

STATE OF INDIANA)
) SS:
COUNTY OF MARION) COMMISSIONER OF INSURANCE

IN THE MATTER OF:)
)
ACA Insurance Company)
3055 Oak Road)
Walnut Creek, California 94597)

Examination of **ACA Insurance Company**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of **ACA Insurance Company**, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as amended by the Final Order, has been adopted by the Commissioner.

Pursuant to Ind. Code § 27-1-3.1-12(b), within thirty (30) days of receipt of the Final Order, each director of **ACA Insurance Company** shall file an affidavit with the Indiana Department of Insurance stating that he/she has received a copy of the Verified Report of Examination and the Final Order.

The Final Order is a final administrative decision that may be appealed pursuant to Ind. Code § 4-21.5-5.

2-4-2011
Date


Cynthia D. Donovan
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7005 3110 0002 4443 7762

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COUNTY OF MARION) COMMISSIONER OF INSURANCE

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ACA Insurance Company)
3055 Oak Road)
Walnut Creek, California 94597)

Examination of **ACA Insurance Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the **ACA Insurance Company** (hereinafter "Company") for the time period January 1, 2005 through December 31, 2009.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter "Commissioner") by the Examiner on November 8, 2010.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on December 16, 2010 and was received by the Company on December 21, 2010.

On January 25, 2011, pursuant to Ind. Code § 27-1-3.1-10, the Company filed a response to the Verified Report of Examination. The Commissioner has fully considered the Company's response.

NOW THEREFORE, based on the Verified Report of Examination and the response filed by the Company, the Commissioner hereby FINDS as follows:

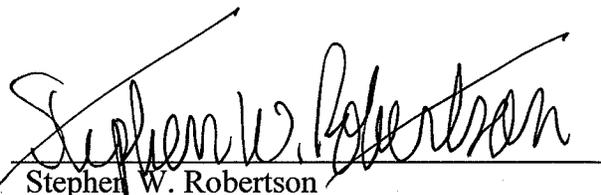
1. The suggested modifications to the Verified Report of Examination submitted by the Company are reasonable and shall be incorporated into the Verified Examination Report. A copy of the Verified Report of Examination, as amended, is attached hereto.

2. The Verified Report of Examination, as amended, is true and accurate report of the financial condition and affairs of the Company as of December 31, 2009.
3. The Examiners' recommendations are reasonable and necessary in order for the Company to comply with the insurance laws of the state of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

1. Pursuant to Ind. Code § 27-1-3.1-11(a)(1), the Verified Report of Examination is adopted and shall be filed. Hereafter the Verified Report of Examination, as amended, may constitute prima facie evidence of the facts contained therein in any action or proceeding taken by the Indiana Department of Insurance against the Company, its officers, directors, or agents.
2. The Company shall comply with the Examiner's Recommendations enumerated in summary form and throughout the text of the Verified Report of Examination, as amended. A written response to these recommendations should be provided to the Department within 30 days of receipt of this order.
3. Compliance with the Examiner's recommendations shall be completed on or before the filing of the subsequent annual statement. In the event it is not feasible to comply with a recommendation before the filing of the subsequent annual statement, the Company shall submit a written explanation as to why it was not feasible with the filing of the annual statement.

Signed and Sealed this 4th day of February, 2011.



Stephen W. Robertson
Insurance Commissioner

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
ACA INSURANCE COMPANY
NAIC COMPANY CODE 10921

As of
December 31, 2009

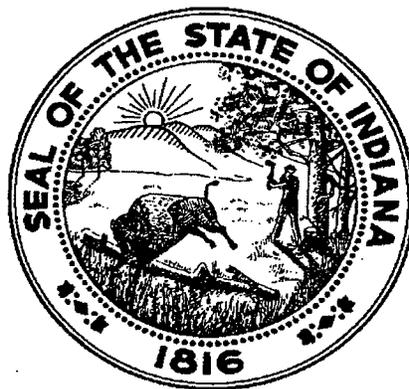


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STATE OF INDIANA

MITCHELL E. DANIELS, JR., Governor

IDOI

INDIANA DEPARTMENT OF INSURANCE

311 W. WASHINGTON STREET, SUITE 300

INDIANAPOLIS, INDIANA 46204-2787

TELEPHONE: (317) 232-2385

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Stephen W. Robertson, Commissioner

