

REPORT ON EXAMINATION
OF
OCEAN HARBOR CASUALTY
INSURANCE COMPANY
TALLAHASSEE, FLORIDA

AS OF
DECEMBER 31, 2004

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

October 14, 2005

Honorable Alfred Gross
Chair of the E Committee
Commissioner, Virginia Bureau of Insurance
P. O. Box 1157
Richmond, Virginia 23218

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

Dear Sirs:

Pursuant to your instructions, in compliance with Section 624.316, Florida Statutes (FS), and in accordance with the practices and procedures promulgated by the National Association of Insurance Commissioners (NAIC), we have conducted an examination as of December 31, 2004, of the financial condition and corporate affairs of:

**OCEAN HARBOR CASUALTY INSURANCE COMPANY
1545 RAYMOND DIEHL ROAD, SUITE 250
TALLAHASSEE, FLORIDA 32317-2200**

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, 2004 through December 31, 2004. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2003. This examination commenced, with planning at the Office, on August 5, 2005. The fieldwork commenced on August 7, 2005, and was concluded as of October 14, 2005. 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 annual 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 (FAC), 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 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 and the Company's independent audit reports were reviewed and utilized where applicable within the scope of this examination.

We valued and/or verified the amounts of the Company's assets and liabilities as reported by the Company in its annual statement as of December 31, 2004. Transactions subsequent to year-end 2004 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 Law, Redd, Crona & Monroe, the Company's CPA, after verifying the statutory requirements for the following accounts:

Net deferred tax asset
Current federal and foreign income taxes

Reliance was also placed on adjustments made by the CPA to the following accounts:

Agents Balances Receivable	LAE Reserve
Funds Deposited Reinsurers	FIT Payable
Reinsurance Recoverable	Ceded Premium Payable
Net Deferred Tax Asset	Other Liabilities

Status of Adverse Findings from Prior Examination

The following is a summary of significant adverse findings contained in the Office's prior examination report as of December 31, 2003, filed on February 7, 2005, along with resulting action taken by the Company in connection therewith.

Corporate Records

The Company failed to comply with its Bylaws with regard to the annual meeting date and the number of regular meetings.

Resolution: The Company provided the Office with a copy of amended bylaws which address the number of meetings and the annual meeting dates.

Reinsurance

The reinsurance treaty covering the Florida business did not transfer significant insurance risk and therefore must be recorded using deposit accounting in accordance with NAIC Statements of Statutory Accounting Principles (SSAP) 62. This treaty was terminated effective April 1, 2004.

Resolution: The Company amended its reinsurance agreement effective April 1, 2004 to effect significant insurance risk transfer. In 2004, the Company recorded activity under its 2003 reinsurance treaty and the first quarter of 2004 activity using deposit accounting.

Accounts and Records

The Company failed to include SR22 fees specific to auto policies as written premiums in violation of Section 627.403, FS.

Resolution: The SR 22 fees are now reported to the Company and recorded as premiums written on a monthly basis.

The Company inadvertently classified payments for loss adjustment expenses as loss payments in violation of SSAP 55 (5).

Resolution: This exception is still present in the 2004 examination as reported by the CPA.

The Company failed to report, pay, or deliver to the Department of Financial Services, all funds in their possession and unclaimed for more than 5 years, in accordance with Sections 717.102 and 717.117, FS.

Resolution: The Company filed the 2003 and 2004 unclaimed property reports. A copy of the unclaimed property reports were provided to the Office.

Information Technology Requirement

The information technology section of the prior Office report identified eight deficiencies and recommendations. Use of passwords did not adhere to the generally accepted practice of being assigned by the user and expiring periodically.

Resolution: The Company was currently discussing and planning to address the information technology recommendations with its general agent.

Custodial Agreement

The Company failed to obtain a written custodial agreement in violation of Rule 69O-143.042, FAC.

Resolution: The Company has entered into a custodian agreement with TD Waterhouse. A copy of the custodian agreement was provided to the Office and it met the requirements of Rule 69O-143.042, FAC.

MGA Agreement

The Company's MGA failed to maintain errors and omissions insurance coverage and fidelity bond coverage as required by Article VIII of the agency agreement and also Section 626.7453, FS.

