

IN THE CIRCUIT COURT OF THE SECOND JUDICIAL CIRCUIT,  
IN AND FOR LEON COUNTY, FLORIDA

In Re: The Receivership of  
Florida Specialty Insurance Company,  
a Florida corporation.

CASE NO.: 2019 CA 002328

**THE FLORIDA DEPARTMENT OF FINANCIAL SERVICES, DIVISION OF  
REHABILITATION AND LIQUIDATION'S  
MOTION FOR ENTRY OF FINDING OF INSOLVENCY**

The Florida Department of Financial Services, Division of Rehabilitation and Liquidation, [hereinafter "The Department"] respectfully moves this Court for an entry of a finding of insolvency pursuant to Chapter 631, Part I, Florida Statutes, and in support thereof, would show the Court as follows:

**Procedural History**

1.) On September 30, 2019, the Department filed its *Petition for Consent Order Appointing the Department as Receiver of Florida Specialty Insurance Company for Purposes of Liquidation, Injunction, and Notice of Automatic Stay* based on evidence submitted by the Office of Insurance Regulation [hereinafter "OIR"] to the Department included in a referral made by the Florida Insurance Commissioner to the Chief Financial Officer.

2.) On October 2, 2019, the Court entered a *Consent Order Appointing the Department of Financial Services as Receiver of Florida Specialty Insurance Company, for Purposes of Liquidation, Injunction, and Notice of Automatic Stay* [hereinafter "the First Liquidation Order"]. The First Liquidation Order contained a finding of insolvency of Florida Specialty Insurance Company [hereinafter "FSIC"].

3.) On October 25, 2019, after Florida Specialty Holdings Company, an affiliate of FSIC, filed a Motion for Reconsideration on October 8, 2019 which was heard by the Court on October 23, 2019, the Court entered an *Amended Order Appointing the Department of Financial Services as Receiver of Florida Specialty Insurance Company, for Purposes of Liquidation, Injunction, and Notice of Automatic Stay* [hereinafter “the Second Liquidation Order”.] The Second Liquidation Order contained no finding of insolvency of FSIC.

4.) On October 29, 2019, the Florida Insurance Guaranty Association [hereinafter “FIGA”] filed a Motion for Intervention and an Emergency Petition for Declaratory Statement regarding its statutory duties considering the Second Liquidation Order and Fla. Stat. 631.55 and 631.57.

5.) On November 1, 2019, the Court entered an order permitting FIGA to make claim payments to policyholders, as well as pay claims for unearned premium due to FSIC’s liquidation and the cancellation of the policies until such time as a determination was made as to FSIC’s insolvency.

### **Background**

6.) The Department as Receiver of FSIC was on-site at FSIC’s location in Sarasota, Florida from October 3, 2019 to November 14, 2019. (See **Exhibit A**, attached hereto and incorporated by reference herein, Affidavit of Salma Zacur, Deputy Receiver).

7.) While on site FSIC used the employees of Florida Specialty Managing General Agency LLC [hereinafter “FSMGA”] to perform the necessary duties of FSIC, including but not limited to the accounting duties.

8.) The Department entered into a Memorandum of Understanding with FSMGA to pay their employees, including Laura Lopez, the Chief of Accounting of FSMGA, who had been

responsible for updating the financial records of FSIC prior to entry of the Liquidation order. (See **Exhibit B**, attached hereto and incorporated by reference herein, Memorandum of Understanding dated October 8, 2019).

9.) Pursuant to the First Liquidation Order and the Second Liquidation Order, the Department as Receiver of FSIC was given access to FSIC's accounts and books. Specifically, both the Department's accounting staff and the Department's accounting vendor, INS Consultants, have access to FSIC's accounts and books. During this process, both the Department and INS Consultants learned that accounting entries were not processed or entered in the accounting system for the months of July, August, and September 2019.

10.) On November 6, 2019 Laura Lopez, Chief of Accounting for FSMGA, completed the General Ledger entries of FSIC through September 30, 2019.

11.) A trial balance statement of FSIC as of September 30, 2019 was, therefore, completed by Ms. Lopez. (See **Exhibit C**, attached hereto and incorporated by reference herein.)

12.) The trial balance was reviewed and analyzed by the Department's accounting expert and concludes that FSIC was insolvent as of September 30, 2019 according to Fla. Stat. 631.011(13) and (14). (See **Exhibit D**, attached hereto and incorporated by reference herein, Affidavit of Michael Johnson, INS Consultants and Summary Balance Sheet as of September 30, 2019.)

### **Pertinent Statutes**

13.) The Department looks to Fla. Stat. 631.011(12)-(14) to determine if an insurance company referred to it by OIR is insolvent.

