

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

IN THE MATTER OF:)
)
American Surety Company)
250 East 96th Street, Suite 202)
Indianapolis, IN 46240)

Examination of: **American Surety Company**

NOTICE OF ENTRY OF ORDER

Enclosed is the Final Order entered by Stephen W. Robertson, Commissioner of the Indiana Department of Insurance, after fully considering and reviewing the Verified Report of Examination of American Surety Company, any relevant examination work papers, and any written submissions or rebuttals. The Verified Report of Examination, as sent to you on June 13, 2017, has been adopted by the Commissioner.

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

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

6/28/2017
Date


Roy Eft
Chief Financial Examiner

CERTIFIED MAIL NUMBER: 7016 2070 0001 1479 8810

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250 East 96th Street, Suite 202)
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Examination of: **American Surety Company**

FINDINGS AND FINAL ORDER

The Indiana Department of Insurance conducted an examination into the affairs of the American Surety Company (hereinafter “Company”) for the time period January 1, 2011 through December 31, 2015.

The Verified Report of Examination was filed with the Commissioner of the Department of Insurance (hereinafter “Commissioner”) by the Examiner on May 26, 2017.

A copy of the Verified Report of Examination, along with a Notice of Opportunity to Make Written Submission or Rebuttal, was mailed to the Company via Certified Mail on June 13, 2017 and was received by the Company on June 15, 2017.

The Company did not file any objections.

NOW THEREFORE, based on the Verified Report of Examination, I hereby make the following **FINDINGS**:

1. That the Verified Report of Examination is a true and accurate report of the financial condition and affairs of the American Surety Company as of December 31, 2015.
2. That the Examiner’s Recommendations are reasonable and necessary in order for the American Surety Company to comply with the laws of the State of Indiana.

Based on the FINDINGS, the Commissioner does hereby ORDER:

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

Signed this 28th day of
June, 2017.


Stephen W. Robertson
Insurance Commissioner
Indiana Department of Insurance

ABOUT AFFIRMATIONS

The following pages for affirmations need to be signed by each Board Member and returned to the Indiana Department of Insurance within thirty (30) days in accordance with I.C. §27-1-3.1-12(b).

If your affirmations list individuals that are no longer on your Board of Directors, you may simply retype the form on plain white paper with the correct names and a line to the right for signature. If the names are misspelled, you may do the same, simply re-type the corrected form with a line to the right for signature.

Should you have any questions or difficulties with these forms or you require additional time past the thirty (30) day requirement, please do not hesitate to contact this department at (317) 232-2390.

A handwritten signature in black ink, appearing to read "Michael J. ...". The signature is written in a cursive style and is somewhat faded.

STATE OF INDIANA
Department of Insurance
REPORT OF EXAMINATION
OF
AMERICAN SURETY COMPANY
NAIC COMPANY CODE 31380

As of

December 31, 2015

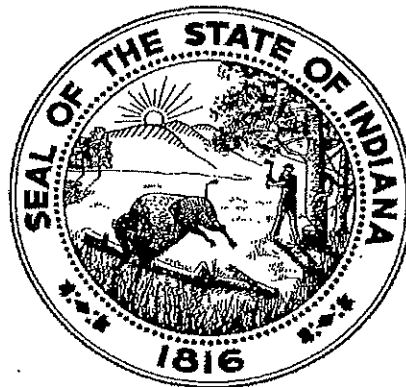


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STATE OF INDIANA

IDOI

ERIC HOLCOMB, Governor

Indiana Department of Insurance

311 W. Washington Street, Suite 300

Indianapolis, Indiana 46204-2787

Telephone: (317) 232-2385

Fax: (317) 232-5251

Stephen W. Robertson, Commissioner

May 26, 2017

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

Dear Commissioner:

Pursuant to the authority vested in Appointment Number 3905, an examination has been made of the affairs and financial condition of:

American Surety Company
250 E 96th Street, Suite 202
Indianapolis, Indiana 46240

an Indiana domestic casualty insurance company hereinafter referred to as the "Company." The examination was conducted at the main administrative offices of the Company located at 250 E 96th Street, Suite 202, Indianapolis, Indiana 46240.

