

REPORT ON EXAMINATION

OF THE

**DELAWARE VOLUNTEER FIREMEN & LADIES
AUXILIARY MUTUAL RELIEF ASSOCIATION, INC.**

AS OF

DECEMBER 31, 2008

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2008 of the

DELAWARE VOLUNTEER FIREMEN & LADIES AUXILIARY MUTUAL BENEFIT
RELIEF ASSOCIATION

is a true and correct copy of the document filed with this Department.

Attest By: *Sonia C. Harris*

Date: 01 December 2010



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 1st day of December, 2010.



Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
DELAWARE VOLUNTEER FIREMEN & LADIES AUXILIARY MUTUAL BENEFIT
RELIEF ASSOCIATION
AS OF
DECEMBER 31, 2008

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to be "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 1st day of December, 2010

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SALUTATION

February 8, 2010

Honorable Karen Weldin Stewart, CIR-ML
Insurance Commissioner
State of Delaware
Rodney Building
841 Silver Lake Boulevard
Dover, Delaware 19901

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No. 9.041, an examination has been made of the affairs, financial condition and management of the

Delaware Volunteer Firemen & Ladies Auxiliary

Mutual Relief Association Inc.

hereinafter referred to as “DVFLA” or “Company”, incorporated as a mutual benefit association under the laws of the State of Delaware. The examination was conducted at the offices of the Company’s auditing firm, Raymond F. Book & Associates, P.A. at 220 Beiser Blvd., Dover, Delaware.

The report of such examination is respectfully submitted herewith.

SCOPE OF EXAMINATION

The last examination was conducted as of December 31, 2003. This examination covers the period January 1, 2004 to December 31, 2008, and consisted of a general survey of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

In addition to items hereinafter incorporated as part of the written report, the following were checked and made a part of the workpapers of this examination:

Fidelity Bond & Other Corporate Insurance
All asset and liability items not mentioned

HISTORY

The Delaware Volunteer Firemen's Association was incorporated on June 5, 1931. The insurance aspect of the Association evolved over the years and in January of 1974 there was a merger of two organizations, "the Mutual Relief Association of the DVFA Inc." and the Ladies Mutual Relief Association of the DVFA Inc.". The surviving corporation is known as the Delaware Volunteer Firemen and Ladies Auxiliary Mutual Relief Association, Inc.

From its inception, DVFLA acted as an insurance entity, assuming the risks to the fire fighters of its member volunteer fire companies. In 1992 injuries to volunteer firemen became covered under the Workers Compensation Policy of the State of Delaware.

In 1997, the Company ceased acting as an insurance entity. It later began acting as a risk-purchasing group and purchased an insurance policy for its members from Provident Life and Accident Insurance Company of Chattanooga, Tennessee. In 2000, 2004 and 2006, DVFLA has purchased similar policies for its members. In February 2007, the Company commenced a Burial Aid Program to provide assistance for funeral costs to members of the DVFLA. Members can receive aid of \$1,000 per year of membership up to \$7,000 for funeral expenses. In 2008, funeral expenses for this program totaled \$21,427.

PURPOSES

The objects and purposes of the DVFLA shall be in combining together the Volunteer fire companies of the State of Delaware into a mutual group to provide relief to individual members from accidents occurring during fire, rescue and ambulance duty and various other firemen related activities. As noted in the previous section, in February 2007, the Company

commenced a Burial Aid Program to provide assistance for funeral costs to members of the DVFLA.

MANAGEMENT AND CONTROL

The DVFLA shall have a Board of Trustees, which shall consist of nine members. Trustees serve three-year terms. Trustees are divided into the following three groups for representation purposes; each group shall have three (3) trustees:

- The State Trustees: one from each county in Delaware. The State Trustees are appointed by the President of the Delaware Volunteer Firemen’s Association.
- The County Men Trustees
- The County Women Trustees

The latter two groups shall have one representative from New Castle, Kent and Sussex Counties. Each of the County Trustees shall be appointed by the President of the respective County volunteer firemen’s association or by the County ladies’ auxiliary.

The members of the Board of Trustees as of December 31, 2008 were as follows:

Wayne Fuller	Karl Walters
Ginni Tice	Richard Perillo
Kathryn O’Neal	Mary Alice Maichle
Kenneth Clendaniel	Norman Amendt
Joe Zeroles	

The officers of DVFLA, elected by the Trustees and serving as of year-end 2008, were as follows:

<u>Name</u>	<u>Title</u>
Wayne Fuller	Chairman
Karl Walters	Vice-Chairman
Ginni Tice	Secretary
Richard Perillo	Treasurer

TERRITORY AND PLAN OF OPERATION

The Company is licensed to underwrite insurance only in the State of Delaware. In 1997 DVFLA ceased acting as an insurance underwriting entity and began functioning as a risk-purchasing group. The Company arranged for a three year Emergency Responder Blanket Accident Insurance Policy from Provident Life and Accident Insurance Company of Chattanooga, Tennessee. Similar policies were arranged in 2000 (a thirty-nine month policy), 2004 and 2006 (effective January 1, 2007).

