

REPORT ON EXAMINATION
OF
SUNLAND RISK RETENTION GROUP, INC.
AS OF
DECEMBER 31, 2013

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT OF EXAMINATION, made as of December 31, 2013 of the

SUNLAND RISK RETENTION GROUP, INC

is a true and correct copy of the document filed with this Department.

Attest By:

Date: June 30, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 30th day of June, 2015.

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION
OF THE
SUNLAND RISK RETENTION GROUP, INC.
AS OF
DECEMBER 31, 2013

The above-captioned report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the company as reflected in the report.

This report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 30th day of June, 2015

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SALUTATION

May 6, 2015

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, Delaware 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in the Certificate of Authority No. 14.021, dated June 6, 2014, an examination has been made of the affairs, financial condition and management of

SUNLAND RISK RETENTION GROUP, INC.

hereinafter referred to as the "Company" or "Sunland RRG" and incorporated under the laws of the State of Delaware. The Company's registered office in the State of Delaware is located at 913 North Market Street, Wilmington, Delaware. The examination was conducted at the administrative office of the Company located at 7201 Shallowford Road, Chattanooga, Tennessee. The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

This is the first full scope financial examination conducted on the Company as Sunland RRG was issued a Certificate of Authority by the Delaware Department of Insurance (Department) on December 30, 2010. The examination covered the period of December 30, 2010 through December 31, 2013 and encompasses a general review of transactions during the

period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2013. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook") and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Generally Accepted Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The Report on Examination addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Johnson Lambert LLP for the year 2013. Certain auditor work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in understanding of controls.

In addition to items noted in this Report on Examination, the following topics were reviewed without material exception and are included in the work papers of this examination:

Conflict of Interest
NAIC Ratios
Legal Actions
Loss Experience
Pensions, Stock Ownership and Insurance Plans
Statutory Deposits
All other Assets and Liabilities not mentioned

SUMMARY OF SIGNIFICANT FINDINGS

The following significant findings were identified during the examination:

Uncollectable Receivable Balance & Material Weakness in Internal Control

Pursuant to the Statement of Assets Page, line 23 Receivables from parent, subsidiaries and affiliates, \$33,450 was determined to be uncollectable as a result of the examination. The non-admitted receivable was beyond 90 days past due as of December 31, 2013. The two facilities encompassing the past due receivable were insolvent at year-end 2013 with negative capital. Refer to “Subsequent Events” section for going concern disclosures. A material deficiency in internal controls was identified throughout the examination for untimely collection and review of past due receivables for collectability of such balances reported by Sunland RRG.

Non-Compliance with 18 Del.C. § 102 Definitions (2) that defines insurance as:

“Insurance” means a contract whereby one undertakes to pay or indemnify another as to loss from certain specified contingencies or perils, called "risks," or to pay or grant a specified amount or determinable benefit in connection with ascertainable risk contingencies or to act as surety.”

As of the examination date, the Company had an aggregate limit of liability on all direct policies of the greater of \$5 million or 115% of written premium. As a result, the maximum

aggregate exposure to direct losses in 2013 was \$5,378,197, 115% of written premium. The Company's direct written premiums as of September 30, 2014, totaled \$5,095,172 resulting in a group aggregate limit of liability on direct of \$5,859,448 as of September 30, 2014. The aggregate limit on losses payable on direct policies reduces the amount that is payable under the policies to an amount that is less than the policy limits and may eliminate some policyholders from being paid anything for a loss that is covered by the policy even though the Company has received a premium for the coverage. The Department is reviewing whether this aggregate limit on direct policies, which only benefits the Company and its reinsurer, results in the policies not meeting the definition of insurance and placing the Company in violation of the above section of Title 18.

SUBSEQUENT EVENTS

A revised Business Plan for Sunland RRG was submitted to the Department in 2014, and is undergoing Department review. The 2014 revised Business Plan describes an ownership structure with various outside ownership interests beyond Sunland Associates, Inc. (Sunland Associates) for which the Company has been operating under throughout the examination period. Such ownership structure is not limited to facilities owned by Sunland Associates, but includes various other owners. Affiliated facility management entities are not limited to Grace Healthcare and Focus Healthcare, but also include; Health Dimensions Group, Community Elder Care, Healthtique Group Management and Legacy Senior Services.