The Report of Examination, showing the status of the Company as of December 31, 2015, is hereby respectfully submitted.

ACCREDITED BY THE

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

AGENCY SERVICES
(317) 232-2413

COMPANY COMPLIANCE
(317) 233-0697

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

EXAMINATIONS/FINANCIAL SERVICES
(317) 232-2390

MEDICAL MALPRACTICE
(317) 232-2402

COMPANY RECORDS
(317) 232-5692

STATE HEALTH INSURANCE PROGRAM
1-800-332-4674

SCOPE OF EXAMINATION

The Company was last examined by representatives of the Indiana Department of Insurance (INDOI) as of December 31, 2010. The present risk-focused examination was conducted by The Thomas Consulting Group, Inc. (Thomas Consulting) and covered the period from January 1, 2011 through December 31, 2015, and included any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination.

In conducting the risk-focused examination, the INDOI, by its representatives, relied upon the independent audit reports and opinions contained therein rendered by Deloitte & Touche LLP for 2011 and 2012 and Katz, Sapper & Miller, LLP for 2013 through 2015 of the examination period. Such reports were prepared on a statutory basis and reconciled to the financial statements contained in the respective Annual Statements.

Actuarial specialists were not considered necessary in support of the examination objectives as the Company's sole line of business is surety appearance bonds. The loss and related claims activity was verified for the examination period.

In accordance with the 2015 NAIC *Financial Condition Examiners Handbook*, Thomas Consulting planned and performed the risk-focused examination to evaluate the financial condition of the Company, and to identify prospective risks related to its operations. The examination process included an evaluation of corporate governance, identification and assessment of inherent risks, and documentation of system controls and procedures used to mitigate the identified risks. In addition, the Examiners performed an assessment of the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. The examination also included a review of the Company's compliance with Statutory Accounting Principles, Annual Statement Instructions, and the Indiana Insurance Code. All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

HISTORY

American Surety Company was incorporated in 1964 and began operating in 1987 in the state of California. On September 8, 2003, the Company redomesticated from California to Indiana and is wholly owned by Eighth Amendment Holdings, Inc. (EAH), an Indiana S Corporation.

CAPITAL AND SURPLUS

Pursuant to the amended Articles of Incorporation, the authorized capital of the Company shall consist of 15,000 shares of common stock with a par value of \$200 per share. As of December 31, 2015, the Company's total capital and surplus was \$10,255,679, which included: 10,000 shares of common stock issued and 8,600 shares outstanding, gross paid-in contributed surplus of \$400,000, and unassigned funds (surplus) of \$8,527,835, reduced by treasury stock of 1,400 shares, which was purchased for \$672,156. All outstanding shares were owned by EAH as of December 31, 2015, which is owned by William Carmichael (51%), Michael Whitlock (24.5%) and Paul Longstreth (24.5%), who are all current officers of the Company.

DIVIDENDS TO STOCKHOLDERS

The Company paid the following dividends to EAH during the period covered by this examination:

<u>Year</u>	<u>Total</u>	<u>Ordinary Dividends</u>	<u>S Corporation Distributions</u>
2015	\$1,607,000	\$ 907,000	\$ 700,000
2014	1,640,000	1,340,000	300,000
2013	566,000	566,000	-
2012	599,000	599,000	-
2011	<u>359,000</u>	<u>359,000</u>	<u>-</u>
Totals	<u>\$4,771,000</u>	<u>\$3,771,000</u>	<u>\$1,000,000</u>

Effective January 1, 2014, the Company filed to become a qualified S Corporation Subsidiary of its parent company. The Company's Tax Allocation Agreement with its shareholders and affiliated entities allows for periodic payments to its parent in order to fund the resulting tax due related to the pass through income from the Company. The INDOI, in its approval of the agreement, does not require the payments to be subject to the dividend notice requirements of Indiana Code (IC) 27-1-23-1.5.

