REPORT ON EXAMINATION

OF

ANESTHESIOLOGISTS PROFESSIONAL ASSURANCE COMPANY

JACKSONVILLE, FLORIDA

AS OF

DECEMBER 31, 2004

BY THE

OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

Tallahassee, Florida

March 23, 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:

ANESTHESIOLOGISTS PROFESSIONAL ASSURANCE COMPANY
1000 RIVERSIDE AVENUE, SUITE 800
JACKSONVILLE, FLORIDA 32204

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, 2002 through December 31, 2004. This examination commenced, with planning at the Office, on December 5, 2005, to December 9, 2005. The fieldwork commenced on December 12, 2005, and was concluded as of March 24, 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 A.M. Best 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.

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, with the action taken by the Company in connection therewith:

Certificate of Authority

The Company was writing workers' compensation insurance in Florida on a direct basis without authorization.

Resolution: The Company no longer writes workers' compensation on a direct basis.

Fidelity Bond

The Company did not have fidelity bond coverage.

Resolution: The Company obtained adequate fidelity bond coverage.

Territory

The Company wrote business in Louisiana without a valid certificate of authority.

Resolution: The Company obtained a certificate of authority from the State of Louisiana.

Reinsurance

The letter of credit securing unauthorized reinsurance credits did not contain an evergreen clause.

The Company submitted letters of credit for the period of this examination which were not in compliance with Rule 69O-144.005(6)(d), Florida Administrative Code.

Resolution: The evergreen clause was included in the letter of credit. However, the Company letters of credit continue to be deficient as regards inclusion of all of the clauses required by Rule 69O-144.005(6) (d), Florida Administrative Code. This is a repeat violation from the 2001 examination report.

HISTORY

General

The Company was incorporated in Florida on May 20, 1987 and commenced business on June 8, 1987, as Anesthesiologists Professional Assurance Company.

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 – occurrence direct and reinsurance
Group accident and health - reinsurance only
Medical Malpractice – claims made direct and reinsurance
Other liability – reinsurance only
Workers Compensation – reinsurance only

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	5,000,000
Number of shares issued and outstanding	5,000,000
Total common capital stock	$5,000,000
Par value per share	$1.00

All 5,000,000 outstanding shares of common stock of the Company were owned by FPIC Insurance Group, Inc. (FIG), an insurance holding company domiciled in the State of Florida.

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**	**2002**
Premiums Earned	13,398,137	17,267,149	21,618,006
Net Underwriting Gain/(Loss)	(1,927,749)	(1,524,547)	(889,459)
Net Income	(45,088)	1,031,951	569,039
Total Assets	83,580,840	93,306,790	85,285,160
Total Liabilities	68,741,010	78,297,877	70,673,123
Surplus As Regards Policyholders	14,839,829	15,008,913	14,612,037

Dividends to Stockholders

The Company neither paid nor declared dividends to its stockholder in 2002, 2003 or 2004.

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
John Raymond Byers Jacksonville, Florida	Chairman
Robert Elwood White, Jr. Jacksonville, Florida	Director
Roberta Goes Cown Jacksonville Beach, Florida	Director
Louis Vincent Sicilian Jacksonville, Florida	Director
Kim D. Thorpe Jacksonville, Florida	Director

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

Senior Officers

Name	Title
Robert Elwood White, Jr.	President
Louis Vincent Sicilian	Treasurer
Roberta Goes Cown	Secretary

The Company utilized several internal committees of their parent, FIG. Following were the principal internal committees and their members as of December 31, 2004:

Audit Committee	Claims & Underwriting Committee
John K. Anderson*	David M. Shapiro, MD*
Robert O. Barratta	Richard J. Bagby, MD
Terence P. McCoy	H. Raymond Klein, DDS
John G. Rich	Terence P. McCoy, MD
Joan D. Ruffier	

*Chairman

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in compliance with Section 607.0832, Florida Statutes.

Corporate Records

The recorded minutes of the shareholder 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

There were no mergers, disposals, dissolutions, purchase 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 December 6, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

Management Agreement

The Company entered into a management agreement on June 30, 1998, with APA Management and First Professionals Insurance Company, Inc. (FPIC). Services under this agreement included management and operation of the business of the Company, which consisted of underwriting, servicing and claims administration.