A going concern issue was evidenced for Cordova Healthcare LLC (Cordova) and Pioneer Healthcare Center (Pioneer). Both facilities' financial position as of December 31, 2013 reflected negative capital and surplus levels. As of the examination date, \$33,450 was non-

admitted from the receivable from parent, subsidiaries and affiliates account balances, for receivables owed to Sunland RRG by Cordova and Pioneer that exceeded 90 days past due. Refer to the “Summary of Significant Findings” section for additional details.

As of September 30, 2014, Cordova owed Sunland RRG \$121,034 and owed the affiliated reinsurer, Sunland Professional Liability Segregated Portfolio, \$213,496. Furthermore, delayed collection of monthly premium payments was evidenced in the first and second quarters of 2014 for Cordova and Pioneer. The Cordova facility had the highest annual premium revenue of all the 2013 policies issued by Sunland RRG and the highest number of open claims attributed to a facility insured as of December 31, 2013.

COMPANY HISTORY

The Company was organized and incorporated as a stock insurance company under the captive insurance laws of the State of Delaware with a designation as a “Risk Retention Group” as described under the insurance laws of the State of Delaware 18 Del. C. Ch. 80 and under the Federal Risk Retention Act of 1986. The Certificate of Authority issued on December 30, 2010, authorizes the Company to transact the business of liability insurance as a Risk Retention Group. The Company began writing policies effective January 1, 2011, on a calendar year basis. Sunland RRG does not have any subsidiaries and is a member of a Holding Company.

Prior to the Company’s formation, Sunland Associates originally established a captive insurance company, Sunland Insurance SPC (Sunland SPC) in the Cayman Islands in January 2002. Sunland SPC established a cell captive, Sunland Professional Liability Segregated Portfolio (Sunland SP or “reinsurer”) to provide general and professional liability coverage to

long term care, assisted living and psychiatric/rehabilitation facilities (collectively referred to as “facilities”) owned and operated by Sunland Associates and managed by affiliated facility management companies; Grace Healthcare and Focus Healthcare. Sunland RRG was established in order to move existing coverage onshore in providing the professional liability and general liability to affiliated facilities through Sunland RRG. For the examination period, Sunland SP was utilized by Sunland RRG as the affiliated unauthorized reinsurer.

The Company currently offers three lines of business; professional liability, general liability and errors and omissions insurance policies. The Department approved Business Plan for the captive insurer, allows for the issuance of general liability and professional liability to facilities owned and operated by Sunland Associates. The errors and omissions line of business was added in 2012 with the approval of the Department. Sunland Associates is wholly-owned by Byron DeFoor. Pursuant to the Department approved admission application for Sunland RRG, the relationship among beneficial owners is a closed group of facilities sharing common ownership and management. The December 31, 2013, Schedule Y Part 1 identifies outside ownership interests beyond Mr. DeFoor and Sunland Associates for identification of facility ownership interests. Therefore,

It is recommended that the Company request Department approval of any new facility ownership interest not identified in the Department approved Business Plan and Application in accordance with 18 Del. C. §6922 (9) that requires the Company file 30 days prior written notice with the Commissioner or receive the Commissioner’s approval of any such action within such 30 day period for “Any material amendment of the organizational documents of the captive insurance company.”

Furthermore, The Department approved Business Plan identifies two affiliated management facilities; Grace Healthcare (Grace) and Focus Healthcare (Focus). The December

31, 2013, Schedule Y Part 1 identifies a total of six affiliated facility management companies including Grace, Focus, Health Dimensions Group, Legacy Senior Services, Healthtique Group Management and Community Elder Care. Therefore,

It is recommended that the Company request Department approval of any new facility management entity not identified in the Department approved Business Plan in accordance with 18 Del. C. §6922 (9) that requires the Company file 30 days prior written notice with the Commissioner or receive the Commissioner's approval of any such action within such 30 day period for “Any material amendment of the organizational documents of the captive insurance company.”

Subsequent Business Plan changes have been provided to the Department in 2014 to revise the ownership description and identify all six facility management entities. Refer to the “Subsequent Events section”.

CAPITALIZATION

The Company is required to maintain a minimum capital and surplus of \$1,000,000, which is the minimum amount required of a Risk Retention Group under 18 Del. C. §6905(a). As of December 31, 2013, the Company’s capital and surplus levels exceeded minimum required capital and surplus amounts by \$53,942.