The Company notified the INDOI of all declared ordinary dividends to the parent during the examination period in accordance with the requirements of IC 27-1-23-1.5.

TERRITORY AND PLAN OF OPERATION

The Company is licensed in 49 states and the District of Columbia. The majority of the Company's premiums are produced in California, Florida, and Texas. The Company is a mono-line insurer, specializing in bail bond (surety appearance bonds) coverage. Surety bonds are written through a network of independent agents. The agents are required to maintain build-up funds. These funds are intended to ensure the Company is protected from losses, costs, or expenses. Agents retain in excess of 80% of the gross premium as commission, 10% goes to build-up funds, and the remaining 10% is provided to the Company as net premium. Bail bond agents also retain collateral from the defendant in order to mitigate losses. Collateral is generally in the form of cash, real estate, or assignment of funds.

GROWTH OF THE COMPANY

The following exhibit summarizes the financial results of the Company during the examination period:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital & Surplus</u>	<u>Premiums Earned</u>	<u>Net Income</u>
2015	\$ 14,552,005	\$ 4,296,326	\$ 10,255,679	\$ 9,797,003	\$ 1,230,942
2014	14,979,897	4,147,697	10,832,200	8,610,845	1,607,237
2013	13,969,721	2,406,311	11,563,410	7,805,715	1,349,068
2012	13,784,111	2,795,460	10,988,651	7,354,691	566,502
2011	13,852,475	2,809,320	11,043,155	7,533,152	599,037

Asset and liability changes each year are consistent with the premium volume during the examination period. Premiums increased over 10% in both of the last two (2) years. Capital and surplus has remained constant due to the declaration of dividends each year equal to the previous year's net income. The increase in net income in 2013 was due to an increase in capital gain income of \$458,344. In 2014 and 2015, net income was higher since no income tax expense was reflected as a result of the Company's S Corporation tax status. (See additional information in "Dividends to Stockholders" section.)

MANAGEMENT AND CONTROL

Directors

The Company's Bylaws specify that the Board of Directors shall consist of not less than five (5) or more than fifteen (15) members. The Bylaws allow the number of directors to be increased or decreased by amendment to the Bylaws or Articles of Incorporation. Directors are elected at the Annual Meeting of the Shareholders.

The following is a listing of persons serving as directors as of December 31, 2015:

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Daniel R. Amato Orlando, Florida	Vice President American Surety Company
William B. Carmichael Indianapolis, Indiana	CEO and President American Surety Company
Paul J. Longstreth Carmel, Indiana	CFO, Secretary, and Treasurer American Surety Company
John T. Whitlock Zionsville, Indiana	Former Owner and CEO American Surety Company
Michael J. Whitlock Indianapolis, Indiana	Executive Vice President American Surety Company

Officers

The Company's Bylaws state that the officers of the Company shall consist of a President, a Chief Executive Officer (CEO), a Secretary, a Treasurer, a Chief Financial Officer (CFO), and such other officers as may be elected by the Board of Directors. The officers elected by the Board of Directors and serving as of December 31, 2015, were as follows:

<u>Name</u>	<u>Title</u>
William B. Carmichael	CEO and President
Paul J. Longstreth	CFO, Secretary, and Treasurer
Michael J. Whitlock	Executive Vice President

Daniel R. Amato	Vice President
Gary W. Logue	Vice President
Thomas K. Anderson	Vice President
Kathleen A. Boyer	Assistant Secretary

CONFLICT OF INTEREST

The Company's conflict of interest disclosure process requires directors and officers to complete a conflict of interest disclosure statement on an annual basis. The Company's directors and officers properly completed the conflict of interest disclosure statements for all years covered by this examination.

OATH OF OFFICE

IC 27-1-7-10(i) requires that every director, when elected, shall take and subscribe to an oath stating that he or she will faithfully, honestly and diligently administer the affairs of the corporation and will not knowingly violate any of the laws applicable to such corporation. Each director serving during the examination period signed an Oath of Office statement.

