

REPORT ON EXAMINATION
OF
ROCHE SURETY AND CASUALTY
COMPANY, INC.
TAMPA, FLORIDA

AS OF
DECEMBER 31, 2002

BY THE
OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida
January 16, 2004

Kevin M. McCarty
Director
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 (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, 2002, of the financial condition and corporate affairs of:

**ROCHE SURETY AND CASUALTY COMPANY, INC.
1910 ORIENT ROAD
TAMPA, FLORIDA 33619**

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, 2000 through December 31, 2002. This examination commenced with planning at the Office on October 27, 2003 through October 31, 2003. The fieldwork commenced on November 11, 2003, and was concluded as of January 16, 2004. 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 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, the A.M. Best Report, the Company's independent audit reports and certain work papers prepared by the Company's independent certified public accountant 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, 2002. Transactions subsequent to year-end 2002 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.

Status of Adverse Findings from Prior Examination

The Company incorrectly reported certificates of deposit and cash on deposit with the Office, on Schedule DA as short-term investments. The Company incorrectly reported several certificates of deposit as suspended depositories on Schedule E.

Resolution: The Company correctly reported certificates of deposit and cash at December 31, 2002.

The Company incorrectly netted a collateral asset against the associated liability, rather than recording these amounts on separate line items on the balance sheet.

Resolution: The Company correctly reported the collateral asset and its associated liability correctly on the balance sheet at December 31, 2002.

HISTORY

General

The Company was incorporated on March 27, 1981 (with the name of American Pioneer Casualty Insurance Company), under the laws of the State of Florida, as a stock property and casualty insurer, and commenced business on March 2, 1982. Roche Surety, Inc. purchased the Company in 1996 and subsequently renamed it Roche Surety and Casualty Company, Inc.

In accordance with Section 624.401(1), FS, the Company was authorized to transact Bail Bond insurance coverage in Florida on December 31, 2002.

The articles of incorporation were amended during the period covered by this examination.

Capital Stock

As of December 31, 2002, the Company's capitalization was as follows:

Number of authorized common capital shares	2,000,000
Number of shares issued and outstanding	500,000
Total common capital stock	\$ 1,250,000
Par value per share	\$2.50

The Company incorrectly reported 400,000 shares in the Notes to Financial Statements, Item No. 13 (a) of their Annual Statement, in violation of Rule 69O-137.001, FAC.

Company control was maintained by its parent, Roche Surety, Inc. (RSI), who owned 100 percent of the stock of the Company. RSI was an insurance holding company domiciled in the State of Florida.

The Company maintained one stock certificate of issue that did not reflect the correct par value of its capital common stock, in violation of Section 607.0625, FS.

Profitability of Company

The Company reported gross premiums of \$16,268,509, net premiums written of \$1,136,264, with a resulting net income, after taxes, of \$24,953. The Company reported net income, after taxes, in the prior year, of \$54,469, on net written premiums of \$984,068.

Dividends to Stockholders

In accordance with Section 628.371, FS, the Company did not declare or pay dividends to its stockholder in 2002.

Management

The annual shareholder meeting for the election of directors was held in accordance with Section 607.1601 and 628.231, FS. Directors serving as of December 31, 2002, were:

Directors

Name and Location

Principal Occupation

Armando O. Roche
Thonotosassa, FL

Chairman/CEO (1/03)
President (resigned 1/03)
CEO RSI

Linda Roche
Thonotosassa, FL

Director
Secretary/Treasurer
(resigned as Secretary 2/03)
Sec/Treasurer RSI
Owner Roche Bail Bonds

Gilbert M. Rodriguez
Tampa, FL

Director
Vice President
(resigned as VP 5/03)

George A. Pollock, Sr. Valrico, FL	Director/COO President (as of 1/03)
Fred Carrington Belleair, FL	Director Attorney
John Barbon Wesley Chapel, FL	Director Retired Bondsman
Melisa Martin Tampa, FL	Director
Shannon Roche Thonotosassa, FL	Director VP RSI

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

Senior Officers

Name	Title
Armando O. Roche	President (resigned 1/03)
Linda Roche	Treasurer
Linda Roche	Secretary

The Company's board appointed two internal committees in accordance with Section 607.0825, FS. The following are the principal internal board committees and members as of December 31, 2002:

Audit Committee	Finance Committee
Fred Carrington	Armando Roche
John Barbon	George Pollack, Sr.
George Pollack, Sr.	Edward Diliberto
	Linda Roche
	Shannon Roche

The Company maintained an audit committee, as required by Section 624.424(8), FS.

Conflict of Interest Procedure

The Company adopted a policy statement in their Employee Handbook, and maintained executed Conflict of Interest Statements, in compliance with Rule 69O-138.001(1), FAC.

