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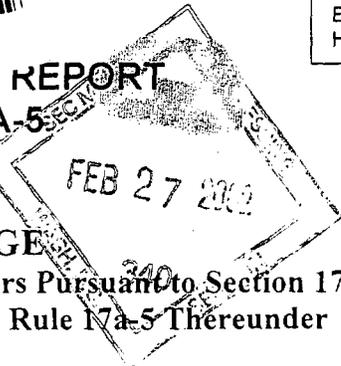
SECURITIES AND COMMISSION



ANNUAL REPORT  
FORM X-17A-5  
PART III

OMB APPROVAL  
OMB Number: 3235-0123  
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FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Pentastar Insurance Agency, Inc.

OFFICIAL USE ONLY  
FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

27777 Franklin Road  
(No. and Street)

Southfield MI 48034  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

James S. Haan (248) 948-3912  
(Area Code - Telephone No.)

B. ACCOUNT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG LLP

150 West Jefferson, Suite 1200 Detroit MI 48226  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED  
MAR 15 2002  
THOMSON FINANCIAL

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

I, James S. Haan, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Pentastar Insurance Agency, as of December 31, 2001 are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Christine Stewart  
Notary Public - Michigan  
Oakland County

My Commission Expires July 28, 2005

  
\_\_\_\_\_  
Notary Public

  
\_\_\_\_\_  
Signature  
President and Treasurer  
\_\_\_\_\_  
Title

This report\*\* contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition
- (c) Statement of Income (Loss)
- (d) Statement of Changes in Financial Condition
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital
- (f) Statement of Cash Flows
- (g) Statement of Changes in Liabilities Subordinated to Claims of Creditors
- (h) Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934
- (i) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934
- (j) Information Relating to the Possession or Control Requirements Under Rule 15c3-3
- (k) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3
- (l) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation
- (m) An Oath or Affirmation
- (n) A copy of the SIPC Supplemental Report
- (o) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

PENTASTAR INSURANCE AGENCY, INC.

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## Independent Auditors' Report

Pentastar Insurance Agency, Inc.:

We have audited the accompanying statements of financial condition of Pentastar Insurance Agency, Inc. (the Company) as of December 31, 2001 and 2000, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Pentastar Insurance Agency, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of (i) Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934, and (ii) Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934 are the responsibility of the Company's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

**KPMG LLP**

February 18, 2002



**PENTASTAR INSURANCE AGENCY, INC.**

Statements of Financial Condition

December 31, 2001 and 2000

<b>Assets</b>	<b>2001</b>	<b>2000</b>
Cash and cash equivalents	\$ 85,462	54,918
Money market investment	1,785,960	1,083,702
Investment in NASD	3,300	3,300
Accounts receivable – DaimlerChrysler Insurance Company	13,113	1,227
Prepaid Federal income taxes	—	10,000
Accounts receivable – other	550	3,879
Total assets	<u>\$ 1,888,385</u>	<u>1,157,026</u>
<b>Liabilities and Stockholder's Equity</b>		
Liabilities:		
Unearned commissions	\$ 223,379	25,747
Federal taxes on income	131,900	—
Total liabilities	<u>355,279</u>	<u>25,747</u>
Stockholder's equity:		
Common stock, par value \$10 per share (100 shares authorized; 100 shares outstanding)	1,000	1,000
Additional paid-in capital	1,500	1,500
Retained earnings	1,530,606	1,128,779
Total stockholder's equity	<u>1,533,106</u>	<u>1,131,279</u>
Total liabilities and stockholder's equity	<u>\$ 1,888,385</u>	<u>1,157,026</u>

See accompanying notes to financial statements.

