

Report of Examination of

Czech Catholic Union
Cleveland, Ohio

As of December 31, 2013

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Columbus, Ohio
December 19, 2014

Honorable Mary Taylor
Lieutenant Governor/Director
State of Ohio
Department of Insurance
50 West Town Street
3rd Floor – Suite 300
Columbus, Ohio 43215

Dear Madam:

In accordance with Section 3901.07 of the Ohio Revised Code (“ORC”), an examination was made of the

Czech Catholic Union

an Ohio domiciled, a fraternal benefit society, hereinafter referred to as the “Company.” The examination was conducted at the Company’s home office, located at 5349 Dolloff Road, Cleveland, Ohio.

Scope of Examination

The Company was last examined by the Department as of December 31, 2009. The current examination covers the period of January 1, 2010 through and including December 31, 2013.

The Department conducted the examination in accordance with the National Association of Insurance Commissioners (“NAIC”) Financial Condition Examiners Handbook. The Handbook requires that the Department plan and perform the examination to evaluate the Company’s financial condition and identify prospective risks including corporate governance, identify and assess inherent risks, and evaluate system controls and procedures used to mitigate those risks. An examination also includes assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management’s compliance with Statutory Accounting Principles and annual statement instructions when applicable to domestic state regulations.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process.

For the years 2010 and 2011, the certified public accounting firm of Sabatka & Associates (“CPA”) provided an unqualified opinion based on statutory accounting principles. For the years 2012 and 2013, the certified public accounting firm of Hudak & Vrana (“CPA”) provided an unqualified opinion based on statutory accounting principles.

Relevant work performed by the CPA during its annual audit of the Company was reviewed during the examination and incorporated into the examination work papers.

Management and Control

Board of Directors

Management of the Company is vested in its Board of Directors, which was comprised of the following members as of the examination date:

<u>Name</u>	<u>Principal Occupation</u>
Joseph A. Kocab	Retired, Assistant Principal, Cleveland Public Schools
Maryann Langevin	Retired Office Manager, Detroit Public Schools
Cynthia Kveton	Research Chemist, Nestles Purina Petcare
Dolores Jacklin	Music Instructor
Lillian Kopecky	Treasurer, Society 119

Officers

As of the examination date, the following officers were elected and serving in accordance with the Company's Bylaws:

Name	Title
Robert L. Cermak	President and Treasurer
Jane M. Milczewski	Secretary
Loretta Moravecck	1 st Vice President
Edward P. Babor	2 nd Vice President

Territory and Plan of Operations

The Company is licensed to transact business in the states of Illinois, Iowa, Michigan, and Ohio.

Reinsurance

The Company's life insurance business is covered by a facultative reinsurance treaty that allows cessions up to \$1,000,000 above a retention level of \$35,000.

Financial Statements

The financial condition and the results of its operations for the four year period under examination as reported and filed by the Company with the Department are reflected in the following:

Statement of Assets, Liabilities, Surplus and Other Funds
Summary of Operations
Statement of Changes in the Surplus Account

**Statement of Assets
December 31, 2013**

Admitted assets	
Bonds	\$ 12,728,955
Preferred stocks	50,000
Common stocks	1,234,685
Properties occupied by the company	44,930
Cash and short-term investments	1,832,995
Contract loans	<u>145,706</u>
Total cash and invested assets	16,037,271
Investment income due and accrued	138,179
Uncollected premiums and agents' balances in the course of collection	<u>1,116</u>
Total Admitted Assets	<u>\$ 16,176,566</u>

**Statement of Liabilities, Surplus and Other Funds
December 31, 2013**

Liabilities, Surplus and other funds:

Aggregate reserve for life certificates and contracts	\$ 13,190,745
Contract claims – life	25,274
Refunds apportioned for payment	50,000
Premiums and annuity considerations for life and accident and health contracts received in advance	1,670
Interest maintenance reserve	95,680
General expenses due or accrued	25,721
Taxes, licenses and fees due or accrued	935
Amounts withheld or retained by Society as agent or trustee	27,239
Asset valuation reserve	387,714
Aggregate write-ins for liabilities	
Fraternal	<u>1,712</u>
Total Liabilities	13,806,690
Unassigned funds	<u>2,369,876</u>
Total Liabilities and Surplus	<u>\$ 16,176,566</u>