Corporate Records

The recorded minutes of the shareholder and Board of Directors meetings were reviewed for the period under examination. The recorded minutes of the Board adequately documented its meetings and approval of Company transactions, except where noted in this report, 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 or Sales Through Reinsurance

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

Surplus Debentures

The Company maintained a \$1,000,000 surplus note payable at 8.25 percent to its parent, RSI.

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 March 14, 2003, as required by Section 628.801, FS, and Rule 69O-143.046, FAC.

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

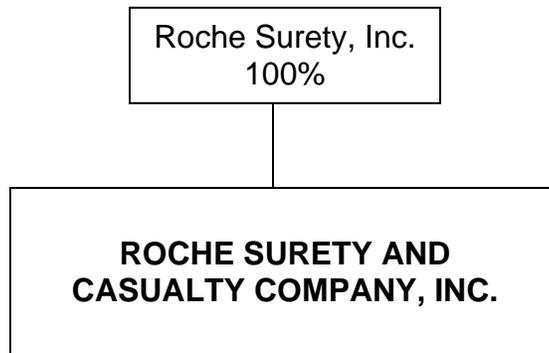
Management/Limited MGA/Agency Agreement

The Company had a Management/Limited MGA/Agency Agreement with its parent, RSI. RSI provided the following services: underwriting, actuarial services, claims, marketing, data processing, accounting management, legal services, investment services and premium processing.

The Company did not disclose their Management/Limited MGA/Agency Agreement in the Notes to Financial Statements, Item No. 10(f), in violation of Rule 69O-137.001, FAC.

An organizational chart as of December 31, 2002 reflecting the holding company system is shown below. Schedule Y of the Company's 2002 annual statement provided a list of all related companies of the holding company group, in compliance with Rule 69O-137.001(4), FAC.

**ROCHE SURETY AND CASUALTY COMPANY, INC.
ORGANIZATIONAL CHART
DECEMBER 31, 2002**



FIDELITY BOND AND OTHER INSURANCE

The Company did not maintain adequate fidelity bond coverage of \$100,000 with a deductible of \$5,000, the suggested minimum amount of coverage for the Company as recommended by the NAIC, in violation of Rule 69O-138.001, FAC.

Subsequent event: The Company obtained adequate fidelity bond coverage during 2003.

PENSION, STOCK OWNERSHIP, AND INSURANCE PLANS

The Company's employees are covered by a 401K Plan through RSI.

STATUTORY DEPOSITS

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

<u>State</u>	<u>Description</u>	<u>Par Value</u>	<u>Market Value</u>
FL	Money Market Colonial Bank	<u>\$ 900,000</u>	<u>\$ 900,000</u>
	TOTAL FLORIDA DEPOSITS	<u>\$ 900,000</u>	<u>\$ 900,000</u>
NV	CD 2.8% 3/20/03	\$ 95,000	\$ 95,000
	CD 2.4% 4/11/03	\$ 95,000	\$ 95,000
	Money Market 1.5%	<u>\$ 10,170</u>	<u>\$ 10,170</u>
	TOTAL NEVADA DEPOSITS	<u>\$ 200,170</u>	<u>\$ 200,170</u>

SC	US Treasury 3.875% 6/3/03	<u>\$ 250,000</u>	<u>\$ 249,844</u>
TOTAL SOUTH CAROLINA DEPOSITS		\$ 250,000	\$ 249,844
TX	CD 2.5% 3/20/03	\$ 95,000	\$ 95,000
	CD 2.5% 3/13/03	\$ 95,000	\$ 95,000
	CD 2.75% 3/20/03	\$ 95,000	\$ 95,000
	CD 2.00% 7/16/03	\$ 95,000	\$ 95,000
	CD 2.55% 3/20/03	\$ 95,000	\$ 95,000
	Money Market 1.5%	<u>\$ 120,195</u>	<u>\$ 120,195</u>
TOTAL TEXAS DEPOSITS		<u>\$ 600,195</u>	<u>\$ 600,195</u>
TOTAL DEPOSITS		<u>\$ 1,950,365</u>	<u>\$ 1,950,209</u>

The Company did not complete Schedule E, Part 2, Special Deposits, correctly as to the detailed description of the deposit, in violation of the NAIC Annual Statement Instruction, and Rule 69O-137.001, FAC.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company was authorized to transact insurance in Florida, Indiana, Kansas, Maryland, Missouri, Nevada, Oklahoma, South Carolina, Tennessee and Texas in accordance with Section 624.401(2), FS.

Treatment of Policyholders

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

REINSURANCE

The Company did not assume or cede any business.

ACCOUNTS AND RECORDS

An independent CPA audited the Company's statutory basis financial statements annually for the years 2000, 2001 and 2002, 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, except where noted in this report. Pursuant to Section 624.4094, FS, bail bond premiums for a domestic insurer in Florida are reported net of any amounts retained by licensed bail bond agents or licensed managing general agents; however, such amount shall not be less than 6.5% of the consideration received by the agent.

