

**DEPARTMENT OF INSURANCE, FINANCIAL  
INSTITUTIONS AND PROFESSIONAL REGISTRATION**

P.O. Box 690, Jefferson City, Mo. 65102-0690

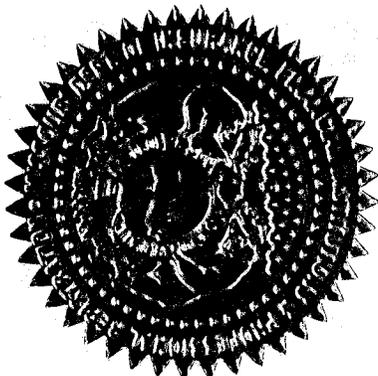
RE: Examination Report of Auto Club Family Insurance Company as of December 31, 2005

**ORDER**

After full consideration and review of the report of the financial examination of Auto Club Family Insurance Company for the period ended December 31, 2005, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

Based on such findings and conclusions, I hereby ORDER Auto Club Family Insurance Company, to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed by such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions.

So ordered, signed and official seal affixed this May 16, 2007.

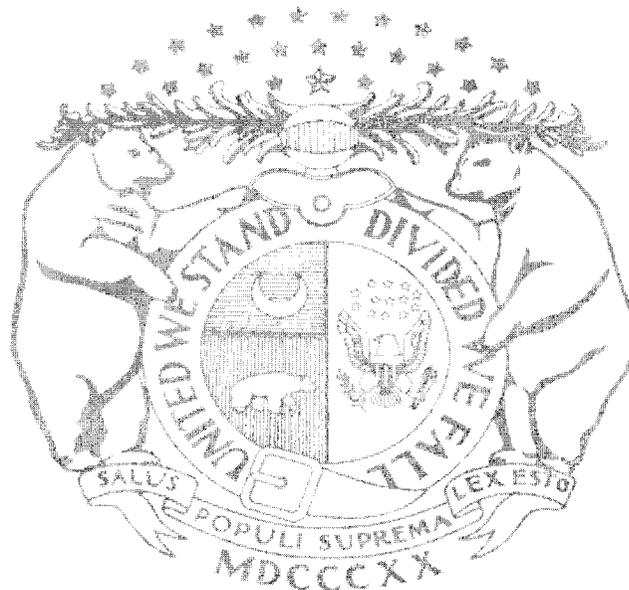


A handwritten signature in black ink, which appears to read "Douglas M. Ommen". The signature is written in a cursive style.

DOUGLAS M. OMMEN, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF  
FINANCIAL EXAMINATION  
  
AUTO CLUB FAMILY  
INSURANCE COMPANY

AS OF  
DECEMBER 31, 2005



STATE OF MISSOURI  
  
DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND  
PROFESSIONAL REGISTRATION  
  
JEFFERSON CITY, MISSOURI

<b>SALUTATION .....</b>	<b>1</b>
<b>SCOPE OF EXAMINATION .....</b>	<b>1</b>
PERIOD COVERED .....	1
PROCEDURES .....	2
COMMENTS PREVIOUS EXAMINATION .....	2
<b>HISTORY .....</b>	<b>2</b>
GENERAL .....	2
CAPITAL STOCK .....	2
DIVIDENDS .....	3
MANAGEMENT .....	3
CONFLICT OF INTEREST .....	4
CORPORATE RECORDS .....	4
ACQUISITIONS, MERGERS, AND MAJOR CORPORATE EVENTS .....	4
SURPLUS DEBENTURES .....	4
<b>AFFILIATED COMPANIES .....</b>	<b>4</b>
HOLDING COMPANY, SUBSIDIARIES AND AFFILIATES .....	4
ORGANIZATIONAL CHART .....	5
INTERCOMPANY AGREEMENTS .....	5
<b>FIDELITY BOND AND OTHER INSURANCE .....</b>	<b>7</b>
<b>EMPLOYEE BENEFITS .....</b>	<b>7</b>
<b>STATUTORY DEPOSITS .....</b>	<b>7</b>
DEPOSITS WITH THE STATE OF MISSOURI .....	7
DEPOSITS WITH OTHER STATES .....	8
<b>INSURANCE PRODUCTS AND RELATED PRACTICES .....</b>	<b>8</b>
TERRITORY AND PLAN OF OPERATIONS .....	8
POLICY FORMS & UNDERWRITING; ADVERTISING & SALES MATERIAL AND TREATMENT OF POLICYHOLDERS .....	9
<b>REINSURANCE .....</b>	<b>9</b>
GENERAL .....	9
ASSUMED .....	9
CEDED .....	10
<b>ACCOUNTS AND RECORDS .....</b>	<b>12</b>
<b>FINANCIAL STATEMENTS .....</b>	<b>12</b>
ASSETS .....	13
LIABILITIES, SURPLUS AND OTHER FUNDS .....	14
STATEMENT OF INCOME .....	15
NOTES TO FINANCIAL STATEMENTS .....	15
EXAMINATION CHANGES .....	15
<b>GENERAL COMMENTS AND/OR RECOMMENDATIONS .....</b>	<b>15</b>
<b>SUBSEQUENT EVENTS .....</b>	<b>16</b>

