STATE OF ALABAMA
DEPARTMENT OF INSURANCE
MONTGOMERY, ALABAMA

REPORT OF EXAMINATION OF

ALABAMA MUNICIPAL INSURANCE CORPORATION

MONTGOMERY, ALABAMA

AS OF DECEMBER 31, 2007

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STATE OF ALABAMA
COUNTY OF MONTGOMERY

Palmer W. Nelson, being duly sworn, states as follows:

1. I have authority to represent the Commissioner of Insurance for the State of Alabama in the examination of Alabama Municipal Insurance Corporation.

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

3. I have reviewed the examination work papers and examination report, and the examination of Alabama Municipal Insurance Corporation was performed in a manner consistent with the standards and procedures required by the Alabama Department of Insurance.

The affiant says nothing further.

Palmer W. Nelson

Examiner's Signature

Subscribed and sworn before me by Vickie Hubbard Brandon this 5TH day of June, 2009.

Vickie Hubbard Brand

Notary Public

My Commission Expires on September 12, 2012

My commission expires ______________.

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JIM L. RIDLING
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CHIEF EXAMINER
RICHARD L. FORD

STATE FIRE MARSHAL
EDWARD S. PAULK

GENERAL COUNSEL
REYN NORMAN

RECEIVER
DENISE B. AZAR

LICENSING MANAGER
JIMMY W. GUNN

Montgomery, Alabama
June 5, 2009

Honorable Jim L. Ridling, Commissioner
Alabama Department of Insurance
Post Office Box 303351
Montgomery, Alabama 36130-3351

Dear Commissioner:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, an examination has been made of the affairs and condition of

Alabama Municipal Insurance Corporation
Montgomery, Alabama

As of December 31, 2007, at its home office located at 110 North Ripley Street, Montgomery, Alabama 36104. The report of examination appears herewith.

Where the term "Company" appears herein without qualification, it will be understood to indicate Alabama Municipal Insurance Corporation.

SCOPE OF EXAMINATION

The Company was last examined for the five year period ended December 31, 2002 by examiners representing the State of Alabama Department of Insurance. The current examination covers the intervening period from the date of the last examination through December 31, 2007, and was conducted by examiners representing the State of Alabama Department of Insurance. Where deemed appropriate, transactions, activities and similar items subsequent to 2007 were reviewed.

The examination was performed in accordance with all applicable statutory requirements of the State of Alabama for a mutual insurance company as provided for in Title 27 of the Code of Alabama, and in accordance with Alabama Insurance Department regulations and bulletins in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to evaluate the financial condition and to identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions.

An examination of the information systems (IS) of Alabama Municipal Insurance Corporation was conducted concurrently with the financial examination of the Company. The examination of the information systems included a review of the management and organizational controls, logical and physical security controls, system and program development, contingency planning, service provider controls, operations controls, processing controls, and network and internet controls.

A market conduct examination of Alabama Municipal Insurance Corporation was performed concurrently with the financial examination of the Company. The examination included a review of the Company's handling of complaints, the operations and management of the Company, the marketing and sales of the Company's insurance policies, the services provided to policyholders, the licensing of producers, the underwriting practices and policy forms, the claims practices of the Company, and the privacy practices of the Company.

The Company's Annual Statements were compared with and reconciled to the corresponding general ledger account balances for the period under examination.

During the examination period, the Company was audited annually by TaylorChandler, LLC, Montgomery, Alabama, certified public accountants (CPAs). The examiners utilized some of the CPA's workpapers in conjunction with the examiners' test work to complete some of the audit procedures in instances in which the examiners determined that it was appropriate.

ORGANIZATION AND HISTORY

The Company was incorporated March 29, 1989, in Montgomery County, Alabama, as a mutual insurance company. The Articles of Incorporation permit the Company to provide property and casualty insurance and risk management services to its members. The Company is authorized to solicit as members, only incorporated cities and towns that are members of the Alabama League of Municipalities.

The Company has been exempt from federal income taxes, since its inception, under Section 115(1) of the Internal Revenue Code, Revenue Ruling 90-74. The Company has been exempt from Alabama premium taxes since December 31, 1999, under the provisions of Section 27-4A-3(e), Code of Alabama, 1975.

Prior to the August 22, 1995 amendment of the Company's By-Laws, all policyholders were required to make a capital contribution as a prerequisite to obtaining insurance with the Company. The requirement was discontinued by said amendment, and since the amendment, there have been two classes of policyholders (members) regarding voting rights. In the election of directors and all other matters that are submitted to a vote of the membership, Members with an outstanding contribution have four votes and members that do not have an outstanding contribution only have one vote. At December 31, 2007, the Company reported Gross paid in and contributed surplus of $6,053,305 and Unassigned funds of $23,100,015.

MANAGEMENT AND CONTROL

Policyholders

The Company is a mutual insurance corporation with ownership vested in its policyholders. All policyholders of the Company are municipal organizations that are members of the Alabama League of Municipalities (ALM). The Company's charter prevents it from soliciting business from any entities that are not members of ALM.

Board of Directors

The Company's By-Laws provide that its Board of Directors shall be comprised of five members who must be elected officials of municipalities that are policyholders of the Company. The terms of directors are staggered, with one director's term expiring every year, except that every fourth year the terms of two directors expire.

Members elected to the Board of Directors and serving at December 31, 2007 were as follows.

Director/Residence	Principal Occupation
David Hugh Bradford Muscle Shoals, Alabama	Mayor of Muscle Shoals, Alabama
Billy Joe Driver Clanton, Alabama	Mayor of Clanton, Alabama
Melvin Lloyd Duran Priceville, Alabama	Mayor of Priceville, Alabama
Charles Harold Murphy Robertsdale, Alabama	Mayor of Robertsdale, Alabama
Robert Earl Payne Tallassee, Alabama	Mayor of Tallassee, Alabama

Committees

The Company had two committees of the Board at December 31, 2007. Members of the committees at December 31, 2007 were as follows.

Nominating Committee

Billy Joe Driver
Robert Earl Payne

Claims Committee

Robert Earl Payne
Billy Joe Driver
Stephen Everett Wells

The President of the Company, who is not a member of the Board of Directors, served on the Claims Committee during the period under examination. This is not in compliance with ALA. CODE §10-2B-8.25, which states, "(a) Unless the articles of incorporation or bylaws provide otherwise, a board of directors may create one or more committees and appoint members of the board of directors to serve on them. Each committee may have one or more members, who serve at the pleasure of the board of directors."

Officers

Officer	Title
Stephen Everett Wells	President
Perry Crawford Roquemore	Secretary and Treasurer

Management and Service Agreements

The Company does not have any employees. The employees are provided by the Alabama League of Municipalities (ALM). The Company had an administrative services agreement with ALM during the examination period. The agreement was amended on July 28, 2001. The July 28, 2001 amendment superseded and terminated all prior agreements. The agreement does not specifically identify the duties and privileges of each of the parties to the agreement. The section of the agreement pertinent to services provided and compensation states,

> WHEREAS, Company desires to employ and League is agreeable to such employment and agrees to perform certain services for the Company, NOW THEREFORE, in consideration of the premises and the promises made, the parties agree as follows: 1. League will provide certain administrative and professional services, as well as promotion and sponsorship of the Company's programs. Company agrees to pay League the sum of Two percent (2%) of earned premiums based on the prior calendar year audit, payable on a monthly basis. The first year's computation will be based on the audited premium for the 2000 year. For the subsequent year a minimum fee will be computed by taking the first year fee and adding the Consumer Price Index for the previous calendar year. For all other future years the minimum fee will be computed by taking the prior year minimum fee and adding the Consumer Price Index. However, the maximum fee due the League shall not exceed three percent (3%) of earned premium for any year.

