STATE OF WASHINGTON
OFFICE OF THE INSURANCE COMMISSIONER

FINANCIAL EXAMINATION

of

Fraternal Beneficial Association
Spokane, Washington

NAIC CODE 29360
DECEMBER 31, 2005

Order No. G 07-30
Fraternal Beneficial Association
Exhibit A

SALUTATION

Seattle, Washington
April 3, 2007

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building-Capitol Campus
302-14th Avenue SW
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions, and in compliance with the statutory requirements of RCW 48.03.010, an examination was made of the corporate affairs and financial records of

Fraternal Beneficial Association

of

Spokane, Washington

hereinafter referred to as "FBA" at its office located at 12414 East 26th Avenue, Spokane, WA. 99216. This report of examination is respectfully submitted showing the condition of FBA as of December 31, 2005.

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of Fraternal Beneficial Association of Spokane, Washington. This report shows the financial condition and related corporate matters as of December 31, 2005.

Patrick H. McNaughton
Chief Examiner

4-3-2007
Date

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SCOPE OF THE EXAMINATION

This examination covers the period January 1, 2001 through December 31, 2005 and comprises a comprehensive review of the books and records of FBA. The examination included identification and disposition of material transactions and events occurring subsequent to the date of examination that were noted during the examination. The findings of the previous examination report were reviewed and any items that were not satisfactorily addressed by FBA are discussed later in the report. The results of the examination are commented upon in the various sections of this report.

The examination was conducted in accordance with the statutory requirements contained in the Revised Code of Washington (RCW) and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FCEH). The examination was conducted at the Spokane office of FBA by examiners from the state of Washington.

INSTRUCTIONS

The examiners reviewed FBA's NAIC Annual Statement as part of the statutory examination. This review was performed to determine if FBA completed the Annual Statement in accordance with NAIC Annual Statement Instructions and if its accounts and records were prepared and maintained in accordance with Title 48 of the RCW and the NAIC's Accounting Practices and Procedures Manual (AP&P).

The following summarizes the exceptions noted while performing this review.

1. Investments

As of December 31, 2005, FBA had an annuity investment in a life insurance company that aggregated to an amount exceeding four percent of FBA's assets. One of the six annuity investments had a surrender cash value of $97,081 which exceeded 4% of the total assets of $2,377,947. Pursuant to RCW 48.13.030(1), the admitted investment for this annuity should be no more than $95,118. As a result, the reported assets were overstated by $1,963. Also, the registered owner of the same annuity investment was not FBA; the secretary-treasurer was the owner as of December 31, 2005, in violation of RCW 48.12.010. Due to immateriality, no examination adjustment is recommended.

To comply with RCW 48.13.030(1), FBA is instructed to draw down the cash value of the annuity or non-admit any amount over 4% of the total assets to ensure its investment concentration in any one entity is in compliance with the Washington Insurance Code. In addition, FBA is instructed to record the annuity investment in FBA's name pursuant to RCW 48.12.010.

On August 29, 2006, FBA submitted a Policyowner's Request for Beneficiary, Owner, or Name Change, requesting Guaranty Income Life Insurance Company to change the

owner the annuity of Policy #K02082105 to the legal owner, Fraternal Beneficial Association.

COMMENTS AND RECOMMENDATIONS

1. Consulting Services

An officer on the FBA Board of Directors (BOD) received payments for professional fees in connection with the preparation of the 2005 statutory statements. The officer is a Certified Public Accountant (CPA) and works for the CPA firm Loefler, Ottis and Warwick in Wilbur, Washington. There was no documentation indicating that the officer's remuneration was approved by the BOD nor was there a valid consultant contract approved by the BOD. In addition, the officer did not disclose any possible conflicts of interest in his annual conflict of interest statement.

It is recommended FBA institute a formal written consulting agreement with the BOD's approval for the additional consulting services rendered in the preparation of the statutory statements. Additionally, it is recommended all consulting work performed by BOD members or officers of FBA be disclosed in the annual conflict of interest statements for BOD review.

COMPANY PROFILE

History: FBA was originally organized under the name of Unterstutzungs Verein von Spokane and Whitman Counties (literally translated: German Mutual Assistance Association of Spokane and Whitman Counties) in 1891 as a fraternal mutual property insurer organization. The name was changed in 1918 to Fraternal Beneficial Association. The original certificate of authority was issued by the Washington State Insurance Commissioner in 1918 to transact the business of insurance as a fraternal mutual property insurer. To date, FBA only offers fire protection property coverage.