14.) Fla. Stat. 631.011(14) defines insolvency as:

...[a]ll assets of the insurer, if made immediately available, would not be sufficient to discharge all of its liabilities or that the insurer is

unable to pay its debts as they become due in the usual course of business. *When the context of any provision of this code so indicates, insolvency also includes and is defined as “impairment of surplus” as defined in subsection (13), and “impairment of capital”, as defined in subsection (12).* [emphasis added]

15.) Fla. Stat. 631.011(13) defines “impairment of surplus” as:

...the surplus of a stock insurer, the additional surplus of a mutual or reciprocal insurer, or the additional net trust fund of a business trust insurer *does not comply with the requirements of s. 624.408.* [emphasis added]

16.) Fla. Stat. 624.408(1)(g) requires a licensed residential property insurer such as FSIC to have \$10 million in surplus to maintain a Florida certificate of authority to transact insurance business in Florida.

17.) Fla. Stat. 631.061(1) establishes that a ground for liquidation of an insurance company pursuant to Chapter 631, Part I, Florida Statutes includes any ground mentioned in Fla. Stat. 631.051, “or if such insurer: (1) is or is about to become insolvent”.

18.) Fla. Stat. 631.051(1) lists as a ground for appointment of the Department as Receiver “that the insurer: (1) is impaired or insolvent”.

### **Analysis**

19.) The Department as Receiver of FSIC has determined that as of September 30, 2019, FSIC was insolvent as defined by Fla. Stat. 631.011(13) and (14) because its surplus had fallen below the required statutory minimum as defined in Fla. Stat. 624.408(1)(g). Specifically, as of September 30, 2019 according to FSIC’s own accounting records as updated by FSMGA’s employee, Laura Lopez, the surplus of FSIC was \$ 715,986.38. [See **Exhibits C and D**]

20.) As a result, FSIC was, in fact, insolvent as defined by Fla. Stat. 631.011(13) and (14) on September 30, 2019 when the Department filed its Consent Petition.

21.) Therefore, the Department respectfully moves this court to enter a finding of insolvency of Florida Specialty Insurance Company as of September 30, 2019 pursuant to Chapter 631, Part I, Florida Statutes.

DATED this 6th day of December 2019.

Respectfully submitted,

/signed/

**Miriam O. Victorian**

**Chief Attorney**

Florida Bar No.: 03553471

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**CERTIFICATE OF CONFERENCE**

The undersigned hereby certifies that Department counsel conferred with opposing counsel on the 5<sup>th</sup> day of December 2019, and they are opposed/not opposed to this Motion.

/signed/

Miriam O. Victorian

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that she served all parties who have entered an appearance on the ECF system with a copy of this Response.

/signed/\_\_\_\_\_

**IN THE CIRCUIT COURT OF THE SECOND JUDICIAL CIRCUIT,  
IN AND FOR LEON COUNTY, FLORIDA**

In Re: The Receivership of  
Florida Specialty Insurance Company,  
a Florida corporation.

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CASE NO.: 2019 CA 002328

**SWORN AFFIDAVIT OF SALMA ZACUR, DEPUTY RECEIVER  
FOR THE ESTATE OFFLORIDA SPECIALTY INSURANCE COMPANY**

County of Miami

State of Florida

Personally, appeared before me of this 5th day of December 2019, Salma Zacur, an employee of the Florida Department of Financial Services, Division of Rehabilitation and Liquidation, who after being duly sworn, testified to the following:

1. I am Salma Zacur. I am over the age of 21 years and competent to make this sworn statement. I have never been convicted of a felony or crime of moral turpitude. I have been an employee of the Florida Department of Financial Services, Division of Rehabilitation and Liquidation [hereinafter "the Department"] for 28 years. I have first-hand knowledge of the facts I relate below.

2. I am the Deputy Receiver for the Receivership Estate of Florida Specialty Insurance Company [hereinafter "FSIC"]. I was on site at FSIC's location in Sarasota, Florida after the initial Liquidation Order was entered, from October 3, 2019 to November 14, 2019 in my capacity as Deputy Receiver. As Deputy Receiver I was responsible for ensuring compliance with court orders and overseeing the transition of FSIC from its former officers/directors/employees to the Department. Part of my duties included ensuring FSIC's accounting records and books were updated.

3. When we arrived on site, FSIC only had one employee on its payroll. To facilitate the transition of the company to the Department, I signed, on behalf of the Department, the attached Memorandum of Understanding between the Department and Florida Specialty Managing General Agency LLC [hereinafter "FSMGA"], [the "MOU"] whose employees had been performing work for FSIC. [See Exhibit B to the Motion]

4. As part of the MOU, Laura Lopez, the Chief of Accounting for FSMGA, who all along was responsible for updating the financial records of FSIC prior to the Liquidation Order, was directed to ensure all the financial information and numbers were updated for FSIC for the months of July, August and September, 2019. The Department paid Ms. Lopez to accomplish

**EXHIBIT "A"**

this work on behalf of FSIC. On November 7, 2019, Ms. Lopez finished updating FSIC's accounting records and books with the information she would have normally entered, into the accounting system, had FSIC been an on-going insurance company. The attached trial balance is the result of Ms. Lopez's work. [See Exhibit C attached to the Motion]

5. Exhibit C indicates that the surplus of FSIC as of September 30, 2019 was \$715,986.38. Florida law requires that insurance companies selling the types of policies offered by FSIC have a minimum surplus of \$10 million. Therefore, the updated accounting records of FSIC indicate that the company was insolvent on September 30, 2019.

