



## MISSISSIPPI INSURANCE DEPARTMENT

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WOOLFOLK BUILDING  
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MIKE CHANEY  
Commissioner of Insurance  
State Fire Marshal

December 4, 2008

**CERTIFIED MAIL  
RETURN RECEIPT REQUESTED**

Mr. Pat Thomas Nunnelee, President  
Allied Funeral Associates Insurance Company  
100 North Parkgate Ext., Suite 1D  
Tupelo, MS 38803

**RE: Report of Examination as of December 31, 2007**

Dear Mr. Nunnelee:


In accordance with Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), an examination of your Company has been completed. Enclosed herewith is the Order adopting the report and a copy of the final report as adopted.

Pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999), the Mississippi Department of Insurance shall continue to hold the content of said report as private and confidential for a period of ten (10) days from the date of the Order. After the expiration of the aforementioned 10-day period, the Department will open the report for public inspection.

If you have any questions or comments, please feel free to contact me.

Sincerely,

MIKE CHANEY  
COMMISSIONER OF INSURANCE

BY   
Mark Haire  
Special Assistant Attorney General

GD/JMH/bs  
Encls. Order w/exhibit

**BEFORE THE COMMISSIONER OF INSURANCE  
OF THE STATE OF MISSISSIPPI**

**IN RE:   REPORT OF EXAMINATION OF ALLIED  
          FUNERAL ASSOCIATES INSURANCE COMPANY**

**CAUSE NO. 08-5850**

**ORDER**

**THIS CAUSE** came on for consideration before the Commissioner of Insurance of the State of Mississippi ("Commissioner"), or his designated appointee, in the Offices of the Commissioner, 1001 Woolfolk Building, 501 North West Street, 10th Floor, Jackson, Hinds County, Mississippi, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999). The Commissioner, having fully considered and reviewed the Report of Examination together with any submissions or rebuttals and any relevant portions of the examiner's work papers, makes the following findings of fact and conclusions of law, to-wit:

**JURISDICTION**

**I.**

That the Commissioner has jurisdiction over this matter pursuant to the provisions of Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999).

**II.**

That Allied Funeral Associates Insurance Company is a Mississippi-domiciled Company licensed to write Industrial Life and Industrial Accident and Health coverages.

## FINDINGS OF FACT

### III.

That the Commissioner, or his appointee, pursuant to Miss. Code Ann. § 83-5-201 et seq. (Rev. 1999), called for an examination of Allied Funeral Associates Insurance Company and appointed Joseph R. May, Examiner-In-Charge, to conduct said examination.

### IV.

That on or about October 8, 2008, the draft Report of Examination concerning Allied Funeral Associates Insurance Company for the period of January 1, 2004 through December 31, 2007, was submitted to the Department by the Examiner-In-Charge, Joseph R. May.

### V.

That on or about October 9, 2008, pursuant to Miss. Code Ann. § 83-5-209(2) (Rev. 1999), the Department forwarded to the Company a copy of the draft report and allowed the Company a 30-day period to submit any rebuttal to the draft report. The Company did not submit a written response or rebuttal to the Department.

## CONCLUSIONS OF LAW

### VI.

The Commissioner, pursuant to Miss. Code Ann. § 83-5-209(3) (Rev. 1999), must consider and review the report along with any submissions or rebuttals and all relevant portions of examiner work papers and enter an Order: (1) adopting the Report of Examination as final or with modifications or corrections; (2) rejecting the Report of Examination with directions to reopen; or (3) calling for an investigatory hearing.

**IT IS, THEREFORE, ORDERED**, after reviewing the Report of Examination and all relevant examiner work papers, that the Report of Examination of Allied Funeral Associates Insurance Company, attached hereto as Exhibit "A", should be and same is hereby adopted as final.


**IT IS FURTHER ORDERED** that a copy of the adopted Report of Examination, accompanied with this Order, shall be served upon the Company by certified mail, postage pre-paid, return receipt requested.

**IT IS FURTHER ORDERED** that the Mississippi Department of Insurance shall continue to hold the content of this report as private and confidential for a period of ten (10) days from the date of this Order, pursuant to Miss. Code Ann. § 83-5-209(6)(a) (Rev. 1999).

**IT IS FURTHER ORDERED**, pursuant to Miss. Code Ann. § 83-5-209(4) (Rev. 1999), that within thirty (30) days of the issuance of the adopted report, Allied Funeral Associates Insurance Company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related orders.

**IT IS FURTHER ORDERED** that Allied Funeral Associates Insurance Company take the necessary actions and implement the necessary procedures to ensure that all recommendations contained in the Report of Examination are properly and promptly complied with.

