REPORT ON EXAMINATION

OF

VANGUARD FIRE & CASUALTY COMPANY

MAITLAND, FLORIDA

AS OF

JUNE 30, 2005

BY THE

OFFICE OF INSURANCE REGULATION

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Tallahassee, Florida

October 14, 2005

Honorable 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 (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 June 30, 2005, of the financial condition and corporate affairs of:

VANGUARD FIRE & CASUALTY COMPANY
2450 MAITLAND CENTER PARKWAY
SUITE 300
MAITLAND, FLORIDA 32751

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 June 30, 2005. The Company was last examined by representatives of the Florida Office of Insurance Regulation (Office) as of December 31, 2004. The fieldwork commenced on September 6, 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 a limited scope 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 provide a follow-up examination on the December 31, 2004 findings, provide an update on the impact of hurricane Dennis in July 2005, and hurricane Katrina in August 2005, and perform limited procedures on other accounts to provide a determination on the Surplus as regards policyholders.

Adverse Findings from Prior Examination

There were significant adverse findings contained in the Office's prior examination report as of December 31, 2004 and that report has not been issued as final as of completion of this examination.

HISTORY

General

The Company was incorporated on September 22, 1997, as a stock property and casualty insurer under the applicable provisions of the State of Florida and commenced business on December 27, 1998 with the name Professional Protective and Insurance Company. The name was subsequently changed to Vanguard Fire & Casualty Company in June 2000.

In accordance with Section 624.401(1), FS, the Company was authorized to transact the following lines of insurance in Florida on June 30, 2005:

Fire	Allied lines
Homeowners multi peril	Other liability

Capital Stock

As of June 30, 2005, the Company's capitalization was as follows:

Number of authorized common capital shares	10,000
Number of shares issued and outstanding	10,000
Total common capital stock	$10,000
Par value per share	$1.00

Control of the Company was maintained by its parent, Winter Park Insurance Investments, Inc. (WPII) who owned 100 percent of the stock issued by the Company. WPII, in turn was owned by the following individuals: Thomas R. Jones (22.33%), L. Alan Lund (22.33%), George Nenezian (22.33%) and 9 shareholders with less than 10% each (33.01%).

Profitability of Company

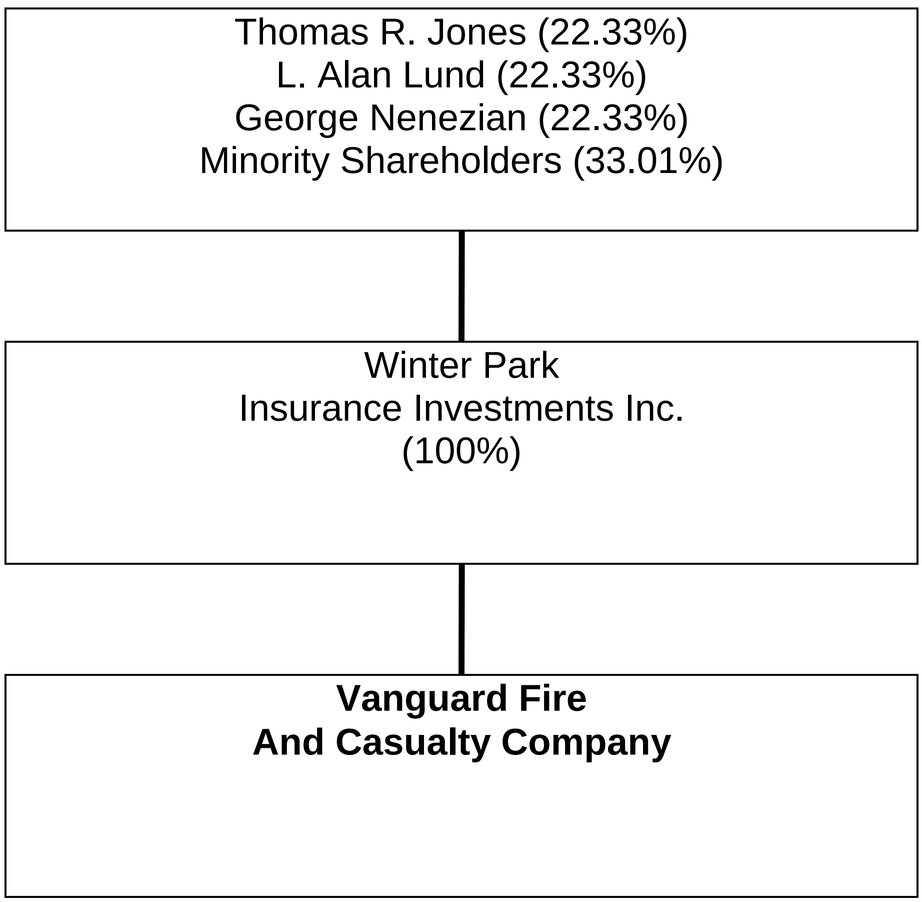
The following table shows the profitability trend (in dollars) as reported by the Company for the period of examination.