Chapter 65, 15 USCS Section 3901(4) (E) of the Federal Statutes indicate that a “Risk Retention Group” must have “as its owners only persons who comprise the membership of the Risk Retention Group and who are provided insurance by such group.” Therefore, ownership is necessary to obtain general liability, professional liability or errors and omission coverage from the Company. Ownership is obtained through the purchase of the Company’s capital stock by those facilities and/or facility management companies seeking liability coverage within the closed group of owners. The Company enters into a shareholders’ agreement with each

policyholder insured. As of the examination date the Company had 60 shareholders. Pursuant to the Shareholder Agreement, each shareholder purchases ten common capital stock at a par value of \$.001 and pays an additional capital of \$9.99.

The Company was capitalized through the use of an irrevocable letter of credit (LOC) in the aggregate amount of \$1 million. The LOC was issued by CAPITALMARK Bank and Trust, Chattanooga, Tennessee, dated March 16, 2011, with the State of Delaware Commissioner as beneficiary. The Company entered into a Surplus Note Agreement dated July 1, 2011, in the amount of \$1 million for payment between Mr. DeFoor with a 60% interest and Mr. DeHaan with a 40% interest. The Surplus Note Agreement was not approved by the Department and is in non-compliance with 18 Del.C. §6922 (2) Material Transactions. Therefore,

It is recommended that the Company request Department approval of the Surplus Note pursuant to 18 Del. C. §6922 (2) that requires the Company file 30 days prior written notice with the Commissioner or receive the Commissioner's approval of any such action within such 30 day period for "Any sale, exchange, lease, mortgage, assignment, pledge or other transfer of or granting of a security interest in, all or substantially all of the assets of the captive insurance company."

CORPORATE RECORDS

The Board of Directors ("Board") meeting minutes were reviewed for the examination period. Attendance at meetings and election of directors and officers were evidenced. Investment transactions were approved by the Board for the examination period in compliance with 18 Del. C. §1304, Authorization; Record of Investments.

MANAGEMENT AND CONTROL

Pursuant to the Company’s Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of the Board. Pursuant to the Company’s bylaws, Sunland RRG’s Board shall consist of at least one (1) person and may not be greater than nine (9). The following persons were elected and serving as Directors of the Company at December 31, 2013:

Directors	Primary Business Affiliation
P. Byron DeFoor	Majority Owner of: Red Rock Insurance Administrators LLC Sunland SP Sunland Associates
Charles H. DeHaan	40 % Owner of Red Rock Insurance Administrators LLC President, Sunland RRG
Craig D. Taylor	Chief Financial Officer, Sunland RRG
Michael L. Vild	Delaware Resident Director

The Officers of the Company are elected by the Board. The following Officers served as of December 31, 2013:

Officers	Title
Charles H. DeHaan	President
Charla M. Smyser	Secretary
Craig D. Taylor	Treasurer

The ultimate controlling person is Mr. DeHaan.

INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of an insurance holding company system as defined pursuant to 18 Del. C. Ch. 50 “Insurance Holding Company System Registration”.

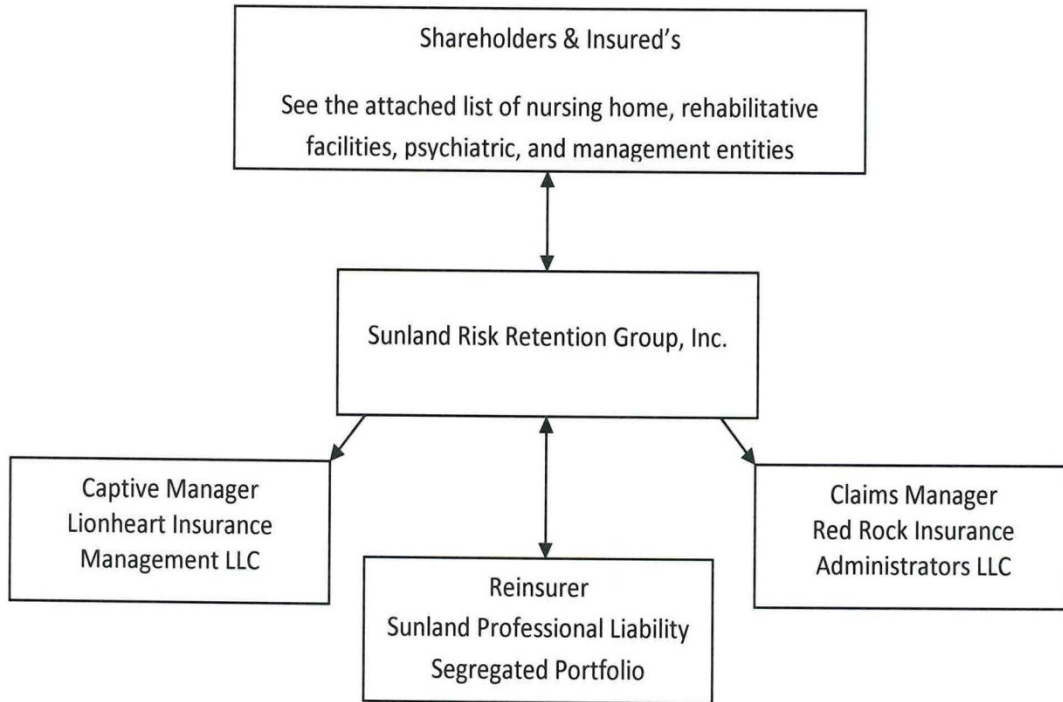
The Company is owned by shareholders whom are insureds of Sunland RRG. Pursuant to a Management Services Agreement, Red Rock Insurance Administrators LLC (Red Rock), performs claims management services. Red Rock is an affiliated third party administrator owned 60% by Mr. DeFoor and 40% by Mr. DeHann. It was determined that during the examination period that underwriting and premium billing and collection services were performed by Red Rock for Sunland RRG. Refer to the “Intercompany/Management Agreement” section below.