Tax Allocation Agreement

The Company had a tax allocation agreement with FIG and its direct and indirect subsidiaries, entered into on December 15, 1998. The parties were members of an affiliated group.

Service Agreement

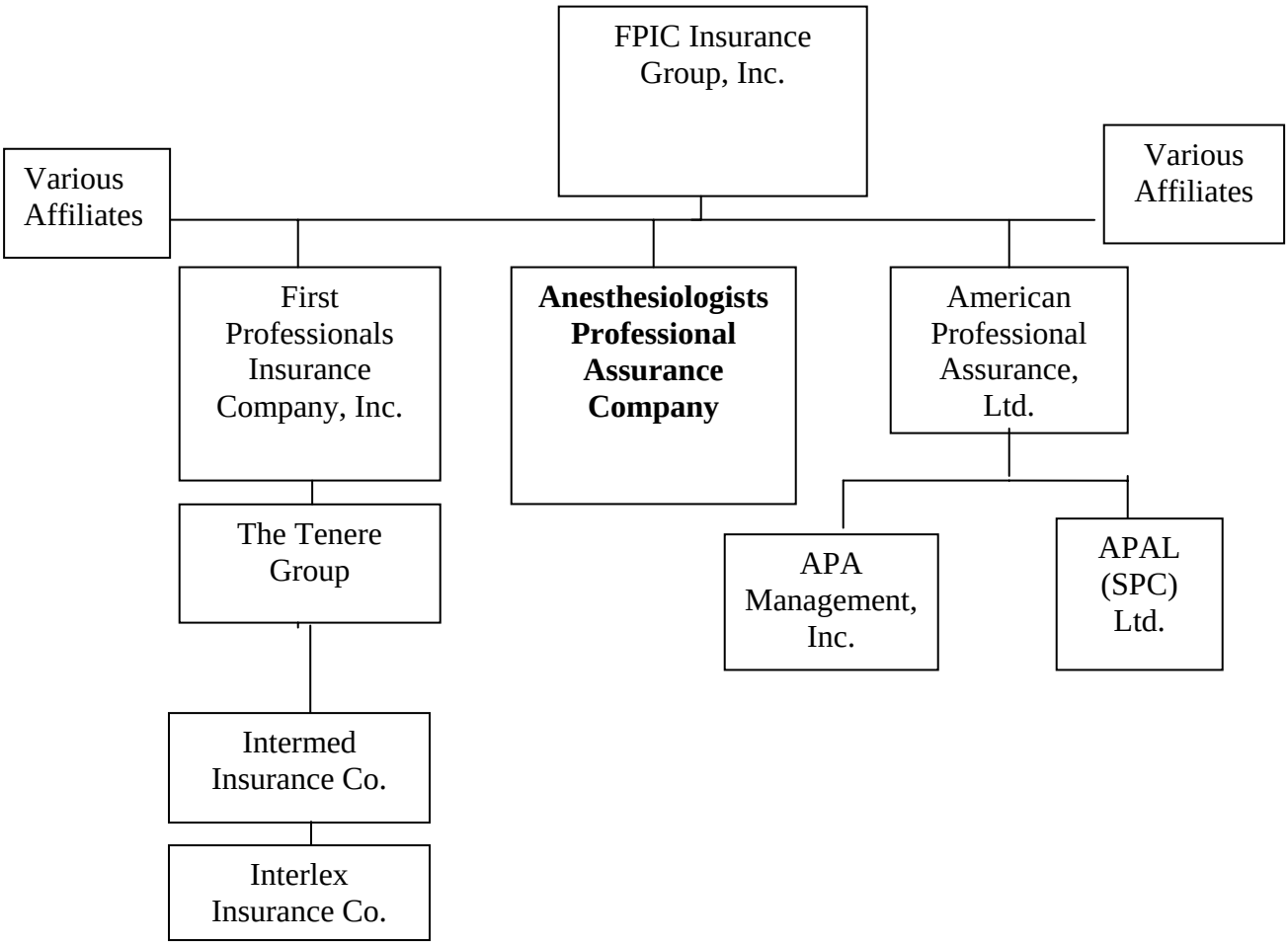
The Company had a service agreement with FIG to provide certain services and other corporate functions for the benefit of the Company, including but not limited to marketing, legal, accounting, financial analysis, auditing, tax, personnel, regulatory compliance and advertising services.