	6/30/05	2004	2003	2002
Premiums Earned	5,630,589	9,635,502	5,757,520	8,403,960
Net Underwriting Gain/(Loss)	(4,681,005)	(23,052,590)	(2,970,556)	(4,950,615)
Net Income/(Loss)	(4,247,429)	(16,384,421)	(2,432,031)	(1,674,479)
Total Assets	33,787,418	77,978,214	28,740,197	31,724,635
Total Liabilities	28,589,081	70,827,506	20,763,797	23,723,154
Surplus As Regards Policyholders	5,198,337	7,150,710	7,976,400	8,001,481

A simplified organizational chart as of June 30, 2005, reflecting the holding company system, is shown below. Schedule Y of the Company's June 30, 2005 quarterly statement provided a list of all related companies of the holding company group.

VANGUARD FIRE & CASUALTY COMPANY
ORGANIZATIONAL CHART

June 30, 2005



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, with the exception of adjustments to line items as noted within this report.

The Company's projected annual written premium exceeded the 4 to 1 ratio for net written premiums and 10 to 1 ratio for gross written premiums in violation of Section 624.4095, FS.

The Company failed to maintain admitted assets equal to the amount of reserves and minimum required surplus in violation of Section 625.305, FS.

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

Risk-Based Capital

The Company reported its risk-based capital at an adequate level. However, as a result of all the examination adjustments, the risk-based capital decreased to the mandatory control level.

Subsequent Event:

As of December 31, 2005, the Company reported its risk based capital had increased from the mandatory control level up to the company action level.

FINANCIAL STATEMENTS PER EXAMINATION

The following pages contain financial statements showing the Company's financial position as of June 30, 2005, and the results of its operations for the year then ended as determined by this examination. Adjustment made as a result of the examination are noted in the section of this report captioned, "Comparative Analysis of Changes in Surplus."

VANGUARD FIRE & CASUALTY COMPANY
Assets

JUNE 30, 2005

Classification	Per Company	Examination Adjustments	Per Examination
Bonds	$1,816,055		$1,816,055
Cash	20,569,250	$183,807	$20,385,443
Investment income due & accrued	34,226		34,226
Agents' Balances:			
Uncollected premium	759,291	46,920	712,371
Deferred Premium	1,243,444		1,243,444
Reinsurance			
Amounts recoverable	(135,424)		(135,424)
Current federal income tax recoverable	2,854,961		2,854,961
Net deferred tax asset	340,000		340,000
Receivable from PSA	4,313,808	4,123,350	190,458
Aggregate write-ins for other than invested assets	1,991,807	96,889	1,894,918
Totals	$33,787,418	$4,450,966	$29,336,452

VANGUARD FIRE & CASUALTY COMPANY
Liabilities, Surplus and Other Funds

JUNE 30, 2005

Liabilities	Per Company	Examination Adjustments	Per Examination
Losses	$2,837,400		$2,837,400
Loss adjustment expenses	166,714		166,714
Commissions payable	1,559,182		1,559,182
Other expenses	252,897		252,897
Taxes, licenses and fees	(30,117)		(30,117)
Unearned premium	9,564,078		9,564,078
Advance premium	2,522,316		2,522,316
Ceded reinsurance payable	10,961,042	$205,088	11,166,130
Funds held by company under reinsurance treaties	72,820	(205,088)	(132,268)
Amounts withheld or retained for account of others	1,267		1,267
Remittances and items not allocated	95,123		95,123
Payable to parents, subsidiaries, and affiliates	0	126,542	126,542
Payable for securities	53,372		53,372
Aggregate write-ins for liabilities	532,987		532,987
Total Liabilities	$28,589,081	$126,542	$28,715,623
Common capital stock	$10,000		$10,000
Gross paid in and contributed surplus	28,465,000		28,465,000
Unassigned funds (surplus)	(23,276,663)	(4,577,508)	(27,854,171)
Surplus as regards policyholders	$5,198,337	($4,577,508)	$620,829
Total liabilities, capital and surplus	$33,787,418	($4,450,966)	$29,336,452