The Company cedes 90% of all direct written premiums to an offshore affiliated reinsurer, Sunland SP, domiciled in the Cayman Islands. Sunland SP is a cell captive of Sunland Insurance, SPC, the core captive. Sunland SP is an unauthorized reinsurer. Sunland SP is wholly-owned by DeFoor & DeHaan Investments, LLC, an investment company based in the United States.

The following is an abbreviated organizational chart that reflects the identities and interrelationships between the Company, shareholders and other affiliates with direct business relationships with the Company as of December 31, 2013:

Sunland Risk Retention Group, Inc.

Organizational Chart



Affiliated Facility Management Company and/or Insured

Grace Healthcare, LLC

Adamsville Healthcare, LLC, DBA Tri County Convalescent Home
Braddock Heights Healthcare, LLC, DBA Vindobona Health & Rehab
Cedar Lawn Investments, DBA Grace Healthcare of Abingdon
Cordova Healthcare, LLC, DBA Healthcare of Cordova
Douglas Investment & Associates, LLC, DBA Grace of Douglas
Franklin Healthcare, LLC DBA Grace Healthcare of Franklin
Fredrick Villa Investments & Associates, LLC, DBA Fredrick Villa Nursing Center
Glenwood Investments & Associates, LLC, DBA Grace Healthcare of Glenwood Springs
Grace Ancillary Services, LLC
Knollwood Psychiatric & Chemical Dependency Ctr, DBA Riverside Center for Behavioral Medicine
Lake Wales Healthcare, LLC, DBA Grace Healthcare of Lake Wales
Leewood Investments & Associates, LLC, DBA Leewood Healthcare Center
Oakpark Healthcare, LLC, DBA Oak Park Convalescent Hospital
Oneida Investments & Associates, LLC, DBA Oneida Nursing & Rehabilitation Center

Panonia Investments & Associates, LLC, DBA Paonia Care & Rehabilitation Center
Phoenix Healthcare, LLC, DBA Grace Healthcare of Phoenix
Raintree Investments & Associates, LLC, DBA Raintree Manor
Rheem Valley Healthcare, LLC, DBA Rheem Valley Convalescent Hospital
River Falls Healthcare, LLC, DBA Kinnic Health and Rehab
Riverview Investments & Associates, LLC DBA Riverview Manor
Rocky Ford Healthcare, LLC, DBA Pioneer Health Care Center
Soddy Daisy Healthcare, LLC, DBA Soddy-Daisy Health Care Center
St. Petersburg Nursing Home, LLC, DBA Jacaranda Manor
Standardsville Healthcare, LLC, DBA Grace Health and Rehab of Green County
Sunland-Vero Beach, LLC, DBA Grace Rehabilitation Center of Vero Beach
Tucker Investments & Associates, LLC DBA Grace Healthcare of Tucker
Whites Creek Healthcare, LLC, DBA Grace Healthcare of Whites Creek

