

REPORT ON EXAMINATION
OF
ARA CASUALTY INSURANCE
COMPANY

MIAMI, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

January 18, 2007

Kevin M. McCarty
Commissioner
Office of Insurance Regulation
State of Florida
Tallahassee, Florida 32399-0326

Dear Sir:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes, and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination of December 31, 2005, of the financial condition and corporate affairs of:

**ARA CASUALTY INSURANCE COMPANY
6602 SW 57TH AVENUE
MIAMI, FLORIDA 33143**

Hereinafter referred to as the "Company". Such report of examination is herewith respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2005 through December 31, 2005. The Company is not writing any new or renewal business. This examination commenced, with planning at the Office, on October 9, 2006, to October 13, 2006. The fieldwork commenced on October 30, 2006, and was concluded as of January 18, 2007. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was a statutory financial examination conducted in accordance with the Financial Condition Examiners Handbook, Accounting Practices and Procedures Manual and annual statement instructions promulgated by the NAIC as adopted by Rules 69O-137.001(4) and 69O-138.001, Florida Administrative Code, with due regard to the statutory requirements of the insurance laws and rules of the State of Florida.

In this examination, emphasis was directed to the quality, value and integrity of the statement of assets and the determination of liabilities, as those balances affect the financial solvency of the Company.

The examination included a review of the corporate records and other selected records deemed pertinent to the Company's operations and practices. In addition, the NAIC IRIS ratio report, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant (CPA) were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of Company's assets and liabilities as reported in its annual statement as of December 31, 2005, as those balances affect the financial solvency of the Company. Transactions subsequent to year-end 2005 were reviewed where relevant and deemed significant to the Company's financial condition.

This report of examination is confined to financial statements and comments on matters that involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

Based on the review of the Company's control environment and the materiality level set for this examination, reliance was placed on work performed by the Company's CPAs, after verifying the statutory requirements, for the following accounts:

- Current Federal & Foreign Income Taxes Recoverable
- Net Deferred Tax Asset
- Commission Expense
- Other Expenses
- Taxes, Licenses and Fees
- Aggregate Write-ins for Liabilities

The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004.

Status of Adverse Findings from Prior Examination

The following is a summary of adverse findings contained in the Office's prior examination report as of December 31, 2004, along with the resulting action taken by the Company.

Cash

The Company maintained a cash balance with Smith Barney which did not qualify as a national or state bank, savings and loan association or trust company as required by Section 625.306, Florida Statutes. **Resolution:** The Company has not changed custodians.

Losses and Loss Adjustment Expenses

The December 31, 2004 Loss and LAE reserves were significantly inadequate and the Office recommended an additional \$492,000 in reserves be recorded on the annual statement. **Resolution:** The December 31, 2005 Loss and LAE reserves were again deficient, now in the amount of \$502,000.

HISTORY

General

The Company was incorporated in Florida on April 1, 2003 and commenced business on August 29, 2003 as ARA Casualty Insurance Company.

In accordance with Section 624.401(1), Florida Statutes, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Private Passenger Auto Liability
Auto Physical Damage

The articles of incorporation and the bylaws were not amended during the period covered by this examination.

Capital Stock

As of December 31, 2005, the Company's capitalization was as follows:

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

Control of the Company was maintained by its owner, Anthony R. Abraham, who owned 100 percent of the stock issued by the Company. Mr. Abraham also owned the Company's affiliates, ARA Holding Services, Inc. and ARA Premium Finance Company.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination, as reported in the filed Annual Statement.

	2005	2004	2003
Premiums Earned	3,764,733	3,631,218	45,501
Net Underwriting Gain/(Loss)	(2,091,718)	(577,203)	(73,428)
Net Income	(1,599,872)	(429,815)	(29,318)
Total Assets	6,339,569	7,269,758	5,377,921
Total Liabilities	2,332,089	2,633,980	384,769
Surplus As Regards Policyholders	4,007,480	4,635,778	4,993,152

Dividends to Stockholders

There was no dividend declared or paid to its stockholders during the year covered by this examination.

Management

The annual shareholder meeting for the election of directors was held in accordance with Sections 607.1601 and 628.231, Florida Statutes. Directors serving as of December 31, 2005, were:

Directors

Name and Location	Principal Occupation
Anthony R. Abraham Pembroke Pines, Florida	Chairman, Owner
Thomas H. Malouf Tampa, Florida	Real Estate Developer
Thomas G. Abraham Coral Gables, Florida	Director, Marketing Manager
Jeffery Schafer (a) Miami, Florida	Director, President
Warren Bryer North Miami Beach, Florida	Director, CFO

(a) Terminated on May 16, 2006 and was replaced by Joseph Abraham.

