October 13, 2006

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

Mr. John A. Chalk, Jr., Chairman
Mississippi Surplus Lines Association
2630 Ridgewood Road, Suite D
Jackson, MS 39216

RE: Report of Examination as of December 31, 2005

Dear Mr. Chalk:

In accordance with Miss. Code Ann. §§ 83-21-21 and 83-5-201 et seq. (Rev. 1999), an examination of your Association has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. §§83-21-21 and 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

GEORGE DALE
COMMISSIONER OF INSURANCE

BY J. Mark Haire
Special Assistant Attorney General

GD/JMH/bs
Encls. Order w/exhibit
BEFORE THE COMMISSIONER OF INSURANCE
OF THE STATE OF MISSISSIPPI

IN RE: REPORT OF EXAMINATION OF MISSISSIPPI SURPLUS LINES ASSOCIATION

CAUSE NO. 06-5460

ORDER

THIS CAUSE came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. §§ 83-21-21 and 83-5-201 et seq. (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner’s work papers, makes the following findings of fact and conclusions of law, to-wit:

JURISDICTION

I.

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. §§ 83-21-21 and 83-5-201 et seq. (Rev. 1999).

II.

That the Mississippi Surplus Lines Association ("MSLA") is a not-for-profit organization formed pursuant to the Mississippi Legislature’s enactment of Senate Bill No. 2006 on March 26, 1997. MSLA assists the Commissioner in performing certain duties and responsibilities related to the regulation of surplus lines insurance contracts in the State of Mississippi.
FINDINGS OF FACT

III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. §§ 83-21-21 and 83-5-201 et seq. (Rev. 1999), called for an examination of MSLA and appointed Joseph R. May, Examiner-In-Charge, to conduct said examination.

IV.

That on or about June 6, 2006, the draft Report of Examination concerning MSLA for the period of January 1, 2005 through December 31, 2005 was submitted to the Department by the Examiner-In-Charge, Joseph R. May.

V.

That on or about June 23, 2006, pursuant to Miss. Code Ann. §§ 83-21-21 and 83-5-209(2) (Rev. 1999), the Department forwarded to MSLA a copy of the draft report and allowed MSLA a 30-day period to submit any rebuttal to the draft report. MSLA responded on June 29, 2006, agreeing with the results of the Examination.

CONCLUSIONS OF LAW

VI.

The Commissioner, pursuant to Miss. Code Ann. §§83-21-21 and 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.
IT IS, THEREFORE, ORDERED, after reviewing the Report of Examination, MSLA’s rebuttal, and all relevant examiner work papers, that the Report of Examination of MSLA, attached hereto as Exhibit "A", should be and same is hereby adopted as final.

IT IS FURTHER ORDERED that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon MSLA by certified mail, postage pre-paid, return receipt requested.

IT IS FURTHER ORDERED that the Mississippi Department of Insurance shall continue to hold the content of this Report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. §§ 83-21-21 and 83-5-209(6)(a) (Rev. 1999).

IT IS FURTHER ORDERED, pursuant to Miss. Code Ann. §§ 83-21-21 and 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, MSLA shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

IT IS FURTHER ORDERED that MSLA take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

SO ORDERED, this the 13th day of October, 2006.

LEE HARRELL
DEPUTY COMMISSIONER OF INSURANCE
STATE OF MISSISSIPPI
CERTIFICATE OF MAILING

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 13th day of October, 2006, to:

Mr. John A. Chalk, Jr., Chairman  
Mississippi Surplus Lines Association  
2630 Ridgewood Road, Suite D  
Jackson, MS 39216

Mark Haire  
Special Assistant Attorney General

J. Mark Haire  
Special Assistant Attorney General  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 2065
Mississippi Insurance Department

Financial Examination Report

of

Mississippi Surplus Lines Association
2630 Ridgewood Road, Suite D
Jackson, Mississippi 39216

As of December 31, 2005
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May 10, 2006

The Honorable George Dale
Commissioner of Insurance
State of Mississippi
501 North West Street, Suite 1001
P.O. Box 79
Jackson, Mississippi 39205-0079

Dear Commissioner Dale:

Pursuant to the instructions and authorization from the Commissioner of Insurance for the State of Mississippi, an examination has been conducted of the affairs and financial condition of:

MISSISSIPPI SURPLUS LINES ASSOCIATION
2630 Ridgewood Road, Suite D
Jackson, Mississippi 39216

This examination was conducted at the above noted home office and commenced in accordance with Mississippi Code (1972) Annotated (hereinafter Miss. Code Ann.) §83-21-21 & §83-5-201 et seq., and the report of examination is herewith submitted.
INTRODUCTION

This financial examination was performed by examiners representing the Mississippi Insurance Department (MID) and covered Mississippi Surplus Lines Association’s (Association or MSLA) operations and financial condition from January 1, 2005 through December 31, 2005; including material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

For purposes of this examination report, the examination period is defined as January 1, 2005 through December 31, 2005, and the examination date is defined as December 31, 2005.