**SO ORDERED**, this the 4<sup>th</sup> day of December, 2008.

  
\_\_\_\_\_  
MIKE CHANEY  
COMMISSIONER OF INSURANCE  
STATE OF MISSISSIPPI

**CERTIFICATE OF MAILING**

I hereby certify that a true and correct copy of the above and foregoing Order and a copy of the final Report of Examination, as adopted by the Mississippi Department of Insurance, was sent by certified mail, postage pre-paid, return receipt requested, on this the 4<sup>th</sup> day of December, 2008, to:

**Mr. Pat Thomas Nunnelee, President  
Allied Funeral Associates Insurance Company  
100 North Parkgate Ext., Suite 1D  
Tupelo, MS 38803**

  
\_\_\_\_\_  
J. Mark Haire  
Special Assistant Attorney General

J. Mark Haire  
Special Assistant Attorney General  
Counsel for the Mississippi Department of Insurance  
Post Office Box 79  
Jackson, MS 39205-0079  
(601) 359-3577  
Miss. Bar No. 2065



# **Mississippi Insurance Department**

## **Report of Examination**

**of**

**Allied Funeral Associates Insurance Company  
100 North Parkgate Ext  
Tupelo, Mississippi 38803**

**As of December 31, 2007**

**NAIC Company Code 60209  
NAIC ETS No. MS029-C52**

# Allied Funeral Associates Insurance Company

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**EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES  
USED IN THE EXAMINATION**

State of Mississippi,

County of Madison,

Joseph R. May being duly sworn, states as follows:


1. I have authority to represent the Mississippi Insurance Department in the examination of Allied Funeral Associates Insurance Company.
2. The Mississippi Insurance Department is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination work papers and examination report, and the examination of Allied Funeral Associates Insurance Company was performed in a manner consistent with the standards and procedures required by the Commissioner of Insurance of the State of Mississippi.

The affiant says nothing further.

  
\_\_\_\_\_  
Joseph R. May, CFE, CIE, CPA, CMA, FAHM  
Examiner-in-charge

Subscribed and sworn before me by Joseph May on this 20<sup>TH</sup> day of  
NOVEMBER, 20 08.

(SEAL)

  
\_\_\_\_\_  
Notary Public

My commission expires 9-10-2010







## MISSISSIPPI INSURANCE DEPARTMENT

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October 8, 2008

Honorable Mike Chaney  
Commissioner of Insurance  
Mississippi Insurance Department  
501 North West Street, Suite 1001  
Woolfolk Building (39201)  
Post Office Box 79  
Jackson, Mississippi 39205

Dear Commissioner Chaney:

Pursuant to the instructions and authorization from the Commissioner of Insurance for the State of Mississippi, and in compliance with statutory provisions, an examination as of December 31, 2007, has been conducted of the affairs and financial condition of:

**ALLIED FUNERAL ASSOCIATES INSURANCE COMPANY  
(NAIC COMPANY CODE 60209; NAIC-ETS No. MS029-C52)**

Statutory Home Office:  
100 North Parkgate Ext  
Tupelo, Mississippi 38803

This examination was commenced in accordance with Miss. Code Ann. § 83-5-205 and the report of examination is herewith submitted.

## INTRODUCTION

Allied Funeral Associates Insurance Company, which hereinafter may be referred to as the Company or AFAIC, was last examined by the Mississippi Insurance Department (MID) as of December 31, 2003. The current examination covered the Company's operations from January 1, 2004, through December 31, 2007, including material transactions and/or events that occurred subsequent to the examination date and noted during the course of the examination.

## SCOPE OF EXAMINATION

This examination was a full scope financial examination that included assessing the Company's financial condition, its ability to fulfill and manner of fulfillment of its obligations, the nature of its operations, and compliance with the law. A full scope market conduct examination was not performed; however, limited procedures were performed on specific areas of the Company's market conduct.

The affairs, transactions, accounts, records, assets and liabilities of the Company were reviewed and tested by acceptable methods to the extent deemed necessary to comply with Miss. Code Ann. § 83-5-205. The examination procedures, as recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook, were followed in the conduct of this examination and in the preparation of this report. These procedures included a review of material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination.

Reporting in the **Current Examination Comments and Recommendations** section of this report was by exception; therefore, items which were tested and deemed acceptable by the examiners without material change received little or no comment.

## HISTORY OF THE COMPANY

On July 30, 1996, the Company was incorporated under the laws of the State of Mississippi, as the Allied Funeral Associates Insurance Company. The Company commenced business on January 1, 1997, as an industrial life insurance company with its principal office located in Tupelo, Mississippi. The purpose for which the company was formed, as stated in the articles of association, was to engage in the business commonly known as life insurance on the industrial plan.

The original articles of association authorized the Company to issue 500,000 shares of common stock, each reflecting a par value of \$1.00 per share.

On December 8, 1998, the Company amended its articles of association to provide for the issuance of a class of preferred stock. This amendment authorized the Company to issue 2,000 shares of preferred stock with a par value of \$1 per share. Also, the total authorized number of common shares was reduced to 498,000 shares. As a result, in December of 1998 and March of 2000, a total of 700 shares of preferred stock were issued and sold at a price of \$100 per share.

