



STATE OF OREGON

DEPARTMENT OF CONSUMER AND BUSINESS SERVICES

INSURANCE DIVISION

REPORT OF FINANCIAL EXAMINATION

**VERBOORT BENEVOLENT SOCIETY OF OREGON
HILLSBORO, OREGON**

AS OF

DECEMBER 31, 2008

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SALUTATION

April 12, 2010

Honorable Cory Streisinger, Director
Department of Consumer and Business Services
State of Oregon
350 Winter Street NE
Salem, Oregon 97301-3883

Dear Director:

In accordance with your instructions and guidelines in the National Association of Insurance Commissioners (NAIC) Examiners Handbook, pursuant to ORS 731.300 and 731.302, respectively, we have examined the business affairs and financial condition of

**VERBOORT BENEVOLENT SOCIETY OF OREGON
5750 GLENCOE ROAD
HILLSBORO, OREGON 97124**

hereinafter referred to as the "Society." The following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

The examination of the Society was conducted as of December 31, 2008, covering the five-year period then ended, and included a review of material transactions or events which occurred subsequent to the examination cut-off and were noted during the examination.

The examination was conducted pursuant to ORS 731.300 and in accordance with procedures and guidelines prescribed by the NAIC for the purpose of determining the Society's financial condition and ability to fulfill its obligations, the nature of its operations, and compliance with the Insurance Code. Accounting methods, internal control procedures, records, and other supporting evidence were examined or tested by appropriate methods to the extent deemed necessary and appropriate for the type, volume, and complexity of the accounting system and operations utilized by the Society.

SOCIETY HISTORY

The Society was originally organized near Verboort, Oregon, in 1902, by local farmers to insure each other against fire losses. On August 4, 1966, the Oregon Insurance Division granted the Society a Certificate of Exemption pursuant to ORS 731.032(4).

MANAGEMENT AND CONTROL

The Society's Constitution and Bylaws call for an annual meeting on the first Monday of February. The members elect a Board of Directors. The Board of Directors is made up of the executive board consisting of the president, secretary, treasurer, and two additional directors, one of whom is the vice president. The executive board is empowered to govern and manage the Society. The executive board elects a five member advisory board. Together the Board of Directors and the advisory board transact the business of the Society. No one receives a salary or commissions. Officers performing Society business are paid \$15.00 per hour and are reimbursed for mileage at a rate of \$.50 per mile. Directors are paid \$35.00 per meeting.

Board of Directors

Board of Directors elected and serving at December 31, 2008, are:

<u>Name</u>	<u>Occupation</u>
David Delplanche Cornelius, OR 97113	Farmer
Frank Hertel Cornelius, OR 97113	Farmer
Jeff Delplanche Cornelius, OR 97113	Farmer
Albert Vandecoevering Forest Grove, OR 97116	Farmer

Officers

Officers elected and serving at December 31, 2008, were:

<u>Name</u>	<u>Title</u>
Gary Vandehey	President & Chairman
Melvin Finegan	Treasurer
Norbert Peters	Secretary

Article IV of the Constitution and Bylaws of the Society states, “The Board of Directors shall consist of the executive board with two additional directors – one of whom shall be vice president, and shall be empowered to make Bylaws to govern and manage this society.” The Society’s annual report as of December 31, 2008, lists four trustees (directors), none of whom are officers of the Society or identified as the vice president, as required by the Society’s Constitution and Bylaws. **I recommend the Society either elect five directors according to its Constitution and Bylaws or amend the Constitution and Bylaws to reflect actual practice.**

CORPORATE RECORDS

Constitution and Bylaws

The Constitution and Bylaws were amended at the annual meeting of the Society on February 4, 2008. Article XXXII was amended to clarify that, “No part of the net earnings of the Society shall

inure to the benefit of, or be distributed to, its members, directors, officers or other private persons.” Article XXXIII was amended to provide for the distribution of assets to not-for-profit organizations upon the dissolution of the Society. Article XXXIV was amended to indemnify the directors and officers for monetary damages incurred in the conduct of the Society’s business.

Board Minutes

Minutes from the Board of Director meetings were reviewed. Meetings were held periodically. A quorum met at all meetings.

Annual Meeting Minutes

The annual meetings of the Society were held on the first Monday of February of each year covered by this examination.

TERRITORY AND PLAN OF OPERATION

Originally the Society assessed its members whenever one of them suffered a fire loss to home, personal contents, or farm outbuildings. Later the Society began charging a small premium and issuing a three year fire insurance policy. During the period of this examination, the three year policy premium was \$1.20 per thousand dollars of coverage up to a policy limit of \$200,000. In addition, the members may be assessed to enable the Society to maintain sufficient funds on hand to pay fire losses as they occur. In the event of an assessment, each member pays an amount in proportion to his policy’s coverage amount in relation to the Society’s total aggregate coverage in force. The Society issues only one type of policy. This is a fire policy which itemizes the covered property and provides policy conditions, the premium compositions, term of loss indemnification, and the Society’s constitution. As losses are incurred they are adjusted by the officers who inspect the loss scene and pay the claims in accordance with policy conditions and terms.

GROWTH OF THE SOCIETY

The following exhibit reflects the annual growth of the Society since 2003. The amounts were compiled from copies of the Society’s filed annual statements and, where indicated, from the previous and current examination report.