Health Dimensions Group
Chris Jensen, LLC, DBA Chris Jensen Health and Rehabilitation Center
Dimensions Home Health Care, LLC
Dimensions Management of Chippewa Falls
Highland Chateau Care Center
Legacy Senior Services, DBA Waukesha Springs Health & Rehabilitation Center
LSS Home Health and Hospice, LLC
LSS of Frazee, LLC
LSS of Madison, LLC, DBA Belmont Nursing & Rehabilitation Center
LSS Marycrest, LLC, DBA Marycrest Assisted Living
LSS Wadena, LLC
LSS Wadena, DBA Fair Oaks Lodge
Manitowoc Health Care Properties, LLC, DBA Manitowoc Healthcare Center, LLC
Nazareth Facilities, LLC
Prairieview Place
Staffing Dimensions of Libertyville, LLC
Sunny Ridge Healthcare and Rehabilitation Center
Traverse Care Center
Villa Pines Facilities, LLC, DBA Villa Pines Living Center

Legacy Senior Services
Bella Vista Nursing Home Investments, LLC, DBA Concordia Arms
Renaissance Marquis
Standardsville Senior Services, LLC, DBA Renaissance Assisted Living
Standardsville Senior Services, LLC, DBA The Harbor at Renaissance
Vero Property Investment, LLC

Healthtique Group Management
Healthtique Asheville, LLC
Healthtique Durham, LLC
Healthtique Winston Salem, LLC
Healthtique Westwood, LLC

Community Elder Care
CLC of Liberty, LLC, DBA Liberty Community Living Center

CLC of Vaiden, LLC, DBA Vaiden Community Living Center
Focus Healthcare, LLC
Focus Healthcare of Tennessee
Focus Healthcare of California

INTERCOMPANY / MANAGEMENT AGREEMENTS

Management Services Agreement – Captive Management Services

Effective January 1, 2011, the Company entered into a Management Services Agreement with Advantage Insurance Management (Advantage), formerly Lionheart Insurance Management, LLC. Advantage provides captive management services on behalf of Sunland RRG. In accordance with the Management Services Agreement, Advantage will render the necessary administration, management and advisory services to Sunland RRG at an annual fee of \$50,000, payable in monthly installments. Advantage is an approved Captive Manager in the State of Delaware.

Claims Management Agreement - Red Rock Insurance Administrators LLC

Effective January 1, 2011, the Company entered into a Claims Management Agreement with Red Rock to manage, adjust, supervise, defend and service all claims-made policies directly written by Sunland RRG. Fees rendered to Red Rock in accordance with the Claims Management Agreement are equal to 20% of earned premium. Management confirmed that such fees encompass additional services evidenced to be provided by Red Rock to Sunland RRG for the examination period including; underwriting, premium billing and collection.

Additional services were neither explicitly identified in the Claims Management Agreement nor any established agreement during the examination period, which were performed by Red Rock. The Company is not in compliance with 18 Del. C. §5005 Standards and management of an insurer within an insurance holding company system. Therefore,

It is recommended that underwriting, billing and collection services performed by affiliated third party administrators be evidenced in a written agreement pursuant to prior Department approval of such agreement in accordance with 18 Del. C. §5005 (a)(2)(d) that requires the Company to file “All management agreements, service contracts, tax allocation agreements, and all cost-sharing agreement,”

Subscription and Shareholder Agreement

When a new facility becomes a member a Subscription and Shareholder Agreement is entered into between the facility or “purchaser” of shares and Sunland RRG. The Subscription and Shareholder Agreement outlines the subscription for shares, purchaser representations, transfer restrictions, status of shareholder/insured and requirements of an RRG to have all policyholders be shareholders.

FIDELITY BONDS AND OTHER INSURANCE

The Company has fidelity coverage under a Directors and Officers policy issued by Lex-London, a division of AIG Europe Limited with coverage of \$1 million any one claim and \$1 million in aggregate. The Fidelity Bond exceeds the suggested minimum amount of coverage for the Company as recommended by the NAIC.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2013, the Company was licensed to transact business in the State of Delaware, and registered as a Foreign RRG in fifteen (15) states. Direct policies are offered by Sunland RRG with limits up to \$3 million in the aggregate per named facility for all lines including; professional liability, general liability and errors and omission. All policies issued by the Company for the policy year are limited by an aggregate limit of liability in the amount of the

greater of \$5 million or 115% of written premium. All policies are issued on a claims-made basis by Sunland RRG for the calendar year. At year-end 2013, the Company had 60 insureds.