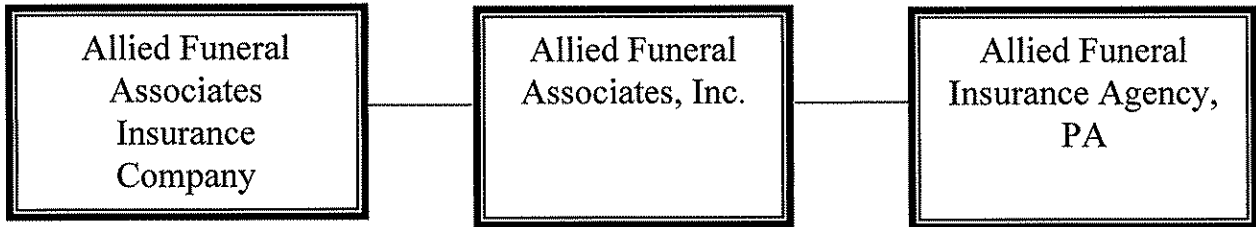
Later in 2000, the Company, after approval by the MID, made an offering to sell up to an additional 50,000 shares of common stock. Also, as part of this series of transactions, funds from the issuance of the common shares were used to redeem all of the Company's outstanding preferred stock.

In 2005 the Company purchased 1,000 shares of Treasury Stock at \$20 per share. In 2006 it purchased an additional 2,000 shares of stock at \$23 per share.

**HOLDING COMPANY STRUCTURE**

During the examination period, the Company was a member of an insurance holding company system as defined in Miss Code Ann. (1972) § 83-6-1. It appears that the Company filed Holding Company Registration Statements (HCRS) with the MID in accordance with Miss Code Ann. (1972) § 83-6-5 and § 83-6-9.

The following organizational chart reflects the Company and its affiliates that were under common control as reported in the 2007 filed annual statement. The Company's holding company system and any related party transactions were reviewed during the examination.



Ownership for the above captioned companies as reported on the 2007 annual statement was as follows:

***Allied Funeral Associates Insurance Company***

|                    |     |
|--------------------|-----|
| Pat Nunnelee       | 12% |
| Alan Nunnelee      | 6%  |
| Teresa Snow        | 2%  |
| Other Stockholders | 80% |

***Allied Funeral Associates, Inc.***

|               |     |
|---------------|-----|
| Pat Nunnelee  | 60% |
| Alan Nunnelee | 30% |
| Teresa Snow   | 10% |

**Allied Funeral Insurance Agency, PA.**

|               |     |
|---------------|-----|
| Pat Nunnelee  | 60% |
| Alan Nunnelee | 40% |

**Allied Funeral Associates Insurance Company:** The Company was incorporated on July 30, 1996, under the laws of the State of Mississippi. (Refer to History of the Company caption of this report for more information.)

**Allied Funeral Associates, Inc.:** This company was incorporated on July 31, 1996, under the laws of the State of Mississippi. Its principal activities include acting as a Third Part Administrator (TPA) and performing general management and daily operational duties for the Company.

**Allied Funeral Insurance Agency, PA.:** This company was incorporated on July 31, 1996, under the laws of the State of Mississippi. Its principal activities include acting as an insurance agency involved in soliciting, procuring, receiving and forwarding policies of insurance to various insurance companies.

During the examination period, the Company was a party to a management agreement with Allied Funeral Associates Inc. (AFA), an affiliated company. Pursuant to the agreement, AFA performed managerial, administrative, and other various day-to-day operations of the Company. In consideration for these services, the Company agreed to pay AFA a fixed monthly fee. In addition, the agreement includes a provision that would cause the monthly management fee to increase if the Company's monthly premium volume reached specific levels.

**MANAGEMENT AND CONTROL**

The Articles of Association and Bylaws vest the management and control of the Company's business and affairs with the board of directors. The members of the duly-elected board of directors with their city and state of residence and principal occupation or affiliation at the examination date were:

| <b><u>Name and City of Residence</u></b>          | <b><u>Principal Occupation</u></b>        |
|---|---|
| Johnny Anthony Agnew<br>Baldwyn, Mississippi      | President<br>Agnew & Sons Funeral Homes   |
| John Grover Burt<br>Calhoun City, Mississippi     | President<br>Pryor Funeral Home, Inc.     |
| Victor Gerard Byas, Sr.<br>Indianola, Mississippi | Owner<br>Byas Funeral Home                |
| Morris Oliver Jarvis<br>Belden, Mississippi       | Retired Chairman<br>Hancock Fabrics, Inc. |