November 9, 2010

Honorable Alfred W. Gross, Chairman
Financial Condition (E) Committee, NAIC
Commissioner of Insurance
Virginia Bureau of Insurance
1300 East Main Street
Richmond, Virginia 23218

Honorable Stephen W. Robertson
Commissioner, Indiana Department of Insurance
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Dear Commissioners:

Pursuant to the authority vested in Appointment Number 3616, an examination has been made of the affairs and financial condition of:

ACA Insurance Company
3055 Oak Road
Walnut Creek, CA 94597

hereinafter referred to as the "Company", an Indiana domestic stock, property and casualty insurance company. The examination was conducted at its administrative office located at 3055 Oak Road, Walnut Creek, California.

The Report of Examination, reflecting the status of the Company as of December 31, 2009, is hereby respectfully submitted.

ACCREDITED BY THE
NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

CONSUMER SERVICES
(317) 232-2395
In-State 1-800-622-4461

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MEDICAL MALPRACTICE
(317) 232-2402

SECURITIES / COMPANY RECORDS
(317) 232-1991

SCOPE OF EXAMINATION

The Company was last examined by representatives of the State of Alaska Division of Insurance as of the period ending December 31, 2006. The present risk-focused examination was conducted by Huff, Thomas & Company (Huff Thomas) and covered the period from January 1, 2007 through December 31, 2009, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused exam, the Indiana Department of Insurance (IDOI), by its representatives, has relied upon the independent audit reports and the opinions contained therein rendered by PricewaterhouseCoopers LLP for the exam period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

David Shepherd, FCAS, MAAA, of Merlinos & Associates, Inc., a consulting actuary appointed by the IDOI, conducted a review of the Company's reserves as of December 31, 2009.

The risk-focused examination was conducted in accordance with procedures and guidelines prescribed by the National Association of Insurance Commissioners (NAIC) for the purpose of determining the Company's financial condition. Examination procedures included the verification and evaluation of assets, determination of liabilities and review of income and disbursement items, minutes, corporate documents, policy and claim files, and other records to the extent deemed necessary.

HISTORY

On October 10, 1997, the Company, formerly AAA MountainWest Insurance Company, was incorporated under the laws of Alaska and received a Certificate of Authority from the State of Alaska effective April 3, 1998, authorizing the Company to transact the following lines of insurance: Health, Disability, Property, Casualty, Surety, Marine, and Wet Marine and Transportation. Effective December 1, 2003, the Board of Directors amended the Articles of Incorporation changing the name of the Company to ACA Insurance Company. The Company is a member of a holding company group and is owned by California State Automobile Association-Inter-Insurance Bureau (CSAA-II), a California reciprocal insurer, as the sole shareholder. The Company re-domesticated to Indiana from Alaska effective December 31, 2008.

CAPITAL AND SURPLUS

As of December 31, 2009, the Company had 10,000,000 shares of \$1 par value common stock authorized and 3,415,965 shares issued and outstanding. The Company had 10,000,000 shares of preferred stock authorized at \$1 par value with none issued and outstanding. No dividends on common stock have been paid or declared by the Board of Directors during the period under examination.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed in the following twenty-four (24) states and the District of Columbia:

Alaska	Kansas	Pennsylvania
Arizona	Kentucky	South Carolina
California	Maryland	South Dakota
Colorado	Montana	Utah
Connecticut	Nevada	Washington
Delaware	New York	West Virginia
District of Columbia	Ohio	Wyoming
Idaho	Oklahoma	
Indiana	Oregon	

The Company writes 89% of its business in three (3) states; California (50%), Arizona (20%), and Nevada (19%). The Company offered private passenger auto policies in Arizona and New York, motorcycle and six month private passenger auto policies in California, and a tiered homeowner's product in Arizona, California, Colorado, Indiana, Kansas, Nevada, Ohio, Oregon and Wyoming. Western United Insurance Company (WUIC), an affiliate, acts as a third-party administrator for policy administration and underwriting pursuant to an amended Policy and Claims Administration Agreement. Product distribution is made exclusively through the local AAA automobile services clubs, the AAA automobile services affiliate for each state, or on an independent agency basis. Any advertising or marketing is conducted by the AAA automobile service club in each state in consultation with the marketing department of CSAA-IIB.