VANGUARD FIRE & CASUALTY COMPANY
Statement of Income

JUNE 30, 2005

Underwriting Income

Premiums earned	$5,630,589
DEDUCTIONS:	
Losses incurred	6,764,294
Loss expenses incurred	2,401,814
Other underwriting expenses incurred	1,145,486
Aggregate write-ins for underwriting deductions	0
Total underwriting deductions	$10,311,594
Net underwriting gain or (loss)	($4,681,005)

Investment Income

Net investment income earned	$255,167
Net realized capital gains or (losses)	500
Net investment gain or (loss)	$255,667

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	(13,732)
Total other income	($13,732)
Net income before dividends to policyholders and before federal & foreign income taxes	($4,439,070)
Dividends to policyholders	0
Net Income, after dividends to policyholders, but before federal & foreign income taxes	($4,439,070)
Federal & foreign income taxes	(191,641)
Net Income	($4,247,429)

Capital and Surplus Account

Surplus as regards policyholders, December 31 prior year	$7,150,710

Gains and (Losses) in Surplus

Net Income	($4,247,429)
Net unrealized capital gains or losses	0
Change in net deferred income tax	1,361,770
Change in non-admitted assets	(1,791,714)
Surplus adjustments: Paid in	2,725,000
Aggregate write-ins for gains and losses in surplus	0
Examination Adjustment	(4,577,508)
Change in surplus as regards policyholders for the year	($6,529,881)
Surplus as regards policyholders, December 31 current year	$620,829

COMMENTS ON FINANCIAL STATEMENTS

Assets

Cash $20,385,443

The above amount is $183,807 less than the $20,569,250 reported by the Company. The Company failed to timely prepare bank reconciliations for cash accounts prior to the issuance of the financial statements resulting in this adjustment.

Agent's Balances $712,371

The above amount is $46,920 less than the $759,291 reported by the Company. The adjustment was the result of an overstatement of service charge fees.

Receivable from PSA $190,458

The above amount is $4,123,350 less than the $4,313,808 reported by the Company. A valid right of setoff does not exist between multiple parties under multiple contracts. Therefore, the inter-company credit balances of $126,542 were reclassified to Payable to PSA. The remaining $3,996,808 was a prepayment to an affiliate Winter Park Risk Services, Inc. (WPRS) for advances on claims service fees. These amounts were not evidenced by secured loans. These amounts were prepayments to WPRS and are non-admitted assets pursuant to Section 625.031(7), FS. SSAP 25 provides for the admittance of loans or advances to an affiliate; however, certain items must be present for these amounts to be considered loans, which are not present in this situation. Loans are evidenced by loan documents and are required to be secured pursuant to Section 625.012(2), FS, neither of which are present in this situation. An advance is the same as a prepayment and Section 625.031(7), FS, identifies prepayments as non-admitted assets, contradicting and overruling the language in SSAP 25.

Aggregate write-in for other than Invested Assets $1,894,918

The above amount is $96,889 less than the $1,991,807 reported by the Company. The Company overstated the dividend receivable.

Liabilities

Ceded Reinsurance Payable $11,166,130

The above amount is $205,088 greater than the $10,961,042 reported by the Company. The Company incorrectly classified a payment of $205,088 to reinsurers as Ceded balances payable rather than Funds held.

Funds held by Company under reinsurance treaties $(132,268)

The above amount is $205,088 less than the $72,820 reported by the Company. The Company incorrectly classified a payment of $205,088 to reinsurers as Ceded balances payable rather than Funds held.

Payable to parent, subsidiaries and affiliates $126,542

The above amount is $126,542 greater than the amount reported by the Company. The Company reported $0. A valid right of setoff does not exist between multiple parties under multiple contracts. Therefore, the inter-company credit balances of $126,542 were reclassified to Payable to parent, subsidiaries and affiliates.