<b>ACKNOWLEDGEMENT .....</b>	<b>17</b>
<b>VERIFICATION.....</b>	<b>17</b>
<b>SUPERVISION .....</b>	<b>17</b>

March 1, 2007  
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner  
Bureau of Insurance  
Virginia State Corporate Commission  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Ann Womer Benjamin, Director  
Department of Insurance  
State of Ohio  
Secretary, Midwestern Zone, NAIC

Honorable Douglas M. Ommen, Director  
Missouri Department of Insurance,  
Financial Institutions and Professional Registration  
301 West High Street, Room 630  
Jefferson City, MO 65101

Gentlemen and Lady:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

**Auto Club Family Insurance Company**

referred to as such or as the "Company." The examination was conducted at the Company's home office 12901 North Forty Drive, St. Louis, Missouri 63141, telephone number (314) 523-7350. This examination began on April 3, 2006, and concluded on March 1, 2007.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full scope association financial examination of Auto Club Family Insurance Company was performed as of December 31, 2000. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC) with no other zones participating.

The current full scope association financial examination covers the period from January 1, 2001, through December 31, 2005. The examination was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC with no other zones participating. This examination was performed concurrently with the examination of Automobile Club Inter-Insurance Exchange, the Company's parent. Expert Actuarial Services, LLC, reviewed reserves and related actuarial items pursuant to a contract with the Department of Insurance, Financial Institutions and Professional Registration.

This examination also included material transactions and/or events occurring after December 31, 2005.

### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Department of Insurance, Financial Institutions and Professional Registration and statutes of the state of Missouri prevailed.

### **Comments Previous Examination**

The general comments and recommendations in the previous examination report and the Company's response and/or subsequent action taken by the Company are listed below.

#### **1. Comment: Accounts and Records (Disaster Recovery Plan)**

The Department of Insurance Information System Specialist noted that the Company could not readily provide the information systems portion of the disaster recovery plan, including the off-site restoration "test script". The Company is directed to keep the information systems portion of the disaster recovery plan current, periodically tested and have copies readily available on-site as well as off-site

#### **Company's Response:**

The Company responded that it "will ensure that the information systems portion of the disaster recovery plan will be made current. In addition, the company will periodically test that portion of the plan and make copies available both on and off-site."

#### **Current Findings:**

The Company complied with this recommendation.

## **HISTORY**

### **General**

The Company was incorporated under the laws of Missouri on June 22, 1987, and commenced business on June 27, 1987, as Alternative Insurance Company of North America, Inc. The Company was purchased by Automobile Club Inter-Insurance Exchange on January 1, 1990, and the current name was adopted on January 11, 1990.

### **Capital Stock**

The Company is authorized to issue 12,000 shares of common stock with a par value of \$100 per share. As of December 31, 2005; 12,000 shares were issued and outstanding to the sole shareholder, Automobile Club Inter-Insurance Exchange, resulting in capital stock of \$1,200,000. When Auto Club Family Insurance Company was acquired by Automobile Club

Inter-Insurance Exchange, gross paid in and contributed surplus was \$1,136,694. Additional contributions to surplus were made in 1991, 1995 and 1996 for \$450,000; \$2,500,000 and \$4,252,657, respectively, for a total gross paid in and contributed surplus of \$8,339,351 at December 31, 2005.

