

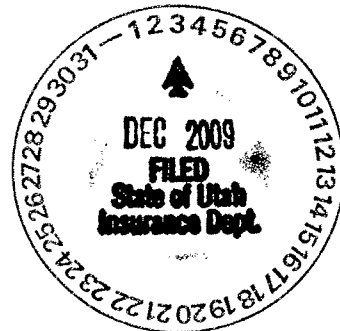
STATE OF UTAH INSURANCE DEPARTMENT  
REPORT OF FINANCIAL EXAMINATION

of

**AFS Employee Benefits Trust**

of

Salt Lake City, Utah



as of

January 31, 2008

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March 5, 2009

Honorable D. Kent Michie  
Insurance Commissioner  
State of Utah  
3110 State Office Building  
Salt Lake City, UT 84114

Commissioner:

Pursuant to your instructions and in compliance with statutory requirements, an examination, as of January 31, 2008, has been made of the financial condition and business affairs of:

AFS Employee Benefits Trust  
Salt Lake City, Utah

hereinafter referred to in this report as the Organization, and the following report of examination is respectfully submitted.

## SCOPE OF EXAMINATION

### Period Covered by Examination

The current examination covers the period from February 1, 2005, through January 31, 2008, including any material transactions and/or events occurring subsequent to the examination date noted during the course of the examination.

Certificates of representation attesting to the Organization's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Organization's management at the initiation and conclusion of the examination.

### Examination Procedure Employed

Prior to the examination of the Organization's financial condition, the Utah Insurance Department (Department) performed preliminary analysis on the Organization's financial statements and the special circumstance of the Organization's statutory framework being an employee welfare organization and the amount of risk to the general public based on the business issued. The Organization does not expand its market for all potential policyholders and the general public. It is limited to employees of stores who are members of the Associated Food Stores. The Organization has been reporting financial statements based on Generally Accepted Accounting Principles (GAAP) since its inception. Upon consideration of this risk assessment, the Department

feels that it is not necessary to require the Organization to submit financial reports utilizing Statutory Accounting Principles (SAP)

The examination included a general review and analysis of the Organization's operations, the manner in which its business was conducted, and a determination of its financial condition as of January 31, 2008. The examination was conducted in accordance with the Generally Accepted Accounting Principles.

#### Status of Prior Examination Findings:

There were no prior financial examinations done other than the preliminary review for licensing and registration and pre examination analysis conducted by the assigned Department Financial Analyst. The results of these preliminary review and pre-examination analysis did not refer to any material or adverse issues affecting the Organization's financial condition

## HISTORY

### General

Established in February 1, 2002, the Organization provides health and other related benefits such as dental benefits to employees of AFS member stores located in Utah, Idaho, Montana and Wyoming. In the past, the Organization acted as a conduit to purchase short-term disability insurance. That line was discontinued in Idaho. AFS member stores in Utah, Montana and Wyoming continued to offer the self-funded short-term disability insurance. The Organization was originally licensed by the Department on February 1, 2002 under Utah Code Annotated (U.C.A.) § 31A, Chapter 13. The application process was not formalized until late 2006. In early 2007, the Organization was notified that a formal application was available and an application was submitted on March 14, 2007. Subsequent to approval, it was notified that it needed to establish a statutory deposit of at least \$400,000. It has complied with this requirement.

The Organization entered into an agreement with AFS Insurance Services Inc. (Administrator) to manage the operations of the Organization. Services provided in the contract include: administration, claims processing and premiums processing for the Organization.