Surplus as regards policyholders $620,829

The above amount is $4,577,508 less than the $5,198,337 reported by the Company. The Company's Surplus, as adjusted by the above examination findings, does not meet the minimum required surplus of $4,000,000 in violation of Section 624.408, FS.

VANGUARD FIRE & CASUALTY COMPANY
COMPARATIVE ANALYSIS OF CHANGES IN SURPLUS

JUNE 30, 2005

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

	PER COMPANY	PER EXAM	INCREASE (DECREASE) IN SURPLUS	
Surplus as Regards Policyholders per June 30, 2005, Annual Statement				$5,198,337
ASSETS:				
Cash	$20,569,250	$20,385,443	($183,807)	
Agent's Balance	759,291	712,371	(46,920)	
Receivable from parents, subsidiaries and affiliates	4,313,808	190,458	(4,123,350)	
Aggregate write-ins for other than invested assets	1,991,807	1,894,918	(96,889)	
LIABILITIES:				
Ceded reinsurance payable	$10,961,042	$11,166,130	$205,088	
Funds held by company under reinsurance treaties	72,820	(132,268)	(205,088)	
Payable to parents, subsidiaries and affiliates	-	126,542	126,542	
Net Change in Surplus:				(4,577,508)
Surplus as Regards Policyholders June 30, 2005, Per Examination				$620,829

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 June 30, 2005.

Accounts and Records

The Company's projected annual written premium exceeded the 4 to 1 ratio for Net written premiums and 10 to 1 ratio for Gross written premiums. **We recommend the Company take action to comply with Section 624.4095, FS.**

The Company failed to maintain admitted assets equal to the amount of reserves and minimum required surplus. **We recommend the Company take action to comply with Section 624.305, FS, and maintain assets at an adequate level to equal or exceed reserves plus the required minimum surplus.**

Cash

The Company failed to timely prepare bank reconciliations for cash accounts prior to the issuance of the financial statements. **We recommend the Company take action to maintain accurate and timely accounting records.**

Agent's Balances

The Company overstated the service charge fees which resulted in an overstatement of agent's balances. **We recommend the Company report this correctly in all future annual and quarterly statement filings.**

Receivable from PSA

The Company offset the debit and credit balances due from various affiliates and reported one net amount in the June 30, 2005 quarterly statement. **We recommend the Company comply with SSAP 64 and offset assets with liabilities only when a right of offset exists.**

The Company reported as an admitted asset a prepayment to an affiliate. **We recommend the Company non-admit prepaid expenses in all future annual and quarterly statement filings.**

Subsequent Event:

As of November 30, 2005, the full amount of the receivable had been collected by the Company.

Aggregate write-in for other than invested assets

The Company overstated the dividend receivable. **We recommend the Company routinely review accrual estimates for accuracy.**

Ceded reinsurance payable

The Company incorrectly classified a payment to reinsurers as Ceded balances payable rather than Funds held. **We recommend the Company report this correctly in all future annual and quarterly statement filings.**

Surplus as regards policyholders

The Company's Surplus, as adjusted by the current examination findings, did not meet the minimum required surplus of $4,000,000 as required by Section 624.408, FS. **We recommend the Company immediately eliminate the surplus deficiency and provide evidence of such to the Office within 10 days of the issuance of this report.**

Subsequent Event:

As of December 31, 2005, the Company reported a surplus as regards policyholders of $8,112,296 which exceeds the minimum required surplus in accordance with Section 624.408 Florida Statutes.

CONCLUSION

The customary insurance examination practices and procedures as promulgated by the NAIC have been followed in ascertaining the financial condition of **Vanguard Fire & Casualty Company** as of June 30, 2005, consistent with the insurance laws of the State of Florida.

Per examination findings, the Company's Surplus as regards policyholders was $620,829, which was not in compliance with Section 624.408, FS.

Subsequent event:

The Company reported surplus as regards policyholders of $8,112,296 as of December 31, 2005.

In addition to the undersigned, Michael F. Hampton, CPA, CFE, DABFA, CFE, CPM, Financial Examiner/Analyst Supervisor, and Joseph Boor, FCAS, Office Actuary participated in the examination.

Respectfully submitted,

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Kethessa Carpenter
Financial Specialist
Florida Office of Insurance Regulation