**PENTASTAR INSURANCE AGENCY, INC.**

Statements of Income

Years ended December 31, 2001 and 2000

	<u>2001</u>	<u>2000</u>
Income:		
Commissions – property & casualty products	\$ 318,449	198,295
Commissions – life products	214,674	244,094
Other income	47,113	—
Interest income	52,258	53,797
Total income	<u>632,494</u>	<u>496,186</u>
Expenses:		
Licenses and fees	4,495	5,627
State taxes	10,045	4,255
Total expenses	<u>14,540</u>	<u>9,882</u>
Income before provision for income taxes	617,954	486,304
Provision for income taxes	216,127	166,361
Net income	<u>\$ 401,827</u>	<u>319,943</u>

See accompanying notes to financial statements.

**PENTASTAR INSURANCE AGENCY, INC.**

Statements of Changes in Stockholder's Equity

Years ended December 31, 2001 and 2000

	Common stock		Additional paid-in capital	Retained earnings	Total
	Shares	Par value			
Balance, December 31, 1999	100	\$ 1,000	1,500	808,836	811,336
Net income	—	—	—	319,943	319,943
Balance, December 31, 2000	100	1,000	1,500	1,128,779	1,131,279
Net income	—	—	—	401,827	401,827
Balance, December 31, 2001	100	\$ 1,000	1,500	1,530,606	1,533,106

See accompanying notes to financial statements.

**PENTASTAR INSURANCE AGENCY, INC.**

Statements of Cash Flows

Years ended December 31, 2001 and 2000

	<b>2001</b>	<b>2000</b>
Cash flows from operating activities:		
Net income	\$ 401,827	319,943
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in operating assets:		
Receivable from affiliates	(11,886)	38,000
Prepaid Federal income taxes	10,000	(10,000)
Accounts receivable – other	3,329	23,939
(Decrease) increase in operating liabilities:		
Unearned commissions	197,632	(17,085)
Federal taxes on income	131,900	(1,728)
Net cash provided by operating activities	732,802	353,069
Cash flows from investing activities:		
Cost of investment acquired	—	(3,300)
Net cash flow used in investing activities	—	(3,300)
Net increase in cash and cash equivalents	732,802	349,769
Cash, cash equivalents, and money market investment at beginning of year	1,138,620	788,851
Cash, cash equivalents, and money market investment at end of year	\$ 1,871,422	1,138,620
Supplemental disclosure of cash flow information:		
Cash paid during the year for income taxes	\$ 74,227	178,089

See accompanying notes to financial statements.

**PENTASTAR INSURANCE AGENCY, INC.**

Notes to Financial Statements

Years ended December 31, 2001 and 2000

**(1) Organization and Nature of Business**

Pentastar Insurance Agency, Inc. (the Company) is 100% owned by DaimlerChrysler Insurance Company (DCIC), formerly known as Chrysler Insurance Company. The Company is registered with the Securities and Exchange Commission as a broker-dealer and is a member of the National Association of Securities Dealers, Inc. The Company was organized to sell various insurance products, including variable life and annuities with mutual funds.

**(2) Significant Accounting Policies**

*(a) Basis of Presentation*

The financial statements are presented in accordance with accounting principles generally accepted in the United States of America and prevailing industry practices, which require management to make estimates that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

*(b) Cash Equivalents*

Cash equivalents are liquid assets maturing no more than three months from purchase date.

*(c) Revenue Recognition*

Commissions are earned on a pro-rata basis over the term of the underlying policy.

*(d) Income Taxes*

The Company accounts for income taxes in accordance with the provisions of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). SFAS 109 requires deferred tax assets and liabilities to be recognized for the anticipated future tax effects of temporary differences between the financial statement basis and the tax basis of the Company's assets and liabilities based on effective tax rates at year end. The Company is included in the consolidated Federal income tax return of DaimlerChrysler North America Holding Corporation and consolidated subsidiaries. Federal, state, and local income taxes are paid to DCIC.

**(3) Related Party Transactions**

All general expenses are paid by DCIC. The Company is responsible for any direct expenses.