Resolution: The Company provided the Office with a copy of the MGA certificate of insurance for its errors and omissions coverage which met the requirements of Section 626.7453, FS.

Investment Income Due and Accrued

The Company inadvertently calculated accrued interest on a few bonds using erroneous payment dates.

Resolution: As indicated, the miscalculations were inadvertent and isolated. The Company reviewed the calculation of accrued interest on all bonds and made corrections to its calculations where necessary.

Agent's Balances

The Company incorrectly reported the balance for Premiums receivable.

Resolution: Premiums receivable are currently recorded correctly.

Deferred Tax Asset

The Company failed to limit the deferred tax asset to 10% of the surplus reported on the most recently filed financial statement, in violation of SSAP 10.

Resolution: The Company now includes a limitation factor in its computation of deferred taxes not to exceed 10% of the surplus reflected in the most recent financial statement. This change was effective in 2005.

Aggregate Write-in for Other than Invested Assets

The Company failed to classify policy fees receivable from Express General as Premiums receivable.

Resolution: Policy fees receivable are now being recorded as Premiums receivable.

Loss and Loss Adjustment Expense

The Company misclassified unpaid Loss adjustment expenses.

Resolution: Unpaid Loss adjustment expenses are currently recorded correctly.

Other Expenses and Taxes, Licenses and Fees

The Company failed to accrue for a few immaterial expenses at December 31, 2003, as required by Section 625.041(4), FS.

Resolution: As indicated, the Office discovered a few expenses immaterial in amount, that were not accrued at December 31, 2003. Current procedures require a review of all payments made subsequent to the end of the year.

Ceded Reinsurance Premiums Payable

The Company erroneously offset Reinsurance recoverable on paid loss and loss adjustment expenses with Ceded reinsurance premiums payable in violation of SSAP 62.

Resolution: The Company was no longer offsetting reinsurance recoverable on paid loss and loss adjustment expenses with Ceded balances payable. The Company recorded the gross amount on a quarterly basis.

HISTORY

General

The Company was incorporated on June 17, 1986, under the laws of the State of Oklahoma and was subsequently re-domesticated to the State of Florida effective March 17, 1994. The Company commenced business on June 26, 1986 and began writing premium in Florida in 1994.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following insurance coverage in Florida on December 31, 2003:

Private Passenger Auto Liability
Commercial Automobile Liability

PPA Physical Damage
Commercial Auto Physical Damage

Capital Stock

As of December 31, 2004, the Company's capitalization was as follows:

Number of authorized common capital shares	1,000,000
Number of shares issued and outstanding	1,000,000
Total common capital stock	\$3,000,000
Par value per share	\$3.00

Control of the Company was maintained by its parent, RM Ocean Harbor Holding, Inc., a Delaware corporation, who owned 100 percent of the stock issued by the Company. 100% of the common stock of RM Ocean Harbor Holding, Inc., was wholly owned by Lucille Milo, in trust for Philip Milo and Jennifer Milo. Ralph Milo owned 100% of the preferred stock of RM Ocean Harbor Holding, Inc.

Profitability of Company

The following table shows the profitability trend (in dollars) of the Company for the period of examination.

	2004	2003	2002
Premiums Earned	61,073,184	52,878,345	48,960,388
Net Underwriting Gain/(Loss)	7,975,326	(776,842)	(454,103)
Net Income	8,028,248	(1,526,093)	625,093
Total Assets	76,706,268	70,972,434	60,683,161
Total Liabilities	52,600,595	50,550,129	43,871,229
Surplus As Regards Policyholders	24,105,676	20,422,305	16,811,932

Dividends to Stockholders

No dividends were declared or paid to the stockholder during the two-year period 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, FS. Directors serving as of December 31, 2004, were:

Directors

Name and Location	Principal Occupation
Ralph Milo Fisher Island, Florida	President and Treasurer
Donna Mari Erickson Stamford, Connecticut	Secretary and Director
Philip John Milo Oceanside, New York	Vice President and Director
Robert Daniel Ferguson Port St. Lucie, Florida	Retired Director
Carl Joseph Hildner Glen Ellyn, Illinois	Retired Director
David Joseph Maundrell, III Brooklyn, New York	Real Estate Broker Director
William Emerson Roche Brooklyn, New York	Insurance Consultant Director

In April, 2004, Robert D. Ferguson and Carl J. Hildner resigned from the Board of Directors.