Further the affiant sayeth not.



**Irma Melendez**  
Commission # GG157448  
Expires: November 2, 2021  
Bonded thru Aaron Notary

  
\_\_\_\_\_  
Salma Zacur

Subscribed and sworn to before me on this 5<sup>th</sup> day of December 2019.

  
\_\_\_\_\_  
Notary Public



## MEMORANDUM OF UNDERSTANDING

THIS Memorandum of Understanding (“MOU”) is entered by and between **Florida Specialty Managing General Agency, LLC** (“FSMGA”) and the Florida Department of Financial Services, Division of Rehabilitation and Liquidation, as **Receiver for Florida Specialty Insurance Company** (“Department”).

### RECITALS

**WHEREAS**, Florida Specialty Insurance Company (“FSIC”) is a corporation authorized pursuant to the Florida Insurance Code to transact insurance business in the state of Florida as a domiciled insurance company as of October 20, 1997, whose principal place of business is located at 1 South School Ave, Suite 900, Sarasota, Florida 34237; and

**WHEREAS**, on October 2, 2019, the Circuit Court of the Second Judicial Circuit, in and for Leon County, Florida (“Receivership Court”) entered a *Consent Order Appointing the Florida Department of Financial Services as Receiver of Florida Specialty Insurance Company for Purposes of Liquidation, Injunction, and Notice of Automatic Stay* (“Liquidation Order”); and

**WHEREAS**, the Department only has one employee (Susan Patschak) on its payroll; and

**WHEREAS**, all the additional employees are on the FSMGA payroll; and

**WHEREAS**, the Department requires the assistance of FSMGA employees in order to comply with and implement the Liquidation Order; and

**WHEREAS**, the Department is willing to reimburse FSMGA for the services of certain employees.

**NOW, THEREFORE**, in consideration of the mutual covenants, promises, and undertaking contained herein, the Parties hereby agree and do hereby understand as follows:

1. The Department will notify FSMGA in writing via email every Friday afternoon regarding which employees are needed for the following week.

2. The Department will promptly reimburse FSMGA based upon the hours worked for the identified employees' base salary, employment taxes and the employer paid portion of medical, dental and life benefits. Except as specified in paragraph 3, the Department will not reimburse FSMGA employees for paid time off.

3. FSMGA employees will be allowed up to four hours per week to attend job interviews and will be required to complete a Time Off Request Form. FSMGA employees should request approval for the leave request from their FSMGA supervisor and notify the Department supervisor.

4. No overtime shall be reimbursed unless prior written approval is obtained from the Department.

5. Nothing in this MOU should be construed to create an employer/employee relationship between FSMGA and the Department.

6. This MOU may be executed in several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

**[ Blank on Purpose ]**

**FLORIDA DEPARTMENT OF FINANCIAL SERVICES  
AS RECEIVER FOR FLORIDA SPECIALTY INSURANCE COMPANY**

By: Salma Zacur  
Salma Zacur

Title: Deputy Receiver

Date: 10-8-2019

**FLORIDA SPECIALTY GENERAL MANAGING AGENCY**

By: Susan Patschak SUSAN J. PATSCHAK

Title: CEO

Date: 10/8/2019

## FSIC Change in Surplus - 2019

Surplus as of 12/31/2019	16,609,698.00
net income (loss)	(14,489,473.32) see statement of income p. 4
change in unrealized	62,631.45 see exhibit of capital gains p. 12
change in DTA	-
change in nonadmits	(1,466,869.75) see exhibit of nonadmitted assets p. 13
Surplus Paid In	-
Surplus as of 9/30/2019	715,986.38

	12/31/2018	9/30/2019	Change
3001-010 Capital Stock	(2,000,000.00)	(2,000,000.00)	-
3005-010 Paid in Capital	(11,585,028.00)	(11,585,028.00)	-
3050-010 Surplus	(14,269,631.24)	(14,269,631.24)	-
3099-000 Current Year Earnings	11,358,969.87	11,358,969.87	-
3101-010 Dividends Paid			-
3102-010 Net Unrealized Capital Gain	51,621.12	(11,010.33)	62,631.45
3102-011 Deferred Tax on CG	3,935.00	3,935.00	-
3102-021 Change in DTA	(220,080.00)	(220,080.00)	-
3102-030 Change in Non-Admit	80,515.77	1,547,385.52	(1,466,869.75)
3102-040 Change in Reins	(30,000.00)	(30,000.00)	-
Income Statement		14,489,473.32	(14,489,473.32)
	(16,609,697.48)	(715,985.86)	-
Gross DTA	1,470,000.00	1,470,000.00	-
Non-admitted (all)	120,538.56	1,587,408.31	1,466,869.75

