

REPORT ON EXAMINATION
OF
ACCREDITED SURETY AND CASUALTY
COMPANY, INC.
WINTER PARK, FLORIDA

AS OF
DECEMBER 31, 2005

BY THE
OFFICE OF INSURANCE REGULATION

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	-
SCOPE OF EXAMINATION.....	1
STATUS OF ADVERSE FINDINGS FROM PRIOR EXAMINATION	2
HISTORY	4
GENERAL	4
CAPITAL STOCK	4
PROFITABILITY OF COMPANY	5
DIVIDENDS TO STOCKHOLDERS	5
MANAGEMENT	5
CONFLICT OF INTEREST PROCEDURE.....	7
CORPORATE RECORDS	7
ACQUISITIONS, MERGERS, DISPOSALS, DISSOLUTIONS, AND PURCHASE OR SALES THROUGH REINSURANCE.....	7
SURPLUS DEBENTURES	7
AFFILIATED COMPANIES	8
TAX ALLOCATION AGREEMENT.....	8
COST SHARING AGREEMENT.....	8
MANAGEMENT AGREEMENT	9
MGA AGREEMENT	9
PROGRAM MANAGER AGREEMENT	9
ORGANIZATIONAL CHART	10
FIDELITY BOND AND OTHER INSURANCE.....	11
PENSION, STOCK OWNERSHIP AND INSURANCE PLANS	11
STATUTORY DEPOSITS.....	11
INSURANCE PRODUCTS AND RELATED PRACTICES.....	13
TERRITORY	13
TREATMENT OF POLICYHOLDERS.....	13
REINSURANCE	13
ASSUMED.....	14
CEDED	14
ACCOUNTS AND RECORDS.....	14
CUSTODIAL AGREEMENT	15
INDEPENDENT AUDITOR AGREEMENT.....	15
RISK-BASED CAPITAL.....	15

FINANCIAL STATEMENTS PER EXAMINATION.....	15
ASSETS	17
LIABILITIES, SURPLUS AND OTHER FUNDS	18
STATEMENT OF INCOME.....	19
COMMENTS ON FINANCIAL STATEMENTS.....	20
LIABILITIES	20
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS.....	21
CONCLUSION	23

Tallahassee, Florida

February 13, 2007

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

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300 Arbor Lake Drive, Suite 1200
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Alfred W. Gross
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Virginia Bureau of Insurance
State Corporation Commission
1300 East Main Street
Richmond, Virginia 23219

Dear Sirs and Madam:

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:

**ACCREDITED SURETY AND CASUALTY INSURANCE COMPANY, INC.
400 S. PARK AVENUE, SUITE 320
WINTER PARK, FLORIDA 32789-4320**

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

SCOPE OF EXAMINATION

This examination covered the period of January 1, 2002 through December 31, 2005. This examination commenced, with planning at the Florida Office of Insurance Regulation (Office), on May 15, 2006, to May 16, 2006. The fieldwork commenced on May 17, 2006, and was concluded as of August 11, 2006. The examination included any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

This financial examination was an association zone 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 verified the integrity of the balances of the 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 areas and accounts:

- Fraud
- Investments
- Other Expenses
- Contingent Liabilities

Status of Adverse Findings from Prior Examination

The Company was last examined by representatives of the Office as of December 31, 2001. The following is a summary of adverse findings contained in the Office's prior examination report along with the resulting action taken by the Company.

General

The Company had not written insurance coverage in certain lines of business for a period of two years.

Resolution: The Company requested that the Office remove those lines of business from their Certificate of Authority (COA). In August of 2006, the Company received notification that the Office removed those lines of business from their COA.

Corporate Records

The Company did not appoint an actuarial firm for the years 2000 and 2001.

Resolution: The Company received an exemption from filing a Statement of Actuarial Opinion for 2005 for the bail bond line only. The Company appointed an actuarial firm to obtain a Statement of Actuarial Opinion for the year 2005 for all other lines of business written by the Company.

The Company did not note in their board of directors minutes that the prior examination report had been reviewed as required by the NAIC Financial Condition Examiner's Handbook.