GROWTH OF COMPANY

The following exhibit depicts the Company's financial results throughout the examination period:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Total admitted assets	\$57,434,577	\$47,352,898	\$39,634,596
Total liabilities	39,727,249	31,910,181	24,139,075
Capital and surplus	17,707,327	15,442,717	15,495,521
Net Income	598,984	177,094	561,699
Gross premiums written	206,689,957	187,546,574	151,406,514
Net premiums written	20,533,885	18,620,296	14,977,822

The Company has reported positive net income in all three years under examination.

MANAGEMENT AND CONTROL

Board of Directors

The following persons served as Directors of the Company as of December 31, 2009:

<u>Name</u>	<u>Residence</u>	<u>Affiliation</u>
Paula Francinne Downey	San Rafael, CA	President, CSAA-IIB
Jamie Elizabeth Chung	Atherton, CA	SVP and General Counsel, CSAA-IIB
Michael Steven Day	Walnut Creek, CA	CFO and Treasurer, CSAA-IIB

The Company was not in compliance with IC 27-1-7-10(a) for years 2008 and 2009. IC 27-1-7-10(a) states that the business of every corporation shall be managed by a Board of Directors, composed of not less than five (5) ...". See the "Comments on the Financial Statement" section of this report for further explanation on this exception.

Officers

The following persons served as officers of the Company as of December 31, 2009:

<u>Name</u>	<u>Title</u>
Paula Francinne Downey	President
Jamie Elizabeth Chung	Secretary
Michael Steven Day	Treasurer
Eileen Florence Braunreiter	Assistant Secretary
John Joseph Richmond	Assistant Secretary
Michael James Scimeca	Assistant Secretary
Mark Campbell Simmonds	Assistant Vice President
Brian Tohru Suzuki	Assistant Vice President

Corporate Governance

Based on a review of the information contained in each of the Directors and Executive Officer's biographical affidavits and through management interviews, it was determined that these individuals are adequately qualified and have the experience necessary to conduct the operations and affairs of the Company.

Overall, the Company's corporate governance structure was determined to be effective. Policies and strategies as designed and implemented by the Board and management are effectively communicated throughout the Company. In addition, it was determined the Board and key executives set an appropriate "tone at the top" with a clear commitment to set ethical behavior throughout the Company.

CONFLICT OF INTEREST

The Company has in place an established conflict of interest policy and procedures for the disclosure of any material interest or affiliation by any Director, officer or key employee, which is likely to conflict with their official duties. Signed statements for officers and Directors serving as of December 31, 2009, were reviewed without exception.

OATH OF OFFICE

IC 27-1-7-10(i) stipulates that every Director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. It was noted during the examination the Board members did subscribe to an Oath of Office.

CORPORATE RECORDS

Articles of Incorporation and Bylaws

The Company amended its Articles of Incorporation and Bylaws effective December 31, 2008, to reflect that it re-domesticated to Indiana from Alaska on December 31, 2008.

Minutes

The Board of Directors and Shareholder meeting minutes were reviewed for the period under examination through the fieldwork completion date and significant actions taken during each meeting were noted. The Company was not in compliance with IC 27-1-7-7(b) which states that the annual meeting be held...” **See the “Comments on the Financial Statement” section of this report for further explanation on this exception.**

AFFILIATED COMPANIES

Organizational Structure

The Company is a wholly-owned subsidiary of California State Automobile Association-Inter-Insurance Bureau (CSAA-IIB), a California reciprocal insurer. The following organizational chart depicts the Company’s relationship within the holding company system. Each company is 100% owned except as otherwise indicated.