SCOPE OF EXAMINATION

The current examination was a full scope financial examination that included an assessment of the Association’s financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with applicable laws.

The affairs, transactions, accounts, records, assets and liabilities of the Association were reviewed and tested by acceptable methods to the extent deemed necessary to comply with Miss. Code Ann. §83-21-21 & §83-5-301 et seq. The examination procedures, as recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners’ Handbook, were followed in the conduct of this examination and in the preparation of this report to the extent possible. Since MSLA is not an insurance company, many of the standard procedures recommended by the NAIC Financial Condition Examiners’ Handbook were not applicable to MSLA. As such, those procedures that were not applicable were not performed and additional procedures, as determined necessary by the MID and examination team, were performed. These procedures included a review of material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

Reporting in the “Comments and Recommendations” section of this report is by exception; therefore, items which were tested and deemed acceptable by the examiners without material change receive little or no comment.

HISTORY AND PLAN OF OPERATION

The Association is a not-for-profit organization formed pursuant to the Mississippi Legislature enacting Senate Bill No. 2006 on March 26, 1997. The bill contained provisions for the establishment of an association to assist the Insurance Commissioner of Mississippi with the regulation of “surplus lines” insurance contracts and to encourage compliance by surplus lines agents and insurers with the surplus lines laws of the State of Mississippi. MSLA may also conduct other operations that relieve the Commissioner of Insurance of duties otherwise required of him under the laws on foreign insurance companies. The
Insurance Commissioner appointed a Board of Directors (Board) for the Association. The individuals selected formed the Association and incorporated on September 18, 1997.

The Association devotes most of its resources to statutory compliance. The Association communicates to its members and assists them in complying with existing and future regulations.

**MANAGEMENT AND CONTROL**

The Articles of Incorporation and Bylaws vest the management and control of the Association's business affairs with the Board. The members of the duly elected Board, along with their place of residence and principal occupation, at December 31, 2005, were as follows:

<table>
<thead>
<tr>
<th>NAME AND PLACE OF RESIDENCE</th>
<th>PRINCIPAL OCCUPATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Christopher H. Boone</td>
<td>Executive Vice President and Chief Marketing Officer</td>
</tr>
<tr>
<td>Madison, Mississippi</td>
<td>BancorpSouth Insurance Services, Inc.</td>
</tr>
<tr>
<td>William M. Bryson</td>
<td>Chairman</td>
</tr>
<tr>
<td>Clinton, Mississippi</td>
<td>Bryson &amp; Company</td>
</tr>
<tr>
<td>Hoyt Erik Case</td>
<td>Vice President of Marketing</td>
</tr>
<tr>
<td>Brandon, Mississippi</td>
<td>Dixie Specialty Insurance, Inc.</td>
</tr>
<tr>
<td>John A. Chalk, Jr.</td>
<td>Marketing Director</td>
</tr>
<tr>
<td>Brandon, Mississippi</td>
<td>Barksdale Bonding &amp; Insurance, Inc.</td>
</tr>
<tr>
<td>Preston H. Gough, Jr.</td>
<td>Executive Vice President and Regional Director</td>
</tr>
<tr>
<td>Flora, Mississippi</td>
<td>CRC Insurance Services</td>
</tr>
<tr>
<td>John Haden Hughes</td>
<td>Commercial Underwriter</td>
</tr>
<tr>
<td>Jackson, Mississippi</td>
<td>Mississippi Insurance Managers, Inc.</td>
</tr>
<tr>
<td>Thomas G. Quaka</td>
<td>President</td>
</tr>
<tr>
<td>Jackson, Mississippi</td>
<td>Mississippi Insurance Managers, Inc.</td>
</tr>
</tbody>
</table>

The officers duly elected by the Board and holding office at December 31, 2005, were as follows:

- Officers of the Board:
  - Mr. Christopher H. Boone: Chairman of the Board
  - Mr. John Chalk, Jr.: Vice Chairman
  - Mr. William M. Bryson: Secretary
  - Mr. Thomas G. Quaka: Treasurer
Officers of MSLA:
Mr. Larry Rademacher    Executive Director
Ms. Michele Steadman    Associate Executive Director

Subsequent to examination date on March 7, 2006 Mr. Larry Rademacher resigned as Executive Director. Michele Steadman was appointed Executive Director by the MSLA Board on the same date. Mr. Rademacher is currently serving as Ex-Officio Executive Director for a period of time to assist in the transition.

CONFLICT OF INTEREST

All staff of MSLA are initially required to sign a conflict of interest disclosure upon their hire date. There is not an annual completion of this disclosure by the MSLA staff or by the Board. Annual disclosure of any conflicts of interest is a good business practice. It is recommended that MSLA and the Board review conflict of interest possibilities and sign the appropriate conflict of interest statements at least annually.

FIDELITY BONDS AND OTHER INSURANCE

The Association was insured under various insurance policies that appeared to be adequate to protect its interest. In particular, the Association maintained directors and officers, employee practices, and fiduciary coverage; crime and financial fidelity coverage; commercial general liability, property, and business income coverage; commercial excess liability coverage; employee benefits liability coverage; employers compensation and workers liability coverage; and flood coverage.