Resolution: The Company's board of directors' minutes noted that the Board of Directors reviewed the latest report of examination.

HISTORY

General

The Company was incorporated in Florida on July 6, 1971, under the laws of the State of Florida as a stock property and casualty insurer. The Company commenced business on September 1, 1971 with the name of Accredited Surety and Casualty Company, Inc.

The Company was authorized to transact the following insurance coverage in Florida on December 31, 2005:

Fidelity
Bail Bonds
Surety
Other Liability
Private Passenger Auto Liability
Private Passenger Auto Damage

The articles of incorporation and the bylaws were 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	200,000
Number of shares issued and outstanding	153,000
Total common capital stock	\$3,060,000
Par value per share	\$20.00

Ultimate control of the Company was maintained by Deborah Snow Jallad and Sharon Snow Jallad who each controlled 50% of the voting shares of its parent, Accredited Holding Company, who owned 100% of the stock issued by the 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	21,398,406	17,512,531	8,165,024
Net Underwriting Gain/(Loss)	3,632,809	4,160,068	2,191,893
Net Income	3,050,471	3,398,205	1,810,609
Total Assets	30,178,964	41,861,682	32,719,218
Total Liabilities	11,807,359	26,255,774	20,421,293
Surplus As Regards Policyholders	18,371,605	15,605,908	12,297,925

Dividends to Stockholders

The Company declared and paid no dividends to its stockholder in 2003, 2004 and 2005.

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

Deborah Snow Jallad
Winter Park, Florida

Sharon Snow Jallad
Winter Park, Florida

Principal Occupation

Director and President, Accredited Surety and Casualty Co.

Director, Vice President and Secretary, Accredited Surety and Casualty Co.

Johnny Joseph Jallad
Winter Park, Florida

Director, Vice President and Treasurer,
Accredited Surety and Casualty Co.

Louis Samir Jallad
Winter Park, Florida

Director and Vice President
Accredited Surety and Casualty Co.

Forest Ingram Hughes
New Smyrna Beach, Florida

Director, Accredited Surety and Casualty Co.

Fredric Marro
Cherry Hill, New Jersey

Director, Accredited Surety and Casualty Co.

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

Senior Officers

Name	Title
Deborah Snow Jallad	President
Johnny Joseph Jallad	Treasurer
Sharon Snow Jallad	Secretary

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

Executive Committee	Audit Committee	Investment Committee
Deborah Snow Jallad ⁽¹⁾	Forest Ingram Hughes	Deborah Snow Jallad ⁽¹⁾
Sharon Snow Jallad	Fredric Marro	Johnny Joseph Jallad
Johnny Joseph Jallad	Dennis Kubit	Sharon Snow Jallad
Louis Samir Jallad	Deborah Snow Jallad ⁽¹⁾	
Forest Ingram Hughes		
Fredric Marro		

⁽¹⁾Chair person

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with the NAIC Financial Condition Examiners Handbook.

Corporate Records

The recorded minutes of the shareholder, Board of Directors, and certain internal committees 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.

There was documentation in the Board of Directors' minutes that the previous examination report for the year ended December 31, 2001 was reviewed.

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

The Company reported no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

Surplus Debentures

The Company reported no surplus debentures.

AFFILIATED COMPANIES

The latest holding company registration statement was filed with the State of Florida on December 31, 2005, as required by Section 628.801, Florida Statutes, and Rule 69O-143.046, Florida Administrative Code.

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

Tax Allocation Agreement

The Company, along with its parent, filed a consolidated federal income tax return. On December 31, 2005, the method of allocation between the Company and its parent was on a basis proportionate to each company's income taxes computed on a separate company basis. In the event of a loss by any company on a separate company basis, the refundable income tax would be computed for that company on a separate company basis, and the income tax of the profitable company would be computed on a separate company basis. The refundable income taxes would be paid to the loss company by the profitable company, or shared proportionately, if all companies were loss companies for any given tax period.