### **Dividends**

The Company has not paid any dividends since its acquisition by Automobile Club Inter-Insurance Exchange.

### **Management**

The Board of Directors of the Company consists of nine members duly elected at the annual meeting of the sole shareholder, as authorized by the Articles of Incorporation. The members elected and serving as of December 31, 2005, were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Michael C. Berkley St. Louis, MO	Auto Club Family Insurance Company Director of Finance
James W. Dull Mandeville, LA	Automobile Club of Missouri Director of Sales & Field Member Services Southern Region
William A. Erdman St. Louis, MO	Auto Club Family Insurance Company Vice President, General Counsel/Secretary
Arthur W. Johnson St. Louis, MO	Auto Club Family Insurance Company Executive Vice President, Operations
Kenneth A. Johnson St. Louis, MO	Auto Club Family Insurance Company President and Chief Executive Officer
David M. Mattingly St. Louis, MO	Auto Club Family Insurance Company Vice President, Financial Operations/Treasurer
Michael J. Right St. Louis, MO	Auto Club Family Insurance Company Vice President, Public Affairs
Robert J. Schreiber St. Louis, MO	Auto Club Family Insurance Company Vice President, Insurance
James R. Strike St. Louis, MO	Automobile Club of Missouri Director of Claims

The Company does not have its own investment or audit committee. The investment and audit committees of the Club Exchange Corporation act on behalf of the Company and its parent Automobile Club Inter-Insurance Exchange. The investment committee reviews and approves the investments for each company.

### **Conflict of Interest**

Conflict of Interest Disclosure Statements are executed annually by all by all directors, officers and key employees of the Company, Automobile Club Inter-Insurance Exchange, Club Exchange Corporation and Automobile Club of Missouri. The statements are reviewed and summarized by Internal Audit and a report submitted to management and the Board of Directors. Review of the Conflict of Interest Statements and the Conflict of Interest Report revealed no conflicts deemed material and none that had not previously been disclosed to the Board of Directors.

### **Corporate Records**

A review was made of the Articles of Incorporation and Bylaws of the Company. The Company reported no amendments to the Articles of Incorporation or Bylaws.

The minutes of the meetings of the stockholders and board of directors were reviewed for the period under examination and provided sufficient documentation of major corporate transactions.

### **Acquisitions, Mergers, and Major Corporate Events**

There were no acquisitions, mergers or major corporate events during the examination period.

### **Surplus Debentures**

The Company did not have any surplus debentures issued or outstanding during the examination period or as of December 31, 2005.

## **AFFILIATED COMPANIES**

### **Holding Company, Subsidiaries and Affiliates**

The Company is a member of an insurance holding company system as defined in Section 382.010 RSMo, (Definitions). The Company filed Insurance Holding Company System Registration Statement Form B and Form C with the Department of Insurance, Financial Institutions and Professional Registration for the years under examination, maintaining that Automobile Club Inter-Insurance Exchange is the ultimate controlling entity.

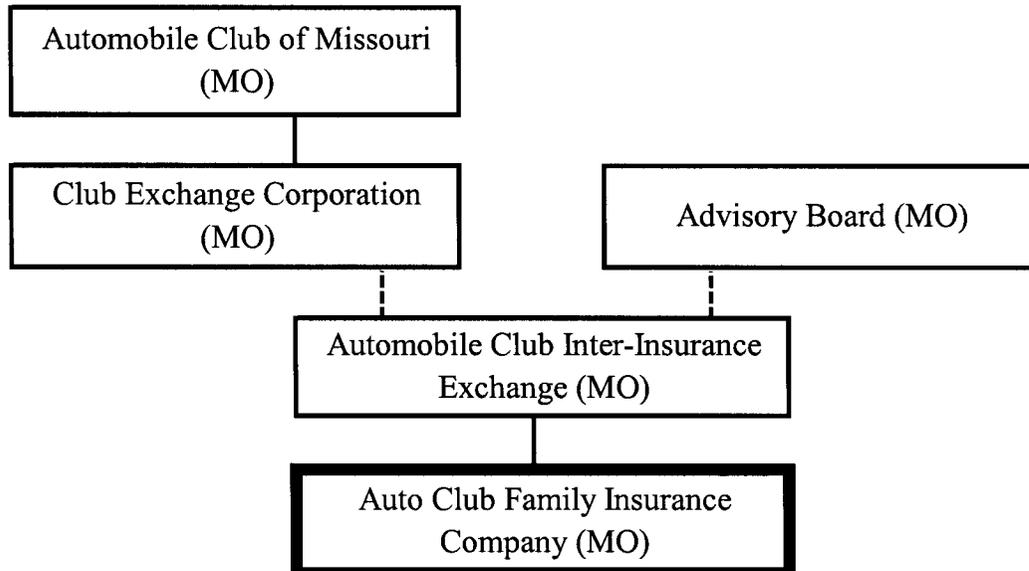
The Company is wholly owned by Automobile Club Inter-Insurance Exchange, which is a reciprocal inter-insurance exchange. The affairs of Automobile Club Inter-Insurance Exchange are managed by Club Exchange Corporation, the attorney-in-fact, appointed by the subscribers of Club Exchange Corporation which is wholly-owned by Automobile Club of Missouri, an affiliate of American Automobile Association (AAA). All subscribers of the Company must be members of Automobile Club of Missouri.