**Name and City of Residence****Principal Occupation**

|  |  |
|--|--|
| Mark Keith King<br>Leland, Mississippi               | Owner<br>Boone Funeral Home                                    |
| Pat Thomas Nunnelee<br>Tupelo, Mississippi           | President<br>Allied Funeral Associates Insurance Co.           |
| Patrick Alan Nunnelee<br>Tupelo, Mississippi         | Vice-President<br>Allied Funeral Associates Insurance Co.      |
| William Ed Pegues, III<br>Tupelo, Mississippi        | President<br>Pegues Funeral Insurance Company                  |
| Sperry Ellis Reaves, Jr.<br>Ripley, Mississippi      | Manager<br>Ripley Funeral Home                                 |
| Teresa Gail Snow<br>Smithville, Mississippi          | Secretary/Treasurer<br>Allied Funeral Associates Insurance Co. |
| Kenneth Walter Tisdale, Sr.<br>Aberdeen, Mississippi | General Manager<br>Tisdale-Lann Memorial Funeral Home          |
| James Alan Waters<br>Baldwyn, Mississippi            | Manager<br>Waters Funeral Home                                 |

The officers of the Company, as elected by the board of directors and reported on the 2007 filed annual statement, are as follows:

**Name****Office**

|                       |                         |
|-----------------------|-------------------------|
| Pat Thomas Nunnelee   | President               |
| Patrick Alan Nunnelee | Vice-President          |
| Teresa Gail Snow      | Secretary and Treasurer |

**Conflict of Interest**

All officers and directors of the Company completed written conflict of interest questionnaires annually to disclose any existing or potential conflicts of interest. These statements were reviewed and no significant exceptions to Company policy were noted.

## **CORPORATE RECORDS**

The Articles of Association, Bylaws and amendments thereto, were reviewed and duly applied in other sections of this report as deemed appropriate. Minutes of the meetings of the stockholders and board of directors taken during the period covered by this examination were reviewed and appeared to be complete with regard to recording all matters brought up at the meeting for deliberation and appropriate action.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company maintained an employee dishonesty policy in the amount of \$50,000. The NAIC suggested minimum amount of fidelity coverage is based upon exposure index brackets. As of the examination date, the bracket in which the Company's calculation fell recommended a minimum amount of fidelity coverage of \$75,000. The Company's exposure index was just in excess of this minimum for the above-mentioned bracket and it appeared that 2007 was the only year during the period covered by the examination that the Company's fidelity coverage did not meet the NAIC suggested minimums. It is recommended that the Company compare its budgeted financial projections to the guidance in the NAIC Examiners Handbook regarding suggested fidelity coverage, and obtain the appropriate amount of coverage.

The Company was also the owner and sole beneficiary of a yearly renewable term policy on the President of the Company.

## **DIRECTORS', OFFICERS', EMPLOYEES' AND AGENTS' WELFARE**

The Company does not have any employees of its own. Pursuant to a management agreement, employees of Allied Funeral Associates, Inc. an affiliated company, perform the day-to-day operations of the Company.

## **REINSURANCE**

During the examination period, the Company was not a party to any type of reinsurance agreements.

## **ACCOUNTS AND RECORDS**

The Company's records are maintained through the use of a network consisting of desktop computers. Policy administration is performed through the use of a software package that was developed for use in Microsoft Access, while the accounting records are maintained using Intuit's Quicken software package.

It was noted in the review of the bonds and stocks that the Company does not maintain safekeeping agreements with all of its custodians that meet the requirements of regulatory

standards. It is recommended that the Company execute a safekeeping agreement with each of its custodians that conforms to the standards established in Section 3, Part H of the NAIC Financial Condition Examiners Handbook.

During the current examination, the Company had multiple investments noted on the independent confirmations that were excluded from Schedule D, Parts 3 and 4. It was also noted that two securities were not individually listed on Schedule D, Part 1 and one security was listed, but inaccurately valued. Cases were noted where CUSIP numbers did not agree with the independent confirmations. It was also noted that settlement date accounting was utilized on certain securities as opposed to trade date accounting.

Based upon the information contained within the immediately preceding paragraph and as noted in the previous examination (see Compliance with Previous Recommendations section of this report), it is recommended for the Company to appropriately and accurately complete Schedule D in accordance with the NAIC's annual statement instructions. It is also recommended for the Company to use trade date accounting on investments as opposed to settlement date accounting pursuant to Statement of Statutory Accounting Principles (SSAP) No. 26.