GROWTH OF THE COMPANY

The following chart represents the growth of the Company for the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Policyholders' Surplus</u>	<u>Direct Written Premium</u>	<u>Net Income</u>
2011	\$ 1,934,237	\$ 916,285	\$ 1,017,952	\$ 3,839,558	\$ 17,522
2012	\$ 2,198,063	\$ 1,108,840	\$ 1,089,222	\$ 4,305,233	\$ 71,140
2013	\$ 3,364,696	\$ 2,310,754	\$ 1,053,942	\$ 4,676,694	\$ 27,756

The Company has continued to increase direct written premium throughout the examination period. The Company had 55 insureds in 2011 and had 60 insureds in 2013. The Company received Department approval in 2012 to add an additional line of coverage, errors and omissions and to include bifurcation of risks for certain facilities requiring higher limits of liability. Bifurcated policies allow certain facilities to write two separate policies for general liability and professional liability coverage with one policy having higher limits. Premiums have increased as a result of the increase in lines and additional insureds.

The Company retains 10% of all direct written premiums. Net premiums written were \$383,956 in 2011, \$430,524 in 2012 and \$467,669 in 2013. Net income has remained positive from income generated by ceding commission of 26% less the 20% affiliated management fees on all earned premium. Admitted assets have consistently increased along with increases to liabilities. While the Company has been growing significantly with regard to assets, liabilities and the number of insureds, policyholders' surplus has remained just slightly above the required minimum capital and surplus amount. The Company has increased insureds throughout the examination period along with increases to loss development and retained risk.

REINSURANCE

The following is a summary of net written premiums as of December 31, 2013:

Direct	\$4,676,694
Ceded	<u>4,209,025</u>
Net	<u>\$ 467,669</u>
Net Percentage	<u>10%</u>

Assumed Reinsurance:

Sunland RRG did not assume any reinsurance during the examination period.

Ceded Reinsurance:

As of December 31, 2013, the Company had a Quota Share Reinsurance Agreement in force with an affiliated reinsurer, Sunland SPC, on behalf of Sunland SP. Sunland SP is domiciled in the Cayman Islands and is the cell captive with Sunland SPC as the core captive. Both Sunland SPC and Sunland SP are wholly-owned by DeFoor and DeHaan Investments, LLC.

The Company cedes 90% of all direct written premiums to Sunland SP. The ceding commission retained by Sunland RRG is 26%. Sunland RRG pays a claims service fee of 20% of earned premium to Red Rock. The Company established a funds held account during 2013 on behalf of Sunland SP for payment of losses. The funds held account as of the examination date totaled \$1,582,643, and was maintained in a money market account. Sunland SP maintains a \$1.9 million letter of credit from EFG Bank with the Company as the beneficiary and with the assets of Sunland SP pledged as collateral. Sunland SP is an affiliated reinsurer that reported \$1.4 million in shareholders' equity as of the December 31, 2013 examination date and a net underwriting loss in the amount of \$1.2 million during 2013.

ACCOUNTS AND RECORDS

The Company's financial results are reported using Generally Accepted Accounting Principles that are audited annually by the external accounting firm, Johnson Lambert LLP and Actuarial firm, Bartlett Actuarial Group, Ltd. Johnson Lambert LLP opined that the December 31, 2013 financial statements were presented fairly in all material respects.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified and operational and organizational controls were identified and substantive testing performed for determination of risk mitigation.

Substantive testing identified that material payments were made by Sunland RRG to affiliated facilities for claims exceeding per-occurrence and facility aggregate amounts. The material affiliated transactions were not approved by the Department as required under 18 Del. C. §5005(a)(2)(a). Therefore,

It is recommended that Department approval be obtained for material transactions with affiliated facilities in accordance with 18 Del. C. §5005(a)(2)(a) Standards and management of an insurer within a holding company system which states "The following transactions involving a domestic insurer and any person in its insurance holding company system, including amendments or modifications of affiliate agreements previously filed pursuant to this section, which are subject to any materiality standards contained in paragraphs (a)(2)a. through e. of this section, may not be entered into unless the insurer has notified the Commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the Commissioner may permit, and the Commissioner has not disapproved it within such period. The notice for amendments or modifications shall include the reasons for the change and the financial impact on the domestic insurer. Informal notice shall be reported, within 30 days after a termination of a previously filed agreement, to the Commissioner for determination of the type of filing required."