FISC Balance Sheet  
 ST/AT Balts

ASSETS:	10/31/2019	9/30/2019	10/31/2018	9/30/2018	10/31/2017	9/30/2017	10/31/2016	9/30/2016
<b>Bonds</b>								
Investments Bond - Government	X	850,000.00						
Investments Bonds - State, Terr. & Poss.								
Investments Bonds - Special Law & Assess	X	948,515.87						
Investments Bonds - Industrial & Miscellaneous	X	1,904,989.89						
Investments Bonds - Political Subdivisions	X	1,786.09						
Premium / Discount - Government								
Premium / Discount - State, Terr. & Poss.								
Premium / Discount - Social Law & Assess.								
Premium / Discount - Industrial & Miscellaneous	X	33,353.43						
Premium / Discount - Political Subdivisions								
Unrealized Gain/Loss Bonds - Industrial & Misc.		(10.01)						
Net Balance		3,637,888.84						
<b>Cash</b>								
Money Market Funds - Fidelity	X	373,730.10						
Cash Equivalents		0.23						
Bank Account - Operating (89771)	X	3,475,957.30						
Bank Account - Disbursement (8915)	X	11,016,047.26						
Bank Account - Claims (8977)	X	(7,453,583.48)						
Bank Account - (8989)								
Bank Account - MG Premium (8972)								
Bank Account - MG Claims(8980)								
Bank Account - BSA Oper (7984)								
Bank Account - BSA Prem (1808)								
Investment - Suspense Oliveira								
Bank Account - ST Premium (2918)	X	1,188,226.47						
Bank Account - ST Premium (10)	X	1,207,231.14						
Bank Account - ST Trial Acct	X	1,408,425.41						
Bank Account - ST Premium (1801) PP CC	X	10,289,885.40						
Net Balance		26,003.45						
<b>Investment Income due &amp; accrued</b>								
Interest Receivable Bonds - Government	X	7,546.07						
Interest Receivable Bonds - State, Terr. & Poss.	X	3,170.36						
Interest Receivable Bonds - Special Law & Assess.	X	12,550.80						
Interest Receivable Bonds - Industrial & Misc.	X	601.15						
Interest Receivable - MM Funds								
Interest Receivable - Political Subs								
Interest Receivable - ST Trust	X	2,094.00						
Net Balance		26,003.45						
<b>Premium Receivables</b>								
Premium Receivable - Direct	X	5,011,815.21						
Premium Indemnities Receivable - Direct	X	9,928.60						
Premium Indemnities Receivable - Direct	X	(73,467.19)						
Premium Balance Receivable - Assured								
Premium Balance Receivable - Non-Admit								
Net Balance		4,948,276.62						
<b>Reinsurance Recoverable</b>								
Reinsurance Recoverable	X	16,402,610.28						
LPT Recoverable	X	888,124.74						
Net Balance		17,090,735.02						
<b>Federal Income Tax Recoverable</b>								
Federal Income Tax Recoverable								
Net Balance								
<b>Deferred Tax Asset</b>								
Deferred Tax Asset - Federal		1,487,716.00						
Deferred Tax Asset - State		(17,716.00)						
Net Balance		1,470,000.00						
<b>EDP Equipment</b>								
EDP Equipment	X	354,020.33						
Accumulated Depreciation - EDP Equipment	X	(254,020.33)						
Net Balance								
<b>Furniture &amp; Equipment</b>								
Furniture, Fixtures & Equipment		82,342.53						
Accumulated Depreciation - Furniture & Fixtures		(43,941.12)						
Net Balance		38,401.41						
<b>Payable From Parent Subs &amp; Affil</b>								
Intercompany - MGA	X	539,054.94						
Intercompany Receivable - FSH		-						
Intercompany - C								
Intercompany - SIC								
Net Balance		539,054.94						
<b>Other Receivables</b>								
Receivable for Securities								
Receivable for Insurance								
Receivable for Other								
Net Balance		(1,470,000.00)						

5/29/2019

373,730.10

373,730.01

diff

0.09

Union Bank

Fidelity

diff

2,452.81

2,389.88

2,340.17

7,192.86

1090,083

1090,095

diff

2,312.00

2,250.00

2,094.00

7092,099

7,070.61

2,337.88

2,184.17

7,192.86

387,576

387,577

diff

5,527.41

5,527.41

diff

8,500,000

8,500,000

diff

0

Case XOL - Mar/Hill

Case XOL - Michal

100% Nat Union

100% Nat

100% Genie

Case XOL -

Case XOL - Michal

Case FHC - Time

Case OS 15%

VE 2019

VE 2016

2019 Change

482,228.61

132,360.1

5,815,866.1

2,117,370

876,530

5,527,411

4,474,089

343,876

8,118

1,403,840

1,403,840

778,869

1,470,000.00

7,930,692.08

(1,969,337.89)

(9,900,000.00)

TOTAL ASSETS 38,510,464.94

LIABILITIES & SURPLUS:

Table with columns: Year, Description, Amount, and Category. Rows include various liability accounts like 'Case Loss Reserve - Direct', 'Net Balance', and 'Ceded Reinsurance Balances Payable'.