CORPORATE RECORDS

Articles of Incorporation

There were no amendments to the Articles of Incorporation during the period under examination.

Bylaws

There were no amendments to the Bylaws during the period under examination.

Minutes

The Board of Directors and Shareholders Meeting minutes were reviewed for the period under examination through the fieldwork completion date, and significant actions taken during each meeting were noted. The Annual Shareholders Meetings for the period under examination were held in accordance with IC 27-1-7-7(b).

Contrary to the requirements of IC 27-1-7-12, the Company did not keep a record of the attendance of directors at the meetings of the board showing the names of the directors, the number of meetings of the board (regular and special), the number of meetings attended, and the number of meetings from which each director was absent. Furthermore, there was no evidence that the attendance record was reported, read, and incorporated into the minutes of the Annual Meeting of the Shareholders. **(Please see the "Other Significant Findings" section of this Report of Examination regarding this issue.)**

AFFILIATED COMPANIES

Organizational Structure

The Company is a member of an insurance holding company system as defined within IC 27-1-23 and Regulation of Insurance Holding Company Systems. An Insurance Holding Company System Registration Statement was filed annually with the INDOI for each year of the examination period. The following abbreviated organizational chart depicts the Company's relationship within the holding company system:

	NAIC Company <u>Code</u>	Domiciliary <u>State</u>
Eighth Amendment Holdings, Inc <i>(William B. Carmichael - 51%)</i> <i>(Michael J. Whitlock - 24.5%)</i> <i>(Paul J. Longstreth - 24.5%)</i>		SC
American Surety Company (100% owned by EAH)	31380	IN
Underwriters Surety, Inc. (100% owned by EAH)		IN

Affiliated Agreements

The following significant affiliated agreements were disclosed as part of the Form B Holding Company Registration Statement and were filed with, and not disapproved by, the INDOI in accordance with IC 27-1-23-4(b)(4).

Manager's Contract

Effective August 18, 2011, the Company entered into a replacement Manager's Contract with Underwriters Surety, Inc. (USI), an affiliated service company. USI performs all operational, administrative, and managerial functions to include all underwriting, claims, licensing, and administrative functions to the Company. USI receives a management fee not to exceed 75% of the premiums written and is reimbursed for all expenses associated with the Company's operation. The fees paid by the Company to USI under the Manager's Contract in 2015 totaled \$4,700,000.

Tax Sharing Agreement

EAH, the Company's sole shareholder, elected S Corporation status under IRS Code Section 1362(a). Concurrent with this elected status, the Company entered into a Tax Allocation Agreement with EAH to make periodic tax payments to EAH in order to fund the resulting tax due related to the pass through income from the Company.

FIDELITY BOND AND OTHER INSURANCE

The Company is protected by a Financial Institution Bond (fidelity bond) for a single loss limit of \$500,000 with a \$25,000 deductible. The fidelity bond limit was adequate to meet the prescribed minimum coverage specified by the NAIC. Other various interests of the Company are protected by appropriate policies of insurance as well.

Contrary to the requirements of IC 27-1-7-14, the Company's fidelity bond was not filed or approved by the INDOI at any time during the five (5) year examination period. (Please see the "Other Significant Findings" section of this Report of Examination regarding this issue.)

STATUTORY AND SPECIAL DEPOSITS

The Company reported statutory and special deposits comprised of state and municipal bonds held by various Departments of Insurance as of December 31, 2015:

<u>State</u>	<u>Book Value</u>	<u>Fair Value</u>
For the Benefit of All Policyholders:		
Indiana	\$ 1,828,875	\$ 1,887,187
All Other Special Deposits:		
Indiana	75,000	75,000
Florida	199,864	210,800
Georgia	51,020	54,040
Kansas	100,096	102,320
Massachusetts	140,126	149,058
Nevada	201,638	214,940
New Hampshire	99,869	107,340
New Mexico	132,986	140,569
North Carolina	1,264,458	1,284,382
Oklahoma	683,246	712,865
Oregon	260,791	274,950
Rhode Island	100,043	100,040
South Carolina	229,977	246,330
Tennessee	102,773	106,750
Virginia	202,726	212,420
Wyoming	<u>150,336</u>	<u>152,610</u>
Total Deposits	<u>\$ 5,823,824</u>	<u>\$ 6,031,601</u>

REINSURANCE

The Company does not participate in any reinsurance agreements.