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

The Company and non-affiliates had the following agreements:

Custodial Agreement

The Company maintained a custodial agreement with the AG Edwards Trust Company, St. Louis, Missouri. The agreement was in compliance with Rule 69O-143.042(1), FAC.

The Company did not maintain its assets in the State of Florida, in violation of Section 628.271, FS.

Independent Auditor Agreement

The Company maintained a contract with an external CPA to perform the annual audit, in compliance with Section 624.424(8), FS.

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, 2002, 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."

ROCHE SURETY AND CASUALTY COMPANY, INC.
Assets

DECEMBER 31, 2002

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	1,124,844		1,124,844
Common stock	250,000		250,000
Real estate:			
Properties occupied by the company	263,397		263,397
Properties held for the production of income	625,418		625,418
Cash:			
On deposit	1,666,703		1,666,703
Short term investments	801,114		801,114
Agents' balances:			
Due in course of collection	127,504		127,504
FIT Recoverable	17,186		17,186
Interest & dividend income due	30,321		30,321
Aggregate write-ins for other than invested assets	5,571,509		5,571,509
Totals	\$10,477,996	\$0	\$10,477,996

ROCHE SURETY AND CASUALTY COMPANY, INC.
Liabilities, Surplus and Other Funds

DECEMBER 31, 2002

Liabilities	Per Company	Examination Adjustments	Per Examination
Other expenses	\$3,773		\$3,773
Taxes, licenses and fees	62,211		62,211
Federal and foreign income taxes	2,716		2,716
Unearned premiums	348,790		348,790
Payable to parent, subsidiaries and affiliates	<u>5,571,509</u>		<u>5,571,509</u>
Total Liabilities	\$5,988,999		\$5,988,999
Common capital stock	\$1,250,000		\$1,250,000
Surplus note	1,000,000		1,000,000
Gross paid in and contributed surplus	1,160,046		1,160,046
Unassigned funds (surplus)	<u>1,078,951</u>		<u>1,078,951</u>
Surplus as regards policyholders	<u>\$4,488,997</u>		<u>\$4,488,997</u>
Total liabilities, capital and surplus	<u>\$10,477,996</u>	<u>\$0</u>	<u>\$10,477,996</u>

ROCHE SURETY AND CASUALTY COMPANY, INC.

**Statement of Income
DECEMBER 31, 2002**

Underwriting Income

Premiums earned	\$1,055,084
DEDUCTIONS:	
Losses incurred	40,483
Loss expenses incurred	0
Other underwriting expenses incurred	979,381
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	<u>\$1,019,864</u>
Net underwriting gain or (loss)	<u>\$35,220</u>

Investment Income

Net investment income earned	\$29,820
Net realized capital gains or (losses)	0
Net investment gain or (loss)	<u>\$29,820</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	0
Total other income	<u>\$0</u>

Net income before dividends to policyholders and before federal & foreign income taxes	\$65,040
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	<u>\$65,040</u>
Federal & foreign income taxes	<u>40,087</u>
Net Income	\$24,953

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2001	\$4,433,141
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Gains and (Losses) in Surplus

Net Income	\$24,953
Net unrealized capital gains or losses	0
Change in net deferred income tax	26,467
Change in non-admitted assets	4,435
Capital changes: Paid in	0
Cumulative effect of changes in accounting principles	0
Examination Adjustment	0
Change in surplus as regards policyholders for the year	<u>\$55,855</u>
Surplus as regards policyholders, December 31, 2002	<u><u>\$ 4,488,996</u></u>

COMMENTS ON FINANCIAL STATEMENTS

Assets

Bonds

\$1,124,844

The Company did not maintain all of its assets in Florida. The Company maintained its investments in St. Louis, Missouri with AG Edwards Trust Company, in violation of Section 628.271(2), FS.

The Company reported investments with incorrect NAIC designations, in violation of Rule 69O-137.001, FAC. The Company began recording such correctly in 2003.

Real Estate – Properties held for the production of income

\$625,418

The Company did not maintain a recent appraisal for their income producing property in violation of SSAP No. 40, paragraph No. 12.

The Company did not maintain a written lease with the lessee of their Ocala building and did not record approval of the lease in the minutes of the Board of Directors, in violation of Sections 607.1601 and 607.1202, FS.

The Company recorded income and expenditures for the Ocala building on the wrong line item on Schedule A – Part 1, in violation of Rule 69O-137.001, FAC.

Liabilities

Losses and Loss Adjustment Expenses

\$0

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, 2002 for the Company 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 rendered an opinion which agreed with the outside actuarial firm.

