

REPORT OF EXAMINATION

OF

KNIGHTS OF PETER CLAVER, INC.

NEW ORLEANS, LOUISIANA

as of

December 31, 2012

TABLE OF CONTENTS

EXAMINER'S AFFIDAVIT	iii
SCOPE OF EXAMINATION.....	2
ORGANIZATION AND HISTORY.....	3
MANAGEMENT AND CONTROL.....	4
Board of directors.....	4
Officers.....	5
Committees.....	6
Conflict of Interest	6
Dividends to Policyholders.....	6
CORPORATE RECORDS.....	6
Audit Committee.....	7
HOLDING COMPANY AND AFFILIATES	7
FIDELITY BONDS AND OTHER INSURANCE	8
EMPLOYEES' AND AGENTS' WELFARE	8
Employees' Benefits	8
Section 1033 of Title 18 of the U.S. CODE	8
SPECIAL DEPOSITS.....	9
MARKET CONDUCT ACTIVITIES.....	10
Territory	10
Plan of Operation	10
Policy Forms and Underwriting.....	10
Advertising and Promotion	11
Treatment of Policyholders and Other Claimants.....	11
Compliance with Producers' Licensing Requirements.....	11
Policyholders' Complaints.....	12
Privacy Policies and Practices.....	12
FINANCIAL CONDITION/GROWTH OF THE ORDER	12
ACCOUNTS AND RECORDS	13
External Audit and Actuarial services	13
Trial Balance - 2012.....	13

Bank Reconciliation.....14
Record Retention Policy and Procedures.....14
Information Systems14
Unclaimed property filings.....15
REINSURANCE 15
FINANCIAL STATEMENT INDEX 16
NOTES TO FINANCIAL STATEMENTS 21
CONTINGENT LIABILITIES AND PENDING LITIGATION.....32
COMPLIANCE WITH PREVIOUS RECOMMENDATIONS33
COMMENTS AND RECOMMENDATIONS.....36
SUBSEQUENT EVENTS45
CONCLUSION.....46

EXAMINER'S AFFIDAVIT

STATE OF ALABAMA
MONTGOMERY COUNTY

Blase Francis Abreo, CFE, being duly sworn, states as follows:

1. I have authority to represent Alabama in the examination of Knights of Peter Claver, Inc.
2. Alabama is accredited under the National Association of Insurance Commissioners Financial Regulation Standards and Accreditation.
3. I have reviewed the examination workpapers and examination report, and the examination of Knights of Peter Claver, Inc. was performed in a manner consistent with the standards and procedures required by the State of Alabama.

The affiant says nothing further.

Francis Blase Abreo

Blase Francis Abreo

Subscribed and sworn before me by Francis Blase Abreo on this 13th day of May 2013

(SEAL)

T. W. R. F. Johns
(Signature of Notary Public)

My commission expires 10/12/15



ROBERT BENTLEY
GOVERNOR

JIM L. RIDLING
COMMISSIONER

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 502
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JIM L. RIDLING
COMMISSIONER
DEPUTY COMMISSIONER
CHARLES M. ANGELL
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EDWARD S. PAULK
GENERAL COUNSEL
REYN NORMAN
RECEIVER
DENISE B. AZAR
LICENSING MANAGER
JIMMY W. GUNN

May 13, 2013

Honorable Jim L. Ridling
Commissioner of Insurance
Alabama Department of Insurance
201 Monroe Street, Suite 502
Montgomery, Alabama 36104

Dear Commissioner Ridling:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions adopted by the National Association of Insurance Commissioners, a full scope financial and market conduct examination as of December 31, 2012, has been made of

**Knights of Peter Claver, Inc.
New Orleans, Louisiana**

at its home office located at 1825 Orleans Avenue, New Orleans, Louisiana. The report of examination is submitted herewith. Where the description "Order" or "Knights" appears herein, without qualification, it will be understood to indicate Knights of Peter Claver, Inc.

SCOPE OF EXAMINATION

The Order was last examined for the three-year period ended December 31, 2009. The current examination covers the intervening period from January 1, 2010 through December 31, 2012, and was conducted by examiners from Alabama. Where deemed appropriate, transactions, activities and similar items subsequent to December 31, 2012, were reviewed.

The examination was conducted in accordance with applicable statutory requirements of the State of Alabama Insurance Code and the Alabama Insurance Department regulations and bulletins in addition to the procedures and guidelines promulgated by the National Association of Insurance Commissioners (NAIC), as deemed appropriate, and in accordance with generally accepted examination standards and practices.

The examination was conducted in accordance with the NAIC *Financial Condition Examiners Handbook*. The examination was planned and performed to evaluate the financial condition of the Order as of December 31, 2012, and to identify the Order's prospective risks by obtaining information about the Order including corporate governance. In addition, the examination was planned and performed to identify and assess inherent risks within the Order and to evaluate system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements, management's compliance with statutory accounting principles and annual statement instructions.

An IT review was conducted concurrently with the financial examination. The review was limited to the Company's general IT control environment and was based on Exhibit C of the 2012 NAIC *Financial Condition Examiner's Handbook*.

