

**REPORT ON EXAMINATION**

**OF**

**DELAWARE VOLUNTEER FIREMEN'S AND LADIES AUXILIARY MUTUAL  
RELIEF ASSOCIATION, INC.**

**AS OF**

**DECEMBER 31, 2013**

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 OF EXAMINATION, made as of December 31, 2013 of the

**DELAWARE VOLUNTEER FIREMEN'S AND LADIES AUXILIARY MUTUAL RELIEF ASSOCIATION, INC**

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

Attest By:

Date: April 14, 2015



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 14th day of April, 2015.

Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Karen Weldin Stewart, CIR-ML  
Commissioner



Delaware Department of Insurance

REPORT OF EXAMINATION  
OF THE  
**DELAWARE VOLUNTEER FIREMEN'S AND LADIES AUXILIARY MUTUAL RELIEF  
ASSOCIATION, INC**  
AS OF  
DECEMBER 31, 2013

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 read "Karen Weldin Stewart".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 14th day of April, 2015

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## **SALUTATION**

January 29, 2015

Honorable Karen Weldin Stewart, CIR-ML  
Delaware Insurance Commissioner  
Delaware Department of Insurance  
Rodney Building  
841 Silver Lake Blvd.  
Dover, Delaware 19904

Dear Commissioner;

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.037, an examination has been made of the affairs, financial condition and management of

### **DELAWARE VOLUNTEER FIREMEN'S AND LADIES AUXILIARY MUTUAL RELIEF ASSOCIATION, INC.**

hereinafter referred to as the "DVFLA" or "Company" and incorporated under the laws of the State of Delaware as a mutual company. The examination was conducted at the office of the Company, located at Brandywine Fire Company No. 1, 1006 Brandywine Blvd, Bellefonte, DE 19809. The report of examination thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

The last examination was completed as of December 31, 2008. This examination covered the period of January 1, 2009 through December 31, 2013, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of

the Company at December 31, 2013. Transactions subsequent to the examination date were reviewed where deemed necessary.

We conducted our examination in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook) and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The NAIC Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

The examination report addresses regulatory issues reviewed during the examination process. During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Raymond F. Book & Associates, Inc. Certain work papers have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination.

In addition to items noted in this report, the topics below were reviewed without material exception and are included in the work papers of this examination:

- Fidelity Bonds and Other Insurance
- Pensions
- Reinsurance
- Statutory Deposits
- Loss Experience
- All Asset and Liability items not mentioned

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant material adverse findings or financial adjustments as a result of this examination. Please refer to summary of recommendation for non-adverse findings.

### **SUBSEQUENT EVENTS**

Commencing in year 2014, the Company began collecting 100% of the premiums for the Provident Death and Dismemberment Policy.

### **COMPANY 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."DVFLA".

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 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. Beginning 2013, the Company began collecting \$350 per fire department for burial fund premiums.

**MANAGEMENT AND CONTROL**

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its officers and Board of Trustees ("Trustees"). The DVFLA shall have 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 trustees:

- The State Trustees: one from each county in Delaware. The State Trustees are appointed by the President of the Delaware Volunteer Fireman'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 officers of DVFLA, elected by the Trustees and serving as of December 31, 2013 were as follows:

Ken Dryer	Chairman, New Castle County
Lester Beachy	Vice Chairman, Sussex County
Bobbi Albright	Secretary, Sussex County
Rich Perillo	Treasurer, New Castle County

The members of the Board of Trustees as of December 31, 2013 were as follows:

Robert Yerkees	Trustee, Kent County
Nancy Miglvacca	Trustee, New Castle County
Lorraine Madden	Trustee, Kent County
Karl Walters	Trustee, Sussex County
Norman Amendt	Trustee, Kent County

## **CORPORATE RECORDS**

The minutes of the meetings of the Board of Directors, which were held during the period of examination, were read and noted. Attendance at meetings, election of Trustees and officers and approval of investment transactions were also noted.

## **INSURANCE HOLDING COMPANY SYSTEM**

The Company is not a member of an insurance holding company system.

## **TERRITORY AND PLAN OF OPERATION**

The objective and purpose of DVFLA shall be to provide relief to individual members from accidents occurring during fire, rescue and ambulance duty and various other firemen related activities.

The Company is licensed to write insurance only in the State of Delaware. In 1997, the DVFLA ceased acting as an insurance underwriting entity and began functioning as a risk-purchasing group. The Company offers the following three policies to its members from Provident Life and Accident Insurance Company:

### **Sickness and Health (Provident)**

This policy covers Death Benefits, Impairment Benefits, Income Protection, Medical Expenses and Family Assistance. The premium for the policy from January 1, 2013 to December 31, 2013 was \$210,000.