Cost Sharing Agreement

The Company had a cost sharing agreement with Accredited Holding Corporation, its parent insurance holding company. The agreement required the allocation of shared expenses that were incurred to benefit all the members of the holding company in a consistent manner with the holding company's various subsidiaries on a fair and equitable basis.

Management Agreement

The Company, along with its affiliates, Accredited Bond Agencies, Inc. (ABA) and Accredited Group Agency, Inc. (AGA), had an administrative services agreement with Accredited Holding Corporation, the parent insurance holding company. The agreement provided for the holding company to perform administrative services, or to engage in financial capital commitments on behalf of the subsidiaries or for the benefit of the entire group, jointly or severally. For these services or commitments, the parent company charged management fees according to a defined schedule for each company to reimburse the parent for these obligations. For the year 2005, the Company was excluded from this agreement and from the payment of the management fees.

Managing General Agent (MGA) Agreement

The Company had a MGA agreement with ABA to manage its bail bond business. ABA paid the Company the sum of \$6.50 per \$1,000 of liability written by all of its agents and assumed by the Company. The MGA did not charge a policyholder fee. The MGA retained the difference between what it received from its agents and what it paid the Company. The Company was indemnified for all losses and loss adjustment expenses recognized under this agreement. The MGA agreed to hold the Company harmless from any and all actual losses and loss adjustment expenses on any bail bond undertaken by its agents or subagents.

Program Manager Agreement

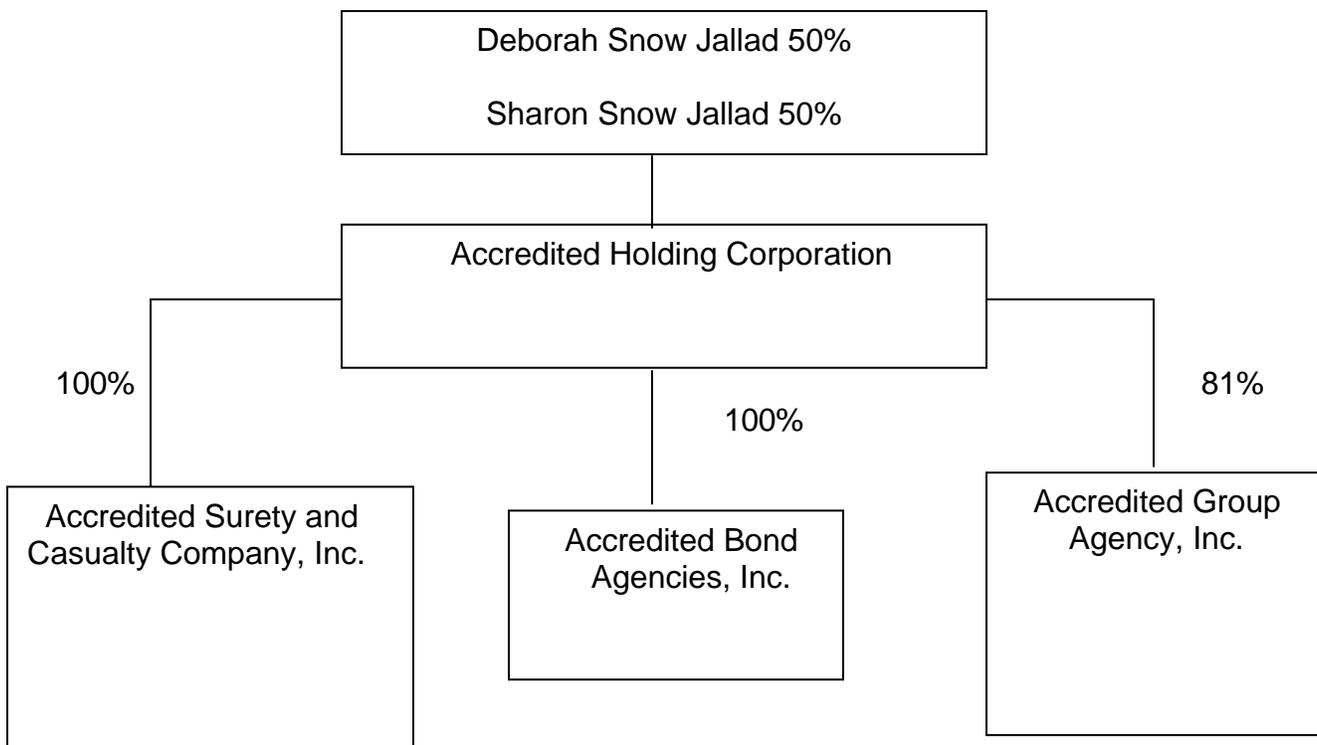
The Company had a program manager agreement with Accredited Group Agency, Inc., (AGA), to manage the fidelity and surety business of the Company with the exception of bail bonds. Under the terms of this agreement, AGA underwrote all surety and fidelity bonds written by the Company with the exception of bail bonds, paid certain expenses incidental to its operations