- California State Automobile Association-Inter-Insurance Bureau (CA)
- Western United Insurance Company (IN)
- **ACA Insurance Company (IN)**
- AAA Member Services, LLC. (CA)
- AAA Members Insurance Agency of New York, Inc. (NY) (50%)

- Club Marketing Services, LLC. (CA)
- Ceres Reinsurance, Inc. (VT)
- ACA Ventures, LLC (CA)
- CSAA Life and Financial Services, Inc. (CA)
 - Pacific Beacon Life Reassurance, Inc.(HI)
 - ACLI Acquisition Company (DE) (26.3%)
 - AAA Life Insurance Company (MI)
 - Life Alliance Reassurance Corp (HI)

Affiliated Agreements

Amended Restated Intercompany Services Agreement: Effective January 1, 2007, the Company and its parent, CSAA-IIB, are parties to a Service and Investment Management Agreement that provides for various operating and administration services. A summary of services provided under the Agreement includes financial statement preparation, treasury administration, investment services, human resources, payroll processing, legal services, income tax preparation and various software and other EDP related services. Service and investment management fees paid to CSAA-IIB under the terms of this agreement were \$1,616,501 in 2009. This agreement was filed with the IDOI in accordance with IC27-1-23-4(b)(4).

Tax Allocation Agreement: The Company's federal income tax returns, and that of its affiliates, are filed on a consolidated basis with CSAA-IIB under an inter-company tax-sharing agreement effective March 31, 2006. The allocation of federal income taxes is based on separate company return calculations with current credit given to a company for net losses or tax credits to the extent the losses or tax credits results in an actual reduction in the tax liability of the consolidated group. This agreement was filed with the IDOI in accordance with IC27-1-23-4(b)(4).

Policy and Claims Administration Service Agreement: Effective November 8, 2001, the Company and WUIC are parties to a Policy and Claims Administration Agreement whereby WUIC serves as exclusive third party administrator of underwriting and claims administration services for the Company. Policy administration and claim fees paid under the terms of this agreement were \$9,730,327 and \$16,223,500, respectively. This agreement was filed with the IDOI in accordance with IC27-1-23-4(b)(4).

CSAA-IIB Claims Administration Service Agreement: Effective October 13, 2003, the Company has entered into a claims administration agreement with CSAA-IIB whereby it provides claims administration services to the Company for its homeowner book of business utilizing the WUIC system under a separate Policy and Claims Administration Agreement. Claim administrative fees paid under the terms of this agreement were \$4,651,600 in 2009. This agreement was filed with the IDOI in accordance with IC27-1-23-4(b)(4).

Association Agency Producer Agreement: Effective July 9, 2003, the Company has entered into an agency agreement with California State Automobile Association (the Association), which is the exclusive representative for the CSAA-IIB in the sale of its insurance products to the Association's members. Under this agreement, the Association is authorized to sell and service the Company's auto, motorcycle, and dwelling fire policies in California and receives a commission of 10.25% of direct written premium for new and renewal business. Commissions paid under the terms of this agreement were \$8,711,684 in

2009. During course of the examination it was identified that this producer agreement with the Association was not filed with the IDOI and as a result was not in compliance with IC27-1-23-4(b)(4). See the “Comments on the Financial Statement” section of this report for further explanation on this exception.

AAA Nevada Insurance Agency Agreement: Effective July 1, 2003, the Company has entered into an agency agreement with AAA Nevada Insurance Agency, a wholly owned subsidiary of the Association. Under this agreement AAA Nevada Insurance Agency is authorized to sell and service ACA Insurance Company motorcycle, homeowners and dwelling fire policies in Nevada and receives a commission of 9.5% of direct written premium for new and renewal business. Following the Company’s re-domestication, AAA Nevada Insurance Agency was in the process of being dissolved because there was no longer a need to have a Nevada company. The dissolution was final in November 2009. The agency agreement was terminated as of November 30, 2009 and commissions paid under the terms of this agreement were \$3,215,624 in 2009.

FIDELITY BOND AND OTHER INSURANCE

The Company, through its parent CSAA-IIB, protects itself against loss from any fraudulent or dishonest acts by any employees through a fidelity bond issued by the St. Paul Fire and Marine Insurance Company. The bond has an aggregate loss coverage limit of \$30 million, and a single loss limit of \$15 million with a \$500,000 deductible. This bond meets the suggested minimum coverage prescribed by the NAIC.