Inter-company Pooling Agreement

The Company had a pooling agreement with FPIC, Intermed Insurance Company (Intermed) and Interlex Insurance Company (Interlex). The parties to this agreement were wholly-owned direct or indirect subsidiaries of FIG.

An organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

ANESTHESIOLOGISTS PROFESSIONAL ASSURANCE COMPANY
ORGANIZATIONAL CHART
DECEMBER 31, 2004



FIDELITY BOND

The Company maintained fidelity bond coverage for up to $10,000,000 in coverage, which adequately covered the suggested minimum amount of coverage of $1,000,000 for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no pension, stock ownership or employee 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	FL St Bd Ed, 4.5%, June 2023	$ 250,000	$ 251,900
FL	St.Lucie Sp Assmt, 5%, Nov 2025	1,000,000	1,039,600
FL	US T Note, 6.24%, August 2007	1,000,000	1,073,125
TOTAL FLORIDA DEPOSIT		$2,250,000	$2,364,625
GA	US T Money Market	$ 25,000	$ 25,062
KY	Sch Distr, 5%, Nov 2019	1,170,000	1,228,933
LA	US T Note, 3.5%, Nov 2006	25,000	25,211
ME	US T Note, 5.625%, Feb 2006	250,000	257,735
NC	US T Money Market	250,000	250,703
TN	US T Note, 6.25%, Aug 2007	250,000	268,281
VA	US T Note, 6.25%, Aug 2007	250,000	268,300
TOTAL OTHER DEPOSITS		$2,220,000	$2,324,225
TOTAL SPECIAL DEPOSITS		$4,470,000	$4,688,850

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance in the following states:

Alabama	Illinois	Michigan	Pennsylvania
Arizona	Indiana	Mississippi	Tennessee
Florida	Kentucky	North Carolina	Texas
Georgia	Maryland	Ohio	Virginia

Treatment of Policyholders

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

The Company had an inter-company pooling agreement between FPIC, Intermed and Interlex, whereby each participating affiliate ceded 100% of its net written premium to FPIC after deducting premiums ceded to non-affiliates and to one affiliate that does not participate in the pooling agreement. FPIC allocated to itself and the participating affiliates a pro-rata portion of the premium, losses, and administrative expenses based on the participant's proportionate surplus to the total surplus of the participants prior to pooling. The 2004 pooling percentages were as follows: the Company 9%, FPIC 71%, Intermed 16% and Interlex 4%.

Assumed

The Company assumed risk on an excess of loss basis from FPIC.

The Company's letters of credit, securing unauthorized reinsurance, were not in compliance with the following: (1) the evergreen clause timeframe was not in compliance with Rule 69O-144.005(6)(d), Florida Administrative Code, (2) the letter of credit did not stipulate the requirement to draw a sight draft only and no other documentation, as required in Rule 69O-144.005(6)(a)(3), Florida Administrative Code and (3) the letter of credit did not have an effective date of no later than December 31 of the year for which the filing was made, as required in Section 624.610(4)(c), Florida Statutes.

Ceded

The Company ceded risk on an excess of loss basis for medical professional liability with various reinsurers. The Company ceded risk on a 25% quota share basis for medical professional liability with American Professional Assurance, Ltd. The Company ceded risk on a quota share and excess of loss basis on their workers' compensation fronting programs, all of which were in run-off at the close of this examination. The Company maintained a retroactive reinsurance contract for all policy coverages with FPIC. The Company ceded risk on an excess of loss basis for non-standard medical and dental malpractice extra contractual obligations and loss of excess of policy limits contracts with various reinsurers.

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

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2002, 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 maintained its principal operational offices in Jacksonville, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Managing General Agency Agreement

The Company had a managing general agency (MGA) agreement with McCreary Corporation and MHI Corporation (MHI) to write workers' compensation and employer's liability insurance. The MGA agreement was effective until December 31, 2003. The Company's MGA agreements did not have the required maximum annual premium volume clause required by Section 626.7451(6) (a), Florida Statutes.