**(4) Income Taxes**

The provision for income taxes for the years ended December 31, 2001 and 2000 is as follows:

	<u>2001</u>	<u>2000</u>
Federal:		
Current	\$ 285,127	160,361
Deferred	<u>(69,000)</u>	<u>6,000</u>
Total	<u>\$ 216,127</u>	<u>166,361</u>

**PENTASTAR INSURANCE AGENCY, INC.**

Notes to Financial Statements

Years ended December 31, 2001 and 2000

Included in the liability for Federal taxes and prepaid Federal income taxes as of December 31, 2001 and 2000 are deferred tax assets of \$78,000 and \$9,000, respectively, related to the timing differences associated with unearned commission income.

**(5) Net Capital Requirements**

As a registered broker-dealer, the Company is subject to the Uniform Net Capital Requirements of Rule 15c3-1 under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 8 to 1 nor shall it be less than \$6,000. At December 31, 2001, the Company's net capital ratio was .24 to 1, and its net capital of \$1,480,424 was \$1,456,739 in excess of regulatory requirements.

**PENTASTAR INSURANCE AGENCY, INC.**

Computation of Net Capital for Brokers and Dealers  
Pursuant to Rule 15c3-1 Under the Securities Exchange Act of 1934

December 31, 2001

Computation of net capital:	
Total stockholder's equity	\$ 1,533,106
Nonallowance assets:	
Receivable from affiliates and other assets	(16,963)
Haircut on securities:	
Money market fund	<u>(35,719)</u>
Net capital	<u>\$ 1,480,424</u>
Computation of basic net capital requirement:	
Aggregate indebtedness	<u>\$ 355,279</u>
Computation of basic net capital requirement:	
Net capital	\$ 1,480,424
Minimum capital required (greater of \$6,000 or 6.667% of aggregate indebtedness)	<u>23,685</u>
Excess net capital	<u>\$ 1,456,739</u>
Ratio of aggregate indebtedness to net capital	<u>.24 to 1</u>

There are no material differences between the amounts reported above, which are based on the accompanying financial statements, and those reported in the Company's unaudited FOCUS Reports of December 31, 2001. Accordingly, no reconciliation is provided

See accompanying independent auditors' report.

**PENTASTAR INSURANCE AGENCY, INC.**

Computation for Determination of Reserve Requirements for Brokers and  
Dealers Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934

December 31, 2001

The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, in that its activities are limited to those set forth in the conditions for exemption appearing in paragraph (k)(2)(i) of the Rule.

See accompanying independent auditors' report



Suite 1200  
150 West Jefferson  
Detroit, MI 48226-4429

Pentastar Insurance Agency, Inc.  
27777 Franklin Road  
Southfield, MI 49043-2146

In planning and performing our audit of the financial statements and supplemental schedules of Pentastar Insurance Agency, Inc. (the Company) for the year ended December 31, 2001 (on which we issued our report dated February 18, 2002), we considered its internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Act of 1934, we have made a study of the practices and procedures (including tests of compliance with such practices and procedures) followed by the Company that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. We did not review the practices and procedures followed by the Company in making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13 or in complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System, because the Company does not carry security accounts for customers or perform custodial functions relating to customer securities.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the Securities and Exchange Commission's (SEC) above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized acquisition, use, or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control or of such practices and procedures to future periods are subject to the risk that they may become inadequate because of changes in conditions or that the degree of compliance with the practices or procedures may become inadequate because of changes in conditions, or that the degree of compliance with the practices or procedures may deteriorate.





Our consideration of the Company's internal control would not necessarily disclose all matters in the Company's internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate as of December 31, 2001 to meet the SEC's objectives.

This report is intended solely for the information and use of the board of directors, management, the SEC, the National Association of Securities Dealers, Inc., and other regulatory agencies which rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be, and should not be, used by anyone other than these specified parties.

KPMG LLP

Detroit, Michigan  
February 18, 2002



**PENTASTAR INSURANCE AGENCY, INC.**  
(S.E.C.I.D. No. 8-50199)

Financial Statements and Supplemental Schedules

December 31, 2001 and 2000

(With Independent Auditors' Report and  
Supplemental Report on Internal Control)