The policies arranged by DVFLA provide benefits for death or dismemberment and medical expenses for injury or illness. The Company pays the entire premium at the outset of the policy and then bills the member fire companies annually for one-third of the premium. These yearly installments include a discount for prompt payment that DVFLA funds through investment income. For the 2006 policy, the three year premium was \$479,966 and the Company offered a 25% discount for prompt payment.

Company management indicated there are no plans at this time to resume underwriting insurance using the Company's Certificate of Insurance with the Delaware Insurance Department.

ACCOUNTS AND RECORDS

The Company's books and records are audited on an annual basis by the accounting firm of Raymond F. Book & Associates. The workpapers of the accounting firm's 2008 audit were reviewed and utilized to the extent possible. It should be noted that because the Company is not operating as an insurer and is audited on an annual basis, DVFLA has been given permission by the Delaware Insurance Department to file an abbreviated Annual Statement,

which includes the Balance Sheet, Summary of Operations, and Cash Flow statements. The Company has no employees and no permanent office is maintained.

As noted in the previous section, beginning in 1997, DVFLA has purchased three year policies for its member fire companies. For these policies, the Company pays the full premium at the outset and then collects one-third of the premium from the fire companies each year. As part of this process, DVFLA reports large amounts for prepaid insurance, which is a non-admitted asset for the statutory accounting purposes. The reporting and non-admitting of large prepaid insurance amounts resulted in sizeable fluctuations in the Company's Assets and Surplus, which is reflected in the chart below. Information was taken from the Company's filed annual statements.

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets	\$880,755	\$885,880	\$1,211,375	\$991,044	\$871,373	\$1,101,882
Surplus	\$757,416	\$762,591	\$1,095,457	\$915,203	\$761,130	\$1,013,760

FINANCIAL STATEMENTS

The Financial Statements show the assets, liabilities, surplus and other funds of the Company as determined by this examination as of December 31, 2008.

Assets
Liabilities, Surplus and Other Funds
Summary of Operations
Capital and Surplus Account
Examination Financial Adjustment

ANALYSIS OF ASSETS

	<u>Assets</u>	Non- admitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Bonds	\$179,369		\$179,369	1
Common Stock	161,821		161,821	
Cash, Cash Equivalents, Short- Term Investments	293,410		293,410	
Other Invested Assets	214,581		214,581	
Segregated Funds as per Section 5509	30,000		30,000	2
Investment Income Due and Accrued	1,574		1,574	
Accrued Premiums Receivable	2,491	\$2,491	0	
Fixed Assets	504	504	0	
Prepaid Insurance	<u>\$159,989</u>	<u>\$159,989</u>	<u>0</u>	
Totals	<u>\$1,043,739</u>	<u>\$162,984</u>	<u>\$880,755</u>	

LIABILITIES, SURPLUS AND OTHER FUNDS

Premiums Received in Advance	\$ 121,864
General expenses Due and Accrued	0
Benefit Liability-Section 5510	<u>\$ 26,475</u>
Total Liabilities	<u>\$ 148,339</u>
Guarantee Fund-Section 5509	\$ 30,000
Unassigned Funds	<u>\$ 702,416</u>
Surplus	<u>\$ 732,416</u>
Total Liabilites and Surplus	<u><u>\$ 880,755</u></u>

SUMMARY OF OPERATIONS and CAPITAL AND SURPLUS ACCOUNT

Net Investment Income	\$ 57,072
Reimbursement for Insurance	
Premiums	126,537
Dues	<u>2,950</u>
Total Revenue	\$ 186,559
General Insurance and Fraternal	
Expenses	<u>220,806</u>
Net Income	<u>\$ (34,247)</u>
Surplus December 31, prior year	<u>\$ 762,591</u>
Net Income	\$ (34,247)
Change in Nonadmitted Assets	160,323
Change in Net Unrealized	
Capital Gains/(Losses)	<u>(156,251)</u>
Change in Surplus	<u>\$ (30,175)</u>
Surplus, December 31, 2008	<u>\$ 732,416</u>

EXAMINATION FINANCIAL ADJUSTMENT

<u>Item</u>	<u>Company Amount</u>	<u>Examination Amount</u>	<u>Increase or (Decrease)</u>
Guaranty Fund	\$1,475	\$26,475	\$(25,000)

See Note 4 for additional information.

NOTES TO FINANCIAL STATEMENTS

Note #1 Invested Assets \$879,181

The Company has substantially complied with a recommendation in the previous report of examination to report its invested assets in accordance with the NAIC Annual Statement Instructions. DVFLA did report \$214,581 of Certificates of Deposit as Other Invested Assets. Certificates of Deposit should be reported as Bonds or Cash, depending on the duration of the security. Therefore;

It is recommended the Company report its invested assets in accordance with Annual Statement instructions.