### STATUTORY DEPOSITS

The Company's statutory deposits with the state of Mississippi complied with Miss. Code Ann. § 83-19-31(2). The following chart displays the Company's deposits at December 31, 2007,

| <u>Description</u>     | <u>Par Value</u> | <u>Fair Value</u> | <u>Maturity Date</u> |
|------------------------|------------------|-------------------|----------------------|
| Certificate of Deposit | \$10,229         | \$10,229          | 10/18/2009           |
| Certificate of Deposit | 10,000           | 10,000            | 7/19/2008            |
| Certificate of Deposit | 10,475           | 10,475            | 10/19/2009           |
| Certificate of Deposit | 10,595           | 10,595            | 4/20/2010            |
| Certificate of Deposit | 10,526           | 10,526            | 7/30/2010            |
| Certificate of Deposit | 10,000           | 10,000            | 9/5/2008             |
| Certificate of Deposit | 100,000          | 100,000           | 1/3/2008             |
| Total                  | <u>\$161,825</u> | <u>\$161,825</u>  |                      |

**ALLIED FUNERAL ASSOCIATES INSURANCE COMPANY  
FINANCIAL STATEMENTS  
EXAMINATION AS OF DECEMBER 31, 2007**

**Introduction**

The following financial statements, as determined by the examination, consist of a Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2007; a Summary of Operations for the year ending December 31, 2007; a Reconciliation of Capital and Surplus for Examination Period Ending December 31, 2007; and a Reconciliation of Examination Changes to Unassigned Surplus as of December 31, 2007.



# Allied Funeral Associates Insurance Company

## Statement of Assets, Liabilities, Surplus and Other Funds - Statutory

December 31,

2007

### Admitted Assets

|   |    |           |
|---|----|-----------|
| Bonds   | \$ | 1,176,770 |
| Preferred stocks  |    | 251,499   |
| Common stocks   |    | 96,452    |
| Cash, cash equivalents and short-term investments                       |    | 469,319   |
| Investment income due and accrued                                       |    | 20,299    |
| Uncollected premiums and agents' balances in the course of collection   |    | 58,618    |
| Current federal and foreign income tax recoverable and interest thereon |    | 11,500    |

---

|                       |    |                  |
|-----------------------|----|------------------|
| Total admitted assets | \$ | <b>2,084,457</b> |
|-----------------------|----|------------------|

---

### Liabilities, Surplus and Other Funds

|   |    |           |
|---|----|-----------|
| Aggregate reserve for life contracts                    | \$ | 1,185,038 |
| Contract claims: life                                   |    | 46,000    |
| Premiums and annuity considerations received in advance |    | 12,348    |
| General expenses due and accrued                        |    | 2,000     |
| Taxes, licenses and fees due or accrued                 |    | 9,490     |
| Current federal and foreign income taxes                |    | 8,160     |
| Asset valuation reserve                                 |    | 26,445    |

---

|                   |  |                  |
|-------------------|--|------------------|
| Total liabilities |  | <b>1,289,481</b> |
|-------------------|--|------------------|

---

|   |  |          |
|---|--|----------|
| Common capital stock                                  |  | 122,038  |
| Gross paid in and contributed surplus                 |  | 586,806  |
| Unassigned funds (surplus)                            |  | 152,132  |
| Less: Treasury stock (3,000 shares at \$22 per share) |  | (66,000) |

---

|  |  |                |
|--|--|----------------|
| Total common capital stock and surplus |  | <b>794,976</b> |
|--|--|----------------|

---

|  |    |                  |
|--|----|------------------|
| Total liabilities, capital and surplus | \$ | <b>2,084,457</b> |
|--|----|------------------|

---

# Allied Funeral Associates Insurance Company

## Summary of Operations - Statutory

*For the Year Ended December 31,*

**2007**

|   |                   |
|---|-------------------|
| <b>Income</b>   |                   |
| Premium and annuity considerations  | \$ 1,358,328      |
| Net investment income   | 111,315           |
| <b>Total income</b>   | <b>1,469,643</b>  |
| <b>Benefits and reserve changes</b>   |                   |
| Death benefits  | 288,450           |
| Surrender benefits and other fund withdrawals   | 1,697             |
| Increase in aggregate reserve for life and accident and health policies and contracts | 151,294           |
| <b>Total policy benefits</b>  | <b>441,441</b>    |
| <b>Other operating expenses and transfers</b>   |                   |
| Commissions   | 448,561           |
| General insurance expenses  | 357,876           |
| Insurance taxes, licenses and fees  | 37,351            |
| <b>Total other operating expenses and transfers</b>                                   | <b>843,788</b>    |
| Net gain from operations before federal income taxes                                  | 184,415           |
| Federal income taxes incurred   | 24,702            |
| Net gain from operations after federal income taxes                                   | 159,713           |
| Net realized capital gains (losses)   | 3,857             |
| <b>Net income (loss)</b>  | <b>\$ 163,570</b> |