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

Senior Officers

Name	Title
Jeffery Schafer	President (a)
Warren Bryer	Secretary/Treasurer
Thomas G. Abraham	Vice President

(a) Terminated on May 16, 2006 and was replaced by Joseph Abraham.

The Company's board appointed several internal committees in accordance with Section 607.0825, Florida Statutes. Following were the principal internal board committees and their members as of December 31, 2005:

Audit Committee	Investment Committee
Anthony R. Abraham ¹	Anthony R. Abraham ¹
Warren Bryer	Warren Bryer
Jeffery Schafer*	Jeffery Schafer*
¹ Chairman	*Terminated on 5/16/06

Conflict of Interest Procedure

The Company had adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with the NAIC Financial Condition Examiners Handbook. No exceptions were noted during this examination period.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committee were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions in accordance with Section 607.1601, Florida Statutes, including the authorization of investments as required by Section 625.304, Florida Statutes.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase or Sales Through Reinsurance

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance during the period under examination.

Surplus Debentures

The Company had no surplus debentures.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), Florida Administrative Code. The latest holding company registration statement was filed with the State of Florida on June 28, 2006, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

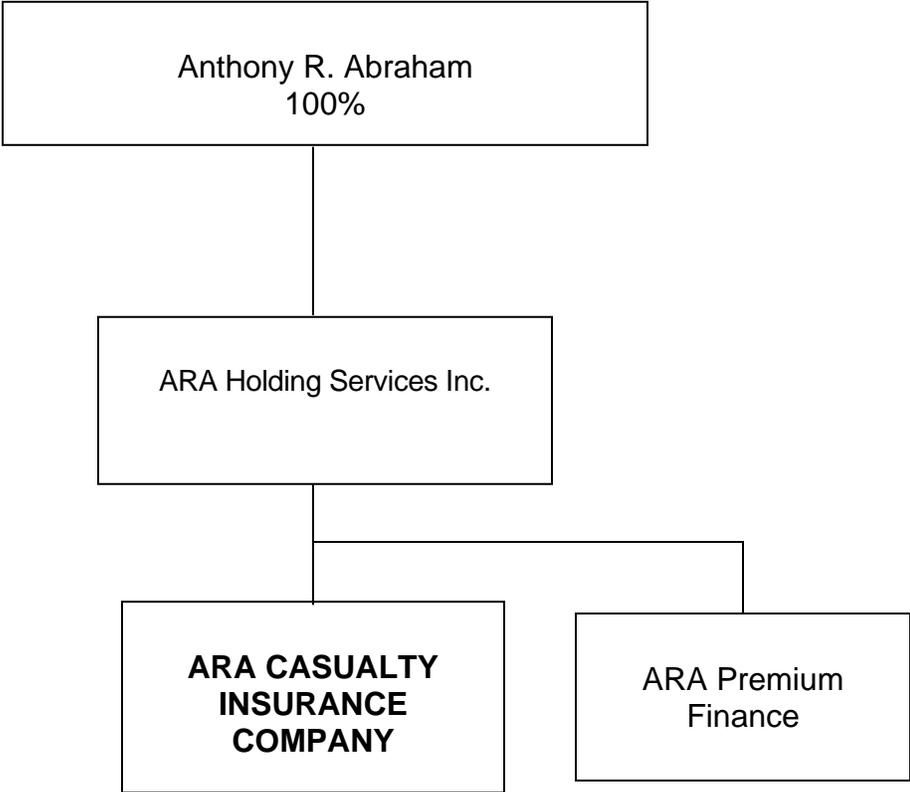
Managing General Agent (MGA) Agreement

The Company entered into an MGA Agreement with its affiliate A.R.A. Holding Services, Inc. (AHS) dated July 21, 2004. The first agreement indicated that AHS shall act as the managing general agent for the insurance policies issued in the State of Florida and further indicated that AHS had the authority to handle claims and negotiate reinsurance on behalf of the Company.

An organizational chart as of December 31, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's 2005 annual statement provided a list of all related companies of the holding company group.

