other cash accounts that are available to pay claims for all policyholders and report them as a miscellaneous asset, and title the account Restricted cash. **Resolution: The Company reported collateral accounts as Restricted cash under Aggregate write-ins for other than invested assets in the 2006 annual statement.**

## **Other expenses**

The Company's service agreement with its affiliate, JAAG, required JAAG to perform the majority of the Company operations as if the Company had no employees. In return for the services performed by JAAG, the Company paid JAAG a fee of 25% of direct premiums earned. The established liability of \$341,473 due at year-end 2005 should have been reported as a Payable to parent, subsidiaries and affiliates. **Resolution: The Company reported the liability under its service agreement with JAAG Underwriting Company, LLC as a Payable to parent, subsidiaries and affiliates in the 2006 annual statement.**

## **Taxes, licenses and fees**

The Company's year-end 2005 accrual for Taxes, licenses and fees was \$178,376, which was under-accrued by \$70,630. The Company's accrual for the Special Disability Trust Fund

Assessment (SDTF) was \$57,438, instead of \$128,068. The difference in the calculated assessment was due to the Company calculating the assessment based on earned premium rather than written premium. **Resolution: The Company correctly reported the amounts in the December 31, 2006 annual statement.**

### **Unearned premiums**

The Company inadvertently double counted the increased limits charge of \$82,654 in calculating earned premium, which resulted in unearned premium being understated by the same amount. **Resolution: The Company correctly reported the earned premium in the March 31, 2007 quarterly statement.**

## **HISTORY**

### **General**

The Company was incorporated in Florida on February 23, 2005 and commenced business on May 12, 2005 as Sunz Insurance Company.

The Company was party to Consent Order No. 80814-CO-05 filed March 22, 2005 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 authorized to transact Workers' compensation insurance coverage in Florida.

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	10,000
Number of shares issued and outstanding	1,000
Total common capital stock	\$1,000
Par value per share	\$1.00

Control of the Company was maintained by its parent, SUNZ Group, LLC, who owned 100% of the stock issued by the Company.

## 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.

	<b>2006</b>	<b>2005</b>
Premiums Earned	4,071,096	3,710,871
Net Underwriting Gain/(Loss)	(1,406,284)	213,151
Net Income	(521,285)	242,640
Total Assets	28,848,189	11,567,408
Total Liabilities	23,214,224	5,731,693
Surplus As Regards Policyholders	5,633,965	5,835,715

## Dividends to Stockholders

The Company did not declare or pay any dividends to its stockholder during the examination period.

## 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

<b>Name and Location</b>	<b>Principal Occupation</b>
Gregory Branch Ocala, Florida	Chairman of Board United Property & Casualty Ins. Co.
Hugo Crawley Hants, England	Director BMS, London, UK
Shelli Elmer Bradenton, Florida	COO and Executive Vice President Sunz Ins. Co.
Douglas F. Lilak Parrish, Florida	President and CEO Sunz Ins. Co
Sam Oswald Orlando, Florida	Partner Oswald & Scott, CPA

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

### Senior Officers

<b>Name</b>	<b>Title</b>
Douglas F. Lilak	CEO/President
Shelli Elmer	Executive Vice President, Chief Operating Officer & Secretary/Treasurer
Sam Oswald	CFO

The Company's Board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following are the principal internal board committees and their members as of December 31, 2006:

**Reinsurance Underwriting Committee**

Gregory Branch<sup>1</sup>  
Hugo Crawley  
Neil Savage  
Alec Poitevint  
Sam Oswald  
Douglas Lilak  
Shelli Elmer  
<sup>1</sup> Chairman

**Compensation Committee**

All other Board  
& Advisory Members  
Hugo Crawley<sup>1</sup>

**Audit Committee**

Pat Delacey<sup>1</sup>  
Sam Oswald  
Neil Savage  
Bob Banks  
Gregory Branch  
Douglas Lilak  
Shelli Elmer

**Investment Committee**

Sam Oswald<sup>1</sup>  
Bob Banks  
Pat Delacey  
Alec Poitevint  
Gregory Branch  
Douglas Lilak  
Shelli Elmer

**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**

The Company had no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance.

## Surplus Debentures

The Company had no surplus debentures.