STATUTORY DEPOSITS

The Company reported the following statutory deposits consisting of U.S. Treasury Notes and bonds as of December 31, 2009:

<u>State</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Market Value</u>
Indiana	\$ 2,680,000	\$ 2,615,513	\$ 2,709,378
Nevada	100,000	319,639	350,952
Oklahoma	300,000	300,000	300,000
Total Deposits	\$ 3,080,000	\$ 3,235,152	\$ 3,360,330

REINSURANCE

Reinsurance Assumed

As of December 31, 2009, the Company does not assume any business.

Reinsurance Ceded

The Company has a 90% Quota Share reinsurance agreement with its parent, CSAA-IIB. The 90% rate has been in effect since January 1, 2005. The largest net aggregate amount retained in any one risk for 2009 was \$550,000. The agreement covers 90% of each and every loss occurrence, each and every policy in force, written or renewed during the terms of the agreement. Loss expenses are shared on a pro-rata basis and are in addition to the reinsurer's limit of liability. CSAA-IIB was licensed as an Accredited Reinsurer in Indiana as of August 4, 2009. During 2009, the Company ceded premiums of \$184,695,213 under this agreement. The Company had net reinsurance recoverable on all items from CSAA-IIB at December 31, 2009, of \$144,864,181.

Effective January 1, 2007, the Company was covered by an affiliate quota share reinsurance agreement with Ceres Reinsurance, Inc. (Ceres Re.) In this agreement, business covered is limited to business on which the risk is a resident in the service territory assigned to AAA Western & Central New York by the American Automobile Association. The Company cedes to Ceres Re. a 5% quota share of the Company's net retained liability under auto business covered. Ceres Reinsurance, Inc. was an Accredited Reinsurer in Indiana as of October 5, 2009. During 2009, the Company ceded approximately \$1,159,124 in premium to Ceres Re. The Company had net reinsurance recoverable from on all items from Ceres Re. at December 31, 2009, of \$933,056.

The Company is also covered by an Excess of Loss Catastrophe Agreement that covers CSAA-IIB and its subsidiaries. All costs of the excess of loss reinsurance agreements are paid by CSAA-IIB. In 2009, CSAA-IIB had purchased \$450 million in protection for the group at a cost of \$21.6 million in ceded premium.

RESERVES

Nancy P. Watkins, FCAS, MAAA, an actuarial specialist with the firm Milliman USA, Inc., is the Company's Appointed Actuary. Ms. Watkins was appointed by the Board of Directors on August 17, 2004 to render an opinion on the reserves of the Company. Ms. Watkins has provided the Company's actuarial opinion for each year under examination.

The scope of the opinion was to examine the loss and loss adjustment expense reserves of the Company. In forming the opinion, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. The 2009 opinion stated the reserves: A) meet the requirements of the insurance laws of the State of Indiana; B) are consistent with reserves computed in accordance with accepted loss reserving standards and principles; and C) make a reasonable provision for all unpaid loss and loss expense obligations of the Company under the terms of its contracts and agreements.

Ms. Watkins estimated loss and LAE reserves for the companies separately on a direct basis and then allocated reserves to the individual companies based on the terms of the inter-company pooling agreement. For all lines of business, loss and LAE were estimated net of salvage & subrogation.

During the examination, it was determined by the IDOI consulting actuary, David Shepherd, FCAS,

MAAA, of Merlinos & Associates, Inc., that the significant actuarial items in the Company's 2009 Annual Statement are materially correct and fairly stated in accordance with statutory accounting practices prescribed or permitted by the IDOI.

ACCOUNTS AND RECORDS

The Company's general ledger for 2009 was compared and agreed to the trial balance and respective financial statements and schedules in the Annual Statement without exception. The Company's accounts and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger.