The Company paid the League the monthly compensation and reimbursed the League for the salaries of all of the employees involved in the Company's operations. Company management stated that it was implied in the agreement that, in addition to the compensation that the Company pays the League that is explicitly stated in the agreement, the Company also reimburses the League for the salaries of all of the employees. The agreement can be much improved by revising the agreement to explicitly state all services to be provided and the compensation for those services in the agreement.

Conflicts of Interest

The Company requires that its officers, directors, and employees in a sensitive position sign conflict of interest statements annually to disclose any conflict of interest or conflicting affiliations that the individual might have with their position at the Company. The examination noted that all officers, directors, and employees in a sensitive position signed conflict of interest statements annually, and that there were no conflicts of interest disclosed by the individuals who filled out the statements.

CORPORATE RECORDS

The Company's Articles of Incorporation, By-Laws, and amendments thereto were inspected and found to provide for the operation of the Company in accordance with Alabama statutes and regulations and with accepted corporate practices.

Minutes of the meetings of the membership, board of directors and committees, from December 31, 2002 through the most recent meetings held at the conclusion of the examination were reviewed. The minutes appeared to be complete and to adequately document the actions of the respective governing bodies.

HOLDING COMPANY AND AFFILIATE MATTERS

The Company is organized as a mutual insurance company, and is also classified as not for profit by federal and state authorities. The Company is not subject to the Alabama Insurance Holding Company Regulatory Act, as defined in ALA. CODE §27-29-1(1975).

Dividends to Policyholders

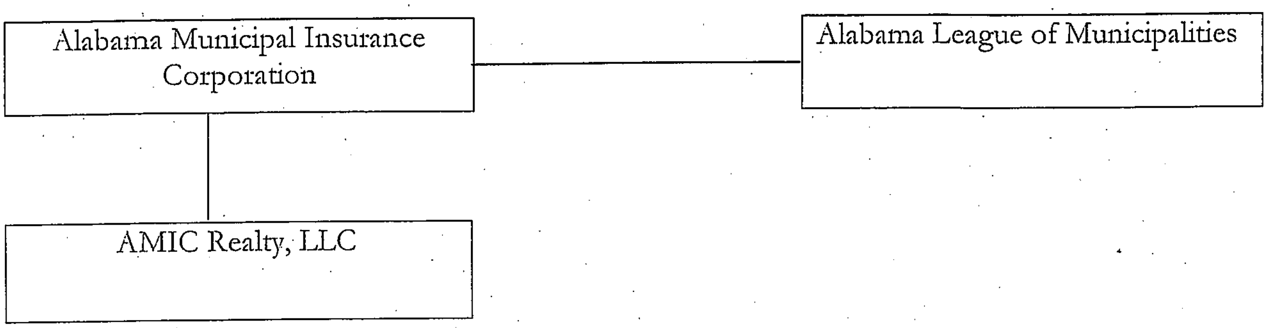
The Company paid the following dividends to policyholders for the period under examination.

Year	Dividends to Policyholders
2003	$716,605
2004	$781,365
2005	$842,228
2006	$610,076
2007	$658,254

Organizational Chart

The organizational chart on the following page depicts the organizational structure of the Company as of December 31, 2007.

Alabama Municipal Insurance Corporation
Organizational Chart
December 31, 2007



FIDELITY BONDS AND OTHER INSURANCE

As of December 31, 2007, the Company was covered under a financial institution bond for insurance companies which was underwritten by St. Paul Fire & Marine Insurance Company. The fidelity bond insured the Company in an amount consistent with or in excess of the minimum mandated by the NAIC Financial Condition Examiners Handbook.

The other insurance coverages that the Company had as of December 31, 2007, were as follows:

Commercial Crime Coverage (Public Employee Dishonesty Coverage)
Commercial General Liability Coverage
Public Officials Liability Coverage
Employee Benefit Liability Coverage
Commercial Property Coverage (Building and Contents)
Commercial Auto Coverage
Commercial Inland Marine Coverage
Equipment Breakdown Coverage

The coverages that the Company was provided under the insurance policy pertaining to insurance other than fidelity bond coverage were underwritten by the Company itself, Alabama Municipal Insurance Corporation, and a portion of the coverage was then ceded to the Company's reinsurers under the terms of the Company's reinsurance program. The policy is a joint policy that is issued to the Alabama League of Municipalities, and covers Alabama Municipal Insurance Corporation, the Alabama League of Municipalities, the Municipal Workers' Compensation Fund, Inc., and the Alabama Municipal Funding Authority, Inc. under a blanket coverage policy. The examiner reviewed the coverages and limits of the Company's insurance, and determined that the coverages provided to the Company were adequate to protect the Company from the risks to which it was exposed.

EMPLOYEE AND AGENT WELFARE

Alabama Municipal Insurance Corporation does not have any employees. The Company is operated by personnel employed by the Alabama League of Municipalities who work for Alabama Municipal Insurance Corporation under an employment and services agreement entered into between the two companies. As such, the Company does not provide any employee benefits or post-employment benefits to the personnel that operate the Company. Any benefits provided to these personnel are provided by the Alabama League of Municipalities. Further discussion of the Company's agreement with the Alabama League of Municipalities is included in this report under the caption "Management and Service Agreements."

The Company's marketing strategy uses a mix of captive and independent agents. The captive agents are employed by the Alabama League of Municipalities and work for Alabama Municipal Insurance Corporation under the aforementioned employment and services agreement. Any employee benefits the captive agents receive are provided by the Alabama League of Municipalities. The independent agents are not employees of Alabama Municipal Insurance Corporation, and therefore, are not provided any employee benefits or post-employment benefits by the Company.

The examiner determined that the Company does not perform background checks on new or prospective employees to be hired to run the Company's operations, and therefore could not be assured that they were in compliance with ALA. ADMIN. CODE 482-1-121(2003), which states "(2) Certain persons are prohibited from participating in the business of insurance pursuant to the Violent Crime Control and Law Enforcement Act of 1994, Public Law 103-322, H.R. 3355; 18 U.S. Code §1033-1034 (the "Act")...Insurers, officers, directors, producers, and any employee of an insurance company engaged in the business of insurance could be subject to the requirements of this Act... One of the provisions of the Act prohibits any person convicted of any criminal felony involving dishonesty, breach of trust or a violation of this Act from engaging in the business of insurance in interstate commerce without the specific written consent of the appropriate state insurance regulatory official... Insurance companies, as well as persons employing anyone to conduct the business of insurance may be in violation of this statute if they willfully permit participation by a prohibited person, including persons who are already employed or being considered for employment. Failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred."

STATUTORY DEPOSITS

At December 31, 2007, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows.

State	Statement Value	Market Value
Alabama	$125,278	$129,600

FINANCIAL CONDITION/GROWTH OF COMPANY

The following table presents significant items that reflect the growth of the Company for the years indicated.

