



**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 for the period ended December 31, 2014

ORDER

After full consideration and review of the report of the financial examination of Liberty Fire Benevolent Society for the period ended December 31, 2014, 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 Summary of Recommendations, if any, 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 6th day of May, 2016.



A handwritten signature in blue ink, appearing to read 'John M. Huff'.

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, 2014**

FILED

MAY 6 2016

**DIRECTOR OF INSURANCE,
FINANCIAL INSTITUTIONS &
PROFESSIONAL REGISTRATION**



STATE OF MISSOURI

**DEPARTMENT OF INSURANCE, FINANCIAL INSTITUTIONS
AND PROFESSIONAL REGISTRATION**

JEFFERSON CITY, MISSOURI

TABLE OF CONTENTS

<u>Subject</u>	<u>Page</u>
SCOPE OF EXAMINATION:	
Period Covered	1
Procedures	1
Comments - Previous Examination Report	2
HISTORY:	
General	2
Management	2
Conflict of Interest	3
Corporate Records	4
FIDELITY BOND AND OTHER INSURANCE	4
EMPLOYEE BENEFITS	4
INSURANCE PRODUCTS AND RELATED PRACTICES:	4
Territory and Plan of Operation	4
Policy Forms & Underwriting	5
GROWTH AND LOSS EXPERIENCE OF THE COMPANY	5
REINSURANCE:	
General	5
Assumed	6
Ceded	6
ACCOUNTS AND RECORDS	6
FINANCIAL STATEMENTS:	7
Assets	8
Liabilities, Surplus and Other Funds	8
Statement of Income	9
Capital and Surplus Account	9
NOTES TO THE FINANCIAL STATEMENTS	10
EXAMINATION CHANGES	10
SUMMARY OF RECOMMENDATIONS	10
SUBSEQUENT EVENTS	10
ACKNOWLEDGMENT, VERIFICATION AND SUPERVISION	11

October 27, 2015
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 Bridge Lane, Jefferson City, Missouri 65101, telephone number (573) 395-4333. This examination began on October 26, 2015, and was concluded on the above date.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2009, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2010, through December 31, 2014, 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, 2009, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

Accounts and Records

Comment: It was recommended the Company report the certificates of deposit balance as "Cash on Deposit" in future Annual Statement filings.

Company Response: The Company stated it would discuss the recommendation with their accountant and make the change on subsequent statements.

Current Findings: The Company properly reported certificates of deposit as "Cash on Deposit" on all Annual Statements filed subsequent to the recommendation.

HISTORY

General

The Company was organized on May 25, 1892, and was incorporated September 30, 1935. The Company was initially covered by Sections 380.011 through 380.151 RSMo. (Missouri Mutual Insurance Companies) as a Mutual Insurance Company. The Company converted to an Extended Missouri Mutual Insurance Company in April of 2013. The Company has a Certificate of Authority dated April 19, 2013 and is currently covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Insurance Companies). The Company's Certificate of Authority is renewed annually.

Management

The annual meeting of the Company's members is held on the first Friday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. In 1985, the membership approved changing the annual membership meeting date from the first Friday in May to the first Friday in March; however, the Articles of Incorporation were not updated to reflect the change, and the amendment was not properly filed with the DIFP. Special meetings of the members may be called by the Board of Directors at any time with notice given to the membership. Ten members shall constitute a quorum at any membership meeting, and 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 normally meets at least twice per year, with additional meetings held as needed to address specific issues.

Members serving on the Board of Directors as of December 31, 2014, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
David Braun Jefferson City, Missouri	Dairy Farmer	2015-2018
Roger Hagner Jefferson City, Missouri	Farmer/Retired	2013-2016
Rita Kerperin Jefferson City, Missouri	Company Manager/Retired	2014-2017
Michael Forck Jefferson City, Missouri	Farmer/Retired	2013-2016
Tony Forck Jefferson City, Missouri	Rural Mail Carrier/ Mayor of Taos, MO	2014-2017

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, 2014, were as follows:

David Braun	President
Roger Hagner	Vice-President
Rita Kerperin	Secretary
Michael Forck	Treasurer

Conflict of Interest

The Company officers and directors sign conflict of interest statement for the disclosure of material conflicts of interest or affiliations on an annual basis. A review of the executed conflict of interest statements noted no material potential conflicts disclosed.

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 examination period. 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, except as previously noted in the "Management" section of this report.

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.

The Company carries liability coverage for its directors and officers. The Company also carries workers compensation coverage.

EMPLOYEE BENEFITS

The Company has no employees. Officers and directors carry out the day-to-day functions of the Company. The Company provides no benefits for the officers and directors, other than an annual salary paid to the officers.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operations

The Company is licensed by the DIFP as an Extended Missouri Mutual Insurance Company operating under Sections 380.201 through 380.611 RSMo. The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri and currently writes all these lines. The Company's policies are sold by three agents who are also directors. The agents are compensated by hourly wage and mileage reimbursement.