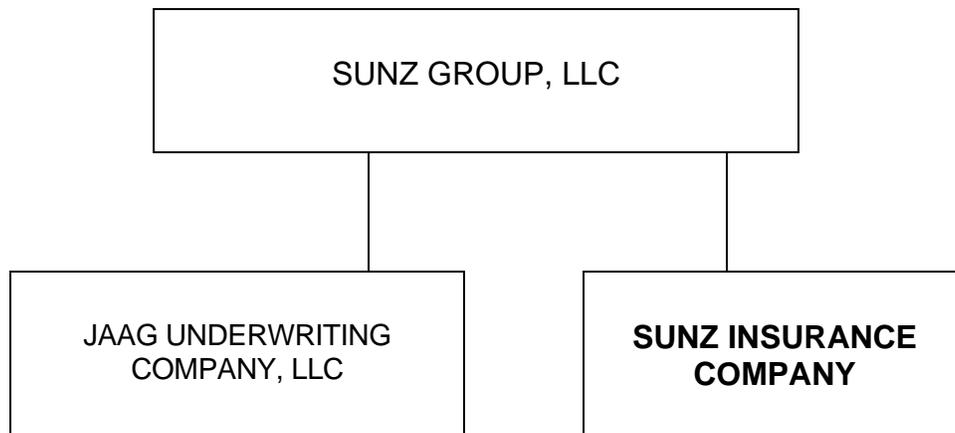
## AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on February 27, 2007, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

A simplified organizational chart as of December 31, 2006, reflecting the holding company system, is shown below. Schedule Y of the Company's 2006 annual statement provided a list of all related companies of the holding company group.

### SUNZ INSURANCE COMPANY ORGANIZATIONAL CHART

DECEMBER 31, 2006



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

### **Employee Agreement**

The Company had employee agreements with its President and Vice President, Douglas Lilak and Shelli Elmer, respectively. The agreements were entered into on November 16, 2005 to document the services to be provided in return for a stated compensation. Mr. Lilak and Ms. Elmer were employees of JAAG Underwriting Company, LLC and were paid by JAAG. The terms of the agreement were for Mr. Lilak and Ms. Elmer to have general charge of the management and affairs of the Company, subject to the directions of the Board of Directors of the Company. Also, other duties and responsibilities may be assigned or delegated from time to time by the Board of Directors.

### **Managing General Underwriting Agreement**

The Company had an agreement with JAAG Underwriting Company, LLC, dated March 1, 2005, in which the Managing General Underwriter acted as the Company agent and representative for the production, servicing and acceptance of the classes and kinds of insurance set forth in the agreement. The agreement also called for JAAG to provide staff to perform the general operations of the Company.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained fidelity bond coverage up to \$2,000,000 with a deductible of \$100,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

The Company also maintained Directors and Officers (D&O) liability insurance in the amount of \$1,000,000 with a deductible of \$50,000, Professional liability insurance in the amount of \$1,000,000 with a deductible of \$100,000, and Workers Compensation insurance coverage which included \$100,000 for each accident, \$100,000 for each disease with disease policy limits of \$500,000.

### **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, Florida Statutes:

State	Description	Par Value	Market Value
FL	SYNOVUS BANK, CD 5.12%, 3/01/08	<u>\$250,000</u>	<u>\$250,000</u>
<b>TOTAL SPECIAL DEPOSITS</b>		<u><u>\$250,000</u></u>	<u><u>\$250,000</u></u>

### **INSURANCE PRODUCTS**

The Company provided workers' compensation insurance mainly for professional employer organizations (PEO). The PEO, also referred to as an employee leasing company or staff leasing company, provided human resources and administrative services to businesses that elect to outsource functions such as human resources support, benefits administration, payroll and federal and state employment tax filings. Additionally, the PEO purchased workers' compensation coverage for all leased employees.

## **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 risk through reinsurance.

### **Ceded**

The Company ceded risk on an excess of loss basis through three layers of reinsurance with Lloyds of London Syndicates. All contracts were for the period of July 1, 2006 – July 1, 2007.

The following is a summary by layer of reinsurance:

First Excess – The first excess layer of coverage was limited to \$4,500,000 per occurrence in excess of \$500,000 of the original policy deductibles. The maximum recoverable under the treaty was the lesser of 225% of the ceded premium or \$12,000,000.

2nd Excess - The second excess layer of coverage was limited to \$5,000,000 per occurrence in excess of \$5,000,000. This layer was limited to a \$10,000,000 total recovery.

3rd Excess - The third excess layer of coverage was limited to \$10,000,000 per occurrence in excess of \$10,000,000. This layer was limited to a \$20,000,000 total recovery.

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 Saint Petersburg, Florida, where this examination was conducted.

An independent certified public accountant (CPA) audited the Company's statutory basis financial statements annually for the years 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:

### **Claims Processing Agreement**

Effective June 13, 2005 the Company entered a contract with United Self Insured Services to provide claim processing services for a one year term. In return for the services provided by United Self Insured Services, the Company agreed to pay fees based on a defined service schedule to equal at least 2.38% of earned standard premium and not to exceed 2.87% of earned standard premium for new workers compensation claims, and fees for managed care claims handling based on a defined service schedule. Payments were made monthly based on an installment plan. The Company had the right to perform an audit of claims paid at any time. Cancellation of the contract could be initiated only by the Company.

Addendum No. 2, effective July 1, 2006 through June 30, 2007, changed the administration fee from \$2,000 per month to \$3,200 per month. All other provisions of the claims processing agreement remained unchanged.