In 1999, Automobile Club of Missouri filed a disclaimer of affiliation on behalf of Automobile Club Inter-Insurance Exchange and Auto Club Family Insurance Company, with the Department of Insurance, Financial Institutions and Professional Registration declaring

Automobile Club Inter-Insurance Exchange as the ultimate controlling entity. The Department did not disapprove the disclaimer.

### **Organizational Chart**

The following organizational chart depicts the insurance holding company system as of December 31, 2005.



### **Intercompany Agreements**

1. **Type:** Service Agreement  
**Affiliate:** Automobile Club of Missouri  
**Effective:** October 8, 1992

**Terms:** The Company is a party to a Service Agreement under which Automobile Club of Missouri agrees to provide all of the personnel, office furniture, fixtures and supplies (excluding data processing systems and equipment owned and provided by the Company) necessary to perform the following services on behalf of Automobile Club Inter-Insurance Exchange, Club Exchange Corporation and the Company:

- Sales, sales promotion and administration
- Public relations and advertising
- Investment of surplus and reserves
- Claims and claims adjustment
- Underwriting
- Actuarial
- Data processing

- Occupancy of premises (i.e. custodial, maintenance, etc.)
- General office and secretarial
- Legal, accounting and auditing
- General management and administration

As compensation, Auto Club Family Insurance Company pays Automobile Club of Missouri a management fee based on gross premiums written. In addition, the Company reimburses Automobile Club of Missouri for the direct costs and overhead costs incurred by Automobile Club of Missouri on behalf of the Company. Direct costs include those departments (such as underwriting and claims) which provide services only to the two insurance companies, Automobile Club Inter-Insurance Exchange and Auto Club Family Insurance Company. Overhead costs consist of other departments and functions which provide services to the insurance companies and other non-insurance affiliates. Appendix A of the agreement is re-determined each year and represents the procedure used by the Automobile Club of Missouri to allocate expenses to Automobile Club Inter-Insurance Exchange and Auto Club Family Insurance Company.

The Company incurred the following costs for Management fees and direct costs, and for indirect allocated costs, respectively over the examination years:

<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
\$17,808,649	\$15,521,248	\$12,467,489	\$8,776,921	\$6,286,671
<u>2,958,226</u>	<u>2,794,175</u>	<u>2,725,733</u>	<u>2,595,965</u>	<u>2,339,188</u>
<u>\$20,766,875</u>	<u>\$18,315,423</u>	<u>\$15,193,222</u>	<u>\$11,372,886</u>	<u>\$8,625,859</u>

**2. Type:** Federal Income Tax Allocation Agreement  
**Affiliate:** Automobile Club Inter-Insurance Exchange  
**Effective:** January 1, 1990- Amended June 22, 1998  
**Terms:** The Company and its parent, Automobile Club Inter-Insurance Exchange, entered into a Tax Allocation Agreement effective January 1, 1990, and amended effective June 22, 1998, which provides that the parties will file a consolidated federal income tax return. The consolidated income tax liability is allocated to each of the parties on the basis of its contribution to the consolidated taxable income. Tax benefits from net operating losses and tax credits are allocated to the party generating the operating loss or tax credit.