ACA INSURANCE COMPANY

FINANCIAL STATEMENTS

Assets

	As of December 31, 2009			
	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Assets:				
Bonds	\$ 21,913,529	\$ -	\$ 21,913,529	\$ 15,668,167
Cash \$ (7,472,026) cash equivalents \$300,000 and short-term investments \$8,045,831	873,805		873,805	492,915
Receivables for securities	217	-	217	967
Subtotals, cash and invested assets	\$ 22,787,551	\$ -	\$ 22,787,551	\$ 16,162,049
Investment income due and accrued	291,645	-	291,645	227,906
Uncollected premiums and agents' balances in the course of collection (premiums and considerations)	3,481,361	-	3,481,361	3,569,056
Deferred premiums, agents' balances and installments booked but deferred and not yet due	17,259,537	-	17,259,537	16,356,764
Amounts recoverable from reinsurers	10,064,970	-	10,064,970	10,073,212
Net deferred tax asset	1,280,367	-	1,280,367	889,756
Receivable from parent, subsidiaries and affiliates	7,477	-	7,477	-
Aggregate write-ins for other invested assets	2,261,669	-	2,261,669	74,155
Total Assets	\$ 57,434,577	\$ -	\$ 57,434,577	\$ 47,352,898

ACA INSURANCE COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

As of December 31, 2009

	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Liabilities:				
Losses	\$ 6,315,668	\$ -	\$ 6,315,668	\$ 5,086,061
Loss adjustment expenses	818,779	-	818,779	801,385
Commissions payable, contingent commissions and similar charges	3,178,387	-	3,178,387	1,350,710
Other expenses	368,536	-	368,536	857,410
Taxes, licenses, and fees (excluding federal and foreign income taxes)	598,129	-	598,129	1,767,471
Current federal and foreign income taxes	1,464,445	-	1,464,445	128,992
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$79,593,563)	8,790,404	-	8,790,404	7,541,487
Advance premium	3,532,846	-	3,532,846	255,984
Ceded reinsurance premiums payable	8,472,453	-	8,472,453	9,180,622
Amounts withheld or retained by company for account of others	167,811	-	167,811	125,780
Remittances and items not allocated	(94,266)	-	(94,266)	8,131
Payable to parent, subsidiaries and affiliates	4,709,764	-	4,709,764	3,489,515
Aggregate write-ins for liabilities	1,404,294	-	1,404,294	1,316,634
Total Liabilities	\$ 39,727,250	\$ -	\$ 39,727,250	\$ 31,910,182
Common Capital Stock	\$ 3,415,965	\$ -	\$ 3,415,965	\$ 3,415,965
Gross paid in and contributed surplus	12,129,623	-	12,129,623	12,129,623
Unassigned funds (surplus)	2,161,739	-	2,161,739	(102,871)
Surplus as regards policyholders	\$ 17,707,327	\$ -	\$ 17,707,327	\$ 15,442,717
Total liabilities and surplus	\$ 57,434,577	\$ -	\$ 57,434,577	\$ 47,352,899

ACA INSURANCE COMPANY

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2009

	Per Annual Statement	Exam Adjustment	Per Examination	December 31, Prior Year
Premiums earned	\$ 19,284,968	\$ -	\$ 19,284,968	\$ 17,336,273
Losses incurred	\$ 14,202,306	\$ -	\$ 14,202,306	\$ 12,164,584
Loss adjustment expenses incurred	1,328,244	-	1,328,244	1,573,129
Other underwriting expenses incurred	5,509,916	-	5,509,916	6,820,818
Aggregate write-ins for underwriting deductions	87,660	-	87,660	-
Total underwriting deductions	\$ 21,128,126	\$ -	\$ 21,128,126	\$ 20,558,531
Net underwriting gain (loss)	\$ (1,843,158)	\$ -	\$ (1,843,158)	\$ (3,222,258)
Net investment income	\$ 681,844	\$ -	\$ 681,844	\$ 858,982
Net realized capital gains or (losses)	(93,569)	-	(93,569)	(217,213)
Net investment gain	\$ 588,275	\$ -	\$ 588,275	\$ 641,769
Net gain (loss) from premium balances charged off	\$ (636,212)	\$ -	\$ (636,212)	\$ (723,324)
Finance and service charges not included in premiums	3,672,768	-	3,672,768	3,573,954
Aggregate write-ins for miscellaneous income	(328,454)	-	(328,454)	13,204
Total other income	\$ 2,708,102	\$ -	\$ 2,708,102	\$ 2,863,834
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 1,453,219	\$ -	\$ 1,453,219	\$ 283,345
Dividends to policyholders	-	-	-	-
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 1,453,218	\$ -	\$ 1,453,218	\$ 283,346
Federal and foreign income taxes incurred	854,234	-	854,234	106,252
Net Income	\$ 598,984	\$ -	\$ 598,984	\$ 177,094