### **Independent Auditor Agreement**

The Company hired Thomas Howell Ferguson P.A. 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."

**SUNZ INSURANCE COMPANY, INC.**  
**Assets**

**DECEMBER 31, 2006**

	<b>Per Company</b>	<b>Examination</b>	<b>Per Examination</b>
		<b>Adjustments</b>	
Cash	\$10,908,681		\$10,908,681
Interest and dividend income due & accrued	78,641		78,641
Agents' Balances: Uncollected premium	233,122		233,122
Current federal income tax recoverable	483,999		483,999
Receivable from parents, susidiaries an affiliates	308,000		308,000
Aggregate write-in for other than invested assets	16,835,746		16,835,746
Totals	<u>\$28,848,189</u>	<u>\$0</u>	<u>\$28,848,189</u>

**SUNZ INSURANCE COMPANY**  
**Liabilities, Surplus and Other Funds**

**DECEMBER 31, 2006**

	Per Company	Examination Adjustments	Per Examination
Losses	\$2,262,088		\$2,262,088
Loss adjustment expenses	747,540		747,540
Other expenses	14,507		14,507
Taxes, licenses and fees	158,918		158,918
Unearned premium	2,241,353		2,241,353
Ceded reinsurance premiums payable	1,536,036		1,536,036
Amounts withheld	15,969,549		15,969,549
Payable to parent, subsidiaries and affiliates	83,512		83,512
Aggregate write-ins for liabilities	200,721		200,721
<b>Total Liabilities</b>	<b>\$23,214,224</b>	<b>\$0</b>	<b>\$23,214,224</b>
Common capital stock	\$1,000		\$1,000
Gross paid in and contributed surplus	5,999,000		5,999,000
Unassigned funds (surplus)	(366,035)		(366,035)
<b>Surplus as regards policyholders</b>	<b>\$5,633,965</b>		<b>\$5,633,965</b>
<b>Total liabilities, surplus and other funds</b>	<b>\$28,848,189</b>	<b>\$0</b>	<b>\$28,848,189</b>

**SUNZ INSURANCE COMPANY**  
**Statement of Income**

**DECEMBER 31, 2006**

<b>Underwriting Income</b>	
Premiums earned	\$4,071,096
<b>Deductions:</b>	
Losses incurred	1,384,305
Loss expenses incurred	885,379
Other underwriting expenses incurred	3,207,696
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$5,477,380</u>
Net underwriting gain or (loss)	(\$1,406,284)
<b>Investment Income</b>	
Net investment income earned	\$769,407
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$769,407</u>
<b>Other Income</b>	
Net gain or (loss) from agents' or premium balances charged off	(\$61,313)
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	130,395
Total other income	<u>\$69,082</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$567,795)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$567,795)
Federal & foreign income taxes	<u>(46,510)</u>
Net Income	(\$521,285)
<b>Capital and Surplus Account</b>	
Surplus as regards policyholders, December 31 prior year	\$5,835,715
Net Income	(\$521,285)
Net unrealized capital gains or losses	0
Change in non-admitted assets	172,834
Change in net deferred income tax	146,701
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>(\$201,750)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$5,633,965</u></u>

## COMMENTS ON FINANCIAL STATEMENTS

### Liabilities

**Losses and Loss Adjustment Expenses** \$3,009,628

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

### Capital and Surplus

The amount reported by the Company of \$5,633,965, exceeds the minimum amount of \$4,000,000 as required by Section 624.408, Florida Statutes.

A Comparative analysis of changes in surplus is shown below.

**SUNZ INSURANCE COMPANY  
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	\$5,633,965
---	-------------

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
<b>ASSETS:</b>			
No adjustment needed.			\$0
<b>LIABILITIES:</b>			
No adjustment needed.			\$0
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2006, Per Examination			\$5,633,965

## **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 are no exceptions or findings in the examination as of December 31, 2006.

## **SUBSEQUENT EVENT**

### **Cost Allocation Agreement**

The Company had a cost allocation agreement between the Company and JAAG Underwriting Company, LLC, dated July 1, 2007. The provisions of the agreement included that a specific percentage of the cost of use of office space, materials, equipment and personnel, shall be allocated to the applicable parties. At the end of each month, each party shall furnish the other with a statement listing the cost paid and explanation of the allocation. All amounts due are promptly remitted by all parties within 10 days.

## CONCLUSION

The insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Sunz Insurance Company** 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 \$5,633,965, in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Kethessa Carpenter, CPA, Financial Examiner/Analyst Supervisor, Miriam Bleakley, Financial Examiner/Analyst II, Donna Letterio, MS, CFE, CPA, Financial Specialist and Andrew Chandler, FCAS, MAAA, of Oliver Wyman Actuarial Consulting, Inc., participated in the examination.

Respectfully submitted,

---

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