The Company was planning to amend its articles of incorporation to have only five members on the Board of Directors.

In April of 2005, the Board of Directors selected William E. Roche as the Company's President and Treasurer.

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

Senior Officers

Name	Title
Ralph Milo	President and Treasurer
Donna Mari Erickson	Secretary
Philip J. Milo	Vice President

The Company's Board of Directors appointed several internal committees in accordance with Section 607.0825, FS. Following are the principal internal board committees and their members as of December 31, 2004:

Audit Committee

Robert D. Ferguson
David J. Maundrell, III
William E. Roche
Donna M. Erickson
Philip J. Milo
Carl J. Hildner
Ralph Milo

Investment Committee

Ralph Milo
Philip J. Milo
Donna M. Erickson

Conflict of Interest Procedure

The Company adopted a policy statement requiring annual disclosure of conflicts of interest, in accordance with Section 607.0832, FS. 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, FS, including the authorization of investments as required by Section 625.304, FS.

Acquisitions, Mergers, Disposals, Dissolutions, and Purchase

There were no acquisitions, mergers, disposals, dissolutions, and purchase or sales through reinsurance.

AFFILIATED COMPANIES

The Company was a member of an insurance holding company system as defined by Rule 69O-143.045(3), FAC. The latest holding company registration statement was filed with the State of Florida on February 3, 2005, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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 for the taxable year ending May 31, 2004. The agreement provided that the Company compute and remit its taxes as if they filed a separate return.

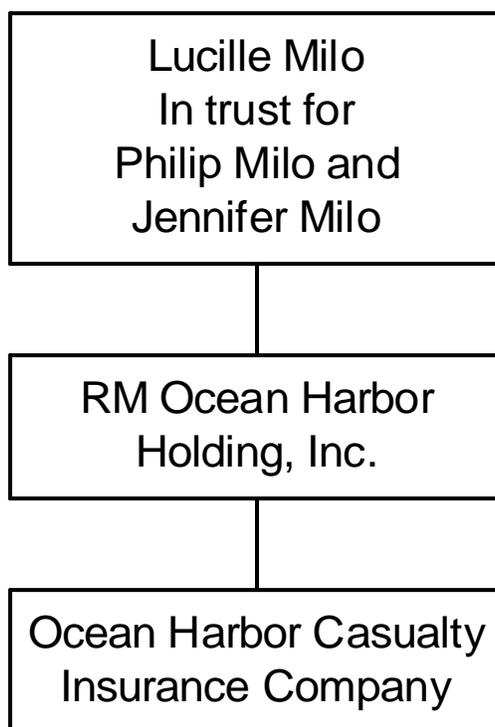
Cost Allocation Agreement

The Company entered into a cost allocation agreement with its parent on November 24, 2003, which provided that the parent apportion any expenses paid on behalf of the Company. The agreement also stated that expenses shall be settled no later than 30 days following each calendar quarter.

A simplified organizational chart as of December 31, 2004, reflecting the holding company system, is shown below. Schedule Y of the Company's 2004 annual statement provided a list of all related companies of the holding company group.

**OCEAN HARBOR CASUALTY INSURANCE COMPANY
ORGANIZATIONAL CHART**

DECEMBER 31, 2004



FIDELITY BOND AND OTHER INSURANCE

The Company maintained fidelity bond coverage up to \$2,500,000 with a deductible of \$100,000, which adequately covered the suggested minimum amount of coverage for the Company as recommended by the NAIC.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company had no employees. The staff of RM Ocean Harbor Holding, Inc., the parent, provided services to the Company and allocated a portion of their salaries to the Company. The employees were covered by a 401(k) defined contribution and profit sharing plan, and a portion of the matching contributions were allocated to the Company. The cost to the Company for matching contributions in 2004 was \$23,367.

STATUTORY DEPOSITS

The following securities were deposited with the State of Florida as required by Section 624.411, FS, and with various state officials as required or permitted by law:

State	Description	Par Value	Market Value
FL	U.S. Treasury Note 1.625%, 10/31/2005	\$ 1,510,000	\$ 1,503,205
FL	U.S. Treasury Note 2.500%, 09/30/2006	<u>505,000</u>	<u>496,788</u>
TOTAL SPECIAL DEPOSITS		<u>\$2,015,000</u>	<u>\$ 1,999,993</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Reliance was placed on the latest market conduct examination, filed March 11, 2005, by the Office to determine the accuracy of premium computation, policy construction, claims handling procedures and use of filed rates and forms. The exceptions noted in the issued report did not affect the solvency of the Company.