FINANCIAL STATEMENTS

The following pages contain the Company's Financial Statements for the year ending December 31, 2013, as determined by this examination, with supporting exhibits as detailed below:

- Assets
- Liabilities, Surplus and Other Funds
- Summary of Operations
- Reconciliation of Capital and Surplus

SUNLAND RISK RETENTION GROUP, INC.
ASSETS
DECEMBER 31, 2013

	<u>Assets</u>	Non-Admitted <u>Assets</u>	Admitted <u>Assets</u>	<u>Notes</u>
Cash	\$ <u>2,119,291</u>	\$ <u>0</u>	\$ <u>2,119,291</u>	(1)
Subtotals, cash and invested assets	2,119,291	0	2,119,291	
Investment income due and accrued	134	0	134	
Premiums and Considerations:				
Uncollected premiums and agents' balances in the course of collection	136,088	29,626	106,462	(2)
Current federal and foreign income tax recoverable and interest thereon	11,116	0	11,116	
Net deferred tax asset	10,689	0	10,689	
Receivables from parent, subsidiaries and affiliates	139,149	33,450	105,699	(3)
Aggregate write-ins for other than invested assets	<u>1,011,304</u>	<u>0</u>	<u>1,011,304</u>	(4)
Totals	<u>\$ <u>3,427,772</u></u>	<u>\$ <u>63,076</u></u>	<u>\$ <u>3,364,696</u></u>	

**SUNLAND RISK RETENTION GROUP, INC.
LIABILITIES, SURPLUS AND OTHER FUNDS
DECEMBER 31, 2013**

		<u>Notes</u>
Losses	\$ 264,771	(5)
Loss Adjustment Expenses	142,497	(5)
Other Expenses	35,500	
Taxes, licenses and fees	76,412	
Current federal and foreign income taxes	7,026	
Advance premiums	17,380	
Ceded reinsurance premiums payable	182,443	
Funds held by company under reinsurance treaties	1,582,643	
Payable to parent, subsidiaries and affiliates	<u>2,082</u>	
Total Liabilities	2,310,754	
Common capital stock	\$ 0	(4)
Gross paid-in and contributed surplus	\$ 1,000,600	(4)
Unassigned funds (surplus)	<u>53,342</u>	
Surplus	<u>1,053,942</u>	
Surplus as regards policyholders	<u>1,053,942</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 3,364,696</u></u>	

SUNLAND RISK RETENTION GROUP, INC.
SUMMARY OF OPERATION
DECEMBER 31, 2013

Underwriting Income

Premiums earned	\$ 467,669	
Losses incurred	(134,352)	
Loss adjustment expenses	(148,408)	
Aggregate write-ins for underwriting deductions	<u>(150,356)</u>	
Net underwriting gain		\$ 34,553

Investment Income

Net investment income earned	\$ (6,480)	
Net investment gain or (loss)		\$ (6,480)

Other Income

Net income before federal income taxes		28,073
Federal income taxes incurred		<u>317</u>
Net income		<u>\$ 27,756</u>

**SUNLAND RISK RETENTION GROUP, INC.
RECONCILIATION OF CAPITAL AND SURPLUS
DECEMBER 31, 2013**

Surplus as regards policyholders, December 31, 2012	\$ 1,089,222
 <u>Gains and (losses) in surplus</u>	
Net income	27,756
Change in surplus as regards policyholders for the year	<u>(63,036)</u>
Surplus as regards policyholders, December 31, 2013	<u><u>\$ 1,053,942</u></u>

**SUNLAND RISK RETENTION GROUP, INC.
SCHEDULE OF EXAMINATION ADJUSTMENTS
DECEMBER 31, 2013**

	Per Company	Per Examination	Difference
Total capital and Surplus	\$ 1,087,392	\$ 1,053,942	\$ 33,450

NOTES TO FINANCIAL STATEMENTS

Note 1 – Cash and Cash Equivalents \$2,119,291

The Company’s investments consist of cash in the amount of \$536,648 and cash equivalents in the amount of \$1,582,643 all held within a US Bank Money Market fund. The money market is part of the collateral held by the Company for funds held from the affiliated unauthorized reinsurer, Sunland SP.

Note 2 – Uncollected Premiums \$106,462

The Company non-admitted \$29,626 for premium receivables past ninety days due from an affiliated facility. Subsequent collection was made in January and February of 2014 related to the non-admitted amount.

Note 3 – Receivables from parents, subsidiaries and affiliates \$139,149

The majority of the receivable balance, \$120,611, is attributed to receivables from affiliated facilities for excess-of-loss payments made by Sunland RRG. The Company settles all loss payments through Sunland RRG and invoices facilities thereafter for any losses paid by Sunland RRG in excess of facility per occurrence limits and facility aggregate limits. Amounts from excess-of-loss receivables past 90 days due to Sunland RRG totaled \$86,643 of which \$33,450 was determined to be uncollectable as of December 31, 2013. Refer to the “Summary of Significant Findings” section for additional details related to the non-admitted amount.

