

STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of



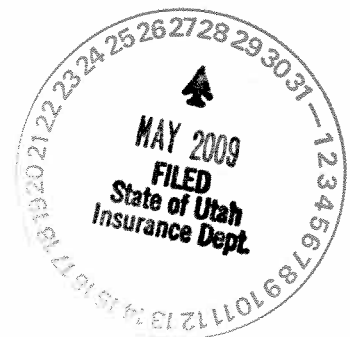
**DESERET MUTUAL INSURANCE COMPANY**

of

Salt Lake City, Utah

as of

December 31, 2007



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August 28, 2008

Honorable Alfred W. Gross, Commissioner  
Chair, Financial Condition (E) Committee, NAIC  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
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Richmond, Virginia 23218

Honorable Morris J. Chaves, Superintendent  
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New Mexico Department of Insurance  
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Honorable D. Kent Michie  
Insurance Commissioner  
Utah Insurance Department  
State Office Building, Room 3110  
Salt Lake City, UT 84114-6901

Commissioners:

Pursuant to instructions and in accordance with Utah Code Annotated (U.C.A.) Title 31A and resolutions adopted by the National Association of Insurance Commissioners (NAIC), an examination was made of the financial condition and business affairs of

DESERET MUTUAL INSURANCE COMPANY  
Salt Lake City, Utah

A mutual life insurance company, hereinafter referred to in this report as the "Company", as of December 31, 2007.

## SCOPE OF EXAMINATION

### Period Covered by Examination

The current examination covers the period from January 1, 2005, through December 31, 2007, 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 Company's ownership of all assets and to the nonexistence of unrecorded liabilities were signed by and received from the Company's management at the conclusion of the examination.

### Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the Utah Insurance Department (Department) and Statements of Statutory Accounting Principles (SSAP) contained within the Statutory Accounting Practices and Procedures Manual promulgated by the NAIC.

The examination included a general review and analysis of the Company's operations, the manner in which its business was conducted, and a determination of its financial condition as of December 31, 2007. Assets were verified and valued, and liabilities were determined or estimated.

The initial phase of the examination focused on evaluating the Company's governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Company's individual operating profile. A functional activity approach was determined to be appropriate.

The examination determined the inherent risks associated with each of the functional areas and assessed the residual risk for each of the areas after considering mitigating factors. The mitigating factors considered were corporate governance and control environment in addition to work performed by external and internal audit functions. Interviews were held with the senior management of the Company to gain an understanding of the entity's operating profile and control environment. Based on the assessment of residual risk examination procedures were reduced where considered appropriate.

The Company retained the services of a certified public accounting firm to audit its financial records for the years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. The external audit work papers were relied upon when deemed applicable and adequate.

The examiners relied on the findings of the actuarial firm contracted by the Department to verify life insurance premiums and annuity considerations and the aggregate reserve for life policies and contracts. The examiners tested the completeness of the records and the accuracy of the underlying data used to establish reserve amounts.

#### Status of Prior Examination Findings

The previous examination was performed by the Department as of December 31, 2004. Significant findings and recommendations noted in the prior examination report have been addressed by the Company or were identified as repeat exceptions in this report.

### HISTORY

#### General

The Company was organized pursuant to Utah Insurance Code Title 31, Chapter 30, on January 14, 1969, by the name Far-West Mutual Life Insurance Association. In 1970, the Corporation of the President of the Church of Jesus Christ of Latter-day Saints (Church) assumed control of the Company upon issuance of Company insurance contracts to church associates. The name of the Company was then changed to Deseret Mutual Benefit Association. On December 4, 1987, the Company again changed its name to Deseret Mutual Insurance Company.

The articles of incorporation and by-laws have not been changed or amended during the examination period.

#### Membership

The Company is a mutual insurance company owned and operated for the exclusive benefit of its members pursuant to its articles of incorporation.

#### Dividends to Members

The Company neither declared nor paid any dividends to its members during the examination period.

## Management

The Company's by-laws indicate the number of directors required shall be nine. The following persons served as directors of the Company as of December 31, 2007.