ACA INSURANCE COMPANY

FINANCIAL STATEMENTS

Surplus Account

	As of December 31, 2009			
	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Surplus Account:				
Surplus as regards policyholders, December 31 prior year	\$ 15,442,717	\$ -	\$ 15,442,717	\$ 15,495,522
Net income	\$ 598,984	\$ -	\$ 598,984	\$ 177,094
Change in net deferred income tax	586,657	-	586,657	235,042
Change in nonadmitted assets	(99,832)	-	(99,832)	(464,940)
Aggregate write-ins for gains and losses in surplus:	1,178,801	-	1,178,801	-
Change in surplus as regards policyholders for the year	\$ 2,264,610	\$ -	\$ 2,264,610	\$ (52,804)
Surplus as regards policyholders, December 31 current year	\$ 17,707,327	\$ -	\$ 17,707,327	\$ 15,442,718

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2009, based on the results of this examination. However, accounts and records deficiencies or concerns included the following:

Minutes of Meeting and Directors:

The annual meeting of the sole shareholder of the Company was held on October 27, 2009, to elect Directors for the Company which was contrary to IC 27-1-7-7(b) which states "An annual meeting of shareholders, members or policyholders shall be held within five (5) months after the close of each fiscal year of the corporation and at such time within that period as the bylaws may provide."

IC 27-1-7-11 states that at least one (1) of the Directors must reside in the State of Indiana. The Company did not have any Directors that resided in the State of Indiana for period under examination.

IC 27-1-7-10(a) states that the business of every corporation shall be managed by a Board of Directors, composed of not less than five (5) ...". The Company bylaws state the initial Board shall consist of seven (7) persons which shall be the number of Directors until changed. The Company was not in compliance with IC 27-1-7-10(a) and its own bylaws for the period under examination as it has had only three Directors since 2006.

It is recommended that the annual meeting of the sole shareholder of the Company be held within five (5) months after the close of each fiscal year as provided by IC 27-1-7-7(b). It is also recommended that the Company comply with IC 27-1-7-11 and appoint at least one Director that resides in the State of Indiana. It is also recommended that the Company comply with IC 27-1-7-10(a) and appoint two additional Directors.

During the course of this examination, on September 20 2010, the Company complied with the recommendation of IC 27-1-7-11 and IC 27-1-7-10(a) by electing two Directors to the Company with one Director a resident in the State of Indiana.

Affiliate Producer Agreement:

Effective August 1, 2009, California State Automobile Association (Association) entered into a producer agreement with the Company. The Company has stated that they inadvertently failed to include the Association producer agreements with other intercompany agreements when the Company filed their Form D after they re-domiciled to Indiana effective December 31, 2008.

In accordance with IC 27-1-23-4(b)(4), it is recommended the Company submit all related party agreements to the IDOI for approval.

OTHER SIGNIFICANT FINDINGS

There were no significant findings noted as a result of this examination. In addition, the Company has complied with the comments made in the prior report of examination.

SUBSEQUENT EVENTS

There were no significant events subsequent to the examination date and prior to completion of fieldwork.

MANAGEMENT REPRESENTATION

In support of contingencies and accuracy of information provided during the course of the examination, the Examiners obtained a management representation letter in the standard NAIC format. This letter was executed by key financial personnel of the Company and provided to the IDOI.

AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from Huff, Thomas & Company, hereinafter collectively referred to as the "Examiners" performed an examination of the **ACA Insurance Company**, as of **December 31, 2009**.

The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2010 NAIC Financial Condition Examiners Handbook and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached report of examination is a true and complete report of condition of the **ACA Insurance Company**, as of **December 31, 2009**, as determined by the undersigned.



David Daulton, CFE
Huff, Thomas & Company

State of:
County of:

On this 10th day of November, 2010, before me personally appeared, David Daulton, to sign this document.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed my notarial seal in said County and State, the day and year last above written.

My commission expires November 22, 2010 Stephanie D. Johnson
Notary Public