RESERVES

Michael D. Green, ACAS, MAAA, with the firm Deloitte Consulting, LLP, was the Appointed Actuary for the Company. Mr. Green was appointed by the Audit Committee of the Board of Directors to render an actuarial opinion on the statutory-basis reserves of the Company for all years covered by this examination.

The scope of the opinion was to examine the actuarial assumptions and methods used in determining reserves, as shown in the Annual Statement of the Company as prepared for filing with state regulatory officials, as of December 31, 2015. In forming the opinion on loss and loss adjustment expense reserves, information prepared by the Company was relied upon. This information was evaluated for reasonableness and consistency. In other respects, the examination included such review of the actuarial assumptions and methods used, and such tests of the calculations as considered necessary.

The 2015 opinion stated that the amounts carried in the balance sheet on account for loss reserves and loss adjustment reserves; 1) are consistent with reserves computed in accordance with accepted actuarial standards and principles, 2) make a reasonable provision for all unpaid loss and loss adjustment expense obligations of the Company under the terms of its contracts and agreements, and 3) meet the requirements of Indiana insurance law and regulations.

ACCOUNTS AND RECORDS

The Company's accounting procedures, practices, account records, and supporting data were reviewed and tested to the extent deemed necessary. The detail trial balance prepared from the Company's general ledger for the year ending December 31, 2015, was agreed to the Annual Statement without exception. The Company's independent auditors issued unqualified opinions on the Company's audited Statutory Financial Statements for each year during the examination period. The audited Statutory Financial Statements were agreed to the Annual Statement for the year ending December 31, 2015, with no exceptions noted. All of the independent audit work papers were made available to the Examiners during the examination.

The Company's accounts and records are maintained using electronic data processing with the exception of certain items entered manually into the general ledger. The Company maintains adequate supporting work papers, which were reviewed during the examination. The Information Systems controls were reviewed in this examination, and no material exceptions were noted to the control practices and procedures.

Overall, the Examiners determined the Company's accounting procedures, practices, and account records were satisfactory.

Permitted Practice

Under a permitted practice approved by the INDOI on January 22, 2003, the Company is permitted to report direct premiums net of commission expenses. The permitted practice is approved to remain in effect; 1) in the absence of applicable prescribed accounting guidance, 2) if the Company writes only bail surety bonds, and 3) if there is no change in the Company's ownership.

FINANCIAL EXHIBITS

Comparative Exhibit – Statutory Statement of Assets
Comparative Exhibit – Statutory Statement of Liabilities, Surplus and Other Funds
Comparative Exhibit - Statutory Statement of Income
Comparative Exhibit – Statutory Capital and Surplus Account

NOTE: Amounts are shown in whole dollars and columns may not total due to rounding.

AMERICAN SURETY COMPANY

FINANCIAL STATEMENTS

Assets

As of December 31, 2015

	<u>Per Annual Statement</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>	<u>December 31, Prior Year</u>
Assets:				
Bonds	\$ 6,166,064	\$ -	\$ 6,166,064	\$ 6,073,864
Common stocks	2,522,771	-	2,522,771	2,755,668
Cash, cash equivalents and short-term investments	<u>4,409,051</u>	<u>-</u>	<u>4,409,051</u>	<u>4,302,353</u>
Subtotals, cash and invested assets	\$ 13,097,886	\$ -	\$ 13,097,886	\$ 13,131,885
Investment income due and accrued	\$ 83,014	\$ -	\$ 83,014	\$ 64,263
Uncollected premiums and agents' balances in the course of collection	1,355,671	-	1,355,671	1,390,747
Current federal and foreign income tax recoverable and interest thereon	-	-	-	377,546
Receivables from parent, subsidiaries and affiliates	-	-	-	22
Aggregate write-ins for other than invested assets	<u>15,434</u>	<u>-</u>	<u>15,434</u>	<u>15,434</u>
Totals	<u>\$ 14,552,005</u>	<u>\$ -</u>	<u>\$ 14,552,005</u>	<u>\$ 14,979,897</u>