	2007*	2006	2005	2004	2003
Admitted Assets	$78,255,704	$79,078,156	$72,796,212	$64,701,061	$55,029,675
Liabilities	$51,612,864	$50,726,090	$47,781,141	$44,844,559	$36,737,397
Gross paid in and contributed surplus	$6,053,305	$6,053,305	$6,053,305	$6,053,305	$6,053,305
Unassigned funds	$20,589,535	$22,298,761	$18,961,766	$13,803,197	$12,238,973
Gross written premium	$38,152,751	$35,721,125	$32,591,131	$30,861,104	$28,943,758

*Per Examination

MARKET CONDUCT ACTIVITIES

Plan of Operation

The Company is a mutual insurance company whose members are also members of the Alabama League of Municipalities (ALM). The Company's charter does not permit it to solicit business from entities that are not ALM members. Prior to an amendment of the Company's By-Laws, dated August 22, 1995, policyholders were required to make a capital contribution to the Company. From the time of the amendment forward, the capital contribution has not been required; however, the non-contributing members have limited voting rights.

The Company writes a variety of commercial multiple peril coverages to municipal organizations in the State of Alabama.

Territory

During the examination period the Company was licensed to transact business in the State of Alabama. The Certificate of Authority was inspected for the five-year period under review, and no exceptions were noted.

Policy Forms and Underwriting

Underwriting Practices

A review of the Company's underwriting practices included a review of the underwriting guidelines, declination and cancellation procedures as described by the Company's management. The information reviewed indicated that the Company did not use unfair discriminatory practices and the Company consistently applied its guidelines to rejected and accepted business.

Policy Forms

The Company filed and had approved all of its rates with the Alabama Department of Insurance.

Statistical Reporting

The Company did utilize some Insurance Services Office (ISO) forms and was a member of ISO during the period under review. The Company's Underwriting Manager indicated that, "We utilized some of its forms such as the Terrorism forms, but did not report any statistical information to ISO."

Advertising and Marketing

The Company does not have a formal marketing program. The Company maintained an advertising file, which contained a limited number of brochures and printed materials describing the Company and the Alabama League of Municipalities and the services provided.

Claims Review

Samples of fifty paid and closed claims and fifty closed without payment claims were reviewed. All of the claims reviewed indicated that the Company paid claims and/or denied claims in accordance with ALA. ADMIN. CODE 482-1-125(2002), which identifies standards for handling property and casualty insurance claims.

The Company was unable to provide two of the fifty denied and closed without payment claims requested. It was determined that the Company was not in compliance with ALA. CODE §27-27-

29(a)(1975), which states, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

In a review of a sample of claims files, it was determined that there were a number of claims files that were not held at the home office of the Company. The open claims files were being held at Company-employed field adjusters' home offices. Discussions with the Company indicated that management felt that it was necessary for the claims to be in the possession of the field adjustors while the claim was being handled by the adjustor and the files were kept at the field adjusters' homes. The discussions indicated that one of the field adjusters resided in the state of Florida and the remainder in the state of Alabama. The housing of claims files at locations other than the Company's home office was not in compliance with ALA. CODE §27-27-29(a)(1975), which states, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Litigated Claims

The examiner reviewed a sample of fifty litigated claim files. The Company did not keep records of two of the fifty litigated claim files in the sample at the Company's home office. The Company's Management indicated that,

> "We have satellite or field office adjusters that handle claims in North, Central and South Alabama and they maintain a hard file that contains documents and other data until such time as the file is closed. They also have a computer (Riskmaster) generated file where they record claims information; i.e., text notes that updates the activities of the pending claim. When the claim is concluded the adjuster closes the file and hard file and all related data is mailed to the Montgomery office for storage and scanning. The field adjusters only handle Alabama-generated claims and their principal place of business is in Alabama. Montgomery, of course, is AMIC's Home Office, but AMIC also has satellite offices and field adjusters to enhance our delivery of prompt and efficient claims service to AMIC risks located in the various regions of the State of Alabama. I believe that aforementioned is in compliance with 27-27-2."

It was determined that the Company was not in compliance with ALA. CODE §27-27-29(a)(1975) which states, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Policyholder Complaints

The Company did not have a formal complaint register in accordance with Standard 1 of the NAIC's Market Regulation Handbook, which requires, "All complaints are recorded in the required format on the regulated entity's complaint register." The Company is required to record all complaints both consumer direct and those received from the insurance department; at a minimum, the complaint register should include: Line of business; Function (underwriting, marketing and sales, policyholder services or miscellaneous); and Reason for the complaint (underwriting, application, cancellation, recession, nonrenewal.)

The Company did not have a complaint manual and/or procedures in place for handling its complaints. Standard 2 of the NAIC's Market Regulation Handbook, requires "The regulated entity has adequate complaint handling procedures in place and communicates such procedures to policyholders."

Compliance with Agents' Licensing Requirements

The examiners made an inspection of the Company's records to determine if agents representing the Company were properly licensed. The examiner compared a sample of the Company's licensed agents to the Alabama Department of Insurance State Based System (SBS). It was determined that the agents that produced business were properly licensed as required by ALA. CODE §27-7-30(a) (1975).

The Company began using some independent agents in 2000. Company management represented that, prior to 2004, the Company was not aware that the law required the company to appoint the independent agents that submitted business to the Company. Discussions and interactions with the examiners during the course of the previous full scope financial and market conduct examination led the Company to make a submission to the Alabama Department of Insurance to appoint the independent agents. In 2004, the Company submitted appointment forms and a Company check for the appointment of some agencies. The check and the appointment forms were returned to the Company with a letter from the Alabama Department of Insurance dated March 10, 2004. The letter from the Alabama Department of Insurance indicated that the Department was unable to process due to the reason "The State of Alabama requires appointments for individual producers only. It is not necessary to appoint business entities." Company management represented that the Examiner-in-charge for the preceding examination indicated that, due to the letter from the Department, they could not appoint the independent agents and the Company did not seek further clarification from the Department and has never appointed any of their independent agents.

It was determined that the Company appointed nine of its agents, but did not appoint any of the independent agents who wrote business for the Company during each year under examination. The total written premiums by the agents that were not appointed for each year under examination were as follows.

2007 - $22,627,829
2006 - $20,606,615
2005 - $18,449,907
2004 - $17,531,318
2003 - $16,293,177

The Company's actions of accepting business from agents that were not appointed by the Company was not in compliance with ALA CODE §27-7-4(a)(1975), which states, "(a) No person shall in this state sell, solicit, or negotiate insurance for any class or classes of insurance unless the person is then licensed for that line of authority in accordance with this chapter. Any insurer accepting business directly from a person not licensed for that line of authority and not appointed by the insurer shall be liable to a fine up to three times the premium received from the person."

Privacy Standards

The Company wrote only commercial multi peril insurance during the period under review. The examiners determined that the provisions of the privacy law were not applicable to the Company's business. ALA ADMIN CODE 482-1-122.02 (b), states

> "...This regulation does not apply to information about companies or about individuals who obtain or seek to obtain products or services for business, commercial or agricultural purposes, nor does it apply to workers compensation claims, workers compensation insurance, workers compensation programs, or employee welfare benefits plans as defined in 29 U.S. CODE § 1002(1) or any third party administrator to the extent it provides services to a workers compensation program or employee welfare benefit plan."

