

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

REPORT OF EXAMINATION

OF

**PASSPORT INSURANCE COMPANY
BISMARCK, NORTH DAKOTA**

**AS OF
DECEMBER 31, 2005**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

PassPort Insurance Company

Bismarck, North Dakota

as of December 31, 2005, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

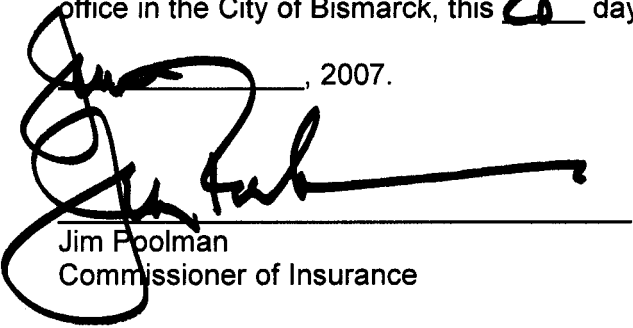


IN WITNESS WHEREOF, I have hereunto

set my hand and affixed my official seal at my

office in the City of Bismarck, this 28th day of

_____, 2007.



Jim Poolman
Commissioner of Insurance

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Bismarck, North Dakota
May 22, 2007

Honorable Jim Poolman
Commissioner of Insurance
State of North Dakota
600 East Boulevard Avenue
Bismarck, ND 58505-0320

Dear Sir:

Pursuant to your instructions and in accordance with the North Dakota Insurance Code and resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination was made of the condition and affairs of the

**PassPort Insurance Company
Bismarck, North Dakota**

as of December 31, 2005.

The PassPort Insurance Company, hereinafter referred to as the "Company", was last examined as of December 31, 1996, by a representative of the State of North Dakota.

SCOPE OF EXAMINATION

This examination was a financial condition examination conducted in accordance with N.D. Cent. Code § 26.1-03-19.3 and observed guidelines and procedures contained in the NAIC *Financial Condition Examiners Handbook*. The examination was conducted to determine the Company's financial condition, its compliance with statutes, and to review the corporate affairs and insurance operations. The current examination covers the period January 1, 1997, through December 31, 2005, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

HISTORY

General

The Company was incorporated on May 30, 1989, pursuant to the North Dakota Business Corporation Act, N.D. Cent. Code Chapters 10-19.1 and 26.1-05.

As of May 12, 1998, the Company is wholly owned by President Peter Halmos. Prior to this date the Company was owned by Continuity Marketing Corporation.

The Company has been inactive since its formation and the primary location of its books and records is in West Palm Beach, Florida.

Capital Stock

The Company is authorized to operate as a stock entity. The aggregate number of common shares which the corporation is authorized to issue is 5,000. All of the authorized shares were outstanding and owned by Peter Halmos as of December 31, 2005.

Dividends to Stockholders

During the period under examination, no dividends were paid to the stockholders.

MANAGEMENT AND CONTROL

Stockholders

The Company, as defined in its Bylaws, is owned by the stockholders. As of December 31, 2005, all 5,000 outstanding shares were owned by Company President Peter Halmos of Palm Beach, Florida.

Directors

The Bylaws provide that the number of directors of the corporation shall be three who shall hold office until the next annual meeting of stockholders and until their successor shall have been elected and qualified.

The following directors were serving as of the date of this examination:

<u>Name and Address</u>	<u>Business Affiliation</u>
Peter Halmos Palm Beach, Florida	100% Owner and President
Nicholas Halmos Palm Beach, Florida	Company Vice President
David Vanderscoff Marana, Arizona	Company Vice President and Management Consultant

Officers

The Bylaws provide that the officers of the Company shall be a President, two Vice Presidents, a Secretary, and a Treasurer. The offices of President, Secretary, and Treasurer may be held by the same person.

Officers serving as of the date of this examination were as follows:

Peter Halmos Palm Beach, Florida	President & Secretary
Gail Meyers Jupiter, Florida	Treasurer
Nicholas Halmos Palm Beach, Florida	Vice President
David P. Vanderscoff Marana, Arizona	Vice President

Corporate Records

The minutes of the Board of Directors and Stockholder meetings were reviewed for compliance with the Articles of Incorporation, Bylaws and statutory requirements.