Table with columns: Year, Description, Amount, and Category. Rows include 'Surplus' items like 'Common Stock A', 'Reserve for Casualty', and 'Net Unrealized Capital Gains or Losses'.

Table with columns: Year, Description, Amount, and Category. Rows include 'Ceded Reinsurance Balances Payable' and 'Ceded Case' with various sub-categories and amounts.

F33C Income Statement  
S/TAT Basis

PREMIUMS EARNED:

4001-010	Premiums Written - Direct	x	(69,136,363.35)	PP
4001-015	Premiums Written - Direct	x	156,466.00	WP
4001-020	Premiums Written - Assumed	x	37,646,796.86	MB
4003-010	Premiums Written - Ceded	x	(7,456,925.86)	
	Net Balance		(33,079,040.49)	

4002-010	Change in Unearned Premiums	x	2,820,744.41	WP
4002-015	Change in Unearned - Direct	x	(1,965,517.95)	MB
4002-020	Change in Unearned - Assumed	x	29,429,900.47	
4002-030	Change in Unearned - Ceded	x	26,248,027.48	
	Net Balance		(6,791,013.00)	

Net Premiums Earned (the policy fees)

5001-010	Lesses Paid	x	50,227,427.83	PP
5001-015	Lesses Paid - Direct	x	7,024,598.44	WP
5001-020	Lesses Paid - Assumed	x	2,862,236.89	MB
5001-030	Lesses Paid - Ceded	x	(52,298,397.20)	
5005-010	Salvage & Subrogation Collected - Direct	x	(9,661,777)	
	Net Balance		5,228,204.19	

5002-010	Change in Loss Reserves	x	13,463,390.30	
5002-015	Change in Case Loss Reserve - Direct	x	(3,792,821.72)	
5002-020	Change in Case Loss Reserve - Assumed	x	(97,289.18)	
5002-030	Change in Case Loss Reserve - Ceded	x	(6,564,669.59)	
5003-010	Change in IBNR Loss Reserve - Direct	x	(951,237.00)	
5003-020	Change in IBNR Loss Reserve - Assumed	x	594,778.85	
5003-030	Change in IBNR Loss Reserve - Ceded	x	2,712,141.69	
	Net Balance		7,938,345.88	

Net Losses Incurred

5010-010	LAE Paid	x	928,190.02	MB
5010-020	LAE D/C/C Paid - Direct	x	20,504.04	MB
5010-030	LAE D/C/C Paid - Assumed	x	(4,478,948.66)	
5010-040	LAE D/C/C Paid - Ceded	x	6,000.00	PP
5010-045	LAE A/O Paid - Direct	x	1,143,692.25	WP
5010-050	LAE A/O Paid - Assumed	x	88,762.50	MB
5010-060	LAE A/O Paid - Ceded	x	(5,522,285.98)	
5010-070	Claim Admin Fee - 10 Thru	x	127,659.78	
5010-080	LAE A/O Paid - ISAC CAT	x	68,729.25	
5010-085	LAE A/O Paid - ISAC CAT	x	(4,420.00)	
5010-090	Claim Admin Fee - BCC CAT	x	232,191.20	
5010-095	Claim Admin Fee - BCC CAT - Dorian	x	20,800.00	
5010-098	Claim Admin Fee - BCC CAT	x	2,028,458.68	
	Net Balance		2,028,458.68	

Change in LAE Reserves

5011-010	Change in Case LAE D/C/C Reserve - Direct	x	322,611.53	PP
5011-015	Change in Case LAE D/C/C Reserve - Assumed	x	(4,420.00)	MB
5011-020	Change in Case LAE D/C/C Reserve - Ceded	x	(81,811.28)	
5011-040	Change in Case LAE A/O Reserve - Direct	x	922,917.08	WP
5011-045	Change in Case LAE A/O Reserve - Assumed	x	(947,115.37)	MB
5011-050	Change in Case LAE A/O Reserve - Ceded	x	(44,098.10)	
5011-080	Change in IBNR LAE D/C/C Reserve - Direct	x	(916,389.70)	
5011-085	Change in IBNR LAE D/C/C Reserve - Assumed	x		
5011-090	Change in IBNR LAE A/O Reserve - Ceded	x	182,718.25	
5012-040	Change in IBNR LAE A/O Reserve - Direct	x	(104,024.08)	
5012-045	Change in IBNR LAE A/O Reserve - Assumed	x	(698,008.64)	
5012-060	Change in IBNR LAE A/O Reserve - Ceded	x		
	Net Balance		1,418,460.04	

Net LAE Incurred

	Net Losses & LAE Incurred		9,358,793.92	
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6001-010	Commissions	x	0.05	
6001-020	Commission & Brokerage Expense - Direct	x	(8,800,090.99)	
6001-030	Commission & Brokerage Expense - Assumed	x		
6001-040	Commission & Brokerage Expense - Ceded	x		
6001-090	Coding Reinsurance Allowance	x	1,745,925.00	
6003-010	Policy Fee Expense	x	16,262,319.44	
6003-020	MGA Commission Expense	x	8,902,159.53	
	Net Balance		2,500.00	