Territory and Plan of Operation: FBA is organized and authorized to transact the business of property insurance in the state of Washington. FBA's business is conducted under an assessment premium plan. The principal place of business is in Spokane, Washington. FBA provides fire and smoke damage insurance to its members who are primarily farmers of eastern Washington and northern Idaho.

The territory covered by FBA is divided into districts, each district having an appraiser appointed by the president. The duties of the appraisers, as defined by FBA's Constitution and Bylaws are to receive applications for membership; to inspect all properties offered for an appraisal; to examine carefully all fire hazards, and either approve or reject applicants for membership; to re-inspect insured property at least every ten years; to submit reports of all fire losses to the secretary-treasurer; to make a complete report of findings if arson is suspected; and to re-appraise property if so requested by members.

Growth of FBA: The growth of FBA is reflected in the following exhibit compiled from FBA's NAIC Annual Statements as of December 31:

Year	Admitted Assets	Liabilities	Surplus
2001	$2,027,145	$1,834	$2,025,311
2002	2,106,846	0	2,106,846
2003	2,198,943	0	2,198,943
2004	2,283,176	0	2,283,176
2005	2,377,947	0	2,377,947

LOSS EXPERIENCE

The following exhibit reflects the underwriting operations of FBA by year, beginning in 2001. The amounts shown were compiled from FBA's NAIC Annual Statements as of December 31:

Year	Net Premiums Earned	Underwriting Expenses Incurred	Ratio	Investment Income	Net Income
2001	$67,441	$69,018	102%	$84,438	$83,206
2002	67,277	30,551	45%	55,772	92,567
2003	67,824	32,307	48%	31,628	67,221
2004	66,683	32,809	49%	45,206	79,104
2005	67,644	38,734	57%	62,258	91,321

AFFILIATED ORGANIZATIONS

FBA does not have any affiliates.

MANAGEMENT AND CONTROL

Ownership: There were approximately 411 shareholders as of December 31, 2005. To become a shareholder, members must have applied and been accepted as a policyholder. Prospective members must be farmers and have the potential of producing five hundred dollars of agricultural crops that could be sold. Shares are not actively traded and each stockholder has an ownership interest in an amount equal to the face value of his/her policy.

Board of Directors (BOD) and Officers: In accordance with FBA's Constitution and Bylaws, the management and control of the affairs of FBA is vested in an executive committee consisting of a president, first vice president, second vice president, secretary-treasurer, and assistant secretary-treasurer. In addition, the governing documents require

the president to appoint two members who, with the five elected officers, will constitute an executive committee. All officers must be members of FBA and are elected annually at the June meeting by ballot of the members. Officers and appointees as of December 31, 2005 were:

Name	Position
Joe Schmitz	President
David Buob	1st Vice President
Lawrence Baumgartner	2nd Vice President
Linda Cupp	Secretary-Treasurer
Mardy Fisher	Assistant Secretary-Treasurer
Tom Solbrack	Executive Committee
Sharon McCoy	Executive Committee

Conflict of Interest: FBA's policy concerning conflict of interest was found to be appropriate. However, one of the officers did not disclose a potential conflict of interest in his annual conflict of interest statement. (See COMMENTS AND RECOMMENDATIONS)

Fidelity Bond and Other Insurance: FBA is the named insured on a fidelity bond issued by Travelers Property Casualty. The coverage is a $100,000 fidelity bond for the secretary-treasurer of FBA. This amount exceeds the minimum suggested by the National Association of Insurance Commissioners of $25,000 for a company of this size.

Employee Welfare and Pension Plans: FBA does not have any paid employees and therefore, does not offer a pension plan or any other employee welfare plans.

Internal Controls: FBA contracts all of its accounting and policy service functions to L.C. Accounting Service which is owned by FBA's secretary-treasurer. L.C. Accounting Service provides the following services: bookkeeping, maintaining and keeping records of fire claims, minutes of meetings, investing of monies, and preparing the statutory annual statement. It was reported in the 2000 Financial Examination Report that the controls were minimal due to lack of division of duties. Due to this control environment, minimal reliance was placed on the controls and FBA agreed to have an annual review of the accounts and records by the president to add an additional check and balance to the operations.

CORPORATE RECORDS

Review of the minutes of the executive committee and shareholder meetings were conducted for the five years under examination. One change was made to FBA's Constitution and Bylaws, Article 14c was changed to increase the maximum policy limits to $200,000 effective June 12, 2001.