Summary of Operations
December 31, 2013

Premiums and annuity considerations for life and accident and health contracts	\$1,070,881
Net investment income	698,112
Amortization of interest maintenance reserve	<u>8,899</u>
Total premiums and other revenues	1,777,892
Death benefits	147,166
Annuity benefits	381,238
Surrender benefits and withdrawals for life contracts	60,555
Increase in aggregate reserve for life and accident and health contracts	<u>857,786</u>
Total benefits paid or provided	1,446,745
General insurance expenses and fraternal expenses	263,225
Insurance taxes, licenses and fees	<u>9,209</u>
Total insurance expenses and other deductions	1,719,179
Net gain from operations before refunds to members	58,713
Refunds to members	<u>535</u>
Net gain from operations after refunds to members and before realized capital gains	58,178
Net realized capital gains	<u>248,020</u>
Net Income	<u>\$ 306,198</u>

Statement of Changes in the Surplus Account

	2013	2012	2011	2010
Surplus, December 31, previous year	<u>\$ 2,103,389</u>	<u>\$ 2,623,049</u>	<u>\$ 2,699,406</u>	<u>\$ 2,113,052</u>
Net income (loss) from operations	306,198	(332,332)	(97,719)	(193,635)
Change in net unrealized capital gains (losses)	(139,145)	(182,324)	13,864	69,254
Change in non-admitted assets	0	0	0	718,991
Change in asset valuation reserve	100,764	(5,004)	7,498	(8,256)
2013 Audit Adjustment	<u>(1,330)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change in surplus for the year	<u>266,487</u>	<u>(519,660)</u>	<u>(76,357)</u>	<u>586,354</u>
Surplus December 31, current year	<u>\$ 2,369,876</u>	<u>\$ 2,103,389</u>	<u>\$ 2,623,049</u>	<u>\$ 2,699,406</u>

Notes to the Financial Statements

Investments

The Company's investments in General Electric Corporation, Goldman Sachs Group, Inc., and MBIA, Inc. securities exceeded permissible amounts as specified in ORC 3907.14 Section (S)(7) by \$36,271, \$8,086, and \$13,583 respectively. In September 2014, a General Electric Corporation Bond that was held as of December 31, 2013 was called at a par value of \$100,000 which resulted in no gain or loss to the Company. No adjustments were made to the Financial Statements due to these excess investments.

Aggregate Reserve for Life and Accident and Health Contracts

The Company had outside actuary Joseph H. Steimla, FSA, MAAA, of Steimla & Associates Inc., render a Statement of Actuarial Opinion ("Opinion") on the total reserves. Mr. Steimla prepared an Actuarial Memorandum supporting the Opinion in conjunction with the preparation of the Company's December 31, 2013, Annual Statement.

Jason Wade, ASA, MAAA, the Department's Life and Annuity Actuary, reviewed the Actuarial Memorandum and performed other procedures as considered necessary to evaluate the Company's reserves. On the basis of his analysis, Mr. Wade determined the reserves presented in the December, 2013 Annual Statement is consistent with requirements in Ohio law.

Subsequent Events

There are no material subsequent events.

Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2013, and is summarized as follows:

Total Admitted Assets	<u>\$ 16,176,566</u>
Liabilities	\$ 13,806,690
Unassigned Funds	<u>2,369,876</u>
Total Liabilities and Unassigned Funds	<u>\$ 16,176,566</u>

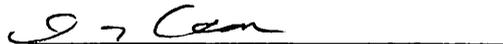
Acknowledgement

In addition to the aforementioned and undersigned, the following representatives of the Department participated in this examination: Louis F. Radecky, CPA (inactive), CFE.

Respectfully,



Nicholas J. Kostoff, CFE
Examiner-In-Charge
Office of Risk Assessment
Ohio Department of Insurance



David A. Cook, CFE
Assistant Chief Examiner
Office of Risk Assessment
Ohio Department of Insurance

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2013.

Nicholas J. Kostoff
Examiner-In-Charge

1/26/15
Date

[Signature]
Assistant Chief Examiner

1/26/15
Date

State of Ohio

County of Franklin

Personally appeared before me the above named, Nicholas J. Kostoff, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 26 day of January, 2015.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires

State of Ohio

County of Franklin

Personally appeared before me the above named, David A. Cook, personally known to me, who executed the above instrument and that the statements and answers contained therein are true and correct to the best of his/her knowledge and belief.

Subscribed and sworn to before me this 26 day of January, 2015.

Elizabeth Chase
(Notary Public)
ELIZABETH CHASE
NOTARY PUBLIC, STATE OF OHIO
~~MY COMMISSION EXPIRES MAY 22, 2017~~
My Commission Expires