General Agency Agreement

The Company had general agency agreements with MHI, Sheffield Group, Inc. and McCreary Corporation for the purpose of producing, underwriting and servicing on the behalf of workers' compensation and employers liability insurance program.

Custodial Agreement

The Company had a custodial agreement with Brown Brothers Harriman & Co., Jacksonville, Florida. The Company's custodial agreement did not contain all the required terms of Rule 69O-143.042, (2), Florida Administrative Code. As referenced by the appropriate subsection of the Rule, the following terms are required in the agreement:

(a) Certificated securities held by the custodian shall be held either separate from the securities of the custodian or in a fungible bulk of securities

(b) Securities shall be separately identified on the custodian's official records as being owned by the Company

(e) The custodian shall not exercise discretionary authority to effect transactions in custodied securities

(f) The custodian shall send confirmations and statements to the Company

(h) The custodian shall send clearing corporation reports from the Federal Reserve book-entry system on their respective systems of internal accounting control and reports prepared by outside auditors on the custodian's or its agents' internal accounting control

(i) The custodian shall maintain sufficient records to determine and verify information related to custodied securities

(k) The custodian shall be obligated to indemnify the Company for any loss of custodied securities

(l) In the event of (k) above, the custodian shall promptly replace the securities or the value thereof and the value of any loss of rights or privileges resulting from said loss of rights or privileges resulting from said loss of securities

(n) In the event that the custodian gains entry in a clearing corporation in the federal reserve book-entry system through an agent, there shall be an agreement between the custodian and the agent under which the agent shall be subject to the same liability for loss of custodied securities as the custodian

(o) The agreement must be terminable by the Company on not more that 30 days notice

Independent Auditor Agreement

The Company had an agreement with PriceWaterhouseCoopers, LLP, Jacksonville, Florida to perform the independent statutory audit of the Company for 2002, 2003 and 2004.

Claims Servicing Agreement

The Company maintained a claims servicing agreement with McCreary Corporation, Sheffield Risk Management Services, LLC and MHI.

Actuarial Agreement

The Company had an agreement with Ronald T. Kuehn, Kuehn Huggins Actuarial Services, Media, PA, for actuarial services.

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."

ANESTHESIOLOGISTS PROFESSIONAL ASSURANCE COMPANY
Assets

DECEMBER 31, 2004

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	$36,941,805		$36,941,805
Cash:			
On hand	15,408,363		15,408,363
On deposit	2,993,550		2,993,550
Short-term investments	1,175,000		1,175,000
Receivable for Securities	371,684		371,684
Interest and dividend income due & accrued	493,289		493,289
Agents' balances:			
Uncollected premium	233,224		233,224
Deferred premium	10,522,357		10,522,357
Reinsurance recoverables	8,230,837		8,230,837
Net deferred tax asset	1,448,561		1,448,561
Aggregate write-ins for other than invested assets	5,762,170	($3,625,336)	2,136,834
Totals	$83,580,840	($3,625,336)	$79,955,504

ANESTHESIOLOGISTS PROFESSIONAL ASSURANCE COMPANY
Liabilities, Surplus and Other Funds
DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	$28,422,580		$28,422,580
Loss adjustment expenses	7,467,424		7,467,424
Commissions payable	957,196		957,196
Other expenses	1,027,011		1,027,011
Taxes, licenses and fees	235,115		235,115
Unearned premium	16,004,697		16,004,697
Advance premiums	844,881		844,881
Ceded reinsurance premiums payable	4,180,932	($3,625,336)	555,596
Funds held by company under reinsurance treaties	2,133,757		2,133,757
Remittances and items not allocated	919,096		919,096
Provision for reinsurance	732,000	$3,679,150	4,411,150
Payable to parent, subsidiaries and affiliates	2,622,721		2,622,721
Payable for securities	369,891		369,891
Aggregate write-ins for liabilities	2,823,709		2,823,709
Total Liabilities	$68,741,010	$53,814	$68,794,824
Common capital stock	$5,000,000		$5,000,000
Gross paid in and contributed surplus	1,000,000		1,000,000
Unassigned funds (surplus)	8,839,829	($3,679,150)	5,160,679
Surplus as regards policyholders	$14,839,829	($3,679,150)	$11,160,679
Total liabilities, capital and surplus	$83,580,839	($3,625,336)	$79,955,503