<u>Name and Residence</u>	<u>Principal Occupation</u>
Rodney H. Brady Salt Lake City, Utah	President and Chief Executive Officer Deseret Management Corporation
Kent H. Cannon Salt Lake City, Utah	President and Chief Executive Officer Beneficial Financial Group
Ralph N. Christensen Bountiful, Utah	Human Resource Manager Corporation of the President of The Church of Jesus Christ of Latter-day Saints
Roger G. Christensen South Jordan, Utah	Administrator, Finance and Services Church Educational System
Roger G. Clarke Salt Lake City, Utah	President Ensign Peak Advisors
Robert A. Johnson Salt Lake City, Utah	Executive VP and Chief Operations Officer Bonneville International Corporation
Sandra Rogers Orem, Utah	Professor – College of Nursing Brigham Young University
Michael J Stapley Bountiful, Utah	President and Chief Executive Officer Deseret Mutual Insurance Company
Jim M. Wall Salt Lake City, Utah	President and Publisher Deseret News Publishing Company

The Company's by-laws provide that principal officers shall consist of a president, vice president, treasurer, and secretary; and that the board may choose additional vice presidents and one or more assistant secretaries and treasurers, as needed. The officers serving as of December 31, 2007, were the following.

<u>Principal Officer</u>	<u>Office</u>
Michael J. Stapley	President and Chief Executive Officer
Stephen A. Felsted	Vice President, Chief Financial Officer
Victor N. Gibb	Secretary
Kent A. Misener	Treasurer and Chief Investment Officer
David D. Call	Vice President
Scott C. Thornton	Chief Actuary
David K. Anderson	Controller

The only change in officers was the retirement of David K. Ferre in January 2005, and his replacement with David K. Anderson as controller.

As of December 31, 2007, the Company itself had no significant committees of the board; however the following are principal committees assigned to serve for the benefit of all entities under common control of Deseret Management Corporation.

Audit Committee

Roger G. Christensen, Chairman  
Bob Johnson  
Ivan Briggs

Investment Committee

Kent Cannon, Chairman	Stephen Felsted
Roger Clarke, Vice Chairman	Scott Florence
Rodney Brady	Kent Misener
Ivan Call	Michael Stapley
Robert Dalley	Steve Thorley

Conflict of Interest Procedure

The Company had a written code of ethics and a conflict of interest policy in effect at December 31, 2007. Review of the code of ethics and interviews with management indicated that the corporate structure, from the top down, is dedicated to high standards of business ethics. Conflict of interest statements are signed by the directors and officers once every three years, since there is a low turnover. However, any new director or executive officer is required to become familiar with the Company's ethics package, which includes signing a conflict of interest statement upon hire or appointment. Signed conflict of interest statements are reviewed and maintained by Victor Gibb, Company Secretary.

Corporate Records

Minutes of the meetings of the board of directors for the Deseret Mutual group of companies were reviewed. The minutes indicated that the Company operates within the scope of its authority and are in conformity with the requirements of the articles of incorporation concerning matters covered and authorizations made. The directors are properly informed of, and participate in, Company affairs. Generally, at each annual board meeting, a detailed report of investment transactions since the previous meeting was presented and approved. The last meeting held by the Board of Directors was a special meeting held on June 12, 2008. The Board approved the minutes of prior meetings at each meeting.

The previous report of examination made by the Utah Insurance Department as of December 31, 2004, was distributed to the board of directors, in accordance with U.C.A. § 31A-2-204(8) during the meeting held on November 17, 2005; and the board approved the minutes of that meeting during the subsequent meeting held on December 9, 2005.

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

The Company had no acquisitions, mergers, disposals, dissolutions, purchases or sales through reinsurance during the years covered by this examination.