Territory

The Company was authorized to transact insurance in the following states, in accordance with Section 624.401(2), FS:

Florida

Oklahoma

California

The Company did not write any insurance business in the state of Oklahoma during the period covered by this examination.

Treatment of Policyholders

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

The Company maintained a claims procedure manual that included detailed procedures for handling each type of claim.

REINSURANCE

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

A review of the Company's reinsurance agreements was performed by the Office. Although adequate risk transfer exists to meet the definition of transfer of risk, the loss caps and profit commissions stated in the agreement serve to limit that risk to a level which marginally passes risk transfer.

Assumed

The Company did not assume any insurance business during the period covered by this examination.

Ceded

The Company ceded risk on a quota share basis to Ace Property and Casualty Insurance and Partner Reinsurance Company, both authorized reinsurers. The Company was in the process of commuting the 50 percent quota share agreement.

The reinsurance contracts were reviewed by the Company's appointed actuary and were utilized in determining the ultimate loss opinion.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the 2004 years in accordance with Section 624.424(8), FS. Supporting work papers were prepared by the CPA as required by Rule 69O-137.002, FAC.

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 Tallahassee, Florida, where this examination was conducted.

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company utilized the services of TD Waterhouse Investor Services, Inc. (TDW). The safekeeping agreement between the Company and TDW contained the appropriate safeguards and controls indemnifying the Company as provided by Rule 69O-143.042, FAC.

MGA Agreement

The Company maintained an agency agreement with J.A.J. Holding Company, Inc. (JAJ), effective September 1, 1994 for the administration of the private passenger automobile physical damage and property damage liability program. The agreement provided that JAJ had the authority to receive and accept proposals for insurance, to collect and receive premiums on insurance, to make customary endorsements changes, assignments, transfers, and modifications of existing policies and to deliver and countersign insurance policies. The Company maintained an independent audit of the MGA, which was performed by Rachlin Cohen & Holtz, LLP, as of March 25, 2004. JAJ changed its name to Pearl Holding Group.

Claims Service Agreement

The Company maintained a claims service agreement with JAJ, effective September 1, 1994, whereby JAJ performed claims services for policies issued under the agency agreement and administer and adjust all claims arising under the policies issued by JAJ.

General Agency Agreement

The Company maintained a general agency agreement effective April 1, 2003 with Express General Insurance Agency LLC Company, Inc. (EG), a limited liability corporation organized under the laws of the State of California. The Company appointed EG as its agent and granted them authority to solicit, receive and accept applications for insurance coverage in California and to perform other acts and duties under policies of insurance issued by the Company as otherwise would be performed by the Company.

Claims Service Agreement

The Company maintained a claims service agreement with Newport Claim Services LLC, effective July 1, 2003. The agreement provided that Newport Claim Services administer and adjust claims arising from policies issued by EG.

Program Administrator Agreement

The Company entered into a program administrator agreement on July 1, 2003 appointing EG as the Company's program administrator to solicit, receive and accept applications for insurance, to collect and receive premiums, and to underwrite quote, bind, rate, issue, and service policies written in California.

Records Custodian Agreement

The Company entered into an agreement with Gulf Atlantic Insurance Services, Inc. (Gulf Atlantic) effective November 24, 2003 whereby Gulf Atlantic acted as the custodian for the Company's corporate and accounting records and also provided various administrative services.

Independent Auditor Agreement

The Company engaged Law, Redd, Crona & Munroe, PA for the purpose of annually auditing and reporting on the statutory basis financial statements at year-end.

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, 2004, 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."