**3. Type:** Surplus Guaranty  
**Affiliate:** Automobile Club Inter-Insurance Exchange  
**Effective:** August 29, 1991  
**Terms:** Automobile Club Inter-Insurance Exchange guarantees that the surplus of the Company is maintained at a minimum of \$1,250,000. Should the Company's surplus fall

below this level Automobile Club Inter-Insurance Exchange would be required to contribute the amount necessary to restore the Company's surplus to the minimum level.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company was a named insured on a financial institution bond purchased by Automobile Club of Missouri which provides crime and fidelity coverage of \$2,000,000 aggregate with a \$50,000 per loss deductible. This coverage complies with the suggested minimum amount of fidelity insurance according to NAIC guidelines.

The Company was also a named insured on other coverages, which include but are not limited to directors' and officers' liability, errors and omissions liability, commercial excess umbrella, property insurance, commercial auto, and corporate counsel - professional liability.

### **EMPLOYEE BENEFITS**

The Company does not have any direct employees. Services are provided by employees of Automobile Club of Missouri pursuant to a service agreement.

The benefits received by the personnel covered in the above mentioned service agreement include but are not limited to, paid holidays, paid vacations, paid sick leave, workers' compensation, unemployment insurance, excused absences, leave of absence, tuition reimbursement, access to the employee assistance program and AAA Club membership. In addition, Automobile Club of Missouri provides employees a flexible benefit plan under which each employee receives an allowance (partially based on age, earnings and the cost of medical and dental coverage) which may be used to purchase the individual benefits and coverages desired. The benefits and coverages available include group life insurance, group health/dental/vision care, accidental death and dismemberment, long term disability, 401 (k) profit sharing plan and defined benefit pension plan.

### **STATUTORY DEPOSITS**

#### **Deposits with the State of Missouri**

The funds on deposit with the Department of Insurance, Financial Institutions and Professional Registration as of December 31, 2005, as reflected below, were deemed sufficient in par and market value to meet the \$1,200,000 deposit requirement for the state of Missouri per Section 379.098(1) RSMo (Securities deposits). The Special Deposits with the Department of Insurance, Financial Institutions and Professional Registration are held for the benefit of all policyholders, claimants and creditors of the Company.

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$500,000	\$533,905	\$518,069
U.S. Treasury Note	150,000	162,984	160,936
U.S. Treasury Note	450,000	464,765	438,194
U.S. Treasury Note	200,000	205,188	200,657
U.S. Treasury Note	100,000	105,438	100,470
U.S. Treasury Bond	<u>100,000</u>	<u>144,156</u>	<u>124,045</u>
Total	<u>\$1,500,000</u>	<u>\$1,616,436</u>	<u>\$1,542,371</u>

### **Deposits with Other States**

The Company maintains funds on deposit with other states in which it is licensed to satisfy their statutory deposit requirements. The funds on deposit with other states, which are not held for the benefit of all policyholders, claimants and creditors of the Company, as of December 31, 2005, are listed below.

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Oklahoma	U.S. Treasury Note	\$337,000	\$373,859	\$337,406
Arkansas	U.S. Treasury Note	235,000	288,756	244,305
Arkansas	U.S. Treasury Note	<u>130,000</u>	<u>147,631</u>	<u>134,439</u>
Total		<u>\$702,000</u>	<u>\$810,246</u>	<u>\$716,150</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

The Company is licensed by the Department of Insurance, Financial Institutions and Professional Registration under Chapter 379 RSMo (Insurance other than life) to write property, liability, accident and health, and miscellaneous insurance. The Company is also licensed in the states of Alabama, Arkansas, Illinois, Indiana, Kansas, Louisiana, Mississippi and Oklahoma. Approximately 48% of the 2005 direct premiums were written in Missouri.

The Company markets non-standard private passenger automobile insurance and homeowners insurance through 186 licensed captive agents who are employed by Automobile Club of Missouri and located in 65 branch offices, and through 312 independent agents, who accounted for 23.8% of direct premium in 2005. Insurance is sold only to members of Automobile Club of Missouri.

The employees of Automobile Club of Missouri also sell standard private passenger automobile insurance and umbrella coverage for Auto Club Family Insurance Company's parent, Automobile Club Inter-Insurance Exchange. In addition, the employees sell memberships for

Automobile Club of Missouri as well as life, health and other insurance products for non-affiliated licensed insurance companies.