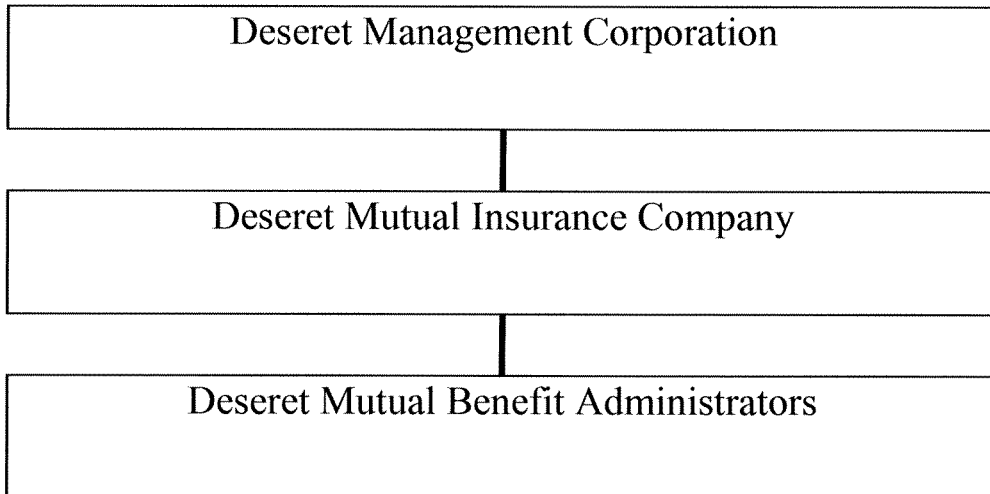
Surplus Debentures

No surplus debentures were issued or outstanding during the examination period.

AFFILIATED COMPANIES

The Company is a member of an insurance holding company system. Through common ownership, management, or control, the Company is affiliated with numerous entities within the holding company system. In 1996, the Department permitted the Company to file an abbreviated organizational chart, which excludes religious and educational entities in the filing of its holding company registration statements and annual statements.

The following organizational chart identifies the Company's relationship with its parent and subsidiary as of December 31, 2007.



## Transactions with Affiliates

The Church of Jesus Christ of Latter-day Saints is an unincorporated religious association overseen by the three members of the First Presidency. The First Presidency indirectly controls the Company by virtue of its power to appoint the trustees of DMC Reserve Trust. DMC Reserve Trust is a trust created by the Church. The DMC Reserve Trust holds no assets other than the stock of Deseret Management Corporation. While DMC Reserve Trust holds all of the voting stock of Deseret Management Corporation, and therefore may have an indirect ability to direct the policies and management of the Company, its sole purpose is to hold Deseret Management Corporation's stock in trust for religious, charitable, and educational purposes. Deseret Management Corporation is the entity that has the direct ability to influence the management and policies of the Company.

The Company owns 100% of the common stock of Deseret Mutual Benefit Administrators (DMBA), a licensed third party administrator (TPA). DMBA provides administrative services for claims and benefit administration for several Church entities, including the Company.

The Company maintains its investment portfolio with Deseret Trust Company, a subsidiary of the Church; which provides the Company a facility for settlement of transactions and deposit of securities for safekeeping.

## FIDELITY BOND AND OTHER INSURANCE

The minimum fidelity coverage suggested by the National Association of Insurance Commissioners (NAIC) for a life and health insurance company, of this Company's size and premium volume, is between \$300,000 and \$350,000. As of the examination date, the Company was a named insured on a fidelity bond, with an aggregate liability of \$3,000,000. The Company was also a named insured on policies providing property and liability coverage.

## PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company had no employees, and thus offered no employee benefit programs as of December 31, 2007.

## STATUTORY DEPOSITS

The Company's required statutory deposit is \$400,000, pursuant to the requirements of U.C.A. § 31A-5-211(2)(a) for a life and health company. The following security was held on deposit in Utah for the benefit of all policyholders at December 31, 2007, which well exceeds the minimum required.

<u>State</u>	<u>Description</u>	<u>Book Value</u>	<u>Fair Value</u>
Utah	US Treasury Bond 6.625%, 2/15/2027	1,267,326	1,332,597

## INSURANCE PRODUCTS AND RELATED PRACTICES

### Policy Forms and Underwriting

The Company's health plan for senior missionaries is exempt from Title 31A regulation under U.C.A. § 31A-1-103(3)(c)(i), because its principal purpose is to achieve charitable, educational, social, or religious objectives.