REINSURANCE

The Company did not assume any reinsurance. At December 31, 2007, the Company's ceded reinsurance program was comprised of three components, the liability program, the property program, and the boiler and machinery coverage.

Liability Program

The Company's reinsurance was provided by Munich Reinsurance America, Inc. The Company had a $350,000 retention applicable to any one occurrence. Catastrophic coverage was provided above the Company's retention with coverage limits varying per member ranging from $1,650,000 to $9,650,000. The Company also had clash coverage with a $700,000 retention.

Property Program

The Company retained the first $150,000 and there was a $450,000 per occurrence limit per member for catastrophic events. The Company also had a $1,500,000 corridor for its retained losses from catastrophic events. The reinsurance was provided by Employers Reinsurance Corporation and Munich Reinsurance America, Inc via two separate property excess of loss reinsurance agreements. The total catastrophe reinsurance limit was $50 million per occurrence.

Boiler and Machinery Coverage

The Company retained the first $25,000 of each boiler loss. Total reinsurance limit was $50 million per occurrence. The reinsurance coverage was provided by CNA Insurance Company.

ACCOUNTS AND RECORDS

The Company maintained its accounting, premiums, and losses data electronically. When necessary, the Company prepared additional electronic workpapers and hard copy reconciliations and workpapers. The Company also utilized the independent auditor's workpapers.

The Company's independent audit was performed by TaylorChandler, LLC, a certified public accounting firm of Montgomery, Alabama for each year under examination. The examiner's interviews held with the Company's Accounting Manager and the independent auditor indicated that TaylorChandler, LLC also prepared the Company's financial statements from reports provided by the Company. In connection with the preparation of the financial statements, the CPAs were responsible for making manual adjustments for reinsurance. The CPAs also prepared forecasts for the Company and met with the Board quarterly to provide and discuss the financial statements. Due to the independent auditor's involvement in the preparation of the Company's financial statements, the examiners determined that it was not appropriate to rely on any of the CPA work for this examination, with the exception of utilizing information obtained by the CPAs from third parties.

Non-compliance with ALA. CODE §35-12-76

In a review of the outstanding checks for the escheatment reporting year ending June 30, 2007, the examiner found that there were eight checks in the amount of $9,620 included in the outstanding check registers of the Company's checking accounts as of June 30, 2007 that were more than three years old. The examiner determined that these checks were not escheated to the State Treasurer's Office of the State of Alabama on the June 30, 2007 Unclaimed Property Report filed with the State Treasurer's Office of the State of Alabama. In a review of the outstanding checks for the escheatment reporting year ending June 30, 2008, the examiner found that there was one check in the amount of $100 that was voided on the June 2008 checking account reconciliation and reissued to the payee and then voided again when the payee stated they were not going to present the check for payment. The examiner determined that the check was never escheated to the State Treasurer's Office of the State of Alabama. The checks in both years ending June 30, 2007 and ending June 30, 2008 that were over three years old should have been escheated to the State Treasurer's Office of the State of Alabama to be in compliance with ALA. CODE §35-12-72 (1975), which states "(a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property…(18) All other property, three years after the owner's right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.", as well as ALA. CODE §35-12-76(1975), which states, "(a) A holder of property presumed abandoned shall make a report to the Treasurer concerning the property. The report must be verified and must contain, at a minimum, all of the following:…(c) The report shall be filed before November 1 of each year and cover the 12 months next preceding July 1 of that year."

Asset Inappropriately Admitted in Years Prior to 2007

In a review of the other receivables line item for the period under examination which was included under line 23 - Aggregate write-ins for other than invested assets of page 2 of the balance sheet of the Annual Statement, it was determined that there was a surplus lines taxes receivable that was held as an admitted asset for the years 2003 through 2005, and was subsequently non-admitted in 2006 and 2007. This amount should have been held as a non-admitted asset to be in compliance with SSAP No. 4, paragraph 3 of the Accounting Practices and Procedures Manual, which states, "3…For purposes of statutory accounting principles, a nonadmitted asset shall be defined as an asset meeting the criteria in paragraph 2 above, which is accorded limited or no value in statutory reporting, and is one which is: a. Specifically identified within the Accounting Practices and Procedures Manual as a nonadmitted asset; or b. Not specifically identified as an admitted asset within the Accounting Practices and Procedures Manual."

FINANCIAL STATEMENTS

The financial statements included in this report are prepared on the basis of the Company's records, and the valuations and determinations made during the examination for the year 2007. Amounts shown in the comparative statements for the years 2003, 2004, 2005, and 2006 were compiled from the Company's copies of the filed Annual Statements. The statements are presented in the following order.

Alabama Municipal Insurance Corporation
Statement of Assets, Liabilities, Surplus and Other Funds
For the Year Ended December 31, 2007

Assets

	Assets	Non-admitted Assets	Net Admitted Assets
Bonds (Note 1)	$44,209,569	0	$44,209,569
Stocks:			
Preferred stocks (Note 1)	7,114,266	0	7,114,266
Common stocks (Note 1)	8,267,229	0	8,267,229
Real estate: Properties occupied by the Company	984,255	0	984,255
Cash, cash equivalents and short-term investments (Note 2)	6,272,058	0	6,272,058
Other invested assets	1,117,879	0	1,117,879
Investment income due and accrued (Note 3)	417,591	0	417,591
Premiums and considerations: Uncollected premiums and agents' balances in course of collection (Note 4)	6,120,107	779,037	5,341,070
Reinsurance: Amounts recoverable from reinsurers	4,439,271	0	4,439,271
Electronic data processing equipment and software	92,516	0	92,516
Furniture and equipment, including health care delivery assets	46,056	46,056	0
Aggregate write-ins for other than invested assets (Note 5)	2,592,080	2,592,080	0
Total Assets	$81,481,047	$3,225,343	$78,255,704

Liabilities, Surplus and Other Funds

Liabilities:	
Losses (Note 6)	$16,350,397
Loss adjustment expenses (Note 6)	18,698,471
Other expenses	56,933
Unearned premiums (Note 7)	14,945,086
Ceded reinsurance premiums payable	1,357,804
Provision for reinsurance	204,173
Total Liabilities	$51,612,864
Surplus and Other Funds:	
Gross paid in and contributed surplus	$6,053,305
Unassigned funds (Note 8)	20,589,535
Surplus as regards policyholders	$26,642,840
Total Liabilities and Surplus and Other Funds	$78,255,704

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF

Alabama Municipal Insurance Corporation
Statement of Income
For the Years Ended December 31, 2003, 2004, 2005, 2006, 2007