### Contributions

AFS Employee Benefits Trust is a tax-exempt organization. Funding is provided through employee contributions. The actuary determines suggested contribution amounts per member store based on reasonable assumptions. As of January 31, 2008 there were 78 member stores. Total contributions for the year ended January 31, 2008 were \$5,648,554

Management

The following persons served as the Board of Trustees of the organization as of January 31, 2008:

<u>Name</u>	<u>Principal Occupation</u>
Mr. Kent Beckstrom, Chairman of the Board of Trustees Brigham City, Utah	Store Owner
Mr. Roger Bynum, Member Cedaredge, Colorado	Store Owner
Mr. Brent Lee Foulger, Member Powell, Wyoming	Store Owner
Mr. Mark Alfred Stewart, Member Roosevelt, Utah	Store Owner

The Organization is managed by AFS Insurance Services Inc. with the following administrators:

<u>Principal Officer</u>	<u>Office</u>
Mr. Don Noyes	President/Chief Executive Officer
Mr. John Fiskell	Benefits Manager
Kristen R. Peterson	Senior Claims Specialist

Conflict of Interest Procedure

Each Member of the Board of Trustees signs a conflict of interest statement annually together with their biographical data. The examiners found no material exceptions.

Corporate Records

The minutes of the meetings of the Board of Trustees were reviewed for examination purposes. The minutes contained detailed information about the Organization's governance, including current events, investment decisions, changes in plan options and regulatory issues. The minutes are supported by company transactions and events evidencing final adoption as a record of the meetings of the Board of Trustees. However, the minutes were not signed.

### Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

There were no acquisitions, mergers, disposals, dissolution and purchase or sales through reinsurance involving the Organization during the examination period.

### Surplus Debentures

During the period covered by the examination, the Organization was not a party to any surplus debentures.

### AFFILIATED COMPANIES

The Organization is not affiliated with Associated Food Stores (AFS) although its conception is brought upon by the need for affordable health benefits for employees of the stores who are members of AFS. The Organization exclusively caters to employees of AFS member stores.

The Organization does not own any real property and it does not have employees. The administration and operational processes are performed by AFS Insurance Services Inc. (Administrator), a non affiliated company under a management agreement. The Organization pays administrative fees per month to the Administrator.

### FIDELITY BOND AND OTHER INSURANCE

The Organization does not have employees and does not own any real property or other assets that need to be protected by insurance.

### PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

As an employee welfare fund, with no issued and outstanding stock, the Organization does not have a stock ownership program. The Organization does not have employees.

### STATUTORY DEPOSITS

The Organization's statutory deposit requirement was \$400,000 pursuant to U.C.A. § 31A-8-211(1). The examination confirmed the Organization maintained a statutory deposit consisting of bonds issued by the Federal Home Loan Bank (FHLB) with a market value of \$407,639 and a par value of \$405,000, which was adequate to cover the required deposit of \$400,000.

## REINSURANCE

### Assumed

The Organization neither maintained, nor entered into any assumed reinsurance arrangements during the examination period.

### Ceded

The Organization had one reinsurance treaty in effect during the examination period with Standard Life & Accident Insurance Company. Effective February 1, 2007 through January 31, 2008, the Specific Excess Loss Reinsurance coverage maximum liability was 100% of paid specific losses which are in excess of the Specific Retention Amount, subject to a maximum limit per Covered Person of \$825,000. The Specific Retention Amount was \$175,000 per Covered Person. Premiums are not adjustable based on loss experience. The treaty has an amendment attached to and made a part of the Treaty between the Reinsurer and AFS Employee Benefits Trust that applies limitations only to the coverage for the dependent of one participant. The limitation stated in the amendment has a Specific Deductible of \$225,000 with a Maximum Benefit of \$775,000.

The examination team reviewed the reinsurance program of the Organization and determined the treaty transfers a significant portion of the risk to the reinsurer.

## ACCOUNTS AND RECORDS

The Organization's accounts and records consisting of the general ledger, registers and subsidiary records are maintained by the Administrator through a combination of manual and electronic data processing systems located in the Administrator's premises.

An examination of the trial balance was prepared from the Organization's computerized general ledger. Account balances are traced to the Organization's annual statement submitted to the Department. Individual account balances for the examination period were examined as deemed necessary.

## FINANCIAL STATEMENTS

The following financial statements were prepared from the Organization's accounting records and the valuations and determination made during the examination:

BALANCE SHEET as of January 31, 2008

STATEMENT OF REVENUE AND EXPENSES for the Year Ended  
January 31, 2008

RECONCILIATION OF CAPITAL AND SURPLUS -- 2007 through 2008

The accompanying NOTES TO FINANCIAL STATEMENTS are an integral part of the financial statements.