The Plan "Z" program meets the definition of self-insurance under U.C.A. § 31A-1-301(150)(b)(ii), because the Church provides for spreading its own risks by a systematic plan and it indemnifies the General Authorities for liability or risk, which is related to their service not only as employees but also directors and officers. Therefore, Plan "Z" is exempt from regulation under U.C.A. § 31A-1-103(3)(f), because the title does not apply to self-insurance.

The Church spreads its own risks by a systematic plan, namely the Church Activity Insurance plan, which meets the definition of self-insurance under U.C.A. § 31A-1-301(150)(b)(ii), because the Church indemnifies the individuals who are involved in a church activity at a ward or branch from liability risk. The arrangement indemnifies the affiliates for liability or risk that is related to the church activity. Therefore, the Church Activity Insurance plan is exempt from regulation under U.C.A. § 31A-1-103(3)(f), because the title does not apply to self-insurance.

Insurance benefits available to employees of the Church and its related organizations or corporations outside the United States, through various international employee benefit programs, were made available through an International Insurance Agreement (IIA). The types of coverage available under this agreement include medical, death, occupational accidental death and dismemberment, disability and twenty-four hour accidental death & dismemberment benefits. These plans are exempt under U.C.A. § 31A-1-103(3)(h) and § 31A-21-101(1)-(2), therefore, they fall outside the scope and purview of Title 31A and are not required to be filed with the Department.

The Company offers health insurance to students attending LDS Business College. During the period under examination, the Company had not filed the LDS Business College policy form pursuant to the requirements of U.C.A. § 31A-21-201, and Utah Administrative Code (U.A.C.) Rule R590-220.

Effective April 9, 2007, a new "Procedure to Obtain Exemption of Student Health Programs from Insurance Code", U.A.C. Rule R590-240, was adopted.

On July 31, 2008, the Company petitioned the Department to request a determination the LDS Business College Student Health Plan be recognized as exempt from regulation by the Department in accordance with the U.A.C. Rule R590-240.

Effective January 26, 2009, the exemption was granted subject to submission of periodic financial reports evidencing the viability of the Student Health Plan to the Department and deletion of references to “insurance” and inclusion of the docket reference identifying the exemption order on Student Health Plan literature and web site content.

#### Territory and Plan of Operation

The Company holds a Utah certificate of authority to provide life, annuity, accident & health, and variable contracts, and is also licensed as an insurer in Idaho and Hawaii.

The Company provides insurance coverage to Utah-based Church entities, which may have covered members located in other jurisdictions. The Church has affiliates with employees located outside the state of Utah and beyond the territorial limits of the United States, who qualify as employees of the Church, its subsidiaries, affiliates, or other associated organizations.

#### Advertising and Sales Material

As of December 31, 2007, the Company did not solicit insurance sales to the general public, and it did not conduct any form of media advertising.

#### Treatment of Policyholders

The Company maintained control over policyholder complaints throughout the examination period. Procedures to handle complaints were in place. The Company’s complaint log did not reveal any complaints filed under the LDS Business College Health Plan, and no formal complaints were filed with the Department during the examination period.

### REINSURANCE

#### Assumed

The Company does not assume any reinsurance, and there were no reinsurance contracts in effect.

## Ceded

As of December 31, 2007, the Company and Deseret Healthcare Employee Benefit Trust were both included on three layers of medical catastrophe excess of loss reinsurance contracts ceded to certain unaffiliated reinsurers. Each contract layer covered the Church's Deseret Healthcare Employee Benefit Trust, as well as the Company's Senior Service Medical Plan and Plan "Z." According to the reinsurance contracts, no claim shall attach unless three or more lives are involved in the same loss occurrence, and the maximum amount that may contribute to the ultimate net loss, any one life will be \$1,000,000.