OCEAN HARBOR CASUALTY INSURANCE COMPANY
Assets

Classification	DECEMBER 31, 2004		
	Per Company	Examination Adjustments	Per Examination
Bonds	\$24,136,322		\$24,136,322
Stocks:			
Preferred	1,919,212		1,919,212
Cash:			
On hand	27,361,138		27,361,138
Short-term investments	13,243,679		13,243,679
Investment income due & accrued	368,722		368,722
Premiums and considerations			
Uncollected premium	170,912	\$1,321,611	1,492,523
Reinsurance Recoverable	2,984,737	(2,003,965)	980,772
Other amounts receivable under reinsurance contracts	2,810,919	(1,732,969)	1,077,950
Net deferred tax asset	1,953,342	(173,503)	1,779,839
Aggregate write-in for other than invested assets	1,757,285		1,757,285
Totals	\$76,706,268	(\$2,588,826)	\$74,117,442

OCEAN HARBOR CASUALTY INSURANCE COMPANY
Liabilities, Surplus and Other Funds

DECEMBER 31, 2004

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	\$21,821,324		\$21,821,324
Loss adjustment expenses	2,361,000	\$31,639	2,392,639
Other expenses	39,413		39,413
Taxes, licenses and fees	242,979		242,979
Current federal and foreign income taxes	979,460	(402,355)	577,105
Unearned premium	18,230,500		18,230,500
Ceded reinsurance payable	8,836,041	(682,354)	8,153,687
Payable to parent, subsidiaries and affiliates	58,239		58,239
Aggregate write-ins for liabilities	31,639	(31,639)	0
Total Liabilities	\$52,600,595	(\$1,084,709)	\$53,685,304
Common capital stock	\$3,000,000		\$3,000,000
Gross paid in and contributed surplus	3,359,723		3,359,723
Unassigned funds (surplus)	17,745,953		17,745,953
Surplus as regards policyholders	\$24,105,676	(\$1,504,117)	\$22,601,559
Total liabilities, capital and surplus	\$76,706,271	(\$2,588,826)	\$74,117,443

OCEAN HARBOR CASUALTY INSURANCE COMPANY
Statement of Income

DECEMBER 31, 2004

Underwriting Income

Premiums earned	\$61,073,184
DEDUCTIONS:	
Losses incurred	36,648,132
Loss expenses incurred	6,865,894
Other underwriting expenses incurred	9,911,471
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$53,425,497</u>
Net underwriting gain or (loss)	\$7,647,687

Investment Income

Net investment income earned	\$1,616,715
Net realized capital gains or (losses)	63,178
Net realized capital gains or (losses)	<u>\$1,679,893</u>

Other Income

Total other income	\$0
Net income before dividends to policyholders and before federal & foreign income taxes	\$9,327,580
Dividends to policyholders	
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$9,327,580</u>
Federal & foreign income taxes incurred	<u>2,696,948</u>
Net Income	\$6,630,632

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	\$20,422,305
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Gains and (Losses) in Surplus

Net Income	\$6,630,632
Net unrealized capital gains or losses	(36,128)
Change in net deferred income tax	(162,306)
Change in non-admitted assets	55,516
Prior Year Surplus Adjustment	(2,804,343)
Examination Adjustment	(1,504,117)
Change in surplus as regards policyholders for the year	<u>\$2,179,254</u>
Surplus as regards policyholders, December 31 current year	<u><u>\$22,601,559</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Investment Income Due and Accrued \$368,722

The above amount is the same as that reported by the Company. As reported in the 2003 examination report, the Company inadvertently miscalculated accrued interest on several bonds. Although miscalculations continued throughout the 2004 exam year, the miscalculated accrued interest amount was considered immaterial, and no examination adjustment was required.

Agents' Balances Receivable \$1,492,523

The Agents' balance account was reported at \$170,912, but was readjusted by the Company's independent CPA for \$1,321,611 when reinsurance deposit accounting was applied for the period of January 1, 2004 to March 31, 2004.

Other Amounts Receivable under Reinsurance \$1,077,950

The funds held or deposited with reinsurers account was reported at \$2,810,919, but was readjusted by the Company's independent CPA for (\$1,732,969) when reinsurance deposit accounting was applied for the period of January 1, 2004 to March 31, 2004.

Reinsurance Recoverable \$980,772

The reinsurance recoverable account was reported at \$2,984,737, but was readjusted by the Company's independent CPA for (\$2,003,965) when reinsurance deposit accounting was applied for the period of January 1, 2004 to March 31, 2004.

