

# STATE OF MISSOURI



## DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Liberty Fire Benevolent Society as of December 31, 2009

### ORDER

After full consideration and review of the report of the financial examination of Liberty Fire Benevolent Society for the period ended December 31, 2009, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, John M. Huff, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 380.061, RSMo [if Part I], or 380.491, RSMo [if Part II], adopt such report. After my consideration and review of such report are incorporated by reference and deemed to be my findings and conclusions to accompany this order.

Based on such findings and conclusions, I hereby ORDER Liberty Fire Benevolent Society to take the following action or actions, which I consider necessary to cure any violation of law, regulation or prior order of the Director revealed in such report: (1) implement, and verify compliance with, each item mentioned in the General Comments and/or Recommendations section of such report; (2) account for its financial condition and affairs in a manner consistent with the Director's findings and conclusions; and (3) submit a signed copy of the minutes of the meeting which reflect a corporate resolution to the effect the Examination Report has been reviewed and accepted.

So ordered, signed and official seal affixed this 8<sup>th</sup> Day of March, 2010.



John M. Huff, Director  
Department of Insurance, Financial Institutions  
and Professional Registration

REPORT OF THE  
FINANCIAL EXAMINATION OF  
LIBERTY FIRE BENEVOLENT SOCIETY

AS OF  
DECEMBER 31, 2009



**FILED**  
MAR 09 2011  
DIRECTOR OF INSURANCE,  
FINANCIAL INSTITUTIONS &  
PROFESSIONAL REGISTRATION

STATE OF MISSOURI

DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS  
AND PROFESSIONAL REGISTRATION

JEFFERSON CITY, MISSOURI

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December 9, 2010  
Jefferson City, Missouri

Honorable John M. Huff, Director  
Missouri Department of Insurance, Financial  
Institutions and Professional Registration  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

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

### **LIBERTY FIRE BENEVOLENT SOCIETY**

hereinafter referred to as such, or as the "Company". The Company's administrative office is located at 5405 Stoney Ridge Lane, Jefferson City, Missouri 65101, telephone number (573) 395-4333. This examination began on December 6, 2010, and concluded on December 9, 2010, and is respectfully submitted.

### **SCOPE OF EXAMINATION**

#### **Period Covered**

The prior full-scope examination of the Company was made as of December 31, 2004, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2005, through December 31, 2009, and was conducted by examiners from the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP).

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

#### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the DIFP and statutes of the State of Missouri prevailed.

### **Comments-Previous Examination Report**

The comments, recommendations, and notes of the previous examination report dated December 31, 2004, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

#### **Management & Control**

*Comment:* It was recommended the Company ensure the quorum requirements, as stipulated in the Articles of Incorporation, are met in all future membership meetings.

*Company Response:* The Company has met the quorum requirements at all membership meetings held since the recommendation was made in the prior exam report.

*Current Findings:* The Company has met the quorum requirements at the membership meetings as recommended.

## **HISTORY**

### **General**

The Company was organized on May 25, 1892, and was incorporated September 30, 1935. The Company is covered by Sections 380.011 through 380.151 (Missouri Mutual Insurance Companies).

### **Management**

In accordance with its Articles of Incorporation, the annual meeting of the Company's members is held on the first Friday in May at the home office of the Company or at such other place as may be designated by the Board of Directors. Special membership meetings may be called by the Board of Directors at any time, and shall be called by a petition of one-fourth of the members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets annually and as required to fulfill Company needs. Directors are compensated \$300 annually, with officers receiving additional compensation based upon the office held.

Members serving on the Board of Directors as of December 31, 2009, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
David Braun Jefferson City, Missouri	Dairy Farmer	2009-2012
Rita Kerperin Jefferson City, Missouri	Retired	2008-2011
Michael Forck Jefferson City, Missouri	Farmer/Retired County Commissioner	2007-2010
Tony Forck Jefferson City, Missouri	Mail Carrier	2008-2011
Roger Hagner Jefferson City, Missouri	Farmer/Retired Parole Officer	2007-2010

The Board of Directors appoints for a term of one year, the officers of the Company. The officers of the Company serving at December 31, 2009, were as follows:

David Braun	President
Tony Forck	Vice-President
Rita Kerperin	Secretary
Michael Forck	Treasurer

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis. A review of the signed statements noted no significant conflict disclosures.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the period under examination.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$50,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is \$25,000.

The Company carries liability coverage for their directors and officers. The Company's agents are responsible for obtaining errors and omissions insurance.

The Company does not own a home office building and owns an insignificant amount of equipment. Therefore, the Company does not carry property insurance.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has four part-time employees, who are also the officers of the Company. No employee benefits, other than annual salaries, are provided by the Company.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

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

The Company is licensed by the DIFP as a Missouri Mutual Insurance Company operating under Sections 380.011 through 380.151 RSMo. (Missouri Mutual Insurance Companies). The Company is authorized to write fire and wind insurance in the county of Cole and adjoining counties in the State of Missouri. The Company writes fire and wind coverages and markets liability coverage for an unaffiliated insurer through a cooperative agreement. The Company's policies are sold by one licensed agent, who receives \$20 per hour for work pertaining to policy issuance.

### **Policy Forms and Underwriting Practices**

The Company utilizes AAIS policy forms. The policies are renewed annually. Property inspections and adjusting are performed by the agent. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured.

## GROWTH AND LOSS EXPERIENCE OF THE COMPANY

Year	Admitted Assets	Liabilities	Gross Assessments	Gross Losses	Investment Income	Underwriting Income	Net Income
2009	\$1,333,661	\$126	\$251,610	\$ 100,446	\$30,101	\$ 39,050	\$ 69,151
2008	1,264,505	121	272,971	73,477	43,102	15,945	59,047
2007	1,205,455	118	293,049	29,652	52,294	68,246	120,540
2006	1,084,797	0	285,851	117,140	42,603	(47,158)	(4,555)
2005	1,089,352	0	276,712	131,135	36,807	(85,961)	(49,154)

At year-end 2009, 453 policies were in force.

## REINSURANCE

### General

The Company's reinsurance assessment activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Direct	\$ 276,712	\$ 285,851	\$ 293,049	\$ 272,971	\$ 251,610
Assumed	0	0	0	0	0
Ceded	<u>(265,447)</u>	<u>(231,197)</u>	<u>(193,696)</u>	<u>(221,168)</u>	<u>(144,484)</u>
Net	<u>\$ 11,265</u>	<u>\$ 54,654</u>	<u>\$ 99,353</u>	<u>\$ 51,803</u>	<u>\$ 107,126</u>

### Assumed

The Company does not reinsure other companies.

### Ceded

The Company has all of its reinsurance through Farmers Mutual Hail Insurance Company of Iowa (the reinsurer) under per risk, aggregate excess of loss and facultative arrangements.

Under the per risk coverage, the Company retains \$25,000 per risk, and the reinsurer is liable for 100% of the excess, limited to \$275,000. Risks ceded under the contract are limited to \$300,000. Risks in excess of \$300,000 are ceded under the facultative section of the agreement. The Company is responsible for a \$500 per claim deductible on business ceded under the facultative provisions.

Under the aggregate excess coverage, the Company retains annual losses equal to 200% of gross net written premium. The reinsurer is responsible for losses in excess of the retention, limited to the lesser of 1,800% of gross net written premium or \$1,895,400.

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

### **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on a modified cash basis. The CPA firm of Bielecki & Company, P.C. prepares the Company's Annual Statement and tax filings.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2009, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2009**

Bonds	\$ 65,574
Cash on Deposit (Note 1)	1,266,115
Interest Due & Accrued	1,972
	-----
Total Assets	<u><u>\$ 1,333,661</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2009**

Accrued Payroll Taxes	\$ 126
	-----
Total Liabilities	\$ 126
	-----
Other Surplus	\$ 1,333,535
	-----
Total Surplus	1,333,535
	-----
Total Liabilities and Surplus	<u><u>\$ 1,333,661</u></u>

**STATEMENT OF INCOME**  
**For the Year Ending December 31, 2009**

Net Assessments Earned	\$ 107,126
Other Insurance Income	1,127
Net Losses & Loss Adjustment Expenses Incurred	(33,780)
Other Underwriting Expenses Incurred	(35,423)
	-----
Net Underwriting Income (Loss)	\$ 39,050
Investment Income	30,101
	-----
Gross Profit (Loss)	\$ 69,151
Federal Income Tax	(0)
	-----
Net Income (Loss)	\$ 69,151
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2009**

Policyholders' Surplus, December 31, 2008	\$ 1,264,384
Net Income (Loss)	69,151
	-----
Policyholders' Surplus, December 31, 2009	\$ 1,333,535
	=====

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 – Cash on Deposit (Page 7)

The Company improperly reported the certificates of deposit balance of \$1,136,628 as “Other Investments” on the 2009 Annual Statement. The balance should be reported as “Cash on Deposit.” The certificates of deposit balance of \$1,136,628 was reclassified from “Other Investments” to “Cash on Deposit” as a result of the examination. It is recommended the Company report the certificates of deposit balance as “Cash on Deposit” in future Annual Statement filings.

### EXAMINATION CHANGES

As noted in the “Notes to the Financial Statements” section above, the balance of \$1,136,628 was reclassified from “Other Investments” to “Cash on Deposit.” The reclassification had no net effect on policyholder surplus.

### GENERAL COMMENTS AND RECOMMENDATIONS

#### Notes to the Financial Statements (Page 9)

It is recommended the Company report the certificates of deposit balance as “Cash on Deposit” in future Annual Statement filings.

### SUBSEQUENT EVENTS

None.



# LIBERTY FIRE BENEVOLENT SOCIETY

David Braun, Chairman – 496-3322  
Rita Kerperin, Secretary- 395-4333  
Mike Forck, Treasurer- 636-9074  
Tony Forck, Director- 395-4771  
Roger Hagner, Director -636-4451

5405 Stoney Ridge Lane  
Jefferson City, Missouri 65101  
Telephone 573 395-4333  
Fax 573 395-4902

February 9, 2011

Ms. Tammy Rodieck  
Exam Coordinator  
Division of Insurance Company Regulations  
Department of Insurance, Financial Institutions and Professional Registration  
301 West High Street  
Jefferson City, MO 65102-0690

RECEIVED  
FEB 25 2011  
INSURANCE SOLVENCY  
COMPANY REGULATION

Dear Ms. Rodieck:

This letter will acknowledge receipt of the transmittal letter of January 28, 2011 along with a copy of the Examination Report of the Liberty Fire Benevolent Society for the period ending December 31, 2009.

We have reviewed the report and specifically the General Comments and/or Recommendations contained on page 9 of the Examination Report. The comment states:

"Note 1 – Cash on Deposit (Page 7)

The Company improperly reported the certificates of deposit balance of \$1,136,628 as "Other Investments" on the 2009 Annual Statement. The balance should be reported as "Cash on Deposit." The certificates of deposit balance of \$1,136,628 was reclassified from "Other Investments" to "Cash on Deposit" as a result of the examination. It is recommended the Company report the certificates of deposit balance as "Cash on Deposit" in future Annual Statement filings."

We will discuss this recommendation with our Accountant and make the change on our certificates of deposit from "Other Investments" to "Cash on Deposit" for future Annual Statements.

Thanks for calling this to our attention.

Sincerely,



David O. Braun  
Chairman, Liberty Fire Benevolent Society