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Fund Balance</u>	<u>Net Income</u>
2003*	\$533,363	\$0	\$533,363	\$(4,728)
2004	541,903	0	541,903	8,540
2005	498,299	0	498,298	(43,605)
2006	514,473	0	514,472	16,174
2007	536,151	0	536,151	21,679
2008*	561,323	0	561,323	25,172

*Per examination

During the period of this examination, the Society had one loss in 2005 totaling \$55,000. The Society's growth during the examination period is the result of premiums and interest income in excess of losses and other expenditures.

ACCOUNTS AND RECORDS

All financial records are maintained manually by the treasurer and consist of a premium journal, cash receipts journal, cash disbursements journal, investment records and bank statements.

The Society does not maintain fidelity insurance or directors' and officers' liability coverage, although the officers and directors are indemnified by the Society per Article XXXIV (above).

COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS

There were no recommendations presented in the 2003 report of examination.

VERBOORT BENEVOLENT SOCIETY OF OREGON
BALANCE SHEET
As of December 31, 2008

<u>ASSETS</u>	<u>Ledger Assets</u>	<u>Adjustments</u>	<u>Examination</u>
Cash and certificates of deposit	\$ <u>560,977</u>	\$ <u>346</u>	\$ <u>561,323</u>
Total Assets	<u>560,977</u>	<u>346</u>	<u>561,323</u>
<u>LIABILITIES & FUND BALANCE</u>			
Liabilities	0		0
Fund Balance	<u>560,978</u>	<u>346</u>	<u>561,323</u>
Total Liabilities & Fund Balance	<u>\$560,978</u>	<u>\$346</u>	<u>\$561,323</u>

INCOME STATEMENT
For the Year Ended December 31, 2008

INCOME

Premiums earned	\$ 5,431
Interest – Note 1 and 2	<u>20,772</u>
Total Income	<u>26,203</u>

EXPENSES

Claims	0
Expenses – Note 3	<u>1,031</u>
Total Expenses	<u>1,031</u>
Net Income	\$ <u>25,172</u>

FUND BALANCE ACCOUNT
For the Year Ended December 31, 2008

Fund Balance - January 1, 2008 – Note 4	\$536,151
Net Income	<u>25,172</u>
Fund Balance - December 31, 2008	<u>\$561,323</u>

NOTES TO FINANCIAL STATEMENTS

Note 1 – Cash and Certificates of Deposit

The banks confirmed cash and certificate of deposit balances \$346 greater than the Society's books. Income and Fund Balance were adjusted accordingly.

Note 2 – Income

Income reflected above is \$30,000 less than that reported in the financial statement filed by the Society. The Society included as income \$30,000 that was transferred from a certificate of deposit to the checking account. **I recommend the Society report as income only those transactions that include premium, interest, or other sources of revenue that increase the net assets of the organization.**

Note 3 – Expenses

Expenses reflected above are \$32,000 less than that reported in the financial statement filed by the Society. The Society included as an expense \$32,000 that was used to purchase a certificate of deposit. **I recommend the Society report as expenses only those transactions that include claims or expenses incurred that decrease the net assets of the organization.**

Note 4 – Fund Balance – January 1, 2008

The net effect of Notes 2 and 3 is a \$2,000 increase in the ending fund balance reported by the Society as of December 31, 2008. The fund balance as of January 1, 2008, was increased by \$2,000 to reflect a prior year error similar to that described in Notes 2 and 3 above.

CONCLUSION

During the five year period covered by this examination, the fund balance of the Society has increased from \$533,363, as presented in the December 31, 2003, report of examination, to \$561,323 as shown in this report of examination.

The comparative assets and liabilities are shown below:

	<u>2008</u>	December 31, <u>2003</u>	<u>Change</u>
Assets	\$561,323	\$533,363	\$27,960
Liabilities	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance	<u>\$561,323</u>	<u>\$533,363</u>	<u>\$27,960</u>

SUMMARY OF RECOMMENDATIONS

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- 5 I recommend the Society either elect five directors according to its Constitution and By-laws or amend the Constitution and By-laws to reflect actual practice.
- 9 I recommend the Society report as income only those transactions that include premium, interest, or other sources of revenue that increase the net assets of the organization.
- 9 I recommend the Society report as expenses only those transactions that include claims or expenses incurred that decrease the net assets of the organization.

SUBSEQUENT EVENT

At its annual meeting in February 2009, the Society increased the policy writing fee from \$5.00 to \$10.00.

ACKNOWLEDGMENT

The cooperation and assistance extended by Mr. Melvin Finegan, treasurer, and Mr. Norbert Peters, secretary, during the course of this examination, is gratefully acknowledged.

Respectfully submitted,

Raymond W. Anderson, CFE
Insurance Examiner
Insurance Division
Department of Consumer and Business Services
State of Oregon

AFFIDAVIT

STATE OF OREGON)
) ss
County of Marion)

Raymond W. Anderson, CFE, being duly sworn, states as follows:

1. I have authority to represent the state of Oregon in the examination of Verboort Benevolent Society of Oregon.

2. The Insurance Division of the Department of Consumer and Business Services of the State of Oregon 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 Verboort Benevolent Society of Oregon was performed in a manner consistent with the standards and procedures required by the Oregon Insurance Code.

The affiant says nothing further.

Raymond W. Anderson, CFE
Insurance Examiner
Oregon Insurance Division
Department of Consumer and Business Services
State of Oregon

Subscribed and sworn before me this _____ day of _____, 2010.

Notary Public for the State of Oregon