AMERICAN SURETY COMPANY

FINANCIAL STATEMENTS

Liabilities, Surplus and Other Funds

	<u>As of December 31, 2015</u>			December
	Per Annual	Examination	Per	31,
	Statement	Adjustments	Examination	Prior Year
Liabilities:				
Losses	\$ 1,577,818	\$ -	\$ 1,577,818	\$ 1,214,929
Loss adjustment expenses	82,790	-	82,790	63,125
Other expenses	227,733	-	227,733	985,721
Taxes licenses, and fees	566,157	-	566,157	433,495
Unearned premiums	1,656,799	-	1,656,799	1,249,035
Payable to parent, subsidiaries, and affiliates	19,003	-	19,003	-
Aggregate write-ins for liabilities	166,026	-	166,026	201,392
Total Liabilities	<u>\$ 4,296,326</u>	<u>\$ -</u>	<u>\$ 4,296,326</u>	<u>\$ 4,147,697</u>
Common capital stock	\$ 2,000,000	\$ -	\$ 2,000,000	\$ 2,000,000
Gross paid in and contributed surplus	400,000	-	400,000	400,000
Unassigned funds (surplus)	8,527,835	-	8,527,835	9,104,356
Less treasury stock, at cost	672,156	-	672,156	672,156
Total Capital and Surplus	<u>\$ 10,255,679</u>	<u>\$ -</u>	<u>\$ 10,255,679</u>	<u>\$ 10,832,200</u>
Totals	<u>\$ 14,552,005</u>	<u>\$ -</u>	<u>\$ 14,552,005</u>	<u>\$ 14,979,897</u>

AMERICAN SURETY COMPANY

FINANCIAL STATEMENTS

Statement of Income

As of December 31, 2015

	Per Annual Statement	Examination Adjustments	Per Examination	December 31, Prior Year
Underwriting Income				
Premiums earned	\$ 9,797,003	\$ -	\$ 9,797,003	\$ 8,610,845
DEDUCTIONS				
Losses incurred	553,199	-	553,199	261,868
Loss adjustment expenses incurred	66,550	-	66,550	69,214
Other underwriting expenses	<u>8,181,565</u>	-	<u>8,181,565</u>	<u>7,584,556</u>
Total underwriting deductions	<u>8,801,314</u>	-	<u>8,801,314</u>	<u>7,915,638</u>
Net underwriting gain	<u>\$ 995,689</u>	<u>\$ -</u>	<u>\$ 995,689</u>	<u>\$ 695,207</u>
Investment Income				
Net investment income earned	\$ 244,690	\$ -	\$ 244,690	\$ 240,892
Net realized capital gains (losses)	<u>(55,016)</u>	-	<u>(55,016)</u>	<u>219,416</u>
Net investment gain	<u>\$ 189,674</u>	<u>\$ -</u>	<u>\$ 189,674</u>	<u>\$ 460,308</u>
Other Income				
Net gain (loss) from agents' balances charged off	\$ (4,196)	\$ -	\$ (4,196)	\$ (2,021)
Aggregate write-ins for miscellaneous income	<u>104,675</u>	-	<u>104,675</u>	<u>93,762</u>
Total Other Income	<u>\$ 100,479</u>	<u>\$ -</u>	<u>\$ 100,479</u>	<u>\$ 91,741</u>
Net income before federal income taxes	\$ 1,285,842	\$ -	\$ 1,285,842	\$ 1,247,256
Federal and foreign income taxes incurred	<u>54,900</u>	-	<u>54,900</u>	<u>(359,981)</u>
Net Income	<u>\$ 1,230,942</u>	<u>\$ -</u>	<u>\$ 1,230,942</u>	<u>\$ 1,607,237</u>