**ARA CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$75,000 with a deductible of \$5,000 per loss, which did not adequately cover the suggested minimum amount of coverage of \$100,000 for the Company as recommended by the NAIC. The Company had other property and liability insurance coverage needed in the operation of the Company.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees, no pension plans, stock ownership or insurance plans.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, Florida Statutes:

STATE	DESCRIPTION	RATE	MATURITY DATE	PAR VALUE	MARKET VALUE
FL	Cash Deposit			\$ 1,001,066	\$1,001,066
TOTAL FL DEPOSITS				\$ 1,001,066	\$1,001,066

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

The Company was authorized to transact insurance in the State of Florida.

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim in accordance with Section 626.954(1)(i)3,a, Florida Statutes..

REINSURANCE

The Company had no reinsurance.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements for the year 2005, in accordance with Section 624.424(8), Florida Statutes. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, Florida Administrative Code.

The Company's accounting records were maintained on a computerized system. The Company's balance sheet accounts were verified with the line items of the annual statement submitted to the Office.

The Company maintained its principal operational offices in Miami, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Smith Barney in Miami, Florida. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code; however, Smith Barney was not a national bank, state bank or trust company and therefore did not qualify as a custodian as defined by Rule 69O-143.041, Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Infante & Company to perform an audit of its statutory financial statements for the year 2005.

Risk-Based Capital

The Company reported its risk-based capital at an adequate level.

Information Technology (IT) Report

An IT audit of limited scope for the Company was performed by Tracy D. Gates, CISA, CPA, of Highland Clark, LLC. It was noted that operations server tape backup system no longer exists. The network support company, e-Solution, installed a redundant, secondary internal hard drive to minimize the risk of data loss due to hardware failure. However, financial accounting data on both drives was still subject to loss due to theft or fire in the operations area. A recommendation was made that the Company should implement a daily off-site backup routine to ensure data recoverability in the event the physical damage to the operations server.

Subsequent Events

Two portable hard-drives were installed on January 10, 2007 to support the daily backup and off-site rotation procedures as recommended by the IT Auditor.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 2005, and the results of its operations for the year then ended as determined by this examination. Adjustments made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

ARA CASUALTY INSURANCE COMPANY
Assets

DECEMBER 31, 2005

Assets	Per Company	Examination Adjustments	Per Examination
Bonds	\$500,834		\$500,834
Stocks:			
Common	398,202		398,202
Cash and Short-term Investments	5,112,093		5,112,093
Agents' Balances:			
Uncollected premium	95,826		95,826
Interest and dividend income due & accrued	76,935		76,935
Amounts receivable relating to uninsured plans	5,217	(5,217)	0
Current Federal & Foreign Income recoverable & interest thereon	74,151	(68,934)	5,217
Net deferred tax asset		74,151	74,151
Receivable from Parents, Subsidiaries and Affiliates	76,311		76,311
Totals	\$6,339,569	\$0	\$6,339,569

ARA CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$1,780,493	\$502,000	\$2,282,493
Loss adjustment expenses	136,530		136,530
Commissions payable	3,356		3,356
Other expenses	7,955		7,955
Taxes, licenses and fees	2,329		2,329
Unearned premium	388,327		388,327
Aggregate write-ins for liabilities	13,099		13,099
Total Liabilities	\$2,332,089	\$502,000	\$2,834,089
Common capital stock	\$1,000		\$1,000
Surplus Notes	1,000,000		1,000,000
Gross paid in and contributed surplus	4,999,000		4,999,000
Unassigned funds (surplus)	(1,992,520)	(502,000)	(2,494,520)
Surplus as regards policyholders	\$4,007,480	(\$502,000)	\$3,505,480
Total Liabilities, Surplus and Other Funds	\$6,339,569	\$0	\$6,339,569

ARA CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	\$3,764,733
DEDUCTIONS:	
Losses incurred	4,013,123
Loss expenses incurred	593,473
Other underwriting expenses incurred	1,249,855
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$5,856,451</u>
Net underwriting gain or (loss)	(\$2,091,718)
Investment Income	
Net investment income earned	\$192,595
Net realized capital gains or (losses)	(8,313)
Net investment gain or (loss)	<u>\$184,282</u>
Other Income	
Net gain or (loss) from agents' or premium balances charged off	\$0
Finance and service charges not included in premiums	0
Aggregate write-ins for miscellaneous income	307,564
Total other income	<u>\$307,564</u>
Net income before dividends to policyholders and before federal & foreign income taxes	(\$1,599,872)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	(\$1,599,872)
Federal & foreign income taxes incurred	<u>0</u>
Net Income	(\$1,599,872)
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$4,635,778
Gains and (Losses) in Surplus	
Net Income	(\$1,599,872)
Net unrealized capital gains or losses	13,297
Change in non-admitted assets	514
Change in provision for reinsurance	0
Change in net deferred income tax	(42,237)
Surplus adjustments: Paid in	0
Aggregate write-ins for gains and losses in surplus	0
Change in surplus notes	1,000,000
Examination Adjustments	(502,000)
Change in surplus as regards policyholders for the year	<u>(\$1,130,298)</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$3,505,480</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Amounts Receivable Relating to Uninsured Plans	<u>\$ 5,217</u>
Current Federal & Foreign Income Tax Recoverable	<u>\$68,934</u>
Net Deferred Tax Asset	<u>\$74,151</u>