Other Underwriting Expenses

6010-010	Advert. Advert Agents, Public Relations Council		2,500.00	
6010-100	Advertisement and Marketing		5,250.00	
6017-010	Bonds, Buroras, and Asian Dues, Assets, Fees			
	Net Balance		7,750.00	

48,165,444	PV UEP 12/31		
(48,040,671)	CV UEP 12/31		
2,144,773			
(0.3)			
(65,698,302)	PV UEP 12/31		
27,269,502	CV UEP 12/31		
(28,429,800)			
0			

XOL - Michal	408,529	x
100% GenRe	8,108,209	x
100% LAT	5,06,976	x
100% Nat Union	27,764,559	x
27% OS	3,629,889	x
15% GenRe	1,100,000	x
XOL-Matthew	1,501,949	x
15% Imma	589,481	x
27% Imma	708,078	x
XOL - Mar Hal	2,667,222	x
FHCF	10,364,196	x
50% OS	5,953,759	x
EB	4,444,444	x
Ceded Losses Paid	52,366,397	x
	(0)	

Identify Third Fraud Solutions 4th Qtr

DCC Ceded Paid	113,889.48
OS 15%	34,259.56
XOL March Hal	147,849.04
	(1)

A/O Ceded Paid	518,208	recoverable
FHCF Imma	18,726	
XOL Matthew	444,024	include Imma
27% OS	57,407	
XOL Mar Hal	230,647	
XOL Imma	140,539	include Imma
15% OS	114,967	
XOL Imma	81,622	recoverable
100% LAT	85,728	
100% GenRe	3,461,208	recoverable
100% Nat Union	6,001,065	
	0	

69,978,892.25	DWP	
17,762,310.74	W/L 6.2-7.75%	
73,271,310.49	W/L 6.2-7.75%	
1,500,000.22	entry	
17,762,319.71	after	
1,500,000.00	MGA Expenses/Avatar	
16,262,319.71	Net	
0	dft	

60,945	Coding Commissions 100% LAT
9,568	Coding Commissions 100% OS
(846,248)	Coding Commissions 98% OS
24,742	Coding Commissions EB
	Coding Commissions 15% OS
	Coding Commissions 27% OS
8,800,091	Total 6001-030
(0)	