AMERICAN SURETY COMPANY

FINANCIAL STATEMENTS

Capital and Surplus Account

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Capital and Surplus Account					
Surplus as regards policyholders, December 31, prior year	\$10,832,200	\$11,563,410	\$10,988,651	\$11,043,155	\$10,849,883
Net income	1,230,942	1,607,237	1,349,068	566,502	599,037
Change in net unrealized capital gains or (losses) less capital gains tax	(108,252)	58,129	(99,056)	15,475	(71,993)
Change in net deferred income tax	-	(764,655)	(133,691)	(47,410)	33,045
Change in nonadmitted assets	(92,211)	8,079	24,438	9,930	(7,817)
Dividends to stockholders	(1,607,000)	(1,640,000)	(566,000)	(599,000)	(359,000)
Change in surplus as regards policyholders for the year	<u>\$ (576,521)</u>	<u>\$ (731,210)</u>	<u>\$ 574,759</u>	<u>\$ (54,504)</u>	<u>\$ 193,272</u>
Capital and surplus, Surplus as regards policyholders, December 31 current year	<u>\$10,255,679</u>	<u>\$10,832,200</u>	<u>\$11,563,410</u>	<u>\$10,988,651</u>	<u>\$11,043,155</u>

COMMENTS ON THE FINANCIAL STATEMENTS

There were no recommended adjustments to surplus as of December 31, 2015, based on the results of this examination.

OTHER SIGNIFICANT FINDINGS

Record of Director Attendance

During the period covered by this examination, contrary to the requirements of IC 27-1-7-12, the Company did not keep a record of attendance for directors at the meetings of the board showing the names of the directors, the number of meetings of the board (regular and special), the number of meetings attended, and the number of meetings from which each director was absent. Furthermore, there was no evidence that the attendance record was reported, read, and incorporated into the minutes of the Annual Meeting of the Shareholders (See page 5).

It is recommended that the Company comply with the provisions of IC 27-1-7-12.

Fidelity Bond

Contrary to the requirements of IC 27-1-7-14, the Company's fidelity bond was not filed or approved by the INDOI at any time during the five (5) year examination period. (See page 7).

It is recommended that the Company's Board of Directors annually approve the Company's fidelity bond coverage and file the fidelity bond each year with the INDOI in accordance with the requirements of IC 27-1-7-14.

SUBSEQUENT EVENTS

There were no events subsequent to the examination date and prior to the completion of fieldwork that were considered material events requiring disclosure in this Report of Examination.

MANAGEMENT REPRESENTATION

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


AFFIDAVIT

This is to certify that the undersigned is a duly qualified Examiner-In-Charge appointed by the Indiana Department of Insurance and that he, in coordination with staff assistance from The Thomas Consulting Group, Inc., performed an examination of the **American Surety Company** as of **December 31, 2015**.

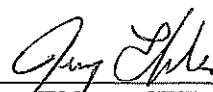
The Indiana Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

The examination was performed in accordance with those procedures required by the 2015 NAIC *Financial Condition Examiner's Handbook* and other procedures tailored for this examination. Such procedures performed on this examination do not constitute an audit made in accordance with generally accepted auditing standard and no audit opinion is expressed on the financial statements contained in this report.

The attached Report of Examination is a true and complete report of condition of the **American Surety Company** as of **December 31, 2015**, as determined by the undersigned.



D. Patrick Huth, CFE
The Thomas Consulting Group, Inc.




Jerry Ehlers, CFE, CPA
Indiana Department of Insurance

State of:

County of:

On this 14th day of June, 2017, before me personally appeared, D. Patrick Huth to sign this document.

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

My commission expires 11-14-2021 

Notary Public