Note 4 – Aggregate write-ins for other than invested assets \$ 1,011,304

Effective March 16, 2011, the Company established a \$1 million letter of credit (LOC) on behalf of Sunland RRG. The \$1 million LOC and additional \$600 is included in gross paid in and contributed surplus.

Note 5 – Loss and Loss Adjustment Expenses \$ 407,268

The Company reported net loss reserves of \$264,771 and unpaid loss adjustment expense reserves of \$142,497. INS Consultants, Inc. reviewed the Company’s reserving methodologies and estimated net loss and loss adjustment expenses in an amount not materially different than that reported by the Company as of December 31, 2013.

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no prior examination findings as this is the first full-scope financial examination.

SUMMARY OF RECOMMENDATIONS

Material Changes to Organizational Documents Not Approved

It is recommended that the Company request Department approval of any new facility ownership interest not identified in the Department approved Business Plan and Application in accordance with 18 Del. C. §6922 (9) that requires the Company file 30 days prior written notice with the Commissioner or receive the Commissioner's approval of any such action within such 30 day period for “Any material amendment of the organizational documents of the captive insurance company.”

and,

It is recommended that the Company request Department approval of any new facility management entity not identified in the Department approved Business Plan

in accordance with 18 Del. C. §6922 (9) that requires the Company file 30 days prior written notice with the Commissioner or receive the Commissioner's approval of any such action within such 30 day period for "Any material amendment of the organizational documents of the captive insurance company."

Material transactions within an insurance holding company structure Not Approved

It is recommended that the Company request Department approval of the Surplus Note pursuant to 18 Del. C. §6922 (2) that requires the Company file 30 days prior written notice with the Commissioner or receive the Commissioner's approval of any such action within such 30 day period for "Any sale, exchange, lease, mortgage, assignment, pledge or other transfer of or granting of a security interest in, all or substantially all of the assets of the captive insurance company."

No Established Agreement in Place for Underwriting, Billing and Collection Services

It is recommended that underwriting, billing and collection services performed by affiliated third party administrators be evidenced in a written agreement pursuant to prior Department approval of such agreement in accordance with 18 Del.C. §5005 (a)(2)(d) that requires the Company to file "All management agreements, service contracts, tax allocation agreements, and all cost-sharing agreement,"

No Department Approval of Transactions within a Holding Company System

It is recommended that Department approval be obtained for material transactions with affiliated facilities in accordance with 18 Del. C. §5005(a)(2)(a) Standards and management of an insurer within a holding company system which states, "The following transactions involving a domestic insurer and any person in its insurance holding company system, including amendments or modifications of affiliate agreements previously filed pursuant to this section, which are subject to any materiality standards contained in paragraphs (a)(2)a. through e. of this section, may not be entered into unless the insurer has notified the Commissioner in writing of its intention to enter into such transaction at least 30 days prior thereto, or such shorter period as the Commissioner may permit, and the Commissioner has not disapproved it within such period. The notice for amendments or modifications shall include the reasons for the change and the financial impact on the domestic insurer. Informal notice shall be reported, within 30 days after a termination of a previously filed agreement, to the Commissioner for determination of the type of filing required."

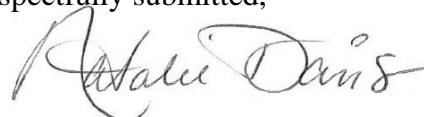
CONCLUSION

The following schedule shows the results of this examination:

<u>Description</u>	<u>December 31, 2013</u>
Assets	<u>\$ 3,364,696</u>
Liabilities	\$ 2,310,754
Common Capital Stock	-
Aggregate write-ins	-
Gross Paid In and Contributed Surplus	1,000,600
Unassigned Funds (Surplus)	<u>53,342</u>
Total Surplus	<u>\$ 1,053,942</u>
Totals	<u><u>\$ 3,364,696</u></u>

In addition to the undersigned, Gene Thompson, ACAS, MAAA, Actuary with INS Consultants, Inc. and Gregg Bealuk, CFE, Delaware Supervising Examiner participated in the examination. The assistance and cooperation of the Company's outside audit firm, Johnson Lambert LLP and the Company's management and staff was appreciated and acknowledged.

Respectfully submitted,



Natalie Davis, CFE
Examiner-In-Charge
State of Delaware