Policy Forms and Underwriting Practices

The Company uses AAIS policy forms. The policies are written for one year terms and are renewable annually. Rates are determined by the Board of Directors, and renewal billings are mailed directly to the insured. Property inspections are performed by the agents. Property claims adjusting is performed by the agents or by independent adjusters when deemed necessary. Liability claims, which are 100% ceded to the reinsurer, are adjusted by the reinsurer's appointed adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Premiums</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2014	\$1,400,604	\$126	\$337,643	\$135,700	\$ 12,153	\$ 67,276	\$ 79,429
2013	1,321,380	333	343,202	156,700	12,117	(53,795)	(41,678)
2012	1,363,077	352	304,102	254,596	17,753	(4,369)	13,384
2011	1,349,509	209	286,658	142,631	19,850	(23,521)	(3,671)
2010	1,353,093	122	264,911	126,430	24,350	(4,915)	19,435

At year-end 2014, 449 policies were in force.

REINSURANCE

General

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Direct	\$337,643	\$343,202	\$304,125	\$286,658	\$264,911
Assumed	0	0	0	0	0
Ceded	104,841	226,220	127,449	148,957	132,318
Net	<u>\$232,802</u>	<u>\$116,982</u>	<u>\$176,676</u>	<u>\$137,701</u>	<u>\$132,593</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Wisconsin Reinsurance Corporation (the reinsurer) under a single reinsurance contract for property and casualty risks. The agreement includes per risk excess and aggregate excess of loss coverage for property risks and quota share coverage for casualty risks.

Under the per risk excess of loss coverage, the Company retains \$50,000 per property risk, and the reinsurer's limit is \$450,000 per property risk. Facultative coverage is available on risks exceeding the limit on an individual basis. Under the aggregate excess of loss coverage, the Company's annual aggregate net retention, or attachment point, is equal to 70% of net written premium, and the reinsurer is responsible for 100% of losses in excess of this attachment point. The finalized attachment point for 2014 was \$254,918.

Under the casualty quota share section of the agreement, the Company cedes 100% of the casualty risks and premium to the reinsurer and receives a 25% ceding commission.

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 Company utilizes various Excel and Microsoft software to maintain claims reports and policy information. The Company also maintains paper copies of its accounting and policy records at the its home office and copies at agents' homes. The Company uses Carbonite for online backup of data and uses an on-site back-up drive to further back up the system. The CPA firm of Schwartz & LeCure, LLC, performs an annual financial statement compilation and 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, 2014, 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.

ASSETS
December 31, 2014

Bonds	\$ 25,989
Cash on Deposit	1,372,378
Interest Due and Accrued	<u>2,237</u>
Total Assets	<u>\$ 1,400,604</u>

LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2014

Payroll Tax	\$ 126
Other Liabilities	<u>0</u>
Total Liabilities	<u>\$ 126</u>
Guaranty Fund	\$ 150,000
Other Surplus	<u>1,250,478</u>
Total Surplus	<u>1,400,478</u>
Total Liabilities and Surplus	<u>\$ 1,400,604</u>

STATEMENT OF INCOME
For the Year Ending December 31, 2014

Net Assessments Earned	\$ 232,802
Net Losses & Loss Adjusting Expenses Incurred	(122,484)
Other Underwriting Expenses Incurred	<u>(43,042)</u>
Net Underwriting Income (Loss)	67,276
Net Investment Income	<u>12,153</u>
Gross Profit (Loss)	\$ 79,429
Federal Income Tax	<u>0</u>
Net Income (Loss)	<u>\$ 79,429</u>

CAPITAL AND SURPLUS ACCOUNT
December 31, 2014

Policyholders' Surplus, December 31, 2013	\$ 1,321,047
Net Income (Loss)	<u>79,429</u>
Policyholders' Surplus, December 31, 2014	<u>\$ 1,400,478</u>

NOTES TO THE FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

SUMMARY OF RECOMMENDATIONS

Corporate Management (Page 2)

The Company should update its Articles of Incorporation to reflect any amendments and file the amendments with the DIFP in accordance with Section 380.241 RSMo (Amendment to articles and bylaws, procedure—fee).

SUBSEQUENT EVENTS

None.

ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Liberty Fire Benevolent Society during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Shannon Schmoeger, CPA, CFE, Examiner-In-Charge for the Missouri DIFP also participated in and reviewed this examination.

VERIFICATION

State of Missouri)
)
County of Cole)

I, Jay Buschmann 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 the facts appearing upon the books, records or other documents of the 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.

J. Buschmann
Jay Buschmann, AFE
Financial Examiner/Analyst
Missouri DIFP

Sworn to and subscribed before me this 1st day of March, 2016.

My commission expires:

01/07/2018

Tammy Morales
Notary Public



TAMMY MORALES
My Commission Expires
January 7, 2018
Clay County
Commission #14451086

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.

Mark Nance
Mark Nance, CFE, CPA
Audit Manager – Kansas City
Missouri DIFP