**AFS Employee Benefits Trust  
BALANCE SHEET  
as of January 31, 2008**

ASSETS

	Current Year	Prior Year
Cash on hand and on deposit	1,624,293	2,100,947
Subtotal, cash and invested assets	1,624,293	2,100,947
Insurance recoverable for claims and claims adjustment expenses.	266,965	21,257
<b>TOTALS</b>	<b>1,891,258</b>	<b>2,122,204</b>

LIABILITIES AND RESERVES

	Current Year	Prior Year
<b>LIABILITIES</b>		
Claims Unpaid	\$ 838,640	\$ 753,111
Unpaid claim adjustment expenses	35,781	-
Other expenses due or accrued		70,039
Borrowed money		492,869
Total liabilities	874,421	1,316,019
<b>RESERVES</b>		
Earned surplus	1,016,837	806,185
Total reserves	1,016,837	806,185
<b>TOTALS</b>	<b>1,891,258</b>	<b>2,122,204</b>

**AFS Employee Benefits Trust**  
**STATEMENT OF REVENUE AND EXPENSES**  
**for the Year Ended January 31, 2008**

	Current Year	Prior Year
Employer Contributions Earned	\$ 5,648,554	\$5,543,654
Claims incurred	4,676,340	4,724,306
Claim adjustment	169,895	
Administrative & Soliciting	718,914	766,866
Total underwriting deductions	5,565,149	5,491,172
NET UNDERWRITING GAIN (LOSS)	83,405	52,482
Net investment income earned	86,739	43,021
NET INVESTMENT GAIN (LOSS)	86,739	43,021
Debt Forgiveness	40,508	
<b>NET GAIN (LOSS)</b>	<b>210,652</b>	<b>95,503</b>

**AFS Employee Benefits Trust**  
**RECONCILIATION OF CAPITAL AND SURPLUS**  
**2007 through 2008**

	2008	2007
Total reserves, beginning of year	\$ 806,185	\$ 710,682
Net gain (loss)	210,652	95,503
Change in reserves for the year	210,652	95,503
Total reserves, end of year	1,016,837	806,185

**ADEQUACY OF RESERVES**

	2008	2007
Total reserves, end of year	1,016,837	806,185

## NOTES TO FINANCIAL STATEMENTS

### Capital and surplus

\$1,016,837

The Organization's capital and surplus was determined to be the same as that reported in the annual financial statement as of January 31, 2008.

The Organization is not subject to the statutory minimum capital requirement or Risk Based Capital reporting, because it is not required to report or be examined under Statutory Accounting Principles (SAP).

## SUMMARY OF EXAMINATION FINDINGS

Items of significance commented on in this report are summarized below:

### 1. Examination Procedure Employed:

The examination included a general review and analysis of the Organization's operations, the manner in which its business was conducted, and a determination of its financial condition as of January 31, 2008. The examination was conducted in accordance with the Generally Accepted Accounting Principles.

### 2. Corporate Records

The minutes of the meetings of the Board of Trustees were not signed, evidencing final adoption as a permanent record. The examiners recommend the minutes of the meetings of the Board of Trustees be signed by a member of the Board of Trustees and a representative of the Administrator.

### 3. Capital and Surplus:

The Organization is not subject to the statutory minimum capital requirement or Risk Based Capital reporting, because it is not required to report or be examined under SAP.

## ACKNOWLEDGEMENT

In Addition to the undersigned, David Flores, CPA, CFE (fraud) participated in the examination representing the Utah Insurance Department. Jacob W. Garn, CPA, MBA, AFE, Chief Examiner and Colette Hogan Sawyer, CFE, CPM, Assistant Chief Examiner supervised the examination. They joined the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of AFS Employee Benefits Trust.

Respectfully Submitted,

*Hermoliva B. Abejar*

Hermoliva B. Abejar  
Financial Examiner  
Examiner-in-Charge  
Utah Insurance Department