	2007	2006	2005	2004	2003
Underwriting Income					
Premiums earned	$29,123,387	$27,940,107	$25,729,299	$25,585,474	$22,834,432
Deductions					
Losses incurred	10,392,948	15,026,215	8,540,061	13,321,342	9,894,957
Loss expenses incurred	8,389,542	6,121,372	7,561,435	8,609,658	7,336,222
Other underwriting expenses incurred	6,533,598	6,140,804	5,962,973	5,622,981	4,940,636
Total underwriting deductions	$25,316,088	$27,288,391	$22,064,469	$27,553,981	$22,171,815
Net underwriting gain (loss)	$3,807,299	$651,716	$3,664,830	($1,968,507)	$662,617
Investment Income					
Net investment income earned	4,315,272	3,984,821	3,789,294	3,862,858	3,189,052
Net realized capital gains (losses)	(4,067,497)	(967,916)	(589,134)	342,794	(146,474)
Net investment gain (loss)	247,775	3,016,905	3,200,160	4,205,652	3,042,578
Other Income					
Net gain or (loss) from agents' or premium balances charged off	463,755				
Finance and service charges not included in premiums	76,691	44,431	82,672	65,687	0
Aggregate write-ins for miscellaneous income	16,759	29,352	24,353	65,365	60,481
Total other income	(370,305)	73,783	107,025	131,052	60,481
Net income before dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,684,769	3,742,404	6,972,015	2,368,197	3,765,676
Dividends to policyholders	658,254	610,076	842,228	781,365	716,605
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	3,026,515	3,132,328	6,129,787	1,586,832	3,049,071
Net income	$3,026,515	$3,132,328	$6,129,787	$1,586,832	$3,049,071

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF

Alabama Municipal Insurance Corporation
Capital and Surplus
For the Years Ended December 31, 2003, 2004, 2005, 2006, 2007

	2007	2006	2005	2004	2003
Surplus as regards policyholders, December 31 prior year	$28,352,066	$25,015,071	$19,856,502	$18,292,278	$13,480,325
Net income	3,026,515	3,132,328	6,129,787	1,586,832	3,049,071
Change in net unrealized capital gains or (losses) less capital gains tax $0	(4,524,345)	281,337	(727,395)	154,090	437,392
Change in nonadmitted assets	(382,439)	252,849	(283,461)	(442,007)	1,364,346
Change in provision for reinsurance	171,042	(329,519)	39,638	47,621	(38,856)
Aggregate write-ins for gains and losses in surplus	0	0	0	217,688	0
Change in surplus as regards policyholders for the year	$(1,709,227)	$3,336,995	$5,158,569	$1,564,224	$4,811,953
Surplus as regards policyholders, December 31 current year	$26,642,839	$28,352,066	$25,015,071	$19,856,502	$18,292,278

THE NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART THEREOF

NOTES TO FINANCIAL STATEMENTS

Note 1 – Bonds	**$44,209,569**
Common stocks	**$8,267,229**
Preferred stocks	**$7,114,266**

The above captioned amount for bonds is $4,449,240 less than the $48,658,809 reported by the Company in its 2007 Annual Statement. The above captioned amount for Common stocks is the same as reported by the Company in its 2007 Annual Statement. The above captioned amount for preferred stocks is $3,048,220 more than the $4,066,046 reported by the Company in its 2007 Annual Statement.

There were four issues relating to the accounts captioned above. Issue 1 relates to Bonds and Preferred stocks. Issue 2 relates to Bonds. Issue 3 relates to Bonds and Common stocks. Issue 4 relates to Preferred stocks. The changes to the financial statements reflected above were the combined changes that are detailed in Issue 1 and Issue 2 below.

Issue 1

The Company reported four securities as bonds in its 2007 Annual Statement that were not confirmed with the NAIC Securities Valuation Office (SVO) to be bonds. The securities were verified with the NAIC SVO to be hybrid securities. The four securities were identified by the following CUSIP Numbers: 05568AAA8, 42205MAB2, 48123CAA2, 539439AA7. It was verified with the NAIC SVO that the correct reporting of the securities as of December 31, 2007 was to report the securities as preferred stocks. Discussions held with the National Association of Insurance Companies SVO indicated that the securities were hybrid securities, securities that had characteristics of both debt issues and equities. The hybrid securities were valued in the 2007 Annual Statement utilizing an amortized cost method. The NAIC designations did not support the method in which the securities were valued. Based on the correct designations, the correct valuation method was to report the securities based upon the fair value of the securities at the examination date. The Company reported a total Book/Adjusted Carrying Value in connection with the four hybrid securities of $3,488,762. The market value of the four hybrid securities was $3,048,220. The hybrid securities were reclassified in this report resulting in changes to the financial statements to reduce bonds by $3,488,762 and increase preferred stocks by $3,048,220.

Issue 2

The Company reported the wrong NAIC designation for 14 of its bonds in the 2007 Schedule D. The Company did not provide documentation that justified the designations assigned to filing exempt bonds.

Three of the bonds in which the incorrect designation was reported were reported using the amortized cost method which is allowed for bonds with NAIC designations 1 and 2. The three bonds were identified by the following CUSIP Numbers: 049730AE4, 41163JAA3, 50011PAF3. The correct designation for the three bonds indicated that the bonds should have been reported at fair value because the correct designation did not support the valuation method utilized in the Company's Annual Statement. The NAIC December 31, 2007 designations confirmed with the NAIC SVO were "4FE," "4FE," and "3FE" respectively. The three bonds were reported with a total valuation of $1,598,533 in the 2007 Annual Statement. The correct valuation method resulted in a total value of $638,055. Bonds were reduced by the difference of $960,478 in connection with this issue.

Issue 3

The examination indicated that the Company's staff did not reconcile its investment accounts. The examination indicated that the accounting firm that is the Company's independent auditor reconciled the investments on a quarterly basis.

The examiner utilized the independent confirmations obtained by the Company's independent auditor to verify the investments. There were a number of discrepancies noted during this process. The examiner compared the par values of the mortgage backed securities to the par values included in the confirmations. Immaterial discrepancies were noted for the quantities of the securities. The Company provided an explanation indicating "there is always going to be a difference between the custodial amounts and the book/adjusted carrying value because stat accounting requires use of yield to worst method and custodian was yield to maturity." The examiners did not find the response to explain why the Company's reported par values differed from the par values identified in the confirmations. In addition, there were discrepancies between the reported number of shares the Company owned and the number of shares confirmed by the custodian for two common stock investments. There was another common stock investment reported in Schedule D in which the confirmations did not confirm any shares were held by the Company. The Company did not respond to provide an explanation for these three discrepancies for common stock investments. The discrepancies in connection with the bonds and common stocks were not material. Due to the discrepancies being immaterial, no changes were made to the financial statements for this issue.

Issue 4

The Company did not report the correct NAIC designations for four of its preferred stock investments.

The securities were valued at fair value and the valuation of the securities did not change when the correct rating was applied to the securities. There were no changes to the financial statements necessary for the inaccurate designations that were reported.

Note 2 - Cash and short term investments **$6,272,058**

The above captioned amount is the same as reported by the Company in its 2007 Annual Statement.

The examiners utilized the independent confirmations obtained by the independent auditor to verify the cash balances. The examiners compared the independent confirmations to the Company's year ended 2007 reconciliations identifying all outstanding items at December 31, 2007. The examiners could not reconcile the cash balances. The reconciliation resulted in a variance of $26,413. The variance was not material. The reconciliation process indicated that the Company had more cash than was recorded in the general ledger and reported in the 2007 Annual Statement, if the Company's internal reconciliations provided were accurate. The examiners reviewed the independent auditors' workpapers in relation to verifying and reconciling the cash balances. It was noted that the independent auditor also reconciled the cash balances within an immaterial variance, with the variance being $36,252.

Note 3 - Investment income due and accrued $417,591

The above captioned amount is the same as reported by the Company in its 2007 Annual Statement.

The Company's supporting detail of its Investment income due and accrued did not reconcile to the amount reported on the 2007 Annual Statement Assets page. The Company reported $36,251 for which there was no supporting detail.