9012-020	98&A for Rate Man. Filin, Rat Plans, Exec Data	182,946.47				
9014-010	Survivors & Underwriting Reports	326,126.29				
9020-010	Salaries	177,696.13				
9020-020	Bonuses	65,899.20				
9020-030	Medical Expense					
9024-020	Pension Plan Contribution					
9024-030	Group Medical & Dental					
9024-050	Workers' Compensation Insurance					
9024-060	Employee Education & Training					
9024-080	Employee Meals, Meetings, & Entertainment					
9024-090	Employee Salaries & Wages - Other					
9025-060	All Other Insurance					
9025-080	Director's Fees & Expenses	41,892.35				
9025-010	Travel - Lodging					
9025-013	Travel - Meals					
9025-014	Travel - Other Expenses While Traveling					
9025-019	Employee Expense					
9025-030	Employee Expense					
9028-041	Dues & Subscriptions	3,000.00				
9030-010	Rental of Offices					
9030-010	Utilities for Leased Premises					
9030-040	Alterations & Repairs to Leased Premises					
9030-050	Maintenance & Repairs to Leased Premises					
9030-060	Other Expenses for Leased Premises					
9032-010	EDP Equipment Leased					
9032-020	EDP Equipment Depreciation					
9032-060	Computer Software Licenses	96,993.82				
9032-070	Computer Software Hosting, Maintenance, Support	647.50				
9034-010	Equipment Less Than \$1,500					
9034-020	Furniture & Equipment Leased					
9034-030	Furniture & Equipment Depreciation	6,822.41				
9034-040	Furniture & Equipment Maintenance & Repair					
9038-010	Office Supplies					
9038-020	Printing & Stationery					
9038-030	Postages & Policy Forms	1,528.76				
9039-040	Books, Newsletters, Periodicals, & Publications	10,651.06				
9040-010	Stationery					
9040-020	Telephone - Local & Long Distance	3,955.69				
9040-030	Telephone - Cellular	290.77				
9040-040	Internet & Data Lines					
9040-060	Other Office Expenses					
9042-010	Legal Retainers, Fees, & Other Expenses	120,054.26				
9042-020	Audit, Accounting, & Tax Preparation Services	21,455.00				
9042-030	Accounting Services					
9042-040	Consulting Services	95,000.00				
9042-050	Consulting Services - IT & License	88,819.16				
9042-058	Consulting Services - Accounting	631.25				
9042-060	Misc. Expenses	3,892.50				
7101-020	Bank Services Charges	25,325.31				
8010-010	Credit Card Service Charges	51,348.00				
8016-010	Paralleling Expenses	287,471.01				
8016-030	Paralleling Processing Services	1,786.02				
8090-020	Other Underwriting Expenses	2,700.00				
9090-030	Fines/Penalties					
9090-020	ULAE Allocations - Survey & Underwriting					
9090-020	ULAE Allocations - Outside Services					
9090-130	ULAE Allocations - Investment Fee					
9090-190	Net Balances	1,496,370.88				
9044-010	Taxes, Licenses & Fees					
9044-020	State & Local Insurance Premium Taxes	X	1,227,701.82			
9044-030	Assessments		450.00			
9044-030	Insurance Dues/Licenses & Fees-Admins Licenses		12,000.00			
9044-030	Insurance Dues/Licenses & Fees-Filings & Other Fees		75,302.65			
9044-040	Fees		375,103.18			
9044-060	Guaranty Association Assessments					
9044-070	Personal Property Taxes					
9044-080	Other Taxes, Licenses, & Fees		162.80			
	Net Balance		1,700,726.35			
	Total General Expenses		3,297,397.23			
	Investment Income:					
	Net Investment Income		(5,145.47)			
7001-010	Dues & Assn. of Insurers - BNA's - Govern. Trans		4,513.14			
7001-020	Dues & Assn. of Insurers - BNA's - Govern. Trans		4,513.14			
7001-030	Dues & Assn. of Insurers - BNA's - Govern. Trans		19,733.83			
7001-040	Dues & Assn. of Insurers - BNA's - Govern. Trans		733.33			
7002-010	Dues & Assn. of Insurers - BNA's - Govern. Trans		478.87			
7002-010	Amortization of Prepaid Premiums - Government		(448.55)			
7002-010	Amortization of Prepaid Premiums - Govern. Trans		2,148.71			
7002-020	Amortization of Prepaid Premiums - Govern. Trans		14,020.56			
7002-030	Amortization of Prepaid Premiums - Govern. Trans		14,020.56			
7002-040	Amortization of Prepaid Premiums - Govern. Trans		(650.12)			
7002-070	Amortization of Prepaid Premiums - Govern. Trans		1,905.35			
7002-080	Amortization of Prepaid Premiums - Govern. Trans		(10,375.00)			
7003-020	Interest Received Bonds - States, Ter. & Poss.		(29,884.10)			
7003-040	Interest Received Bonds - States, Ter. & Poss.		(8,200.00)			
7003-050	Interest Received Bonds - States, Ter. & Poss.		(9,842.22)			
7003-080	Interest Received Bonds - Federal Subsidies		(9,842.22)			

1,227,701.83 PL (line 153%)  
 - AZ (deduct)  
 1,237,701.63  
 (0) adjust to 1.7%

Trust  
 US Govt (7,078)  
 State Bond (15,886)  
 Misc Inv (27,592)  
 State Ter (63,812)  
 ST (3,203)  
 Expenses (18,661)  
 32,790  
 (98,072)



7009-025	Interest on SunTrust Trust	(7,077.69)	
7004-010	Interest Purchased Bonds - LT Gov't	-	
7004-046	Interest Purchased Bonds - Special Rev & Assess.	-	
7010-030	Interest Received on Bonds - 7.75% 10/1/00	1,036.02	
7010-039	Div & Int - Fed. Int. on S. Bonds - 5.25%	-	
7010-101	Transferred Out Accrued Income	-	
7010-102	Transferred In Accrued Income	-	
7012-038	Amortization of Premium on ST Treas. Imp. - Other	(19,996.73)	
7012-039	Interest Received on ST Investments - 12.75%	-	
7012-039	Interest Received on ST Investments - 12.75%	32,790.37	
7101-010	Interest Received on Call Option and Other Fees	-	
7200-020	Other Investment Expense	(99,072.11)	
7501-010	Net Realized Capital (Gain) Loss	-	
7501-012	Realized Gains - US Government Bonds	44,211.76	X
7501-012	Realized Gains - Other Bonds	44,211.78	
	Net Balance	(54,860.35)	
	Net Investment (Gain) Loss		
<b>OTHER (INCOME) EXPENSE:</b>			
8001-010	Bad Debt	7,837.12	
8004-030	Premium Balance Charged Off	-	
8048-030	Bad Debt - Premium Receivables	7,837.12	SW
	Net Balance		
8003-010	Finance and Service Charges	(312,826.95)	
8003-040	Finance Service Charges not included in Premium	(2,112.98)	
8003-045	Commission Income	(4,615.17)	JLI Revenue share
8003-050	Recessive Reinsurance Gain/Loss	(329,037.45)	
	Net Balance	(678,692.55)	
	Total Other (Income) Expense	(678,692.55)	
<b>FEDERAL INCOME TAXES:</b>			
6401-010	State Income Tax	-	
	Federal Tax Incurred	-	
	ESTIMATED FEDERAL INCOME TAX	-	
	Net Balance	-	
	Total Federal Income Taxes	-	
	Total Net Income	14,489,473.32	
		78	
		14,489,473.32	

**IN THE CIRCUIT COURT OF THE SECOND JUDICIAL CIRCUIT,  
IN AND FOR LEON COUNTY, FLORIDA**

In Re: The Receivership of  
Florida Specialty Insurance Company,  
a Florida corporation.