REINSURANCE

FBA does not utilize reinsurance for its property coverage risk.

ACCOUNTING RECORDS AND PROCEDURES

FBA's accounts and records are maintained on a Generally Accepted Accounting Principles (GAAP) basis of accounting and are converted to Statutory Accounting Practices (SAP) basis of accounting for reporting purposes.

SUBSEQUENT EVENTS

There were no material events which impacted FBA between the examination date and the last day of field work.

FOLLOW UP ON PREVIOUS EXAMINATION REPORT

The previous 2000 Financial examination Report summarizes the following two exceptions: 1) FBA had a certificate of deposit and government bonds in the custody of a brokerage firm which was in violation of RCW 48.13.450(6), and 2) FBA retained a fire risk in an amount exceeding ten percent of its surplus to policyholders which was in violation of RCW 48.11.140.

All previous report instructions and comments were corrected.

FRATERNAL BENEFICIAL ASSOCIATION
Statement of Assets, Liabilities, Surplus and Other Funds
December 31, 2005

	Balance Per Company	Adjustments	Balance Per Exam
ASSETS			
Common Stock - Mutual funds	$ 49,510	$	$ 49,510
Cash and short-term investments	1,872,001		1,872,001
Other invested assets – Annuities	448,900		448,900
Investment income due and accrued	6,868		6,868
Uncollected premiums and agents' balances in the course of collection	668		668
Total assets	**$ 2,377,947**	**$ 0**	**$ 2,377,947**
LIABILITIES, SURPLUS AND OTHER FUNDS			
Liabilities	$ 0	$ 0	$ 0
Unassigned funds (surplus)	2,377,947		2,377,947
Total liabilities, surplus and other funds	**$ 2,377,947**	**$ 0**	**$ 2,377,947**

FRATERNAL BENEFICIAL ASSOCIATION
Underwriting and Investment Exhibit
For the Year Ended 2005

	Balance Per Company	Adjustments	Balance Per Exam
UNDERWRITING INCOME			
Premiums earned	$ 67,644	$ 0	$ 67,644
DEDUCTIONS:			
Losses incurred	2,995		2,995
Loss expenses	200		200
Other underwriting expenses incurred	35,539		35,539
Total underwriting deductions	38,734		38,734
Net underwriting gain (loss)	28,910	0	28,910
INVESTMENT INCOME			
Net investment income earned	62,258		62,258
Net investment gain (loss)	62,258	0	62,258
OTHER INCOME			
Finance and other service charges not included in premiums	153		153
Total other income	153		153
Net income	**$ 91,321**	**$ 0**	**$ 91,321**
CAPITAL AND SURPLUS ACCOUNT			
Capital and surplus, December 31, 2004	$ 2,283,176	$ 0	$ 2,283,176
Net income	91,321		91,321
Change in net unrealized capital gains or losses	3,450		3,450
Net change in capital and surplus for the year	94,771		94,771
Capital and surplus, December 31, 2005	**$ 2,377,947**	**$ 0**	**$ 2,377,947**

FRATERNAL BENEFICIAL ASSOCIATION
Five Year Reconciliation of Capital and Surplus
For the Years Ended December 31,

	2005	2004	2003	2002	2001
Capital and surplus, December 31, prior year	**$2,283,176**	**$2,198,943**	**$2,106,846**	**$2,025,311**	**$1,965,243**
Net income	91,321	79,104	67,221	92,568	83,206
Prior year accounts payable paid in current year				1,834	
Change in unrealized capital gains or losses	3,450	5,129	24,876	(12,867)	(23,138)
Net change in capital and surplus for year	94,771	84,233	92,097	81,535	60,068
Capital and surplus, December 31, current year	**$2,377,947**	**$2,283,176**	**$2,198,943**	**$2,106,846**	**$2,025,311**

ACKNOWLEDGMENT

Acknowledgment is hereby made of the cooperation extended to the examiners by the officers of FBA during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,

Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

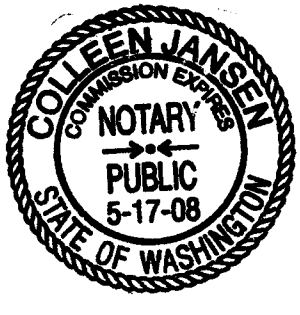
AFFIDAVIT

STATE OF WASHINGTON }
} **ss**
COUNTY OF KING }

Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of FBA was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).

Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 3rd day of April, 2007.

Notary Public in and for the
State of Washington,
Residing at Seattle.