**Policy Forms & Underwriting; Advertising & Sales Material and Treatment of Policyholders**

The Department of Insurance, Financial Institutions and Professional Registration has a market conduct staff, which performs a review of these issues and generates a separate market conduct report. The most recent Missouri market conduct examination covered the period 2001-2003 and resulted in a forfeiture of \$5,225. The impact of this examination was immaterial to the financial statements.

A Market Conduct examination is currently underway for the years 2004-2005. There is no current expectation of findings which would impact the financial condition of the Company.

The Company had 224 closed complaints over the five year examination period. The trend was down with only 28 of those complaints occurring in 2005. Procedures are in place for complaints pursuant to Missouri regulation 20 CSR 300-2.200(3) (D) (Records required for purposes of market conduct examinations).

**REINSURANCE**

**General**

The Company's reinsurance and premium activity during the period under examination are as follows:

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct Written	\$41,852,912	\$62,519,293	\$76,199,724	80,717,565
Reinsurance Assumed from Affiliates	28,964,511	37,221,197	43,364,203	42,740,838
Reinsurance Assumed from Non-Affiliates	77,347	204,417	180,208	120,459
Reinsurance Ceded to Affiliates	(35,530,609)	(51,529,364)	(66,370,136)	(64,140,617)
Reinsurance Ceded to Non-Affiliates	<u>(6,399,650)</u>	<u>(11,194,346)</u>	<u>(10,009,796)</u>	<u>(16,697,407)</u>
Net Written Premiums	<u>28,964,511</u>	<u>37,221,197</u>	<u>43,364,203</u>	<u>42,740,838</u>

**Assumed**

The Company and its parent Automobile Club Inter-Insurance Exchange are participants in an intercompany reinsurance pooling agreement effective January 1, 1996, whereby 100% of the net business written and retained by the Company is ceded to Automobile Club Inter-Insurance Exchange and pooled with the Automobile Club Inter-Insurance Exchange's net retained business, then retroceded back to the Company on a 20% basis, with Automobile Club Inter-Insurance Exchange retaining the remaining 80% of the pooled premiums and liabilities.

The Company assumes an insignificant amount of reinsurance from mandatory pools: Missouri Property Insurance Placement Facility (FAIR Plan), the Louisiana Coastal and Joint

Reinsurance Plans, the Illinois FAIR Plan, the Kansas FAIR Plan and the Mississippi Rural Risk and Windstorm Underwriting Associations.

**Ceded**

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer fails to perform its obligations under the reinsurance agreement.

Prior to 2003, the Company ceded its excess of loss coverage and the first layers of its catastrophe coverage program to Employers Reinsurance Corporation. The top layers of the catastrophe program were brokered through intermediary Guy Carpenter, Inc. (Guy Carpenter) with participation by various reinsurers. Effective January 1, 2003, the Company ceded its excess of loss coverage to General Reinsurance Corporation and brokered its catastrophe excess of loss and property catastrophe aggregate excess coverages through Guy Carpenter. These contracts were non-disapproved by the Department of Insurance, Financial Institutions and Professional Registration and reviewed by the examination team. No exceptions or violations were noted.

During 2005, Hurricane Katrina and Hurricane Rita inflicted severe property damage to Company policyholders in Louisiana and Mississippi. As of December 31, 2005, the combined impact of these two catastrophes on the Automobile Club Inter-Insurance Exchange and the Company was approximately, \$133,687,000. Net of reinsurance, the combined impact on the Automobile Club Inter-Insurance Exchange and the Company was approximately \$19,184,000.

As of December 31, 2005, the Company was a party to the following reinsurance agreements:

<u>Decription</u>	<u>Retention</u>	<u>Reinsurance Limit</u>
<i>Property Per Risk Excess of Loss</i>		
First Layer	\$150,000 each risk each occurrence	\$150,000 each risk each occurrence \$450,000 all risks each occurrence
Second Layer	\$300,000 each risk each occurrence	\$700,000 each risk each occurrence \$2,100,000 all risks each occurrence
Third Layer	\$1,000,000 each risk each occurrence	\$500,000 each risk each occurrence \$1,500,000 all risks each occurrence
<i>Property Catastrophe Excess of Loss</i>		
First Layer	\$6,000,000 each occurrence	95% of \$4,000,000 each occurrence
Second Layer	\$10,000,000 each occurrence	100% of \$10,000,000 each occurrence
Third Layer	\$20,000,000 each occurrence	100% of \$20,000,000 each occurrence
Fourth Layer	\$40,000,000 each occurrence	100% of \$40,000,000 each occurrence
Fifth Layer	\$80,000,000 each occurrence	100% of \$70,000,000 each occurrence
<i>Property Catastrophe Aggregate Excess of Loss</i>		
	5% of \$3,000,000 each occurrence	95% of \$3,000,000 each occurrence
	95% of \$3,000,000 of aggregate ultimate net loss	
	5% of the excess of ultimate net loss	95% of \$6,000,000 of all loss occurrences
<i>Liability Excess of Loss</i>		
Standard Auto	\$200,000 each occurrence	
Non-Standard Auto	\$150,000 each occurrence	
Homeowners	\$150,000 each occurrence	
ECO and XPL only	80% of loss within treaty limit 90% excess of treaty retention	

*The above policies have 5 layers of reinsurance up to \$3,000,000 each occurrence including the retention.*

## **ACCOUNTS AND RECORDS**

An independent accounting firm audits the Company annually. The Company's 2005 financial statements were audited by the CPA firm, PricewaterhouseCoopers LLP, St. Louis, Missouri. A review was made of the workpapers of the last CPA audit. These workpapers and reports were used in the course of this examination as deemed appropriate.

Reserves and related actuarial items reported in the financial statements were reviewed and certified by Robert H. Wainscott, FCAS, MAAA, of Ernst & Young LLP, on behalf of the Company.

Jon Michelson, FCAS, MAAA, with Expert Actuarial Services, reviewed the actuarial assumptions and methods used by the Company in determining policy reserves and related actuarial items. He found reserves to be reasonable.

In conjunction with this examination, Andrew Balas, Information Systems Financial Examiner with the Department of Insurance, Financial Institutions and Professional Registration conducted a review of the Company's information systems. No problems were noted.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2005, and the results of operations for the fiscal period then ended. Any examination adjustments to the amounts reported in the financial statements and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the financial statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual financial statement item.

## ASSETS

	Amounts Per Annual Statement			Notes	Examination Findings	
	Ledger Assets	Assets Not Admitted	Net Admitted Assets		Examination Adjustments	Net Admitted Assets
Bonds	\$29,677,950		\$29,677,950			\$29,677,950
Common stocks	23,979,865		23,979,865			23,979,865
Cash and short-term investments	(24,021,130)		(24,021,130)			(24,021,130)
Receivable for securities	15,194		15,194			15,194
<b>Subtotal Cash and Invested Assets</b>	<b>\$29,651,879</b>		<b>\$29,651,879</b>			<b>\$29,651,879</b>
Investment income due and accrued	\$291,574		\$291,574			\$291,574
Uncollected premiums and agents balances	7,426,679	114,522	7,312,157			7,312,157
Amounts recoverable from reinsurers	2,817,510		2,817,510			2,817,510
Current federal and foreign income tax recoverable	460,819		460,819			460,819
Net deferred tax asset	852,304		852,304			852,304
Guaranty funds receivable or on deposit	92,952		92,952			92,952
Receivables from parent, subsidiaries and affiliates	10,190,639		10,190,639			10,190,639
Aggregate write-ins for other than invested assets	20,600		20,600			20,600
<b>Total Assets</b>	<b>\$51,804,956</b>	<b>\$114,522</b>	<b>\$51,690,434</b>			<b>\$51,690,434</b>

## LIABILITIES, SURPLUS AND OTHER FUNDS

	Amounts Per Annual Statement	Notes	Examination Adjustments	Amounts Per Examination
Losses	\$11,196,085			\$11,196,085
Loss adjustment expenses	1,452,940			1,452,940
Taxes, licenses and fees	182,254			182,254
Unearned premiums	15,651,684			15,651,684
Advance premium	149,800			149,800
Ceded reinsurance premiums payable	356,203			356,203
Drafts outstanding	95,825			95,825
Payable for securities	18,998			18,998
Aggregate write-ins for liabilities	933,585			933,585
<b>Total Liabilities</b>	<b>\$30,037,374</b>			<b>\$30,037,374</b>
Common capital stock	\$1,200,000			\$1,200,000
Gross paid in surplus	8,339,352			8,339,352
Unassigned funds	12,113,708			12,113,708
<b>Total Liabilities, Capital and Surplus</b>	<b>\$51,690,434</b>			<b>\$51,690,434</b>