OFFICERS' AND EMPLOYEES' WELFARE

The Company provided a 401(k) Safe Harbor Plan, along with other various insurance coverages, which included term life, medical, and workers' compensation.

CORPORATE RECORDS

Minutes of the meetings of the Board prepared during the period under examination were reviewed and appeared to be complete with regard to the matters brought up at the meetings for deliberation, which included the approval and support of the Association's transactions and events, as well as a review of its annual audit.
ACCOUNTS AND RECORDS

The Association’s accounting system is maintained using QuickBooks Non Profit Edition and the database used for maintaining relevant information from agents (i.e. brokers, retailers and wholesalers) filings is Lotus Notes. Both of the aforementioned software programs and related data files along with all other applications and related data files are maintained by an independent Application Service Provider (ASP) on a dedicated server at the ASP’s computing location. All back-ups and physical security issues are addressed and performed by the independent ASP. The dedicated server is accessed by MSLA personnel via internet connections. The only computing systems maintained at the MSLA office are standard desktop and laptop computers that are used primarily to access the dedicated server maintained by the independent ASP.

COMMITMENTS AND CONTINGENCIES

During the 2004 regular legislative session, the Mississippi Legislature enacted House Bill No. 834, which specifies the fees levied and collected by the Association have been and remain public funds, subject to transfer to the Department of Insurance Special Fund by act of the Legislature provided that not more than $2,000,000 be transferred. On August 23, 2004, the Association filed a civil action against the State of Mississippi and the state’s fiscal officer seeking a declaratory judgment and injunction relief against the defendants from taking private funds of the Association. As of the date of this examination, each party has filed a motion for summary judgment with the court. As of the date of this Examination Report, the court has not ruled on either party’s motion for summary judgment and no trial date has been set. At this stage of the litigation, the Association’s legal counsel was unable to evaluate the prospective outcome of this litigation but believes the Association has a meritorious action.
INTRODUCTION TO FINANCIAL STATEMENTS

The following financial statements, as determined by the examination, consist of a Statement of Financial Position at December 31, 2005, a Statement of Activities for year ended December 31, 2005, and a Reconciliation of Examination Changes to Net Assets for examination period ended December 31, 2005.
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2005

ASSETS

CURRENT ASSETS:
    Cash $27,246
    Investments 3,103,190
    Stamping fee receivable 90,142
    Prepaid expenses 3,659

TOTAL CURRENT ASSETS 3,224,237

PROPERTY AND EQUIPMENT, AT COST:
    Furniture, fixtures and equipment 111,720
    Less accumulated depreciation (83,556)
    Net Property and Equipment 28,164

OTHER ASSETS:
    Deposits 2,700
    Investments – long term 1,147,841
    Total Other Assets 1,150,541

TOTAL ASSETS 4,402,942

LIABILITIES AND NET ASSETS

TOTAL LIABILITIES 0

NET ASSETS 4,402,942

TOTAL LIABILITIES AND NET ASSETS $4,402,942
STATEMENT OF ACTIVITIES
FOR YEAR ENDED DECEMBER 31, 2005

REVENUE:
Stamping fees $673,785

OPERATING EXPENSES:
Accounting 10,716
Annual meeting 536
Banking fees 599
Contract labor 6,720
Technology consulting 16,669
Depreciations 8,140
Educational 1,697
Equipment lease 4,030
Insurance 8,320
Health insurance 6,692
Legal fees 116,030
Library 1,089
Life insurance 832
Membership/registration 4,575
Office rent 22,648
Office supplies and expense 11,278
Payroll taxes 16,017
Postage 3,498
Retirement plan contribution 5,216
Salaries 135,807
Telephone 7,899
Travel 12,977
Subtotal 401,985

OTHER INCOME (EXPENSE):
Interest income 109,585

INCREASE IN NET ASSETS
381,385

NET ASSETS, BEGINNING OF YEAR
4,021,557

NET ASSETS, END OF YEAR $4,402,942
RECONCILIATION OF EXAMINATION CHANGES TO NET ASSETS
DECEMBER 31, 2005

As a result of this examination, there have been no changes made to the net assets reported by the Association in its annual audit report filed with the MID. The net asset amount reported by the Association of $4,402,942 is considered to be materially correct for purposes of balance sheet presentation for this examination.
COMMENTS AND RECOMMENDATIONS

1. It is recommended that MSLA and the Board review conflict of interest possibilities and sign the appropriate conflict of interest statements at least annually. (Page 3)
ACKNOWLEDGEMENT

The courteous cooperation extended to the examination team by Mississippi Surplus Lines Association’s officers and employees during the course of the examination is gratefully acknowledged. The examiners representing the Mississippi Insurance Department and participating in this examination were:

Examiner-in-Charge: Joseph R. May, CPA, CMA, CFE, CIE
Examiner: Amy M. Deer

Respectfully,

[Signature]

Joseph R. May, CPA, CMA, CFE, CIE
Examiner-In-Charge