# Allied Funeral Associates Insurance Company

## Reconciliation of Capital and Surplus - Statutory

*For the examination period ended December 31, 2007*

|   | 2004       | 2005       | 2006       | 2007       |
|---|------------|------------|------------|------------|
| Capital and surplus, beginning of the year            | \$ 273,396 | \$ 522,314 | \$ 645,510 | \$ 735,800 |
| Net income (loss)                                     | 256,241    | 160,590    | 159,513    | 163,570    |
| Change in net unrealized capital gains<br>or (losses) | 1,164      | 9,636      | 25,690     | (35,802)   |
| Change in non-admitted assets and related<br>items    | 5,442      | 1,676      | (70)       | (510)      |
| Change in asset valuation reserve                     | (1,705)    | (4,756)    | (12,470)   |            |
| Change in treasury stock                              |            | (20,000)   | (46,000)   |            |
| Dividends to stockholders                             | (12,224)   | (23,950)   | (36,373)   | (47,697)   |
| Examination adjustments directly to surplus           | -          | -          | -          | (20,385)   |
| Capital and surplus, end of the year                  | \$ 522,314 | \$ 645,510 | \$ 735,800 | \$ 794,976 |

*Note: The amounts reflected in the above table represent amounts obtained from annual statements filed with the MID for 2004 through 2006 and the examination report balances for 2007.*

**ALLIED FUNERAL ASSOCIATES INSURANCE COMPANY  
RECONCILIATION OF EXAMINATION CHANGES TO UNASSIGNED SURPLUS  
DECEMBER 31, 2007**

As a result of this examination, the following changes affecting surplus were made to the balance sheet and summary of operations reported by the Company in the December 31, 2007, annual statement filed with the Mississippi Insurance Department.

| STATEMENT LINE ITEM  | BALANCE<br>PER ANNUAL<br>STATEMENT | BALANCE PER<br>EXAMINATION | INCREASE<br>(DECREASE) |
|--|------------------------------------|----------------------------|------------------------|
| <u>Balance Sheet Accounts:</u>   |                                    |                            |                        |
| Assets:  |                                    |                            |                        |
| Current federal and foreign income tax recoverable and interest thereon                  | 14,000                             | 11,500                     | (2,500)                |
| Uncollected premiums and agents' balances in the course of collection                    | -                                  | 58,618                     | 58,618                 |
| Deferred premiums, agent's balances and installments booked but deferred and not yet due | 20,802                             | -                          | (20,802)               |
| Liabilities:   |                                    |                            |                        |
| Taxes, licenses and fees due or accrued  | 3,100                              | 9,490                      | 6,390                  |
| Contract claims payable - life   | 23,000                             | 46,000                     | 23,000                 |
| Premiums and annuity considerations in advance   | 30,513                             | 12,348                     | (18,165)               |
| Aggregate reserve for life contracts   | 1,108,672                          | 1,185,038                  | 76,366                 |
| <u>Income Statement Accounts:</u>  |                                    |                            |                        |
| Insurance, taxes, licenses and fees  | 28,461                             | 37,351                     | 8,890                  |
| Death benefits   | 265,450                            | 288,450                    | 23,000                 |
| <u>Surplus Effect:</u>   |                                    |                            |                        |
| Direct entry to surplus from exam adjustments  |                                    |                            | (20,385)               |
| Net effect to surplus from exam entries to summary of operations                         |                                    |                            | <u>(31,890)</u>        |
| Total effect of examination entries to surplus   |                                    |                            | (52,275)               |

\* See Notes to Financial Statements section of this reports for additional information regarding the adjustments in this table.

## NOTES TO FINANCIAL STATEMENTS

| <u>Account</u> | <u>Examination<br/>Balance</u> |
|----------------|--------------------------------|
|----------------|--------------------------------|

### ASSETS:

|  |                 |
|--|-----------------|
| <b>Current federal and foreign income tax recoverable and interest thereon</b> | <b>\$11,500</b> |
|--|-----------------|

The examination balance is \$2,500 less than the \$14,000 reported on the Company's 2007 annual statement as filed with the MID. The amount filed with the MID included \$2,500 of prepaid premium tax. The prepaid amount was deducted from this balance.

|  |                 |
|--|-----------------|
| <b>Uncollected premiums and agents' balances in course of collection</b> | <b>\$58,618</b> |
|--|-----------------|

The examination balance is \$58,618 more than the \$0 balance reported on the Company's 2007 annual statement as filed with the MID. This amount represents net due premiums associated with the Company's industrial life insurance policies. It was noted that the Company reported net due premiums on Line 13.2, Deferred Premiums in the amount of \$20,802 instead of line 13.1, Uncollected Premiums. Furthermore, a reclassification of certain policies from extended term insurance status to premium-paying status along with a recalculated gross due net premium assets created an increase to Premiums and Considerations of \$37,816.

|   |            |
|---|------------|
| <b>Deferred premiums, agents' balances and installments booked but deferred and not yet due</b> | <b>\$0</b> |
|---|------------|

The examination balance is \$20,802 less than the amount reported on the Company's 2007 annual statement as filed with the MID. See explanation under Uncollected Premiums and Agents' Balances in Course of Collection above.