and remitted 50% of gross premiums until June 30, 2005 and 56% of gross premiums collected thereafter.

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.

**ACCREDITED SURETY AND CASUALTY COMPANY, INC.
ORGANIZATIONAL CHART**

DECEMBER 31, 2005



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$1,000,000 with a deductible of \$25,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC. The Company's parent had adequate general business insurance coverage which included all the subsidiaries.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company offered its employees fully paid medical and dental insurance, fully paid short and long term disability insurance, a profit sharing plan with discretionary Company contributions and a 401(k) plan with the Company matching employee contributions up to 4% of the employee's compensation.

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	Certificate, CA ST	4.500%	10/01/19	\$ 200,000	\$ 205,069
FL	Certificate, CA ST	5.000%	11/01/23	100,000	104,787
FL	Certificate, CANTON OH	3.200%	10/01/11	250,000	249,350
FL	Certificate, DENVER CO	3.400%	12/01/09	250,000	255,978
FL	Certificate, FORSYTH CT	4.300%	06/01/10	250,000	263,097
FL	Certificate, MA ST	3.000%	12/01/08	250,000	254,192
FL	Certificate, NY ST	5.250%	08/01/15	500,000	549,226
FL	Certificate, NC ST	4.000%	05/01/20	75,000	74,703
FL	Certificate, REEDY CR	5.375%	06/01/14	400,000	434,009
FL	Certificate, VA ST	4.000%	06/01/19	100,000	99,998
FL	Certificate, WI ST	4.800%	05/01/17	400,000	394,733
TOTAL FL DEPOSITS				\$ 2,775,000	\$2,885,142
AZ	Certificate, IL ST	4.500%	09/01/22	175,000	180,846
AZ	Certificate, OH ST	5.000%	11/01/15	15,000	15,680
AZ	Certificate, SEATTLE WA	4.200%	12/01/17	15,000	14,976
CA	Certificate, CD	1.780%	12/31/07	1,000	1,000
IN	Certificate, MA ST	4.125%	01/01/12	100,000	100,081
LA	Certificate, ASCE PAR	4.200%	11/01/10	70,000	70,000
MA	Certificate, NA ST	4.750%	08/01/27	510,000	514,711
NC	Certificate, FORSYTH CT	4.375%	03/01/19	200,000	201,112
NM	Certificate, SAN FRAN CA	4.750%	05/01/15	100,000	103,100
NV	Certificate, NC ST	4.000%	05/01/20	200,000	199,208
OK	Certificate, IL ST	4.500%	09/01/22	75,000	77,505
OK	Certificate, JER CITY NJ	4.000%	09/01/14	100,000	100,735
OK	Certificate, NV ST	3.750%	08/01/10	300,000	316,037
OK	Certificate, OH ST	4.500%	06/15/17	160,000	157,883
OK	Certificate, OH ST	5.000%	11/01/16	150,000	157,897
OK	Certificate, OR ST	4.750%	01/01/12	100,000	101,953
OK	Certificate, VIR BEACH VA	5.000%	05/01/14	150,000	159,720
OK	Certificate, WI ST	4.800%	05/01/17	40,000	39,473
OR	Certificate, CA ST	5.500%	03/01/15	10,000	10,832
OR	Certificate, NJ ST	4.125%	04/01/22	225,000	226,071
OR	Certificate, OH ST	5.000%	11/01/15	25,000	26,133
SC	Certificate, MD ST	4.500%	02/15/06	110,000	109,987
SC	Certificate, SC ST	4.500%	02/01/11	100,000	101,934
SC	Certificate, GE	6.000%	06/15/12	26,645	26,645
TN	Certificate, TN ST	5.125%	03/01/13	100,000	105,547
TN	Certificate, CD	2.570%	06/01/09	25,131	25,131
TX	Certificate, Assorted CDs	various	06/01/09	1,111,091	1,111,091
VA	Certificate, GE	5.450%	01/15/13	71,966	71,966
WY	Certificate, DENVER CO	4.500%	12/01/15	10,000	10,098
WY	Certificate, YUBA CITY CA	4.000%	09/01/22	150,000	148,160
TOTAL OTHER DEPOSITS				\$ 4,425,833	\$4,485,512
TOTAL SPECIAL DEPOSITS				\$ 7,200,833	\$7,370,654