The Company did not report the amounts reported in column 19, "Admitted amount due and accrued," in its 2007 Schedule D Part 1 accurately. The total of the admitted due and accrued interest from bonds reported in Schedule D Part 1 was $851,563. However, the Company only reported $417,591 of Investment income due and accrued on the 2007 Assets page. The Company did not report any not admitted Investment income due and accrued in its 2007 Annual Statement. When asked about this discrepancy, Company personnel responded to indicate "The amounts that are shown on Schedule D are calculated by the Sunguard investment software. Generally, that software does not take into account current market conditions and/or delays in income payments on a per security basis. As a result, the Company uses the more conservative accrued interest calculation done by the Company's custodian." The Company included $381,340 admitted accrued interest from bonds in its calculation of Investment income due and accrued. The balance of the accrued interest, $470,223, should have been reported as not admitted investment income due and accrued on the Annual Statement Assets page. Furthermore, accrued interest that was not admitted should have been excluded from the "Admitted amount due and accrued" column in Schedule D Part 1. The admitted due and accrued interest reported in Schedule D Part 1 should correspond to the admitted due and accrued interest from bonds utilized in the calculation of the admitted investment income due and accrued reported on the Annual Statement Assets page. With the exception of the $36,251 accrued interest that was reported in which there was no supporting detail, the admitted Investment income due and accrued reported was determined to be accurate. The amount of the error is not material and no adjustments to the financial statements included in this report were determined to be necessary.

Note 4 - Premiums and considerations: Uncollected premiums and agents' balances in course of collection $5,341,070

The above captioned amount is $547,869 less than the $5,888,939 reported by the Company in its 2007 Annual Statement.

There were three issues relating to the account. The examination adjustment above is the sum of the adjustments related to the three issues.

Issue 1

The Company could not provide any detail to support $309,518 of agents' balances or uncollected premiums as of December 31, 2007. The reported amount not supported by any detail was not admitted in the financial statements included in this report.

Issue 2

The Company included $154,237 of agents' balances or uncollected premiums that related to policies that were to be issued in 2008 that involved 2008 effective dates. These receivable balances did not yet exist at December 31, 2007 and were included in the reported balance in error. The examination indicated that there were not any unearned premium reserves recorded in connection with the policies with 2008 effective dates. The balances were not admitted in the financial statements included in this report.

Issue 3

The Company provided a calculation of the uncollected premium balances past due over 90 days that were not admitted. Amounts past due over 90 days are not admitted to the extent that there are no unearned premium reserves held per SSAP No. 6. The Company's calculation of the past due amounts in which there were no unearned premium reserves held was $775,785. In addition, a segment of the account involved installment fees receivable of $37,276. The Company provided an aging of the balances indicating that $1,767 of the installment fees were past due over 90 days. The Company did not include the amount in its calculation of the not admitted balances. SSAP No. 6, paragraph 9a states, "Uncollected premium - To the extent that there is no related unearned premium, any uncollected premium balances which are over ninety days due shall be nonadmitted. If an installment premium is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be nonadmitted." The total balances due the Company in connection with accounts that involved past due installment fees over 90 days past due was $3,252. The sum of the $3,252 and the amount that the Company had calculated to be its nonadmitted balances, $775,785 was $779,037. $779,037 was determined to be the Company's not admitted portion of agents' balances and uncollected premiums per the examination. The Company not admitted $694,923 of the balances in its 2007 Annual Statement. The examiners not admitted $779,037 of the receivables in the financial statements included in this report, which reduced the admissible balances by $84,114.

The sum of the changes to the financial statements for Issues 1, 2, and 3 is $547,869.

Note 5 – Aggregate write-ins for other than invested assets **$ 0**

The above captioned amount is $561,591 less than the $561,591 reported by the Company in its 2007 Annual Statement.

In a review of the deductibles receivable detail that agreed with the deductibles receivable amount included under line 23 - Aggregate write-ins for other than invested assets on page 2 of the balance sheet of the 2007 Annual Statement, it was determined that the Company non-admitted 10% of the balance of deductibles receivable in order to cover those balances due that were not likely to be collected by the Company, instead of aging the balances of the deductibles receivables in order to non-admit those balances that were over ninety days old as of December 31, 2007. This was not in compliance with SSAP No. 65, Paragraph 37 of the NAIC Accounting Practices and Procedures Manual, which states, "If the reporting entity does not hold specific collateral for the policy, amounts accrued for reimbursement of the deductible shall be billed in accordance with the provisions of the policy or the contractual agreement and shall be aged according to the contractual due date. In the absence of a contractual due date, billing date shall be utilized for the aging requirement. Deductible recoverables that are greater than ninety days old shall be nonadmitted."

The examiners asked for an aging of the balances of the deductibles receivables as of December 31, 2007 so that the total amount of deductibles receivables that were over ninety days old could be calculated and compared with the non-admitted amount held on the balance sheet of the 2007 Annual Statement, but the Company was either unable or unwilling to provide an aging of the balances, therefore, all of the deductibles receivable were not admitted in this report.

Note 6 – Losses	**$16,350,397**
Loss adjustment expenses	**$18,698,471**

The above captioned amounts are the same as reported by the Company in its 2007 Annual Statement.

In a review of the paid losses and loss reserves data for the period under examination, it was determined that there were discrepancies between the amounts included in the supporting detail and the amounts included on Schedule P - Part 1E - Commercial Multiple Peril of the Annual Statements for the period under examination. It was determined that there were discrepancies in the following amounts for the period under examination: 2007) discrepancy of $9,320 for ALAE reserves between supporting documentation and Schedule P - Part 1E of the Annual Statement, 2006) discrepancy of $26,000 for paid losses and a discrepancy of $10,000 for Paid ALAE between supporting documentation and Schedule P - Part 1E of the Annual Statement, 2005) discrepancy of $17,000 for paid losses, discrepancy of $14,000 for paid ALAE, discrepancy of $20,100 for loss reserves, and a discrepancy of $13,300 for ALAE reserves between the supporting documentation and Schedule P - Part 1E of the Annual Statement, 2004) discrepancy of $42,000 for paid losses and a discrepancy of $2,000 for paid ALAE between the supporting documentation and Schedule P - Part 1E of the Annual Statement, and 2003) discrepancy of $7,000 for paid losses and a discrepancy of $3,000 for paid ALAE between the supporting documentation and Schedule P - Part 1E of the Annual Statement. The Company should accurately report the paid losses, paid ALAE, loss reserves, and ALAE reserves on Schedule P of the Annual Statements to be in compliance with the NAIC Annual Statement Instructions. No changes to the financial statements were determined to be necessary for these issues.

Note 7 - Unearned premiums	**$14,945,086**

The above captioned amount is the same as reported by the Company in its 2007 Annual Statement.

The examiner selected a sample of 45 premium transactions from the Company's 2007 written premiums detail and calculated the unearned premium reserves in connection with each transaction in the sample. The test resulted in three unearned premium reserves that differed from the corresponding unearned premium reserves in the Company's detail. The Company could not provide a plausible explanation for the variances. The examiner calculated the unearned premium reserves in connection with the entire 2007 written premiums and identified a number of variances when the unearned premium reserves were compared to the corresponding unearned premium reserves in the Company's detail. The examination indicated that the Unearned premiums reported in the 2007 Annual Statement were understated by $34,161, which is not material. Due to the error being immaterial, no adjustments were made in the financial statements included in this report.