The Company maintains most of its invested assets with Edward Jones, a brokerage firm. According to NAIC guidelines, the examination can only accept custodian statements from a regulated bank or trust company that provides a custodial agreement that contains recommended safeguards for the insurance company. Therefore;

It is recommended the Company enter into a custodial agreement with a regulated bank or trust company. Said custodial agreement should contain the safeguards recommended by the NAIC.

Note #2 Aggregate Write-in for Invested Assets \$30,000

The above amount is actually the Company's guaranty fund deposit established in accordance with Section 5509 of the Delaware Insurance Code. The deposit should be reported in the Cash and short-term investment Annual Statement line item but the Company chooses to show the segregation of funds by reporting the deposit separately.

The Company established a new escrow account with Commerce Bank in 2008 in compliance with Section 5509.

Note #3 General Expenses Due and Accrued.

DVFLA reported no amount for the above liability on the 2008 Annual Statement. Subsequent to year end 2008, the Company incurred the costs preparing and auditing the 2008 financial statements. Therefore;

It is recommended the Company accrue for audit expenses and for the expense of preparing the Annual Statement.

Note #4 Benefit Fund Liability \$26,475

The Company reported a Benefit Fund liability of \$1,475 at year end 2008, an amount which represents 50% of dues collected, in compliance with Section 5510 of the Delaware Insurance Code. As per Section 5510, this liability shall constitute a benefit fund for the sole purpose of payment of claims arising under certificates of membership. In February 2007, the Company commenced a Burial Aid Program to provide assistance for funeral costs to members of the DVFLA. Members can receive aid of \$1,000 per year of membership up to \$7,000 for funeral expenses. In 2008, funeral expenses for this program totaled \$21,427. In February

2009, the Company's Board of Trustees reported that DVFLA had paid a cumulative amount of \$39,927 for the funeral program since inception.

Section 5510 (b) of the Insurance Code states that if after an examination of the financial affairs of the Company, the Commissioner determines that 50% of the dues are insufficient to properly maintain the benefit fund, the Commissioner may require the Company to accrue a larger percentage of its dues in the Benefit Fund.

For purposes of this report, the examination has accrued an additional \$25,000 to reflect anticipated payments for the Burial Assistance program. The examination accrual will be reflected as a decrease to Surplus in the Financial Statements of this report. Therefore;

It is recommended the Company evaluate the Burial Assistance program and accrue an appropriate liability to reflect the cost of the program.

STATUS OF PRIOR EXAMINATION RECOMMENDATIONS

The previous examination contained four recommendations. The Company complied with the recommendation as per obtaining an escrow agreement for its Guaranty Fund deposit. The remaining three recommendations are repeated by this examination, though it was noted that the Company improved its reporting of invested assets.

RECOMMENDATIONS

The Company's attention is directed to the following:

It is recommended the Company report its invested assets in accordance with Annual Statement instructions. (See Note #1 to Financial Statements.)

It is recommended the Company enter into a custodial agreement with a regulated bank or trust company. Said custodial agreement should contain the safeguards recommended by the NAIC. (See Note #1 to Financial Statements.)

It is recommended the Company accrue for audit expenses and for the expense of preparing the Annual Statement. (See Note #3 to Financial Statements).

It is recommended the Company evaluate the Burial Assistance program and accrue an appropriate liability to reflect the cost of the program. (See Note #4 to Financial Statements).

SUMMARY COMMENTS

The following items of significance were noted during the examination:

The Company ceased functioning as an insurance company in 1997. At that time, DVFLA arranged for insurance coverage for its member volunteer fire companies with Provident Life and Accident Insurance Company of Chattanooga, Tennessee. DVFLA arranged for similar accident-disability policies from the same insurer in 2000, 2004 and 2006 (effective January 1, 2007).

The Company pays the entire premium at the outset of the policy and then bills the fire companies annually for one-third of the premium. DVFLA uses its investment income to offer the member fire companies a prompt pay discount on the premium.

In February 2007, the Company commenced a Burial Aid Program to provide assistance for funeral costs to members of the DVFLA. Members can receive aid of \$1,000 per year of membership up to \$7,000 for funeral expenses. In 2008, funeral expenses for this program totaled \$21,427.

Company management indicated to the examination that there are no plans to resume underwriting insurance using the Company's Certificate of Authority issued by the Delaware Insurance Department.

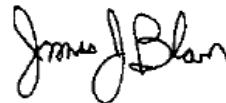
CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

	Current	12/31/2003	Increase
	<u>Examination</u>	<u>Examination</u>	<u>(Decrease)</u>
Assets	\$880,755	\$1,101,882	\$(221,127)
Liabilities	\$148,339	\$88,122	\$60,217
Fund Balance	\$732,416	\$1,013,760	\$(281,344)

The examination was conducted by the undersigned.

Respectfully submitted,



James J. Blair Jr., CFE, CPA
Examination Supervisor
Insurance Department
State of Delaware