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory

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

Alabama	Alaska	Arizona	Arkansas
California	Colorado	Connecticut	Delaware
Florida	Georgia	Hawaii	Idaho
Illinois	Indiana	Iowa	Kansas
Kentucky	Louisiana	Maine	Maryland
Massachusetts	Michigan	Minnesota	Mississippi
Missouri	Montana	Nebraska	Nevada
New Hampshire	New Jersey	New Mexico	New York
North Carolina	North Dakota	Ohio	Oklahoma
Oregon	Pennsylvania	Rhode Island	South Carolina
South Dakota	Tennessee	Texas	Utah
Vermont	Virginia	Washington	West Virginia
Wisconsin	Wyoming	District of Columbia	

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 reinsurance agreements reviewed were found to meet NAIC regulations with respect to the standard insolvency clause, arbitration clause, transfer of risk, reporting and settlement information deadlines.

Assumed

The Company assumed no risk.

Ceded

The Company ceded risk on a quota share and excess of loss basis to Endurance Reinsurance Corporation, GE Reinsurance Corporation, Hartford Fire Insurance Company and XL Reinsurance America, Inc.

ACCOUNTS AND RECORDS

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's historical data on Schedule P was not correct.

Subsequent event:

On September 15, 2006, the Company filed an amended Schedule P, to properly report claims on an accident year basis instead of on a claims reported year basis, as was mistakenly reported on the originally filed Schedule P.

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

An independent certified public accountant (CPA) audited the Company's statutory basis financial statements annually for the years 2003, 2004 and 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 and non-affiliates had the following agreements:

Custodial Agreement

The Company had a custodial agreement with Morgan Stanley Trust dated April 20, 2005. The agreement was in accordance with Rule 69O-143.042, Florida Administrative Code.

Independent Auditor Agreement

The Company had an agreement with Geller, Ragans, James, Oppenheimer & Creel, CPA to perform an audit of its GAAP and Statutory financial statements for the years 2003, 2004 and 2005.

Risk-Based Capital

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

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of December 31, 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."

ACCREDITED SURETY AND CASUALTY COMPANY, INC
Assets

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Bonds	\$ 22,329,995		\$ 22,329,995
Stocks:			
Common	2,179,369		2,179,369
Mortgages:			
First Liens	535,177		535,177
Cash and Short-term investments	3,215,240		3,215,240
Aggregate write-in for invested assets	168,595		168,595
Agents' Balances:			
Uncollected premium	169,486		169,486
Reinsurance:			
Recoverable from reinsurers	98,280		98,280
Other amounts receivable	363,302		363,302
Current Federal income tax recoverable	284,790		284,790
EDP Equipment	456,551		456,551
Investment income due & accrued	266,702		266,702
Receivable from parents, Subsidiaries and affiliates	111,475		111,475
Total	\$ 30,178,962	\$0 \$	30,178,962