Other Expenses

\$3,773

The Company did not accrue any general office expenses in the Annual Statement, in violation of Section 625.041(4), FS.

Unearned Premiums

\$348,790

The Company calculated their unearned premium based on Section 625.071, FS, which requires the Company to maintain a reserve on all bail bonds without a definite expiration date. The Company did not maintain a verifiable report of the in-force premiums and outstanding liability as of December 31, 2002, in violation of Section 607.1601(2), FS.

Subsequent event: The Company produced verifiable reports of their reported outstanding bond liability at September 30, 2003.

Surplus\$4,488,997

No adjustments were made by this examination to Surplus as reported on the Annual Statement due to the immateriality of the dollar amounts of those adjustments.

ROCHE SURETY AND CASUALTY COMPANY, INC.
Comparative Analysis of Changes in Surplus

DECEMBER 31, 2002

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, 2002, Annual Statement	\$4,488,997
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	<u>PER</u> <u>COMPANY</u>	<u>PER</u> <u>EXAM</u>	INCREASE (DECREASE) <u>IN SURPLUS</u>
ASSETS:			
No adjustments			
LIABILITIES:			
No adjustments			
Net Change in Surplus:			0
Surplus as Regards Policyholders December 31, 2002, Per Examination			\$4,488,997

SUMMARY OF FINDINGS

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, 2002.

General

The Company incorrectly noted under line item 13, on page 14.3 of their Annual Statement, "The Company has 2,000,000 shares of \$2.50 par value common stock authorized, 400,000 are issued and outstanding". The Company actually has 500,000 shares issued and outstanding. **The Company is directed to comply with Rule 690-137.001(2), FAC, and the NAIC annual statement instructions and correctly report such in all future annual statements.**

The Company maintained a stock certificate which reflected the incorrect par value of the common capital stock. The certificate should reflect the \$2.50 par value per share. **The Company is directed to comply with the Form and Content of Certificates requirements of Section 607.0625, FS. The Company is to provide documentation of compliance to the Office within 90 days after the report is issued.**

Management

Management Agreements

The Company did not disclose all material related party transactions in the Notes to Financial Statements, Item No. 10(f). **The Company is directed to comply with the NAIC annual statement instructions and provide a description of material management and service contracts involving the reporting entity and any related party, including agency contracts, as stated in Rule 69O-137.001, FAC. The Company is to correctly report such in all future annual statements.**

Financial Items

Investments

The Company did not provide detailed descriptions of the special deposits on Schedule E, Part 2, column 3 of their Annual Statement. **The Company is directed to comply with Rule 69O-137.001, FAC and to correctly report such in all future annual statements.**

The Company did not maintain their investments in a Florida bank. Their investments were maintained with AG Edwards Trust Company (Edwards), St. Louis, Missouri. Some of the investments were in book entry form, but other investments, such as Certificates of Deposit and Cash, were being physically held by Edwards in Missouri. **The Company is directed to comply with Section 628.271(2), FS. The Company is to provide documentation of compliance to the Office within 90 days after the report is issued.**

Real Estate

The Company had not maintained a current appraisal for their Ocala building. **The Company is directed to comply with SSAP No. 40, paragraph 12. The Company is to provide a copy of a current appraisal to the Office within 90 days after the report is issued.**

The Company did not maintain a written lease with the lessee of their Ocala building. Rental income, as reported on the Annual Statement, had no verifiable source to reconcile reported income. Additionally, a record of the Board of Directors approving the lease did not exist. **The Company is directed to comply with Section 607.1601(1) and (2), FS. The Company is to provide documentation of compliance to the Office within 90 days after the report is issued.**

The Company incorrectly recorded rental income and expenditures for their Ocala Building on the line item for Taylor Road. **The Company is directed to comply with Rule 690-137.001(4)(a), FAC. The Company is directed to correctly report such in all future annual and quarterly statement filings.**

Other Expenses

The Company did not accrue any general office expenses for 2002. **The Company is directed to comply with Section 625.041 (4), FS. The Company is directed to correctly establish accruals in all future annual and quarterly statement filings.**

Unearned Premiums

The Company did not maintain a verifiable report for their outstanding bond liability, which was used to calculate their Unearned Premium reserve in the Annual Statement. **The Company is directed to comply with Section 607.1601(4), FS. The Company was able to provide such to support the liability reported at September 30, 2003.**

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Roche Surety and Casualty Company, Inc.** as of December 31, 2002, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's surplus as regards policyholders was \$4,488,997, which was in compliance with Section 624.408, FS.

In addition to the undersigned, Michael Hampton, CPA, CFE, DABFA, CFE, Financial Examiner/Analyst Supervisor and Doug Haseltine, Actuary, participated in the examination.

Respectfully submitted,

Miriam Bleakley
Financial Examiner/Analyst II
Florida Office of Insurance Regulation