### **CHUBB (Provident Policy)**

This policy is a Special Risk Insurance Program issued by Federal Insurance Company offered through Provident. The policy covers Accidental Death and Dismemberment Optional. During 2013 DVFLA paid \$16,905 for the policy, however DVFLA only collected \$6,000 for 2013 as not all fire departments participated. During 2014, the association began charging the firehouses 100% of the premium and no longer subsidized the premium.

For both policies above, DVFLA 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 20% discount for prompt payment.

### **Sports Policy**

The sports policy is paid for by participating fire Companies. Approximately 4 or 5 fire companies participate from New Castle County each year.

### **Programs**

#### **Burial Benefit Fund**

The Burial Aid Program came into effect in February of 2007. This program functions to provide aid for burial costs to members of the Delaware Volunteer Firemen's Association. Members will receive aid of \$1,000 per year of membership (following one probation year) up to \$7,000 to be used for funeral expenses. In 2013, funeral expenses for this program totaled \$11,769. Beginning in 2013, the Association began billing \$350 annually per company, to help fund this benefit. This program is optional to each fire company and may be terminated at any time by the Board of Directors. In compliance with Code 18 Del. C. § 5510 Benefit Fund, the association has escrowed \$55,000 as of year December 31, 2013.

### **GROWTH OF COMPANY**

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Surplus</u>	<u>Net Income</u>
2008	\$ 880,775	\$ 148,339	\$ 732,416	\$ (34,247)
2009	\$ 583,779	\$ 7,715	\$ 576,064	\$ (43,813)
2010	\$ 714,347	\$ 1,475	\$ 712,872	\$ (6,721)
2011	\$ 936,182	\$ 128,838	\$ 807,344	\$ (9,775)
2012	\$ 701,645	\$ 1,475	\$ 645,170	\$ (11,403)
2013	\$ 771,901	\$ 135,728	\$ 636,173	\$ (50,608)

Since December 2008 to December 31, 2013, the Company's financial results were as follows:

- 12.36% decrease in admitted assets
- 8.50% decrease in liabilities
- 13.14% decrease in surplus
- 47.77% decrease in net income

### **Assets**

The Company's total admitted assets decreased \$108,874 or 20.34% from 2008 to 2013. Changes in assets during the exam period were primarily due to insurance premiums collected being less than premium paid during the year. The following is a discussion and analytical review of the primary assets as of December 31, 2013:

**Cash** represented 686,511 or 88.93% of total assets as of December 31, 2013. During 2011, the Company ceased investing in securities and transferred all funds to cash and short term certificates of deposits.

**Liabilities**

Total Liabilities decreased \$12,611 or 8.50% from 2008 to 2013. Material individual liability line items consisted primarily of Advanced Premium. The following is a discussion and analytical review of the primary liabilities as of December 31, 2013:

**Advanced Premium** represented \$134,253 or 98.91% of total liabilities at December 31, 2013. Advance premium represents an accrual for deferred premium and is net of premium receivable.

**Surplus**

Surplus was reported in the amount of \$636,173 at December 31, 2013. That amount was a \$96,243 or 13.14% decrease from 2008. The decrease is primarily attributable to the difference of premiums paid versus collected.

**Net Income**

Net Income was reported in the amount of (\$50,608). The fluctuation in net income during the exam period is primarily due to the change in policy premiums. Policy premium increased from 2012 to 2013.

**ACCOUNTS AND RECORDS**

The Company's books and records are audited on an annual basis by the accounting firm of Raymond F. Books & Associates. The work papers of the accounting firm's 2013 audit was reviewed and utilized to the fullest extent possible. The Company maintains its records using an off the shelf accounting system, financials are prepared by the CPA firm.

DVFLA has been given permission by the Delaware Department of Insurance to file an abbreviated Annual Statement, which includes the Balance Sheet, Summary of Operations and Cash Flow statements. The Company has no employees.

**FINANCIAL STATEMENTS**

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2013, as determined by this examination, along with supporting exhibits as detailed below:

- Assets, December 31, 2013
- Liabilities, Surplus and Other Funds, December 31, 2013
- Statement of Income, December 31, 2013
- Reconciliation of Surplus from Prior Examination
- Schedule of Examination Adjustments

**Assets**  
**As of December 31, 2013**

	<u>Assets</u>	<u>Nonadmitted Assets</u>	<u>Net Admitted Assets</u>	<u>Note</u>
Cash and short-term investments	686,511		686,511	1
Other invested assets	30,000		30,000	2
Aggregate write-ins for invested assets	55,390		55,390	3
Aggregate write-ins for other than invested	224,006	\$ 224,006	-	
Total Assets	<u>\$ 995,907</u>	<u>\$ 224,006</u>	<u>\$ 771,901</u>	