ANESTHESIOLOGISTS PROFESSIONAL ASSURANCE COMPANY
Statement of Income

DECEMBER 31, 2004

Underwriting Income	
Premiums earned	$13,398,137
DEDUCTIONS:	
Losses incurred	4,486,272
Loss expenses incurred	8,497,282
Other underwriting expenses incurred	2,342,332
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$15,325,886
Net underwriting gain or (loss)	($1,927,749)
Investment Income	
Net investment income earned	$1,570,608
Net realized capital gains or (losses)	196,199
Net investment gain or (loss)	$1,766,807
Other Income	
Net gain or (loss) from agents' or premium balances charged off	$0
Finance and service charges not included in premiums	31,243
Aggregate write-ins for miscellaneous income	(3,832)
Total other income	$27,411
Net income before dividends to policyholders and before federal & foreign income taxes	($133,531)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($133,531)
Federal & foreign income taxes	(88,443)
Net Income	($45,088)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	$15,008,913
Gains and (Losses) in Surplus	
Net Income	($45,088)
Net unrealized capital gains or losses	0
Change in non-admitted assets	73,665
Change in provision for reinsurance	(368,503)
Change in net deferred income tax	170,842
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	(3,679,150)
Change in surplus as regards policyholders for the year	($3,848,234)
Surplus as regards policyholders, December 31 current year	$11,160,679

COMMENTS ON FINANCIAL STATEMENTS

Assets

Agents' Balances $233,224

The Company did not record amounts for Agents' Balances over ninety (90) days in a timely manner in accordance with Rule 69O-138.024(4), Florida Administrative Code. Amounts applicable to policies from the year 1999 were being non-admitted in 2004.

Aggregate Write-ins for Other Than invested Assets $2,136,834

The Company reported $5,762,170 in the annual statement for this account. Of this amount $3,625,336 represented Fronting fee receivables. The receivables were reported on a gross basis which was inconsistent with the accounting treatment noted in the supporting documentation provided by the Company. It was disclosed that the receivable and corresponding payable balances were netted under the terms of the reinsurance contracts. The Company collected the majority of the receivable, with the exception of $308,411 which was paid in cash, by offsetting the balances in the liability account, Ceded reinsurance premiums payable. The inconsistency in the Company's annual statement presentation and their accounting treatment required extensive explanations. In 2005, the receivable and corresponding payable balances were reported on a net basis in the annual statement in accordance with the offset clause in the reinsurance contracts. The contracts are in run-off in 2006.

Liabilities

Losses and Loss Adjustment Expenses $35,890,004

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, 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 actuary reviewed work papers provided by the Company and was in agreement with the outside actuary's opinion.

Provision for Reinsurance $4,411,150

The Company recorded an unauthorized reinsurer, Zurich Specialties as authorized. An adjustment was made to increase the provision for reinsurance in the amount of $73,000 to account for unsecured reinsurance and a decrease to Surplus.

The Company letters of credit did not qualify for the Company to take credit for unauthorized reinsurance and therefore an adjustment was made to increase the Provision for reinsurance by $3,606,150 and to decrease the Surplus for the same amount. Three letters of credit did not have the appropriate evergreen clause. One letter of credit requested additional documentation upon presentation. This is a repeat violation from the year ending 2001 examination report.

Ceded Reinsurance Premiums Payable $555,596

The Company reported $4,180,932 in the annual statement for this account. Of this amount $3,625,336 represented Fronting fee receivables. The receivables were reported on a gross basis which was inconsistent with the accounting treatment noted in the supporting documentation provided by the Company. It was disclosed that the receivable and corresponding payable balances were netted under the terms of the reinsurance contracts. The offsetting receivable balance is reflected in the asset account, Aggregate write-ins for other than invested assets – fronting fee receivables.

In 2005, the receivable and corresponding payable balances were reported on a net basis in the annual statement in accordance with the offset clause in the reinsurance contracts. The contracts are in run-off in 2006.