### LIABILITIES:

|  |                |
|--|----------------|
| <b>Taxes, licenses and fees due or accrued</b> | <b>\$9,490</b> |
|--|----------------|

The examination balance is \$6,390 more than the amount reported on the Company's 2007 annual statement as filed with the MID. Per review of the 2007 premium tax return, it was noted that the Company incorrectly included the balance due on the 2006 final premium tax return in the calculation of premium taxes already paid for the 2007 calendar year. It was also noted that interest and penalties were included in the same calculation. The calculation error resulted in the above noted adjustment.

|                                       |                 |
|---------------------------------------|-----------------|
| <b>Contract claims payable - life</b> | <b>\$46,000</b> |
|---------------------------------------|-----------------|

The examination balance is \$23,000 more than the amount reported on the Company's 2007 annual statement as filed with the MID. It was noted that the Company reported an amount that included claims reported subsequent to December 31, 2007, but prior to preparation of the financial statements. These amounts are effectively in course of settlement claims (ICOS) as of the 2007 annual statement preparation date. It was noted that in addition to these claims, the examination

team noted claims that were paid subsequent to the 2007 annual statement preparation that were incurred during 2007 of approximately \$23,000. The amounts represent incurred but unreported claims as of the statement preparation date (IBNR). It is recommended that the Company prepare an estimate of IBNR for each year and include the amount in this line item of the financial statements.

**Premium and annuity considerations in advance** **\$12,348**

The examination balance is \$18,165 less than the amount reported on the Company's 2007 annual statement as filed with the MID. This decrease is a result of the examination actuary's recalculation of premiums paid in advance liability and establishing a net Unearned Premium Reserve for collected premiums covering the period after December 31, 2007, but before the next policy anniversary.

**Aggregate reserve for life contracts** **\$1,185,038**

The examination balance is \$76,366 more than the amount reported on the Company's 2007 annual statement as filed with the MID. The increase is due to the examination actuary reclassifying certain life insurance policies, including the associated Accidental Death Benefit (ADB) coverage, from extended term insurance status to premium-paying status along with the fact that the Company's mid-terminal reserving methodology requires a net Unearned Premium Reserve of \$12,790 for collected premiums covering the period after December 31, 2007, but before the next policy anniversary.

**INCOME STATEMENT ACCOUNTS:**

**Insurance, taxes, licenses and fees** **\$37,351**

The examination balance is \$8,890 more than the amount reported on the Company's 2007 annual statement as filed with the MID. The majority of this examination adjustment is addressed under Taxes, Licenses and Fees Due or Accrued above.

**Death Benefits** **\$288,450**

The examination balance is \$23,000 more than the amount reported on the Company's 2007 annual statement as filed with the MID. See explanation under Contract Claims Payable – Life above.

**MARKET CONDUCT ACTIVITIES**

A full market conduct examination was not conducted; however, specific areas of the market conduct activities were reviewed. The specific areas reviewed included those items as indicated below.

**Policy Forms and Underwriting**

Based upon procedures performed during the course of the examination, the Company appeared to have the appropriate licensure to issue its products, and the applicable policy forms appeared to

be appropriately approved by the MID. As a component of the liability testing associated with the related sample items selected, and in conjunction with both the controls and substantive testing, the information on the face of the application was reviewed in order to ensure that all pertinent information on the applications appeared complete and accurate. No material concerns were noted.

### **Territory and Plan of Operation**

As of December 31, 2007, the Company was authorized to write industrial life and industrial health and accident insurance only in the State of Mississippi. The Company's agency force consisted of approximately 100 independent agents located primarily in the northern part of the state. During agents licensing examination testwork, three (3) instances in which the agents who wrote policies were not identified as producers assigned to the Company on agent forms provided by the Company or on the MID producer database. Once these exceptions were brought to the Company's attention, proper paperwork was completed to address the issue. It is recommended for policies and procedures to be implemented that would ensure agents selling policies for the Company are appropriately licensed and appointed.

### **Advertising and Sales Material**

The Company's advertising and sales materials that were utilized during the time period covered by this examination were reviewed with no exceptions or material concerns noted.

### **Treatment of Policyholders**

The Company maintained a complaint log during the period under examination and all complaints appeared to have been appropriately resolved amicably and no policyholder abuse was noted. Additionally, it was noted that no resisted claims were disclosed on Schedule F of the NAIC annual statement and none were noted during our testing. As a component of the liability testing associated with the related sample items selected, and in conjunction with both the controls and substantive testing, the claim files were reviewed for general indicators of policyholder treatment concerns without material exception.

### **Privacy**

The Company had a privacy policy in place for the protection of its policyholders, and based upon the procedures performed during the course of the examination, the policy appeared to be in compliance with applicable laws and standards with the exception of no privacy clause being noted in the management agreement between Allied Funeral Associates, Inc. and the Company. It is recommended for the appropriate privacy language to be included in the management agreement between Allied Funeral Associates, Inc and the Company in accordance with MID Regulation No. 2001-1.

## **COMMITMENTS AND CONTINGENT LIABILITIES**

No material commitments and/or contingent liabilities were noted during the course of this examination.

## COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Following are comments made in the previous examination report, as of December 31, 2003 that were not adequately addressed subsequent to the previous examination. As such, the same recommendations or related recommendations are again recorded in the Current Examination Comments and Recommendations section of this report. It is recommended that management aggressively pursue addressing these issues to fully comply with the directives of the Mississippi Insurance Department. The recommendations below are recorded exactly as originally reported in the previous examination, as of December 31, 2003.

### Previous Exam Report Recommendation No. 2:

- It is recommended that the Company execute a safekeeping agreement with each of its custodians that conforms to the standards established in Part 1, Section IV of the NAIC Financial Condition Examiners Handbook.

#### Current Status:

The Company continues to maintain custodial agreements that are not in compliance with the standards established by the NAIC Financial Condition Examiners Handbook. As noted in the immediately preceding paragraph, the standards applicable to the custodial agreements during the previous examination were Part 1, Section IV of the NAIC Financial Condition Examiners Handbook. However, the current reference to the custodial standards is Section 3, Part H of the NAIC Financial Condition Examiners Handbook. These concerns are addresses in the Accounts and Records section of this report with the related recommendation being included in the Current Examination Comments and Recommendations section of this report.

### Previous Exam Report Recommendation No. 3:

- It is recommended that the Company comply with the annual statement instructions when completing Schedule D.

#### Current Status:

During the current examination, the Company had multiple investments noted on the independent confirmations that were excluded from Schedule D, Parts 3 and 4. It was also noted that two securities were not individually listed on Schedule D, Part 1 and one security was listed, but inaccurately valued. Cases were noted where CUSIP numbers did not agree with the independent confirmations. It was also noted that settlement date accounting was utilized on certain securities as opposed to trade date accounting.

Based upon the information contained within the immediately preceding paragraph, the previous recommendation regarding non-compliance with the annual statement instructions regarding Schedule D appears to still be relevant and will again be addressed in the Current Examination Comments and Recommendations section of this report. These issues are further noted in the Accounts and Records section of this report.



## **CURRENT EXAMINATION COMMENTS AND RECOMMENDATIONS**

1. It is recommended that the Company compare its budgeted financial projections to the guidance in the NAIC Examiners Handbook regarding suggested fidelity coverage, and obtain the appropriate amount of coverage. (page 8)
2. It was noted in the review of the bonds and stocks that the Company does not maintain safekeeping agreements with all of its custodians that meets the requirements of regulatory standards. It is recommended that the Company execute a safekeeping agreement with each of its custodians that conforms to the standards established in Section 3, Part H of the NAIC Financial Condition Examiners Handbook. (page 8)
3. It is recommended for the Company to appropriately and accurately complete Schedule D in accordance with the NAIC's annual statement instructions. (page 9)
4. It is recommended for the Company to use trade date accounting on investments as opposed to settlement date accounting pursuant to Statement of Statutory Accounting Principles (SSAP) No. 26. (page 9)
5. It is recommended for the Company to report net due premiums on Page 2, Line 13.1, Uncollected Premiums. (page 15)
6. It is recommended that the Company prepare an estimate of IBNR for each year and include the amount in annual financial statements as filed with the MID. (page 15)
7. It is recommended for the Company to report a net Unearned Premium Reserve for those premiums collected covering the period after the valuation date, but before the next policy anniversary. (page 16)
8. It is recommended for the Company to properly classify its life insurance policies to reflect the premium-payment status of the policies. (page 16)
9. It is recommended for policies and procedures to be implemented that would ensure agents selling policies for the Company are appropriately licensed and appointed. (page 17)
10. It is recommended for the appropriate privacy language to be included in the management agreement between Allied Funeral Associates, Inc and the Company in accordance with MID Regulation No. 2001-1. (page 17)

**SUBSEQUENT EVENTS**

No material subsequent events were noted during the course of this examination.

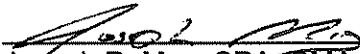
**ACKNOWLEDGMENT**

The examiners representing the Mississippi Insurance Department and participating in this examination were:

|                       |  |
|-----------------------|--|
| Examiner-in-charge    | Joseph R. May, CPA, CMA, CFE, CIE, FAHM<br>Carr, Riggs & Ingram, LLC |
| Administrative Review | Randy Eure, CPA<br>Carr, Riggs & Ingram, LLC                         |
| Actuary               | Thomas L. Burger, FSA, MAAA<br>Taylor, Walker & Associates           |
| Examiner              | Amanda Annison, CPA<br>Carr, Riggs & Ingram, LLC                     |
| Examiner              | Kim Scharl<br>Carr, Riggs & Ingram, LLC                              |

The courteous cooperation of the officers and employees responsible for assisting in the examination is hereby acknowledged and appreciated.

Respectfully submitted,

  
\_\_\_\_\_  
Joseph R. May, CPA, CMA, CFE, CIE, FAHM  
Examiner-in-charge