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CASE NO.: 2019 CA 002328

**SWORN AFFIDAVIT OF MICHAEL J. JOHNSON**

County of New Castle  
State of Pennsylvania

Personally, appeared before me of this 5th day of December 2019, Michael J. Johnson, an employee of INS Consultants, who after being duly sworn, testified to the following:

1. I am Michael J. Johnson. I am over the age of 21 years and competent to make this sworn statement. I have never been convicted of a felony or crime of moral turpitude. I have first-hand knowledge of the facts I relate below.

2. I have been employed by INS Consultants for 16 years. I currently hold the position of Director, Rehabilitation and Liquidation Service for INS Consultants. I have a B.S. degree in Accounting from St. Joseph's University. I currently serve as the Deputy Receiver and Senior Administrative Officer of several property and casualty insolvencies administered by the Delaware Insurance Commissioner under the supervision of the Delaware Court of Chancery. I have previously served in similar roles for the Insurance Commissioners of North Carolina, Pennsylvania, and Vermont. Prior to working for INS Consultants, I worked in the insurance industry, specifically in the financial reporting aspects of various insurance companies. I also performed financial and liquidation audits for state regulators.

3. INS Consultants has been hired by the Florida Department of Financial Services, Division of Rehabilitation and Liquidation [hereinafter "The Department"] to provide forensic accounting services in relation to the Estate of Florida Specialty Insurance Company [hereinafter "FSIC"].

4. On October 14, 2019, INS Consultants sent Brian Dunn, Senior Manager to the FSIC office in Sarasota, Florida. Mr. Dunn reports to me. Mr. Dunn was tasked to start the process of preparing a forensic analysis for the Department of the general ledger and associated accounting records of FSIC, however, Mr. Dunn learned that accounting entries were not processed or entered in the accounting system for the months of July, August and September 2019.


**EXHIBIT "D"**

5. On November 7, 2019 Laura Lopez, an employee of Florida Specialty Managing General Agency, LLC, an affiliated company for FSIC, provided to the Department the financial workpapers for FSIC as of September 30, 2019. Using the reports provided by Ms. Lopez as a basis, Mr. Dunn compiled a balance sheet as of September 30, 2019. The balance sheet is attached as Exhibit 1 attached hereto and incorporated by reference herein. I have reviewed the attached exhibit. Exhibit 1 indicates that the surplus of FSIC as of September 30, 2019 was \$715,986.38.

6. Florida law requires insurance companies such as FSIC have a minimum surplus of \$10 million. Fla. Stat. 624.408(1)(g). Otherwise, they are deemed to be insolvent. Fla. Stat. 631.011(13) and (14).

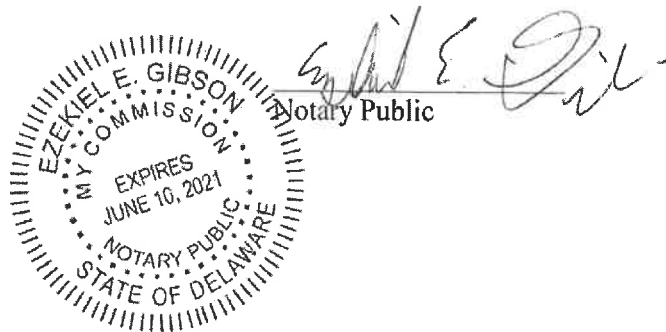
7. The balance sheet prepared by Florida Specialty Managing General Agency, LLC, an affiliate of FSIC, and provided to the Department clearly shows FSIC to be insolvent as of September 30, 2019.

Further the affiant sayeth not.



Michael J. Johnson

Sworn to and subscribed before me on this 5 day of December 2019.



## Exhibit 1

Florida Specialty Insurance Company  
Balance Sheet  
As of September 30, 2019

Bonds	3,657,690
Cash and Short-term	10,269,695
Investment Income Due and Accrued	26,003
Premiums Receivable	4,948,277
Ceded Reinsurance Recoverable on Paid Losses	17,090,735
Recoverable from Affiliate (FSMGA)	<u>538,065</u>
Total Assets	<u>36,530,465</u>
Net Loss Reserves	5,083,393
Net Loss Adjustment Expense Reserves	1,028,293
Net Unearned Premium Reserves	18,774,170
Ceded Reinsurance Premiums Payable	5,702,694
Assumed Reinsurance Payable on Paid Losses	380,026
Taxes, Licenses & Fees Payable	391,042
Advanced Premiums	2,043,694
Funds Held	16,788
Other Payables	<u>2,394,379</u>
Total Liabilities	35,814,479
Surplus	<u>715,986</u>
Total Liabilities and Surplus	<u>36,530,465</u>