ANESTHESIOLOGISTS PROFESSIONAL ASSURANCE COMPANY
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				$14,839,829
	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
ASSETS:				
Aggregate write-ins for other than invested assets	$5,762,170	$2,136,834	($3,625,336)	
LIABILITIES:				
Ceded reinsurance premiums payable	$4,180,932	$555,596	$3,625,336	
Provision for reinsurance	732,000	4,411,150	(3,679,150)	
Net Change in Surplus:				(3,679,150)
Surplus as Regards Policyholders December 31, 2004, Per Examination				$11,160,679

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the prior examination findings except as noted below.

Reinsurance

The letter of credit, securing unauthorized reinsurance credit balances, did not contain the required evergreen clause. **We recommend that the Company letters of credit used to secure unauthorized reinsurance balances contain an evergreen clause as required in Rule 69O-144.005(6), Florida Administrative Code. This is a repeat violation from the 2001 examination report.**

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.

General

The Company letters of credit, which secured unauthorized reinsurance balances, were not in compliance with the following: (1) the term of a least one year as required in Rule 69O-144.005(6)(d), Florida Administrative Code; (2) did not stipulate that the beneficiary need only draw a sight draft and no other documentation as required by Rule 69O-144.005(6)(a)(3), Florida Administrative Code; and (3) did not have an effective date for the year of the filed annual

statement as required in Section 624.610(c), Florida Statutes. **We recommend that the Company amend the letters of credit to comply with the applicable Rule and Statutes cited.**

The Company's MGA agreement did not contain the maximum annual premium volume as required by Section 626.7451(6)(a), Florida Statutes. **We recommend that the Company comply with Section 626.7451(6) (a), Florida Statutes.**

The Company maintained a custodial agreement with Brown Brothers Harriman & Co. which did not contain the terms required in Rule 69O-143.042(2), Subsections (a)(b)(e)(f)(h)(i)(k)(l)(n) and (o), Florida Administrative Code. **We recommend that the Company comply with the Florida Administrative Code.**

Agents' Balances

The Company was not timely accounting for non-admitted Agents' balances. **We recommend that the Company comply with Rule 69O-138.024(3), Florida Administrative Code.**

Provision for Reinsurance

The Company letters of credit did not qualify for the Company to take credit for unauthorized reinsurance and therefore an adjustment was made to increase the Provision for reinsurance account by $3,606,150 and to decrease the Surplus account for the same amount. Also, the Company recorded an unauthorized reinsurer, Zurich Specialties as authorized. An adjustment was made to increase the Provision for reinsurance account in the amount of $73,000 to account for unsecured reinsurance and a corresponding decrease to Surplus. The total adjustment to this

account was $3,679,150. **We recommend that the Company comply with Rule 69O-144.005, Florida Administrative Code and Section 624.610(4), Florida Statutes.**

Aggregate Write-ins for Other Than Invested Assets (Fronting Fee Receivable) and Ceded Reinsurance Premiums Payable

The Company reported $3,625,336 for the asset account, Aggregate write-ins for other than invested assets – fronting fee receivables and $4,180,932 for the liability account, Ceded reinsurance premiums payable on a gross basis in the 2004 annual statement. During the examination, supporting documentation for these accounts disclosed that the receivables were offset against the corresponding payable balances. The Company's annual statement presentation was inconsistent with the accounting treatment. In 2005 the receivable and corresponding payable balances were reported on a net basis in the annual statement in accordance with the offset clause in the reinsurance contracts. The contracts are in run-off in 2006. **We recommend that the Company net the receivable and corresponding payable balances in future quarterly and annual statement filings until the run-off is completed.**

SUBSEQUENT EVENTS

Upon resignation of a board member in 2005, the Company's board of directors consisted of only 4 directors. This was a violation of the Company by laws and Section 628.231, Florida Statutes, which requires not less than 5 members on the board of directors. The Company elected an additional member to the board of directors in March 2006. The Company board of directors consisted of the following 5 members: Charles Divita, III, Louis V. Sicilian, Robert E. White, Jr., Robert L. Wortelboer, Jr., and John R. Byers, Chairman.

In June, 2006 the Company corrected the deficient letters of credit and filed them with the Office.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Anesthesiologists Professional Assurance Company** 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 $11,160,679, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned; Mike Young, Financial Examiner/Analyst I, Michael Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, and Joe Boor, FCAS, Office Actuary participated in the examination.

Respectfully submitted,

_____
Miriam Bleakley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation