

STATE OF MISSOURI



DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS AND PROFESSIONAL REGISTRATION

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

RE: Examination Report of Preservation Life Insurance Company as of December 31, 2006

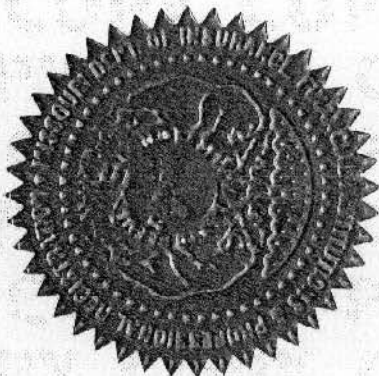
ORDER

After full consideration and review of the report of the financial examination of Preservation Life Insurance Company for the period ended December 31, 2006, together with any written submissions or rebuttals and any relevant portions of the examiner's workpapers, I, Douglas M. Ommen, Director, Missouri Department of Insurance, Financial Institutions and Professional Registration pursuant to section 374.205.3(3)(a), RSMo., adopt such report. After my consideration and review of such report, workpapers, and written submissions or rebuttals, the findings and conclusions of the examination report are incorporated by reference and deemed to be my findings and conclusions to accompany this order pursuant to section 374.205.3(4), RSMo.

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

So ordered, signed and official seal affixed this January 25, 2008.

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



REPORT OF THE
ASSOCIATION FINANCIAL EXAMINATION OF
PRESERVATION LIFE INSURANCE COMPANY

AS OF
DECEMBER 31, 2006

FILED
FEB 04 2008
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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Jefferson City, Missouri
December 3, 2007

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

Honorable Merle Scheiber, Commissioner
South Dakota Division of Insurance
Secretary, Midwestern Zone, NAIC

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

Gentlemen:

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

Preservation Life Insurance Company

hereinafter referred to as such, as Preservation Life, or as the Company. Its administrative office is located at 3401 W. Truman Blvd, Suite 100A, Jefferson City, Missouri 65109, telephone number (573) 635-6400. This examination began on August 27, 2007, and concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of Preservation Life was made as of December 31, 2003, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with no other zones participating.

The current full scope association financial examination covered the period from January 1, 2004, through December 31, 2006, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the 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 Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance, Financial Institutions and Professional Registration (DIFP) and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditor, Jay Seaver, CPA, LLC, of Jefferson City, Missouri, for its audit covering the period from January 1, 2006, through December 31, 2006. Information relied upon included bank confirmations, fraud risk assessment, and policy loan testing.

Comments - Previous Examination

The previous financial examination of Preservation Life was conducted by the Missouri DIFP for the period ending December 31, 2003. Listed below are the comments, recommendations, and notes from the previous examination report, the Company's response, and the findings in the current examination.

Payment of Dividends

Comment: It was stated that the Company improperly repaid its sole shareholder \$30,000 of organization cost incurred during the acquisition of the Company, which had been reported as part of the Gross Paid in and Contributed Surplus account. This payment represented a dividend and was paid without due consideration to Missouri Insurance Regulation 200-11.150 (Dividends) and Section 375.380 RSMo (Illegal Dividends). The Company was directed to abide by these statutes and operate within the confines of Missouri Insurance Laws and Regulations in the future.

Company's Response: The Company stated that the payment was not intended as a dividend and was not attributable or paid with respect to its stock. The Company acknowledged its failure to properly document the transaction and stated it would vigilantly abide by the statutes and regulations as recommended.

Current Findings: No dividend payments or other payments in violation of the above listed statute and regulation were noted during the examination period.

Proxy Statement

Comment: It was stated that a proxy statement, allowing for the portion of the Company's outstanding shares held under trust to be voted during annual shareholder meetings, incorrectly identified the trustee as the owner of the shares. This is factually inaccurate, as a single shareholder owns all the outstanding shares of the Company. To the extent that a proxy statement is required under the prevailing circumstance, the wording should properly reflect that the underlying shares are **only** under custody with the trustee, while the ownership rights are those of the sole shareholder. The Company was directed to implement this recommendation going forward.

Company's Response: The Company stated that its shareholder would revise the proxy statements to reflect American Prearranged Services, Inc. (APSI) as the owner.

Current Findings: The Company's ultimate controlling persons, John W. McCulloch and John H. Lake, were present at all of the shareholder meetings during the examination period. Thus, proxy statements were not required.

Intercompany Transactions – APS

Comment: It was stated that the Company did not have a written agreement governing its cost-sharing arrangement with its parent, American Prearranged Services, Inc. The Company was directed to draft an agreement, which outlines the terms of the arrangement and submit a Form D filing for the agreement to the Missouri DIFP in accordance with RSMo 382.195 (Prohibited Transactions, Exceptions).

Company's Response: The Company stated that it would prepare a cost sharing agreement with APSI and submit a Form D filing with respect to such agreement. It was further stated that the questioned transactions with APSI did not meet the threshold of a material transaction for purposes of Missouri regulation 20 CSR 200-11.130.

Current Findings: An Office Expense Agreement and an Employee Cost Sharing Agreement with APSI were both executed effective August 1, 2005. These agreements were approved by the Missouri DIFP on September 6, 2005.

Intercompany Transactions – Consalus Funeral Trust

Comment: It was stated that the Sale of Insurance Agreement with respect to Consalus Funeral Trust was not filed with the Missouri DIFP as required by law. The Company was directed to submit a Form D filing for the Sale of Insurance Agreement with respect to the Consalus Funeral Trust to the MDI in accordance with RSMo 382.195 (Prohibited Transactions, Exceptions).

Company's Response: The Company stated that it mistakenly believed the approval of a similar agreement would not require Missouri DIFP approval of the Agreement with Consalus Funeral Trust. However, the Company stated that it would submit a Form D filing for the referenced Agreement. It was further stated that it was expected that there would not be any further new business between the Company and Consalus Trust.

Current Findings: A Form D filing was submitted to the Missouri DIFP on August 18, 2005 for the Sale of Insurance Agreement involving Consalus Funeral Trust and it was approved on September 8, 2005.

Intercompany Transactions – Form B and C Filings

Comment: It was stated that the Company did not disclose any of the related party agreements in effect as of the examination date on the Form B and Form C as required by Missouri Law at Section 382.110 RSMo (Registration, Form, Contents, Exempted Matter). The Company was directed to abide by the provisions of this law in future Forms B and C filings.

Company's Response: The Company stated that it would disclose on future Form B and C filings the agreements between the Company and any affiliates or related parties as recommended.

Current Findings: The Company properly reported all of its affiliated and related party agreements on the Form B statement that was filed in April 2007.

Participation Rider

Comment: It was stated that the Company's insured policies with affiliate trusts include a participation rider that allows for surplus sharing. The rider was found to represent a risk sharing agreement with affiliates, and as such, must be held to the "fair and reasonable" requirements of Missouri Law at Section 382.190 RSMo (Transactions with affiliates). It was also stated that the current language of the rider lacked the specific terms to determine if the agreement meets the requirements of the applicable law. The Company was directed to revise the language of the participation rider to include details regarding the dividend calculation and other pertinent information, and file the revised document to the MDI for approval.

Company's Response: The Company stated the participation rider is limited to the sharing of annual divisible surplus, if any, and does not provide for statutory surplus sharing. The Board of Directors will determine the divisible surplus to be credited as a dividend and this dividend, if any, will be based upon the profit of the actual insured business. Prior to the consideration of a dividend, the Board of Directors will request an actuarial profit study be made and a recommendation of dividend payment. The Company's year end financial statement will accrue a reserve for such dividend, with actuarial support prior to any actual dividend payment.

The Company further stated that it did not believe it was necessary to incur additional corporate and actuarial expense to develop a surplus sharing formula for the participation rider when profitability could only be on a prospective basis. The Company prefers to view profitability on a retrospective and prospective basis, with full discretion for payment, if any, by its Board of Directors.

Current Findings: The Company slightly revised the language of the participation rider and filed it with the Missouri DIFP on December 22, 2006. The revised participation rider was approved by the Life and Health section of the Missouri DIFP on January 9, 2007. No dividends for this participation rider were paid during the examination period.

Reinsurance Coverage

Comment: It was noted that the Company does not have a reinsurance program. The need for a reinsurance program should be necessitated by the growth in insurance operations and premium volume. The Company was directed to institute procedures to monitor its premium volume and the associated risk and periodically assess the need for a reinsurance program.

Company's Response: The Company stated that it does and will continue to monitor its premium volume and the associated growth. The Company agreed to periodically assess the need for a reinsurance program, and to work toward a plan for such eventually.

Current Findings: A review of the Company's need for reinsurance is discussed in the Reinsurance section of this report.

Custodial Agreements

Comment: It was stated that the Company did not have custody or safekeeping agreements with its two investment managers. The Company is directed to execute custody or safekeeping agreements with its investment managers. The agreements should contain the necessary safeguards and controls in accordance with the NAIC's Financial Examiners Handbook Part 1, Section 4.

Company's Response: The Company stated that it was negotiating revisions of its agreements with investment managers to provide for the safekeeping provisions of the NAIC Financial Examiners Handbook Part I, Section 4 as recommended.

Current Findings: The Company terminated its accounts in October 2006 and November 2006 with the investment managers utilized in the prior exam. A new safekeeping agreement was executed in July 2006 that included all of the necessary conditions and clauses recommended in the NAIC Financial Examiner's Handbook.

Gross Paid in and Contributed Surplus/Unassigned Funds (Surplus)

Comment: It was stated that the amounts reported by the Company for these two items on the Annual Statement at December 31, 2003, were restated by this examination to comply with standard reporting following the acquisition of the Company in 2001. Although this restatement did not affect total surplus, the Company is directed to report these two items on the Annual Statement to reflect the effect of the acquisition and the cumulative effect of operations since the acquisition.

Company's Response: The Company stated that it filed its 2004 Annual Statement reflecting the restatement of surplus pursuant to SSAP No. 72 with appropriate disclosure in the Notes to the Financial Statement.

Current Findings: Amounts were properly reported in the Gross Paid In and Contributed Surplus line and the Unassigned Funds (Surplus) line of the 2006 Annual Statement, in accordance with the prior examination comment.

HISTORY

General

The Company was originally incorporated as Oakre Life Insurance Company on December 20, 1994, and was a subsidiary of Xerox Financial Services, Inc. (Xerox). The Company commenced business on December 29, 1994. American Prearranged Services Trust (APS Trust) purchased the Company from Xerox on September 30, 2001. The Company's name was changed to Preservation Life Insurance Company on March 20, 2002. Preservation Life operates as a stock life insurer under the insurance laws of Chapter 376 RSMo (Life, Health and Accident Insurance).

Capital Stock

The Company's Articles of Incorporation allow for the issuance of 600,000 shares of common stock with a par value of \$1 per share. As of December 31, 2006, all 600,000 shares were issued and outstanding on two stock certificates for a total capital stock balance of \$600,000.

"First Trust of Mid-America, Inc. (First Trust), Trustee for American Prearranged Services" is listed as the owner of 456,650 shares on one stock certificate. These shares are intended to be owned by American Prearranged Services Trust. The word "Trust" was omitted in the naming of this stock certificate. "American Prearranged Services, Inc., First Trust, Trustee" is listed as the owner of the remaining 143,350 shares on the other stock certificate. First Trust is an unaffiliated entity that has no ownership of Preservation Life.

The placement of First Trust's name on the two stock certificates confuses the actual ownership of the Company. Further, the stock certificates were issued with the Company's previous name, Oakre Life Insurance Company. It is recommended that the Company cancel the two stock certificates that are currently outstanding and reissue two new stock certificates. The new stock certificates should be issued with the Company's current name, Preservation Life Insurance Company, and should not include the name of First Trust in either stock certificate. One certificate should be properly issued to American Prearranged Services Trust and the other should be issued to American Prearranged Services, Inc.

Dividends

The Company did not declare or pay any dividends to its stockholders during the examination period.

Management

The management of the Company is vested in a Board of Directors who are appointed by the shareholders. The Company’s Articles of Incorporation and Bylaws specify that there shall be nine directors. The Board of Directors appointed and serving, as of December 31, 2006, were as follows:

<u>Name</u>	<u>Address</u>	<u>Principal Occupation and Business Affiliation</u>
John W. McCulloch	Jefferson City, MO	President, APSI
Kimberly M. Atnip	Linn, MO	Legal Assistant, Lake Law Firm, LLC
Kimberly P. Buxton	Jefferson City, MO	Office Manager, APSI
Malinda J. Christiansen	Lohman, MO	Comptroller, Associated Memorials, Inc.
Lloyd R. Downard	Jefferson City, MO	President, Administrative Management Corp.
John H. Lake	Jefferson City, MO	Attorney, Lake Law Firm, LLC
Donna J. McCulloch	Jefferson City, MO	Assistant to Vice Pres., Missouri Hospital Assoc.
H. Steve McCulloch	Aurora, MO	Funeral Director, Associated Memorials, Inc.
Stephen L. Pierce	Kansas City, MO	Funeral Director, Muehlbach Funeral Home

Committees

The Board of Directors have an Executive Committee and an Investment Committee, as authorized by the Bylaws. The members elected to both Committees, as of December 31, 2006, were John W. McCulloch, John H. Lake, and Lloyd R. Downard.

Officers

The officers elected by the Board of Directors and serving as of December 31, 2006, were as follows:

<u>Officer</u>	<u>Elected Position</u>
John W. McCulloch	Chairman, President
John H. Lake	Vice President, Secretary
Malinda J. Christiansen	Treasurer

Conflict of Interest

The Company has an informal policy that requires all officers, directors, and key employees to complete a conflict of interest statement each year. Signed statements of officers and directors were reviewed for the examination period. No significant exceptions were noted.

Corporate Records

A review was made of the Articles of Incorporation and Bylaws for the examination period. There were no amendments or changes to the Articles of Incorporation or Bylaws during the period under examination.

The minutes of the Board of Directors' meetings and stockholders' meetings were reviewed for proper approval of corporate transactions. In general, the minutes appear to properly reflect and approve the Company's major transactions and events for the period under examination.

Acquisitions, Mergers and Major Corporate Events

None.

Surplus Debentures

No surplus debentures were issued or outstanding for the period under examination.

AFFILIATED COMPANIES

The Company is a member of an Insurance Holding Company System as defined by Section 382.010, RSMo (Definitions). An Insurance Holding Company System Registration Statement was filed by Preservation Life for each year of the examination period. The Company is ultimately owned by two individuals, John W. McCulloch (50%) and John H. Lake (50%).

The operations of the Company's owners, parent companies, and other related parties are described as follows:

John W. McCulloch – Owns and manages several funeral homes as the President of Associated Memorials, Inc. He is a licensed funeral director in the State of Missouri. He also is an owner and President of American Prearranged Services, Inc.

John H. Lake – Principal attorney for the Lake Law Firm, LLC with specialization in personal injury cases. Mr. Lake also has equal investments in the funeral related businesses owned jointly with Mr. McCulloch.

American Prearranged Services, Inc. (APSI) – Sells prearranged funeral plans for approximately 100 funeral homes located in Missouri only.

American Prearranged Services Trust (APS Trust) – A trust used to deposit funds from the prearranged funeral plans sold by APSI. There are three trust accounts that comprise APS Trust, which are all controlled by APSI, the grantor of the trusts.

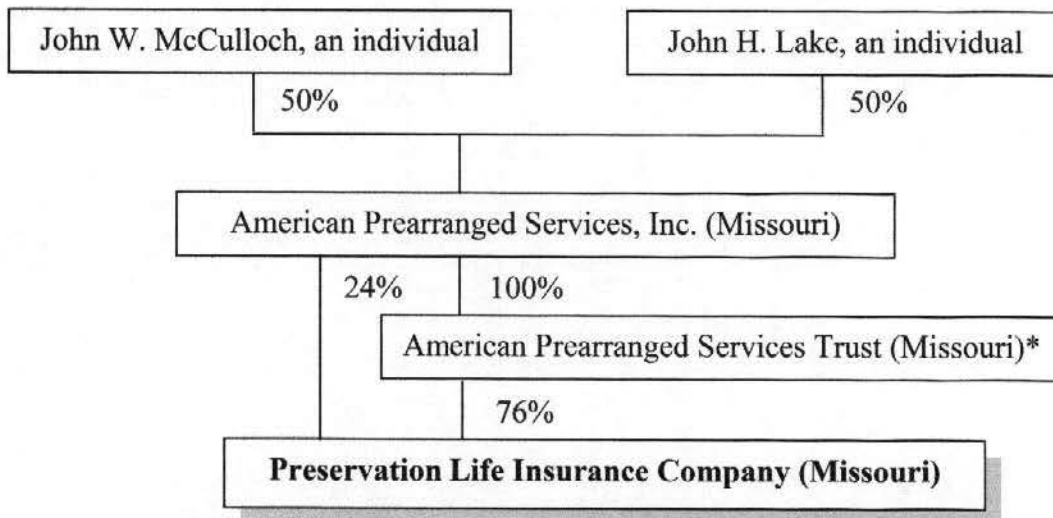
Consalus Funeral Trust – A trust used to deposit funds from the prearranged funeral plans sold by APSI for services to be provided at Consalus Funeral Home in Clinton, Missouri. This entity is ultimately owned by Mr. McCulloch and Mr. Lake.

West Truman Partners, LLP – A partnership owned by Mr. McCulloch, Mr. Lake, and an unaffiliated individual. The partnership owns an office complex in Jefferson City, Missouri that leases office space to the Company and APSI.

Administrative Management Corp. – A consulting firm owned and operated by Lloyd R. Downard, a member of the Board of Directors. This firm provides services for Preservation Life as described in the Intercompany Agreements section of this report.

Organizational Chart

The following table depicts the ownership of Preservation Life, as of December 31, 2006:



* First Trust of Mid-America, Inc., an unaffiliated entity, is the Trustee for APS Trust

The above chart only shows the ownership of Preservation Life. There are other entities owned by Mr. McCulloch and Mr. Lake that have intercompany agreements and minor transactions involving the Company, which are described in the Intercompany Agreements section of this report.

Schedule Y – Part 1 of the 2006 Annual Statement reports First Trust as a 76% owner of Preservation Life. As explained previously in the Capital Stock section of this report, First Trust is an unaffiliated entity with no ownership interest in the Company. APS Trust owns 76% of Preservation Life and First Trust is merely a trustee holding the investment. APS Trust should be reported with 76% ownership in the Schedule Y – Part 1 organizational chart and First Trust should only be reported with an asterisk (*), similar to the chart presented above.

Intercompany Agreements

The Company's intercompany agreements in effect, as of December 31, 2006 and subsequent periods, are outlined below.

- 1. Type:** Sale of Insurance Agreement
Affiliate: APS Trust (First Trust of Mid-America, Inc., Trustee)
Effective: May 6, 2002
Terms: The Company agrees to sell group whole life insurance policies to First Trust to insure the lives of individuals that have purchased prearranged funeral contracts, from which funds have been deposited into APS Trust. Preservation Life will pay the death claims for these policies within 30 days of the submission of the claim form.
- 2. Type:** Sale of Insurance Agreement
Affiliate: Consalus Funeral Trust (First Trust of Mid-America, Inc., Trustee)
Effective: November 1, 2002
Terms: The Company agrees to sell group whole life insurance policies to First Trust to insure the lives of individuals that have purchased prearranged funeral contracts, from which funds have been deposited into Consalus Funeral Trust. Preservation Life will pay the death claims for these policies within 30 days of the submission of the claim form. The Company only received premiums pursuant to this agreement for one block of 80 lives in 2002. This block is in run-off and no future business from the Consalus Funeral Trust is planned. Only 58 insured lives for the Consalus block remained in-force, as of December 31, 2006.
- 3. Type:** Lease of Office Space Agreement
Affiliate: West Truman Partners, LLP
Effective: November 1, 2002
Terms: The Company leases approximately 400 square feet of office space from West Truman Partners, LLP. The lease rate for this office space is \$400 per month.
- 4. Type:** Equipment Lease
Affiliate: APSI
Effective: November 1, 2002
Terms: The Company leases a computer, copy machine, postage machine, telephone system, file cabinets, and office furniture from APSI. The lease rate for this equipment is \$200 per month.

5. **Type:** Attorney Agreement
Affiliate: Lake Law Firm, LLC
Effective: December 23, 2002
Terms: Lake Law Firm, LLC agrees to represent the Company in various legal matters, including corporate compliance, legal proceedings, regulatory matters, and provide other legal services, as necessary. For services rendered, the Company will pay an hourly fee of \$175 per hour for an attorney and \$55 per hour for a legal assistant.
6. **Type:** Consultant's Agreement
Affiliate: Administrative Management Corp. (AMC)
Effective: January 1, 2004
Terms: AMC will provide consulting services for the following areas of the Company's operations: management and organization, financial policies, accounting, statistical and reserve reporting, administrative records systems, product development, and staff development and training. It is anticipated that the amount of time expended by AMC to provide these services shall be approximately 400 hours per year. AMC will charge a rate of \$45 per hour for services that are provided.
7. **Type:** Office Expense Agreement
Affiliate: APSI
Effective: August 1, 2005
Terms: APSI will provide the use of a postage machine, a copier / fax machine, and telephones as needed for the Preservation Life's business operations. The Company will pay APSI for the actual costs of postage used each month, \$0.03 per page for copies made each month, and \$50 per month for the use of the telephones.
8. **Type:** Employee Cost Sharing Agreement
Affiliate: APSI
Effective: August 1, 2005 (amended March 14, 2007)
Terms: An employee of APSI will manage the day-to-day activities and business of Preservation Life. The Company will pay APSI a rate of \$20 per hour for the actual time spent by the employee to provide the services.

Intercompany Transactions

The following table summarizes the payments made during the examination period, between Preservation Life, its parent companies, and other related parties, pursuant to intercompany agreements.

Affiliate	Agreement	Net Paid / (Received)		
		2004	2005	2006
APS Trust**	Sale of Insurance**	(\$1,183,056)	(\$2,282,178)	(\$1,204,175)
Consalus Funeral Trust**	Sale of Insurance**	24,864	21,593	24,878
W. Truman Partners, LLP	Lease of Office Space	4,800	4,800	4,800
APSI	Equipment Lease	2,200	2,400	2,400
Lake Law Firm, LLC	Attorney Agreement	0	0	0
AMC	Consultant's Agreement	1,058	4,135	0
APSI	Office Expense	0	1,200	688
APSI	Employee Cost Sharing	0	708	1,410
TOTAL		(\$1,150,134)	(\$2,247,342)	(\$1,169,999)

** Monies received under these agreements are paid from First Trust, the trustee for APS Trust and Consalus Funeral Trust. First Trust withdraws funds from APS Trust and Consalus Funeral Trust to make premium payments to Preservation Life, pursuant to the Sale of Insurance Agreements. Likewise, the Company pays claims to First Trust for ultimate deposit into APS Trust and Consalus Funeral Trust, as applicable.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a crime policy that provides employee dishonesty coverage with a liability limit of \$100,000 and a \$250 deductible. This coverage is equal to the suggested minimum level of coverage, according to NAIC guidelines. However, this policy is scheduled so that only one employee of APSI is a covered employee under the policy coverage. The elected officers of Preservation Life also may perform daily functions on behalf of the Company. For example, all of the officers are authorized signatories for checks issued from the Company's bank account. The Company should add its officers as covered employees for the crime policy.

Preservation Life is also a named insured on another insurance policy that provides the following coverages: business liability, business personal property, loss of income, and medical payments. These additional insurance coverages appear to be adequate considering the Company's small size and limited operations.

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

Preservation Life does not have any direct employees and thus, does not directly incur any expenses for employee benefits. The Company’s daily business operations are conducted by the employee of a parent company, APSI, pursuant to an Employee Cost Sharing Agreement. Other functions, such as legal and management services, are performed by an officer and a director, pursuant to agreements with entities owned by these individuals. These agreements are described in the Intercompany Agreements section of this report. The Company’s President and 50% owner, John McCulloch, approves and signs all checks and provides other management services, but is not compensated. An unaffiliated individual, J. Randy Snodgrass, CPA, provides accounting services and prepares the Quarterly and Annual Statement filings.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri DIFP, as of December 31, 2006, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The funds on deposit as of December 31, 2006, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Note	\$750,000	\$731,483	\$750,000

Deposits with Other States

The Company does not have funds on deposit with any other states.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

Preservation Life is licensed by the Missouri Department of Insurance, Financial Institutions and Professional Registration under Chapter 376 RSMo (Life, Health and Accident Insurance) to write the following lines of business: life, annuities and endowments. The Company is not licensed in any other states.

New business written during the examination period was single premium group life insurance from the Company’s only active policyholder, APS Trust, a parent company. Preservation Life’s business plan is solely to provide whole life insurance policies for the customers of the other parent company, APSI. The Company does not issue any policies to the general public and has no plans to change this business model, which is explained in more detail below.

APSI sells prearranged funeral contracts to individuals. The individuals can either pay a lump sum amount or have a payment plan of up to 10 years. The funds collected by APSI for these contracts are deposited into three trust accounts at First Trust of Mid-America, a non-affiliated entity that also serves as the trustee. The trust accounts are named American Prearranged Services Trust (APS Trust) A, B, and C. The trusts are controlled by the grantor, APSI, pursuant to a trust agreement with First Trust.

The trust funds for paid-in-full prearranged contracts are accumulated in APS Trust B. The trust funds for each paid-in-full prearranged contract are then used to purchase a life insurance policy from Preservation Life. Approximately on a quarterly basis, the trust funds for a block of prearranged contracts are withdrawn from the APS Trust B account and paid as premiums to Preservation Life by the trustee, First Trust. Death benefits are paid to First Trust for temporary deposit into an APS Trust account and are ultimately disbursed to the beneficiary of the prearranged funeral contract or the funeral home where services are provided.

The Company does not use any agents or agencies to acquire business. There also is no advertising or other marketing activity to acquire business since the Company provides insurance exclusively for a parent company, APS Trust.

Policy Forms & Underwriting
Advertising & Sales Materials
Treatment of Policyholders

The Missouri DIFP has a market conduct staff that performs a review of these issues and generates a separate market conduct report. However, no market conduct examination reports were issued by the Missouri DIFP during the examination period or subsequent periods.

REINSURANCE

The Company did not have any assumed or ceded premiums during the examination period and it does not have any reinsurance agreements. The largest in-force risk for a single insured was \$11,500, as of December 31, 2006. The premiums received are usually between 84% to 94% of the face value of each risk insured under the one group policy that is currently producing all of the Company's business. Management does not believe reinsurance coverage is currently necessary due to the small risks that are insured. The Board of Directors review the possible need for reinsurance coverage on an ongoing basis.

Assets
as of December 31, 2006

	<u>Assets</u>	Non- Admitted <u>Assets</u>	Net Admitted <u>Assets</u>
Bonds	\$8,205,166	\$ 0	\$8,205,166
Cash and Short-Term Investments	244,480	0	244,480
Investment Income Due and Accrued	85,246	0	85,246
Federal Income Tax Recoverable	8,215	0	8,215
Net Deferred Tax Asset	28,474	22,502	5,972
EDP Equipment and Software	173	173	0
Aggregate Write-Ins for Other than Invested Assets:			
Goodwill	<u>10,709</u>	<u>10,709</u>	<u>0</u>
TOTAL ASSETS	<u>\$8,582,463</u>	<u>\$33,384</u>	<u>\$8,549,079</u>

Liabilities, Surplus and Other Funds
as of December 31, 2006

Aggregate Reserve for Life Policies and Contracts	\$6,119,837
Policy and Contract Claims – Life	24,000
General Expenses Due or Accrued	1,181
Taxes, Licenses and Fees Due or Accrued	16,031
Asset Valuation Reserve	<u>21,612</u>
TOTAL LIABILITIES	\$6,182,661
Common Capital Stock	600,000
Gross Paid In and Contributed Surplus	925,000
Aggregate Write-Ins for Special Surplus Funds	448,724
Unassigned Funds (Surplus)	<u>392,694</u>
Capital and Surplus	<u>\$2,366,418</u>
TOTAL LIABILITIES AND SURPLUS	<u>\$8,549,079</u>

**Summary of Operations
For the Year Ended December 31, 2006**

Premiums and Annuity Considerations	\$1,518,994
Net Investment Income	<u>364,327</u>
TOTAL	\$1,883,321
Death Benefits	\$ 337,794
Increase in Aggregate Reserves for Life Contracts	1,368,089
Commissions on Direct Business	0
General Insurance Expenses	36,918
Insurance Taxes, Licenses and Fees	<u>18,048</u>
TOTAL	<u>\$1,760,849</u>
NET GAIN FROM OPERATIONS	\$ 122,472
Federal Income Taxes Incurred	(736)
Net Realized Capital Gains (Losses)	<u>0</u>
NET INCOME	<u>\$ 123,208</u>
CAPITAL AND SURPLUS:	
Capital and Surplus, December 31, 2005	\$2,227,913
Net Income	123,208
Change in Net Deferred Income Tax	21,395
Change in Non-Admitted Assets	3,269
Change in Asset Valuation Reserve	<u>(9,367)</u>
CAPITAL AND SURPLUS, DECEMBER 31, 2006	<u>\$2,366,418</u>

Notes to the Financial Statements

None.

Examination Changes

None.

General Comments and/or Recommendations

Stock Certificates (page 7)

First Trust of Mid-America, Inc. is listed as an owner and trustee on the Company's two outstanding stock certificates, which confuses the actual ownership of the Company. Further, the stock certificates were issued with the Company's previous name, Oakre Life Insurance Company. It is recommended that the Company cancel the two stock certificates that are currently outstanding and reissue two new stock certificates. The new stock certificates should be issued with the Company's current name, Preservation Life Insurance Company, and should not include the name of First Trust in either stock certificate. One certificate should be properly issued to American Prearranged Services Trust and the other should be issued to American Prearranged Services, Inc.

Schedule Y – Part 1 Organizational Chart (page 10)

Schedule Y – Part 1 of the 2006 Annual Statement reports First Trust as a 76% owner of Preservation Life. First Trust is an unaffiliated entity with no ownership interest in the Company. APS Trust owns 76% of Preservation Life and First Trust is merely a trustee holding the investment. APS Trust should be reported with 76% ownership in the Schedule Y – Part 1 organizational chart and First Trust should only be reported with an asterisk (*), similar to the chart presented in this report.

Crime Insurance Policy (page 13)

The Company is a named insured on a crime policy that provides employee dishonesty coverage with a liability limit of \$100,000 and a \$250 deductible. However, this policy is scheduled so that only one employee of APS, Inc. is a covered employee under the policy coverage. The elected officers of Preservation Life also may perform daily functions on behalf of the Company. For example, all of the officers are authorized signatories for checks issued from the Company's bank account. The Company should add its officers as covered employees for the crime policy.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of Preservation Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shawn Hernandez, CFE, and Angela Campbell, CFE, examiners for the Missouri DIFP, participated in this examination. The firm of Milliman USA, also participated as a consulting actuary.

VERIFICATION

State of Massachusetts)
)
County of Norfolk)

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

Tim L. Tunks
Tim L. Tunks, CPA, CFE
Examiner-In-Charge
Missouri DIFP

Sworn to and subscribed before me this 08 day of Nov., 2007.

My commission expires: May 30, 2014 [Signature]
Notary Public



SUPERVISION

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



Vicki L. Denton, CFE
Acting Audit Manager
Missouri DIFP

Preservation Life Insurance Company
3401 West Truman Blvd.
Jefferson City, Missouri 65109

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FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION

January 16, 2008

Frederick G. Heese, CFE, CPA
Chief Financial Examiner, Acting Division Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

RE: Response to the Examination Report as of December 31, 2006

Dear Mr. Heese,

Please find attached our response to the Examination Report of Preservation Life Insurance Company for the period ending December 31, 2006. We request that our response be included in the report as a public document.

Sincerely,



John McCulloch, President

Response of

PRESERVATION LIFE INSURANCE COMPANY

to

**Report of the
Association Financial Examination of
Preservation Life Insurance Company
As of December 31, 2006**

Response to General Comments and Recommendations

Preservation Life Insurance Company has the following responses to the General Comments and/or Recommendations made in the examination report of December 31, 2006:

Stock Certificates


The Company will cancel the two stock certificates that are currently outstanding and reissue two new stock certificates. The new stock certificates will be issued with the Company's current name, Preservation Life Insurance Company, and will not include the name of First Trust in either stock certificate. One certificate will be properly issued to American Prearranged Services Trust and the other will be issued to American Prearranged Services, Inc.

Schedule Y – Part 1 Organizational Chart

The Company will revise the Schedule Y – Part 1 organizational chart to reflect APS Trust with 76% ownership and First Trust will only be reported with an asterisk (*).

Crime Insurance Policy

The Company will add its officers as covered employees for the crime policy.


John McCulloch, President
Preservation Life Insurance Company