The Company reported incorrectly the federal and foreign income tax recoverable and interest thereon, relating to uninsured plans and net deferred tax assets. This resulted in a reclassification adjustment by this examination.

Liabilities

Losses and Loss Adjustment Expenses (LAE)	<u>\$1,917,023</u>
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The Office actuary reviewed work papers provided by the Company and was not in concurrence with the opinion rendered by the Company's independent actuary. The loss and LAE reserves were deficient by \$502,000 and not in accordance with Section 625.041(1) and 625.101, Florida Statutes.

Surplus as Regards Policyholders	<u>\$3,505,480</u>
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The Company's Surplus as regards policyholders was \$3,505,480, which was not in compliance with Section 624.408, Florida Statutes making the Company's surplus impaired.

Subsequent events:

On March 30, 2006, June 5, 2006 and December 14, 2006, the Company received capital contributions of \$200,000 each totaling to \$600,000.

**ARA CASUALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2005

The following is a reconciliation of surplus as regards policyholders between that reported by the Company and as determined by the examination.

Surplus as Regards Policyholders
per December 31, 2005, Annual Statement \$4,007,480

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Rec. for uninsured plans	5,217	0	(5,217)
Fed. Tax rec.	74,151	5,217	(68,934)
Net def. Tax asset	0	74,151	74,151
LIABILITIES:			
Losses and LAE	\$ 2,332,089	\$ 2,834,089	\$ (502,000)
 Net Change in Surplus:			 \$ (502,000)
 Surplus as Regards Policyholders December 31, 2005, Per Examination			 <u><u>\$3,505,480</u></u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has not taken the necessary actions to comply with two of the comments made in the 2004 examination report issued by the Office regarding loss reserves and custodians.

Current examination comments and corrective action

The following is a brief summary of items of interest and corrective action to be taken by the Company regarding findings in the examination as of December 31, 2005.

Losses and Loss Adjustment Expenses

The Office actuary reviewed work papers provided by the Company and concluded that the loss and LAE reserves were deficient by \$502,000 which was not in accordance with Section 625.041(1) and 625.101, Florida Statutes. **We recommend that the Company increase the current loss and LAE reserves to account for the year end 2005 deficiency, to the extent that such deficiency still exists given the Company is no longer writing business and claims are running off.**

Surplus as Regards Policyholders

The Company's Surplus as regards policyholders was \$3,505,480, which was not in compliance with Section 624.408, Florida Statutes. **Although the Company has received \$600,000 in capital contributions during 2006; we recommend that the Company record the additional \$502,000 in loss and LAE reserves and take immediate action to insure that the surplus equals or is in excess of \$4,000,000.**

Fidelity Bond

The Company maintained fidelity bond coverage up to \$75,000 with a deductible of \$5,000 per loss, which did not adequately cover the suggested minimum amount of coverage of \$100,000 for the Company. **We recommend that the Company increase the amount of coverage to \$100,000.**

Custodial Agreement

Smith Barney was not a national bank, state bank or trust company and does not qualify as a custodian as defined by Rule 69O-143.041, Florida Administrative Code. **We recommend that the Company replace their custodian with a national bank, state bank or trust company.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **ARA Casualty Insurance Company** as of December 31, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$3,505,480, which was not in compliance with Section 624.408, Florida Statutes, making the Company financially impaired. Although the Company has received \$600,000 in capital contributions during 2006, the Company should immediately take action to insure that the surplus equals or is in excess of \$4,000,000.

In addition to the undersigned; Michael D. Young, Financial Examiner/Analyst II, Kethessa L. Carpenter, CPA, Financial Examiner/Analyst Supervisor and Joseph Boor, Office Actuary, participated in the examination.

Respectfully submitted,

Joel V. Bengo
Financial Examiner/Analyst II
Florida Office of Insurance Regulation