The Board of Director meeting minutes did not reflect approval of investments on a quarterly basis as required by N.D. Admin. Code § 45-03-12-05.

It is again recommended that the Board of Directors, or an Investment Committee appointed by the Board, approve investment transactions on at least a quarterly basis in compliance with N.D. Admin. Code § 45-03-12-05.

There were no amendments to the Articles of Incorporation or Bylaws during the period under review.

FIDELITY BOND AND OTHER INSURANCE

The Company does not have a fidelity bond nor does it have any employees.

The Company was listed as a named insured under a commercial general liability policy issued to Peter Halmos & Sons.

STATUTORY DEPOSIT

Deposits maintained by or through regulatory agencies are as follows:

State	Type of Asset	Market Value	Statement Value
North Dakota	Bonds	\$ 641,566	\$ 641,202
North Dakota	CD	635,000	635,000
Totals		<u>\$1,276,566</u>	<u>\$1,276,202</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms And Underwriting

The Company does not have any issued policies.

TERRITORY AND PLAN OF OPERATION

The Company is licensed only in the State of North Dakota.

REINSURANCE

The Company did not cede nor assume any business during the period under review.

ACCOUNTS AND RECORDS

The Examiner obtained a trial balance for 2005 and traced it to the Annual Statement with no exceptions noted.

The following Annual Statement reporting deficiencies were noted during the examination:

1. The Company did not report a federal income tax recoverable on page 2, line 16.1, of the 2005 Annual Statement to reflect the overpayment of federal income taxes for the 2005 reporting period.
2. The Company incorrectly reported the amount of federal income taxes incurred as a miscellaneous item instead of federal and foreign income taxes incurred on page 4, line 19, of the 2005 Annual Statement.
3. The Company did not report the tax payments made during the course of the year as an outflow on the Cash Flow Statement of the 2005 Annual Statement.
4. The Company did not accrue a liability for the \$200 minimum premium tax fee attributable to the 2005 reporting period.
5. General Interrogatories 1.3 (state regulator) and 26.4 (fair value method) were not completed.
6. The interest rates were not entered for cash on deposit accounts on Schedule E, Part 1.
7. Schedule E, Part 3, Special Deposits, was not completed.

It is recommended that the Company prepare its Annual Statement in strict compliance with the NAIC *Accounting Practices and Procedures Manual* and the NAIC *Annual Statement Instructions*.

FINANCIAL STATEMENTS

The financial statements of the Company and supporting reconciliations are presented on the following pages in the sequence listed below:

Statement of Assets, Liabilities, Surplus, and Other Funds, December 31, 2005

Summary of Operations for the Year Ended December 31, 2005

Reconciliation of Capital and Surplus Account, January 1, 1999, through December 31, 2005

PassPort Insurance Company
Statement of Assets, Liabilities, Surplus, and Other Funds
as of December 31, 2005

Assets

	<u>Ledger Assets</u>	<u>Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
Bonds	\$ 641,202			\$ 641,202
Cash on Deposit	915,528			915,528
Receivables for Securities	305,576			305,576
Accrued Inv. Income	<u>1,291</u>			<u>1,291</u>
Total	<u>\$ 1,863,597</u>			<u>\$1,863,597</u>

Liabilities

Pre-Paid Fee Income	\$ 330,000
Total Liabilities	<u>\$ 330,000</u>
Common Capital Stock	\$1,187,509
Unassigned Surplus	<u>346,088</u>
Surplus as Regards Policyholders	<u>\$1,533,597</u>
Total Liabilities, Surplus, and Other Funds	<u>\$1,863,597</u>

**PassPort Insurance Company
Summary of Operations
For the Year Ended December 31, 2005**

Investment Income

Net Investment Income Earned	\$11,452	
Net Realized Capital Gain (Loss)	(4,457)	
Net Investment Gain or (Loss)		<u>\$6,995</u>
Net Income Before Federal Income Taxes		\$6,995
Federal Income Taxes Incurred		<u>0</u>
Net Income		<u>\$6,995</u>

PassPort Insurance Company
Reconciliation of Capital and Surplus Account
January 1999, through December 31, 2005