Note 8 – Unassigned funds **$20,589,535**

The above captioned amount is $2,510,480 less than the $23,100,015 reported by the Company in its 2007 Annual Statement. The following is a reconciliation of Unassigned funds per this examination.

Unassigned funds per Company	$23,100,015
Examination increase/(decrease) to assets:	
Bonds	(4,449,240)
Preferred stocks	3,048,220
Premiums and considerations: Uncollected premiums and agents' balances in the course of collection	(547,869)
Deductibles receivable	(561,591)
Total Unassigned funds per examination*	$20,589,535

COMMENTS AND RECOMMENDATIONS

Committees – Page 4

It is recommended that the committees of the Board of Directors of the Company only be populated by members of the Board of Directors. This should be done to be in compliance with ALA. CODE §10-2B-8.25, which states "(a) Unless the articles of incorporation or bylaws provide otherwise, a board of directors may create one or more committees and appoint members of the board of directors to serve on them. Each committee may have one or more members, who serve at the pleasure of the board of directors."

Management and Service Agreements – Page 5

It is recommended that the Company revise its administrative services agreement with the Alabama League of Municipalities to explicitly identify all of the duties and privileges of each party relative to the Company's business relationship with the League.

Employee and Agent Welfare – Page 8

It is recommended that the Company perform background checks on prospective employees and monitor the employees so that they can be assured that they are in compliance with ALA. ADMIN. CODE 482-1-121 (2003), which states, "(2) Certain persons are prohibited from participating in the business of insurance pursuant to the Violent Crime Control and Law Enforcement Act of 1994, Public Law 103-322, H.R. 3355; 18 U.S. Code §1033-1034 (the "Act")…Insurers, officers, directors, producers, and any employee of an insurance company engaged in the business of insurance could be subject to the requirements of this Act…One of the provisions of the Act prohibits any person convicted of any criminal felony involving dishonesty, breach of trust or a violation of this Act from engaging in the business of insurance in interstate commerce without the specific written consent of the appropriate state insurance regulatory official. Insurance companies, as well as persons employing anyone to conduct the business of insurance may be in violation of this statute if they willfully permit participation by a prohibited person, including persons who are already employed or being considered for employment. Failure to initiate a screening process in an attempt to identify prohibited persons in current or prospective employment relationships may be a factor in determining if a violation of this statute has occurred."

Claims Review – Page 10

It is recommended that the Company keep complete documentation of its denied and closed without payment claims in accordance with ALA. CODE §27-27-29(a)(1975), which states, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

It is recommended that the Company keep all claims files, including litigated claims files, at the Company's home office in Montgomery, Alabama to be in compliance with ALA. CODE §27-27-29(a)(1975), which states, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Policyholder Complaints – Page 11

It is recommended that the Company develop a formal complaint register in accordance with Standard 1 of the NAIC's Market Regulation Handbook, which requires, "All complaints are recorded in the required format on the regulated entity's complaint register." The Company is required to record all complaints both consumer direct and insurance department; at a minimum, the complaint register should include: Line of business; Function (underwriting, marketing and sales, policyholder services or miscellaneous); and Reason for the complaint (underwriting, application, cancellation, recission, nonrenewal.)

It is recommended that the Company develop written complaint procedures, which describe the method for distribution of and obtaining and recording responses to its complaints. The methods should be sufficient to allow responses within the time frame required by ALA. ADMIN. CODE 482-118-.06, which requires, "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner…"

It is recommended that the Company keep complete documentation of its correspondence in its complaint files in accordance with ALA. CODE §27-27-29(a)(1975), which requires, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Compliance with Agents' Licensing Requirements – Page 12

It is recommended that the Company properly appoint all of its producers in accordance with ALA CODE §27-7-4(a)(1975), which states, "(a) No person shall in this state sell, solicit, or negotiate insurance for any class or classes of insurance unless the person is then licensed for that line of authority in accordance with this chapter. Any insurer accepting business directly from a person not licensed for that line of authority and not appointed by the insurer shall be liable to a fine up to three times the premium received from the person."

<u>**Accounts and Records – Page 13**</u>

It is recommended that the Company escheat all outstanding checks written on the accounts of the Company that are older than three years as of June 30 of each year to the State Treasurer's Office of the State of Alabama on or before November 1 of each year to be in compliance with ALA. CODE §35-12-72(1975), which states, "(a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property:...(18) All other property, three years after the owner's right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.", as well as ALA. CODE §35-12-76(1975), which states, "(a) A holder of property presumed abandoned shall make a report to the Treasurer concerning the property. The report must be verified and must contain, at a minimum, all of the following:...(c) The report shall be filed before November 1 of each year and cover the 12 months next preceding July 1 of that year."

It is recommended that the Company non-admit the other receivables item surplus lines taxes receivable included under line 23 - Aggregate write-ins for other than invested assets on page 2 of the balance sheet of the Annual Statement to be in compliance with SSAP No. 4, paragraph 3 of the <u>Accounting Practices and Procedures Manual</u>, which states "3...For purposes of statutory accounting principles, a nonadmitted asset shall be defined as an asset meeting the criteria in paragraph 2 above, which is accorded limited or no value in statutory reporting, and is one which is: a. Specifically identified within the Accounting Practices and Procedures Manual as a nonadmitted asset; or b. Not specifically identified as an admitted asset within the Accounting Practices and Procedures Manual."

<u>**Bonds, Preferred stocks, and Common stocks – Page 19**</u>

It is recommended that the Company accurately report the NAIC designations of each of its bonds.

It is recommended that the Company value its securities based on the correct NAIC designations.

It is recommended that the Company retain documentation to justify the FE designations that are assigned to securities.

It is recommended that the Company accurately report its hybrid securities in accordance with the requirements of the NAIC Securities Valuation Office. Hybrid securities were to be reported as preferred stocks as of the examination date. **It is further recommended** that the hybrid securities be valued correctly.

It is recommended that the Company reconcile its investments to the custodian's statements at least on a quarterly basis.

It is recommended that the Company accurately report the quantities of securities held in its Annual Statement Schedule D, and accurately report the values of Bonds and Common stocks on page 2 of its Annual and Quarterly Statements.

It is recommended that the Company accurately report the NAIC designations for its preferred stock investments.

Cash and short-term investments – Page 20

It is recommended that the Company accurately report its Cash and short term investments in its financial statements.

Investment income due and accrued – Page 21

It is recommended that the Company accurately report its admitted and not admitted Investment income due and accrued on the Annual Statement Assets page.

It is recommended that the Company accurately report its "Admitted amount due and accrued" interest from bonds in Schedule D - Part 1.

It is recommended that the Company utilize the total of the "Admitted amount due and accrued" interest from bonds in Schedule D - Part 1 in its calculation of the admitted Investment income due and accrued on the Assets page of the Annual Statement.

Premiums and considerations: Agents' balances and uncollected premiums in course of collection – Page 21

It is recommended that the Company only report Uncollected premiums and agents' balances in course of collection that are supported by detail.

It is recommended that the Company not include balances for Uncollected premiums and agents' balances in course of collection that relate to receivables that will become effective in the subsequent reporting period in its calculation of Uncollected premiums and agents' balances in course of collection.