Layer one attaches at \$1,500,001, whereby the reinsurer accepts \$8,500,000 over and above the initial retention of \$1,500,000 up to an ultimate net loss of \$10,000,000 each and every occurrence. The limit during the term of the first layer contract for all claims is \$25,500,000.

Layer two attaches at \$10,000,001, with the reinsurer accepting the next \$10,000,000 up to an ultimate net loss of \$20,000,000 each and every occurrence. The limit during the term of the second layer contract for all claims is \$30,000,000.

Layer three attaches at \$20,000,001, with the reinsurer accepting the next \$30,000,000 up to an ultimate net loss of \$50,000,000 each and every occurrence. The limit during the term of the third layer contract for all claims is \$90,000,000.

The premium ceded under these contracts is shared on a pro-rata basis between the Company and Deseret Healthcare Employee Benefit Trust, based on each company's enrollments during the term of the contract. During 2007, the Company ceded \$18,737.55 in premium.

## ACCOUNTS AND RECORDS

The Company's accounting system consisted of a general ledger, journals, registers, and statistical records normally maintained by a life insurance company. Most of the records were maintained on a mainframe electronic data processing system. Data from the mainframe was used by the Company to prepare annual and quarterly statement exhibits, schedules and other financial statements. Subsidiary records were maintained in commercial software applications on stand-alone personal computers.

An examination trial balance, as of December 31, 2007, was prepared from an electronic copy of the Company's computerized general ledger. Account balances were traced to annual statement exhibits and schedules without exception. Individual account balances for the examination period were examined as deemed necessary.

The following details certain inaccuracies and discrepancies in the Company's accounts and corporate records.

#### Custodial Agreement

At December 31, 2007, the Company had securities in an account held by Deseret Trust Company, pursuant to a written custodial agreement. This agreement did not meet the requirements of U.A.C. Rule R590-178.

A revised agreement was executed, effective March 1, 2008, and a resolution by the board of directors was made to adopt the revised agreement at its regular meeting of August 21, 2008 to bring its custodial agreement into compliance.

### FINANCIAL STATEMENTS

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

BALANCE SHEET as of December 31, 2007

STATEMENT OF REVENUE AND EXPENSES for the Year Ended  
December 31, 2007

RECONCILIATION OF CAPITAL AND SURPLUS for Years 2005 through 2007

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

DESERET MUTUAL INSURANCE COMPANY  
BALANCE SHEET  
as of December 31, 2007

ASSETS

	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$39,756,295	
Cash and short-term investments	5,108,480	
Investment income due and accrued	663,607	
Current federal and foreign income tax recoverable	107,004	
Net deferred tax asset	361,911	
Electronic data processing equipment and software	130,593	
Total assets	\$46,127,890	

LIABILITIES, SURPLUS, AND OTHER FUNDS

	<u>Current Year</u>	
Aggregate reserve for life contracts	\$16,892,139	
Aggregate reserve for accident and health contracts	1,686,397	
Liability for deposit-type contracts	6,979,259	
Contract claims - Life	74,357	
Contract claims - Accident and health	2,536,622	
Provision for experience rating refunds	9,459,118	
General expenses due or accrued	249,216	
Taxes, licences and fees due or accrued	215,010	
Asset valuation reserve	24,673	
	221,461	
Aggregate write-ins for liabilities	528,115	
Total liabilities	\$38,866,367	
Gross paid in and contributed surplus	\$6,000	
Unassigned funds (surplus)	7,255,523	
Surplus	\$7,261,523	(1)
Total liabilities and surplus	\$46,127,890	

DESERET MUTUAL INSURANCE COMPANY  
SUMMARY OF OPERATIONS  
for the Year Ended December 31, 2007