ACCREDITED SURETY AND CASUALTY COMPANY, INC
Liabilities, Surplus and Other Funds

DECEMBER 31, 2005

	Per Company	Examination Adjustments	Per Examination
Losses	\$4,198,965		\$4,198,965
Loss adjustment expenses	619,262		619,262
Other expenses	200,416		200,416
Taxes, licenses and fees	102,356		102,356
Net deferred tax liability	119,969		119,969
Unearned premium	2,714,614		2,714,614
Funds held under reinsurance treaties	168,595		168,595
Cede reinsurance premiums payable	387,905		387,905
Payable to parent, subsidiaries and affiliates	113,219		113,219
Aggregate write-ins for liabilities	<u>3,182,058</u>		<u>3,182,058</u>
Total Liabilities	\$11,807,359		\$11,807,359
Common capital stock	\$3,060,000		\$3,060,000
Gross paid in and contributed surplus	541,000		541,000
Unassigned funds (surplus)	<u>14,770,605</u>		<u>14,770,605</u>
Surplus as regards policyholders	<u>\$18,371,605</u>		<u>\$18,371,605</u>
Total liabilities, capital and surplus	<u><u>\$30,178,964</u></u>	<u><u>\$0</u></u>	<u><u>\$30,178,964</u></u>

ACCREDITED SURETY AND CASUALTY COMPANY, INC
Statement of Income

DECEMBER 31, 2005

Underwriting Income	
Premiums earned	\$21,398,406
DEDUCTIONS:	
Losses incurred	4,193,453
Loss expenses incurred	455,043
Other underwriting expenses incurred	13,117,101
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$17,765,597</u>
Net underwriting gain or (loss)	\$3,632,809
Investment Income	
Net investment income earned	\$1,008,646
Net realized capital gains or (losses)	(37,309)
Net investment gain or (loss)	<u>\$971,337</u>
Other Income	
Net income before dividends to policyholders and before federal & foreign income taxes	\$4,604,147
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$4,604,147</u>
Federal & foreign income taxes	<u>1,553,676</u>
Net Income	\$3,050,471
Capital and Surplus Account	
Surplus as regards policyholders, December 31 prior year	\$15,605,907
Gains and (Losses) in Surplus	
Net Income	\$3,050,471
Change in net unrealized capital gains or (losses)	140,044
Change in net deferred income tax	(98,766)
Change in non-admitted assets	(174,870)
Aggregate write-ins for gains and losses in surplus	(151,181)
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$2,765,698</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$18,371,605</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Liabilities

Losses and Loss Adjustment Expenses \$ 4,818,227

An outside actuarial firm appointed by the Board of Directors, rendered an opinion that the amounts carried in the balance sheet as of December 31, 2005, made a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its policies and agreements.

The Office actuary reviewed work papers provided by the Company and was in concurrence with this opinion.

A comparative analysis of changes in surplus is shown below.

**ACCREDITED SURETY AND CASUALTY COMPANY, INC.
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 December 31, 2005, per Annual Statement	\$	18,371,605
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	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
No adjustment.			0
LIABILITIES:			
No adjustment.			0
Net Change in Surplus:			<u>0</u>
Surplus as Regards Policyholders December 31, 2005, Per Examination			<u>\$ 18,371,605</u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken the necessary actions to comply with the comments made in the 2001 examination report issued by the Office.

Current examination comments and corrective action

There were no material findings or corrective actions to be taken with regard to this examination.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Accredited Surety and Casualty Company, Inc.** 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 \$18,371,605, which was in compliance with Section 624.408, Florida Statutes.

In addition to the undersigned, Christine Afolabi, Financial Examiner/Analyst I, Jay Ambler, Financial Examiner/Analyst II and Joe Boor, FCAS, Office Actuary, participated in examination. We also recognize the participation of Highland Clark, LLC for performing the 2004 Information Technology examination.

Respectfully submitted,

Roger Kelley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation

Michael Hampton, CPA, CFE, DABFA, CFE, CPM
Financial Examiner/Analyst Supervisor
Florida Office of Insurance Regulation