**Liabilities, Surplus and Other Funds**  
**As of December 31, 2013**

<u>Liabilities, Surplus and Other Funds</u>		<u>Note</u>
Advanced premiums	\$ 134,253	4
Aggregate write-ins for other liabilities	1,475	
Total Liabilities	<u>\$ 135,728</u>	
Unassigned funds	<u>\$ 581,173</u>	
Surplus	<u>\$ 636,173</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 771,901</u></u>	

**Statement of Income**  
**As of December 31, 2013**

Net investment income	\$ 2,625
Aggregate write-ins for miscellaneous income	188,630
Totals	<u>\$ 191,255</u>
General insurance expenses	<u>(241,863)</u>
Total other income	<u>\$ (241,863)</u>
Net income before taxes	<u>(50,608)</u>
Net income after taxes	<u>\$ (50,608)</u>
Federal and foreign income taxes incurred	<u>-</u>
Net Income	<u><u>\$ (50,608)</u></u>

**Reconciliation of Surplus from Prior Examination**

<b>Capital and Surplus Account</b>						
	Notes	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Surplus prior reporting year</b>		757,416	576,064	712,872	807,344	700,170
Net income or (loss)	1	(43,813)	(6,721)	(9,775)	(11,043)	(50,608)
Change in unrealized capital gains (losses)	2	45,728	28,842	(10,340)	-	-
Change in net deferred income tax		-	-	-	-	-
Change in non admitted assets	3	(183,267)	114,687	114,587	(96,131)	(13,389)
Net change in Capital and Surplus for the year		<u>(181,352)</u>	<u>136,808</u>	<u>94,472</u>	<u>(107,174)</u>	<u>(63,997)</u>
<b>Surplus December 31, current year</b>		<u>576,064</u>	<u>712,872</u>	<u>807,344</u>	<u>700,170</u>	<u>636,173</u>

Note 1 - Amount represents Net Income

Note 2 - Change in unrealized capital gains.

Note 3 - Represents change in Prepaid Insurance

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

There were no financial examination adjustments.

**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Cash**

**\$686,511**

Cash represents 88.93% of the total assets as of December 31, 2013. As mentioned above, during 2011 the Company ceased investing in securities and transferred all funds to cash and short term certificates of deposits.

**Note 2 – Other Invested Assets**

**\$30,000**

In compliance with Code 18 Del. C. § 5509 Guaranty Fund Section (a); each mutual benefit association before receiving a certificate of authority shall deposit with the Commissioner \$25,000 in cash and/or securities approved by the commissioner. The Company is conservative and has \$30,000 in certificate of deposit at TD Bank.

**Note 3 – Aggregate Write-ins For Invested Assets**

**\$ 55,309**

In compliance with Code 18 Del. C. § 5510 Benefit Fund Section (a and b); every association shall deposit in a bank or trust company approved by the Commissioner a sum not less than 50% of all dues collected. The Company has set up an escrow account with TD Bank in the amount of \$55,000. The Company collected \$34,500 for years 2013 and 2014 as of December 31, 2013. The required amount is \$17,250. As such, the Company is in compliance with Code 18 Del. C. § 5510.

**Note 4 – Advanced Premiums**

**\$134,253**

Advanced Premium represented \$134,253 or 98.91% of total liabilities at December 31, 2013. Advance premium represents an accrual for deferred premium of \$182,776 and is net of premium receivable of \$48,523.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

The previous examination contained four recommendations. The Company complied with the recommendations except for accruing for audit expenses:

**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. The Company did not accrue for audit expenses during the current examination period. Therefore, a repeat examination recommendation will be made:

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

**SUMMARY OF RECOMMENDATIONS**

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

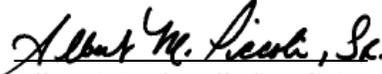
**CONCLUSION**

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

<u>Description</u>	<u>December 31, 2008</u>	<u>December 31, 2013</u>	<u>Increase (Decrease)</u>
Assets	\$ 880,755	\$ 771,901	\$ (108,854)
Liabilities	\$ 148,339	\$ 135,728	\$ (12,611)
Aggregate write-ins for surplus funds	-	55,000	55,000
Unassigned Funds (Surplus)	732,416	581,173	(151,243)
Total Surplus	\$ 732,416	\$ 636,173	\$ (96,243)
Totals	\$ 880,755	\$ 771,901	\$ (108,854)

In addition to the undersigned, Anthony Cardone CFE, CPA (Examination Supervisor) participated in the examination.

Respectfully submitted,

  
Albert M. Piccoli, Sr., CFE  
Examiner-In-Charge  
State of Delaware