## STATEMENT OF INCOME

		Amounts Per Annual Statement
<b>UNDERWRITING INCOME</b>		
Premiums earned		\$42,219,799
<b>DEDUCTIONS</b>		
Losses incurred		26,347,221
Loss expenses incurred		3,145,496
Other underwriting expenses incurred		12,223,570
Total underwriting deductions		\$41,716,287
Net underwriting gain		\$503,512
<b>INVESTMENT INCOME</b>		
Net investment income earned		\$1,422,658
Net realized capital gains or (losses) less capital gains tax		182,732
Net investment gain		\$1,605,390
<b>OTHER INCOME</b>		
Net gain or (loss) from agent's or premium balances charged off		(\$22,447)
Finance and service charges not included in premiums		716,604
Total other income		\$694,157
Net income before federal and foreign income taxes		\$2,803,059
Federal and foreign income tax		673,471
Net income		\$2,129,588

### NOTES TO FINANCIAL STATEMENTS

NONE

### EXAMINATION CHANGES

NONE

### GENERAL COMMENTS AND/OR RECOMMENDATIONS

NONE

## **SUBSEQUENT EVENTS**

On March 1, 2006, the Automobile Club of Southern California, the Automobile Club of Missouri, Auto Club Enterprises (California), the Inter-Insurance Exchange of the Automobile Club (CA Exchange), ACSC Management Services Inc., (California), Automobile Club Inter-Insurance Exchange (Missouri) and Club Exchange Corporation (Missouri) entered into an Affiliation Agreement.

This agreement provided for a \$50,000,000 surplus note to be purchased by Automobile Club of Southern California from Automobile Club Inter-Insurance Exchange with the proceeds being used to retire a \$20,000,000 note held by the Automobile Club of Missouri along with the associated interest. The remaining proceeds were taken into surplus. \$5,000,000 was infused into Auto Club Family Insurance Company to increase surplus to a level that would allow it to become licensed in the state of California. Other provisions provided for the pooling of reinsurance, replacement of advisory board members, and a services agreement between Auto Club Enterprises (California) and Automobile Club of Missouri.

As of June 30, 2006, the notes mentioned above had been executed and retired as indicated. The effects of the other provisions of the agreement are not determinable at this time however the Department of Insurance, Financial Institutions and Professional Registration has been aware of this affiliation for some time and has not disagreed with it.

**ACKNOWLEDGEMENT**

The assistance and cooperation extended by Auto Club Family Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Richard Stamper, CFE, Ed Lang, Douglas Daniels, Joseph Hofmeister, and Maipandi Obeth, examiners for the Department of Insurance, Financial Institutions and Professional Registration, participated in this examination. Jon Michelson, FCAS, MAAA, with Expert Actuarial Services, reviewed the actuarial assumptions and methods used by the Company in determining policy reserves and related actuarial items.

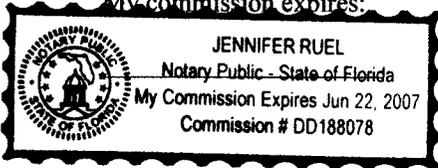
**VERIFICATION**

State of <sup>FLORIDA</sup> ~~Missouri~~ )  
County of <sup>DEVA</sup> ~~St. Louis~~ )<sup>SS</sup>

I, Wyatt Sample, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

*Wyatt R Sample*  
\_\_\_\_\_  
Wyatt R Sample, CFE, CPA  
Examiner-in-Charge  
Department of Insurance, Financial  
Institutions and Professional Registration

Sworn to and subscribed before me this 14 day of MARCH 2007.  
My commission expires:



*Jennifer Ruel*  
\_\_\_\_\_  
Notary Public

**SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with the National Association of Insurance Commissioners procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

*Christiana Dugopolski*  
\_\_\_\_\_  
Christiana Dugopolski, CFE, CPA  
Audit Manager – St. Louis  
Department of Insurance, Financial  
Institutions and Professional Registration