	Amount
Premiums and annuity considerations for life and accident and health contracts	\$18,142,604
Net investment income	2,563,151
Amortization of interest maintenance reserve	(23,994)
Aggregate write-ins for miscellaneous income	902,092
Total	\$21,583,853
Death benefits	\$603,495
Annuity benefits	1,812,022
Disability benefits and benefits under accident and health contracts	12,681,636
Interest and adjustments on contract or deposit-type contract funds	385,173
Payments on supplementary contracts with life contingencies	92,012
Increase in aggregate reserves for life and accident and health contracts	(787,778)
Total	\$14,786,560
General insurance expenses	\$3,122,691
Insurance taxes, licenses and fees	322,699
Aggregate write-ins for deductions	2,465,145
Total	\$20,697,095
Net gain from operations before federal income taxes	\$886,758
Federal and foreign income taxes incurred	(170,800)
Net gain from operations before realized capital gains or (losses)	1,057,558
Net realized capital gains or (losses)	(1,590)
Net income	\$1,055,968

DESERET MUTUAL INSURANCE COMPANY  
RECONCILIATION OF CAPITAL AND SURPLUS  
2004 through 2007

	Prior Exam 2004	2005	2006	2007	Per Exam 2007
Capital and surplus prior reporting year	\$5,940,489	\$5,080,258	\$5,416,085	\$6,617,051	\$6,617,051
Net income or (loss)	(1,017,781)	327,575	340,327	1,055,968	1,055,968
Change in net deferred income tax	193,971	(111,900)	171,163	(590,566)	(590,566)
Change in nonadmitted assets	259	153,225	408,940	179,236	179,236
Change in asset valuation reserve	(36,680)	(33,073)	280,536	(167)	(167)
Net change in capital and surplus	<u>(\$860,231)</u>	<u>\$335,827</u>	<u>\$1,200,966</u>	<u>\$644,471</u>	<u>\$644,471</u>
Capital and surplus end of reporting year	<u><u>\$5,080,258</u></u>	<u><u>\$5,416,085</u></u>	<u><u>\$6,617,051</u></u>	<u><u>\$7,261,523</u></u>	<u><u>\$7,261,523</u></u>

## NOTES TO FINANCIAL STATEMENTS

There were no adjustments or notes to the financial statements as reported at December 31, 2007.

### (1) Capital and Surplus

\$7,261,522

The Company's minimum adjusted capital requirement, pursuant to U.C.A. § 31A-5-211(2)(a), was \$400,000. As of December 31, 2007, the Company reported total adjusted capital of \$7,482,984 in accordance with U.C.A § 31A-17-609, and had an authorized control level risk-based capital (RBC) requirement of \$462,681, in accordance with U.C.A § 31A-17-605.

## SUMMARY OF EXAMINATION FINDINGS

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

1. The Company did not file its LDS Business College policy form with the Utah insurance commissioner. On July 31, 2008, the Company petitioned the Department to request a determination the LDS Business College Student Health Plan be recognized as exempt from regulation by the Department in accordance with U.A.C. Rule R590-240.

Effective January 26, 2009, the exemption was granted subject to submission of periodic financial reports evidencing the viability of the Student Health Plan to the Department and deletion of references to "insurance" and inclusion of the docket reference identifying the exemption order on Student Health Plan literature and web site content. (INSURANCE PRODUCTS AND RELATED PRACTICES)

2. At December 31, 2007, the Company's custodial agreement did not comply with U.A.C. Rule R590-178. A revised agreement was executed, effective March 1, 2008, and approved by the board of directors on August 21, 2008 to bring the custodial agreement into compliance. (ACCOUNTS AND RECORDS)

## ACKNOWLEDGEMENT

In addition to the undersigned, Malis Rasmussen, Financial Examiner and William Stimpson, Market Conduct Examiner, Donald Catmull, CFE, Senior Examiner, Colette Hogan Sawyer, CFE, CPM, Assistant Chief Examiner, of the Utah Insurance Department participated in the examination. Actuary Tom Burger, FSA, MAAA of the actuarial firm Taylor-Walker & Associates, Inc. performed the actuarial phases, and Brandon Thomas, HISP of Huff, Thomas & Company, performed the review of the Company's information systems. Each joins the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers, employees, and representatives of the Company.

Respectfully Submitted,



Carolyn Maynard, CFE  
Huff, Thomas and Company  
Representing the Utah Insurance Department