Net Deferred Tax Asset\$1,779,839

The net deferred tax asset account was reported at \$1,953,342, but was readjusted by the Company's independent CPA for \$173,503 when reinsurance deposit accounting was applied for the period of January 1, 2004 to March 31, 2004.

Liabilities**Losses**\$21,821,324

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, 2004, 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.

The Office actuary reported the following exception: The outside actuarial firm did not provide the name of the person within the Company responsible for providing accurate data in the actuarial opinion as required by the NAIC annual statement instructions.

Loss Adjustment Expense\$2,392,639

The loss adjustment expense account was reported at \$2,361,000, but was readjusted by the Company's independent CPA by \$31,639 due to reclassification of the amount from aggregate write-in for liabilities account.

Aggregate Write-in for Liabilities\$-0-

The aggregate write-in for liabilities account was reported at \$31,639, but was readjusted by the Company's independent CPA for (\$31,639), due to a reclassification to the loss adjustment expense account.

Federal and Foreign Income Tax Payable\$577,105

The federal and foreign income tax payable account was reported at \$979,460, but was readjusted by the Company's independent CPA for (\$402,355) due to the change to reinsurance deposit accounting for the period of January 1, 2004 to March 31, 2004.

Ceded Reinsurance Premium Payable\$8,153,687

The ceded reinsurance premium payable account was reported at \$8,836,041, but was readjusted by the Company's independent CPA for (\$682,354) due to the change to reinsurance deposit accounting for the period of January 1, 2004 to March 31, 2004.

**OCEAN HARBOR CASUALTY INSURANCE COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS**

DECEMBER 31, 2004

Surplus as Regards Policyholders
per December 31, 2004, Annual Statement \$24,105,676

	<u>PER COMPANY</u>	<u>PER EXAM</u>	<u>INCREASE (DECREASE) IN SURPLUS</u>
ASSETS:			
Agents' Balances Receivable	\$170,912	\$1,492,523	\$1,321,611
Other Amounts Receivable Rein.	2,810,919	1,077,950	(1,732,969)
Reinsurance Recoverable	2,984,737	980,772	(2,003,965)
Net Deferred Tax Asset	1,953,342	1,779,839	(173,503)
LIABILITIES:			
Federal Income Tax Payable	979,460	577,105	(402,355)
Ceded Premiums Payable	8,836,041	8,153,687	(682,354)
Loss Adjustment Expenses	2,361,000	2,392,639	31,639
Aggregate Write-ins Liabilities	31,639	-	(31,639)
Net Change in Surplus:			<u>(\$1,504,117)</u>
Surplus as Regards Policyholders December 31, 2004, Per Examination			<u>\$22,601,559</u>

SUMMARY OF FINDINGS

Compliance with previous directives

The Company has taken some of the necessary actions to comply with the comments made in the 2003 examination report issued by the Office on February 7, 2005.

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, 2004.

Investment Income Due and Accrued

As commented in the 2003 examination report, the Company incorrectly recorded the accrued interest on a sample of bonds accrued interest calculations for the 2004 year. **It is recommended that the Company correctly report accrued interest on all future annual statements filings.**

Loss Adjustment Expense

The Company did not properly classify all unpaid loss adjustment expenses. **It is recommended that the Company correctly report all unpaid loss adjustment expenses on future annual statement filings.**

Aggregate Write-in for Liabilities

The Company classified certain unpaid loss adjustment expenses as other liabilities. **It is recommended that the Company correctly report other liabilities on all future annual statements.**

Loss Reserves Actuarial Report

The Company's actuary did not properly prepare the actuarial opinion in accordance with the NAIC annual statement instructions. **It is recommended that the Company follow the 2005 NAIC annual statement instructions in the issuance of future actuarial opinions.**

SUBSEQUENT EVENTS

There were no significant subsequent events.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Ocean Harbor Casualty Insurance Company** as of December 31, 2004, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was \$22,601,559, which was in compliance with Section 624.408, FS.

In addition to the undersigned, the following personnel participated in the examination, John Berry, Financial Examiner/Analyst Supervisor, Richard Shaffer, Financial Examiner/Analyst II, Bettina Hancock, Financial Examiner/Analyst I, and Joe Boor, FCAS, Office Actuary.

Respectfully submitted,

James D. Collins
Financial Examiner/Analyst II
Florida Office of Insurance Regulation