	1999	2000	2001	2002	2003	2004	2005
Capital and Surplus, December 31, Previous Year	\$1,326,995	\$1,324,266	\$1,323,568	\$1,355,320	\$1,335,369	\$1,480,932	\$1,526,602
Net Income	(2,459)	886	31,752	50	125,563	45,670	6,995
Net Unrealized Capital Gains or (Losses)	(270)	(1,585)					
Aggregate write-ins for gains and losses in surplus		1		(1)			
Net Change in Capital and Surplus for the Year	\$ (2,729)	\$ (698)	\$ 31,752	\$ 49	\$ 125,563	\$ 45,670	\$ 6,995
Capital and Surplus, December 31, Current Year	\$1,324,266	\$1,323,568	\$1,355,320	\$1,355,369	\$1,480,932	\$1,526,602	\$1,533,597

COMMENTS TO THE FINANCIAL STATEMENTS

Financial statement balances at December 31, 2005, are commented upon only if financial changes, recommendations, or special explanations are considered necessary.

Bonds

The admitted value of bonds was determined by this examination to be \$641,202, the same amount as reported by the Company in its 2005 Annual Statement. This total is comprised of one municipal bond issued by the municipality of Salt Lake City, Utah. The bond is held with E*Trade Securities and is pledged to the North Dakota Insurance Department.

No custodial agreement exists between the Company and E*Trade Securities.

It is recommended that, in the event it begins to write insurance business, the Company employ a full-service broker and enter into a custodial agreement with the entity.

The admitted value of the bond owned by the Company at December 31, 2005, represents 34 percent of the Company's admitted assets. The Company's bond was rated as investment grade. The book value, amortized value, market value, cost, and par value of the bond portfolio are as follows at December 31, 2005:

Amortized or Statement Value	Market Value	Actual Cost	Par Value
\$641,202	\$641,566	\$665,000	\$590,000

Cash on Deposit

The admitted value of cash on deposit was determined by this examination to be \$915,528, the same amount as reported by the Company in its 2005 Annual Statement. Of this balance, a Certificate of Deposit valued at \$635,000 is held with the Bank of North Dakota under a safekeeping agreement and pledged to the North Dakota Insurance Department.

The safekeeping agreement does not contain the following safeguards as required by the NAIC *Financial Examiners Handbook*:

1. Custodian will indemnify the insurance company for any loss caused by negligence or dishonesty of the bank or trust company while securities are in its custody; and
2. The securities will be promptly replaced if there is a loss for which the bank or trust company is obligated to indemnify the insurance company.

It is recommended that the Company amend its custodial agreement with the Bank of North Dakota to include the safeguards required by the NAIC *Financial Examiners Handbook*.

CONCLUSION

The financial condition of the Company, as of December 31, 2005, as determined by this examination is summarized as follows:

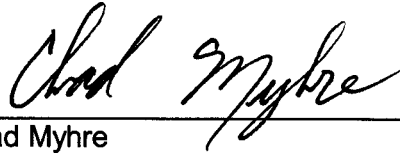
ADMITTED ASSETS		<u>\$1,863,597</u>
Total Liabilities	\$ 330,000	
Surplus as Regards Policyholders	<u>1,533,597</u>	
LIABILITIES, SURPLUS, AND OTHER FUNDS		<u>\$1,863,597</u>

No material financial adjustments were identified by this examination and no changes were made to the amounts reported by the Company in its 2005 annual statement.

Since the last examination conducted as of December 31, 1996, the Company's admitted assets have increased \$408,708, its total liabilities have increased \$324,735, and its surplus as regards policyholders has increased \$83,973.

The courteous cooperation extended by the officers of the Company during the course of the examination is gratefully acknowledged.

Respectfully submitted,



Chad Myhre
Examiner
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is again recommended that the Board of Directors, or an Investment Committee appointed by the Board, approve investment transactions on at least a quarterly basis in compliance with N.D. Admin. Code § 45-03-12-05.

It is recommended that the Company prepare its Annual Statement in strict compliance with the NAIC *Accounting Practices and Procedures Manual* and the NAIC *Annual Statement Instructions*.

It is recommended that, in the event it begins to write insurance business, the Company employ a full-service broker and enter into a custodial agreement with the entity

It is recommended that the Company amend its custodial agreement with the Bank of North Dakota to include the safeguards required by the NAIC *Financial Examiners Handbook*.