It is recommended that the Company not admit Uncollected premiums and agents' balances in course of collection balances that are over 90 days past due in accordance with SSAP No. 6, paragraph 9a, which states, "Uncollected premium - To the extent that there is no related unearned premium, any uncollected premium balances which are over ninety days due shall be nonadmitted. If an installment premium is over ninety days due, the amount over ninety days due plus all future installments that have been recorded on that policy shall be nonadmitted."

Aggregate write-ins for other than invested assets – Page 22

It is recommended that the Company age the deductibles receivables that are due to the Company as of the balance sheet date of December 31 of each reporting year, and non-admit those receivables amounts that are over ninety days old in order to be in compliance with SSAP No. 65, Paragraph 37 of the NAIC Accounting Practices and Procedures Manual, which states, "If the reporting entity does not hold specific collateral for the policy, amounts accrued for reimbursement of the deductible shall be billed in accordance with the provisions of the policy or the contractual agreement and shall be aged according to the contractual due date. In the absence of a contractual due date, billing date shall be utilized for the aging requirement. Deductible recoverables that are greater than ninety days old shall be nonadmitted."

Losses and Loss adjustment expenses – Page 23

It is recommended that the Company accurately report paid losses, paid ALAE, loss reserves, and ALAE reserves in Schedule P of the Annual Statements to be in compliance with the NAIC Annual Statement Instructions.

Unearned premiums – Page 23

It is recommended that the Company accurately calculate its unearned premium reserves and accurately report its Unearned premiums on the Annual Statement Liabilities, Surplus and Other Funds page.

Compliance with previous recommendations – Page 29

It is recommended that the Company perform complete and coherent reconciliations of its accounts reported in its Annual and Quarterly Statements. **It is further recommended** that the Company maintain workpapers that will assist in tracing amounts reported in the Annual Statement to the supporting detail. It was noted that this is the fourth consecutive full scope examination that included this recommendation.

It is recommended that the Company non-admit miscellaneous receivables items (employee receivables) that are not secured by collateral under line 23 - Aggregate write-ins for other than invested assets of the balance sheet of the Annual Statement to be in compliance with the recommendation of the previous examination which recommended that the Company not admit unsecured receivables and/or prepaid items in its statutory financial statements, in compliance with ALA. CODE §27-37-2(1975), which states, "In addition to assets impliedly excluded by the provisions of Section 27-37-1, the following expressly shall not be allowed as assets in any determination of the financial condition of an insurer: ...(2) Advances to officers, directors, and controlling stockholders, other than policy loans, unless the same are secured by collateral satisfactory to the commissioner, and advances to employees, agents, and other persons on personal security only."

It is recommended that the Company comply with the recommendations of the Report of Examination.

CONTINGENT LIABILITIES AND PENDING LITIGATION

The review of the commitments and contingent liabilities included an inspection of representations made by management, consideration of the CPAs work performed with respect to testing unreported contingent liabilities, and a review of the Company's transactions subsequent to the examination date. The review did not indicate any contingent liabilities as of December 31, 2007. Company management represented that no material non-policy related litigation was open against the Company as of December 2, 2008. Company management did not subsequently disclose any material pending litigation in the letter of representation provided to the examiners bearing the same date as this report.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

The previous Report of Examination included a recommendation that the Company maintain a complaints register documenting the detailed information on complaints made directly to the Company in accordance with NAIC guidelines. This examination indicated that the Company did not maintain a complaints register. The Company did not comply with the previous recommendation. Further discussion of the issue is included in this report under the caption "Policyholder Complaints."

It was recommended in the preceding Report of Examination that the Company maintain complete records of its transactions and affairs in accordance with ALA. CODE §27-27-29(a)(1975). The previous report of examination indicated that there were some claim files that could not be found and provided to the examiners when the claim files were requested by the examiners. This examination resulted in the Company failing to provide claim files that were requested. The Company did not comply with the recommendation in the previous examination report. Further discussion of the issue is included in this report under the caption "Claims Review."

It was recommended in the three most recent full scope examination reports that the Company perform more complete and coherent reconciliations of its accounts, particularly with regard to premiums, losses, and investments accounts. It was also recommended that the Company maintain workpapers that will assist in tracing amounts reported in the Annual Statements to the supporting detail. The most recent full scope examination report indicated that it was the third consecutive examination report that included such a recommendation. This examination indicated that the Company did not comply with the recommendation for the fourth consecutive full scope examination. An initial data request was sent to the Company in September, 2008. The initial data request was not completely responded to until April, 2009. The Company was unable to completely reconcile the written premiums, paid losses, reserves for reported and unpaid claims, investment accounts, and the cash account, though all were finally reconciled with immaterial variances. The Company was unwilling or unable to provide the detailed cash receipts and cash disbursement journals that could be validated by a reconciliation. During the process of attempting to reconcile the accounts, the Company provided additional files that were not initially provided and, in one case, retracted an additional file that was provided subsequent to providing the initial data and provided a file to replace the additional file that was retracted. The Company did not maintain workpapers to assist the examiners in tracing the amounts reported in the Annual Statements to the supporting detail. As for reconciliations of some of the investment accounts, the Company advised the examiners to refer to the Company's independent auditor's workpapers. The Company advised the examiners to obtain the detail of reinsurance accounts from the independent auditor's workpapers. It was noted that the independent auditor had some involvement in the Company's financial reporting. The independent auditor prepared the Company's financial statements. The examiners were advised to go directly to the independent auditor for any inquiries involving Schedule P.

The previous report of examination included a recommendation that the Company not admit unsecured receivables and/or prepaid items in its statutory financial statements, in compliance with ALA. CODE §27-37-2(1975), which states, "In addition to assets impliedly excluded by the provisions of Section 27-37-1, the following expressly shall not be allowed as assets in any determination of the financial condition of an insurer: ...(2) Advances to officers, directors, and controlling stockholders, other than policy loans, unless the same are secured by collateral satisfactory to the commissioner, and advances to employees, agents, and other persons on personal security only." It was determined that the prior report of examination was completed as of July 7, 2004, and that the miscellaneous receivables item (employee receivables) which was not secured by collateral was held as an admitted asset under line 23 - Aggregate write-ins for other than invested assets on page 2 of the balance sheet of the 2004 and 2005 Annual Statements. This was not in compliance with the recommendation of the previous report of examination. The examiner did find that these items were non-admitted in the 2006 and 2007 Annual Statements.

SUBSEQUENT EVENTS

The review of events subsequent to December 31, 2007 included a review of the 2008 Annual Statement, the first quarter 2008 cash receipts and cash disbursements journal, the 2008 general journal, the Board of Directors' minutes of the meetings for 2008, the Memberships' minutes of the meetings for 2008, and also the inquiries of Company management. There were not any subsequent events identified in the review that would have an impact on the examination as of December 31, 2007; and there were not any subsequent events identified in the review that would have a material impact on the financial condition of the Company or a material impact to the Company's continued operations.

CONCLUSION

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed in connection with the verification and valuation of assets and the determination of liabilities set forth in this report.

In addition to the undersigned, Theo Goodin and Robert Thompson, Examiners; and Charles Angell, FCAS, MAAA, Consulting Actuary; all representing the Alabama Department of Insurance, participated in this examination of Alabama Municipal Insurance Corporation.

Respectfully submitted,

Palmer W. Nelson

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Examiner-in-charge
Alabama Department of Insurance