A market conduct examination was performed concurrently with the financial examination. The market conduct examination included a review of the Order's territory and plan of operation, advertising, claims processing, marketing and sales, policy forms and underwriting, policyholder complaints and privacy standards. See the caption MARKET CONDUCT ACTIVITIES – Page 10

The Order's annual statements for each year under examination were compared with the corresponding general ledger account balances. The examination determined that the Order's 2010 and 2011 general ledgers agreed to the 2010 and 2011 Audited Statements and that the 2012 general ledger was reconciled to the 2012 Annual Statement within immaterial differences. See Trial Balance – 2012 under the caption ACCOUNTS AND RECORDS - Page 13

During 2010 and 2011, the Order was audited by Bruno & Tervalon LLP (B&T), certified public accountants (CPA's). The CPA's workpapers were reviewed and the consideration of fraud workpapers for 2011 were utilized. B&T was retained to conduct the 2012 audit. As of the date of the examination report, B&T had not issued the audited financial statement.

A signed certificate of representation was obtained during the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2012.

This Report of Examination is qualified to the extent disclosed in Note 6 – Aggregate reserve for life contracts under the caption NOTES TO FINANCIAL STATEMENTS – Page 21.

ORGANIZATION AND HISTORY

The Order was incorporated as a non-profit fraternal benefit society on November 7, 1909, in Mobile, Alabama, under the laws of the State of Alabama as "Knights of Peter Claver, Inc." The objectives or purpose of the incorporation, as set forth in the Certificate of Incorporation, are as follows:

- The rendering of pecuniary aid to the members of the Knights of Peter Claver and beneficiaries of the members.
- The rendering of mutual aid and assistance to the sick and disabled members of the Knights of Peter Claver.
- The promotion of such social and intellectual intercourse among its members as shall be desirable and proper and by such lawful means as may seem best.
- The location and establishment of subordinate councils or other branches or divisions thereof, composed of members of said corporation, in any town or city of this state, or any state of the United States, or any foreign country, and such councils, branches or divisions so established shall be governed and managed by such laws, by-laws, rules and regulations as said corporation shall determine, and said corporation may enforce such laws, by-laws, rules and regulations against any subordinate council, branch or division by action at law in any court in this state or any state of the United States, or any court in any foreign country and all subordinate councils or other branches therefore established by said corporation shall be governed by such laws, by-laws, rules and regulations as are now in force, or which may hereafter be adopted by said corporation by suit at law in this state or any state of the United States, or any court in any foreign country.

- The establishment, accumulation and management of a reserve or other fund in such manner and such amount as it may determine for the purpose of more effectually rendering aid and assistance to its members.

There are three classes of membership in the Order:

1. Insured members-entitled to all benefits of the Order.
2. Associate members- entitled to all benefits of the Order with the exception of insurance
3. Honorary members-consists of Priests, who may enjoy such membership without cost to themselves, shall not be assessed nor shall they receive insurance benefits unless they elect to become insured members by meeting all the requirements of such members.

The Order's home office is in New Orleans, Louisiana. Hurricane Katrina and its flood waters caused severe damage to the home office. The Order lost most of its original bookkeeping records including policyholders'/certificate holders' files and membership information. A policyholder/membership verification update form was developed by the Order in an attempt to validate the policyholders and membership records and to update the database. Management represented that 7,352 Ladies and 4,315 Knights policyholders/ membership verification update forms were mailed to council offices. The Order received 6,384 Ladies and 2,698 Knights or 77.8% of the policyholders/membership verification forms as of December 31, 2012.

MANAGEMENT AND CONTROL

Board of directors

The supreme legislative body of the Order is the National Council. All executive Authority of the National Council is vested between conventions in a Board of Directors, which meets immediately before and after the annual national conventions. The members of the Board of the Directors of the National Council at December 31, 2012 were:

<u>Name and Residence</u>	<u>Title</u>
Fredron Dekarlos Blackmon Huntsville, Alabama	Supreme Knight
Athanase Joseph Jones, Jr. Jacksonville, Florida	National Secretary
Omar Everett Jones Pearland, Texas	National Treasurer

Gregory Joseph Warner Inglewood, California	Western State District Deputy
Tilmon Donnell King Avondale, Louisiana	Director General, Junior Knights
Ronald Ray Mitchell Houston, Texas	State Deputy of Texas
Curtis James Guynn Indianapolis, Indiana	Northern States District Deputy
Alvin Joseph Wiltz Breaux Bridge, Louisiana	State Deputy of Louisiana
Paul Howard Ledet, Jr. Houston, Texas	Lay Board Member
Grant Anthony Jones New Orleans, Louisiana	Gulf Coast District Deputy and Interim Administrator
Skip Riley (no middle name) Denver, Colorado	Central States District Deputy
Reverend Martin David Holley Washington, District of Columbia	National Chaplain
Gene Anthony Phillips, Sr. Tomball, Texas	Past Supreme Knight
James Kenneth Ellis Missouri City, Texas	Deputy Supreme Knight
William Toussaint Everette, Jr. New Orleans, Louisiana	National Advocate

The National Court is composed of representatives of the Knights of Peter Claver Ladies Auxiliary. This division does not have legislative powers but it does pass and send resolutions to the National Council on matters pertaining to the Ladies Auxiliary. Ms. Vertelle Amos Kenion, Supreme Lady is also a Member of the Board

Officers

The following board members were elected as officers as on December 31, 2012.

<u>Officer</u>	<u>Title</u>
Fredron Dekarlos Blackmon	Supreme Knight
Athanase Joseph Jones, Jr.	National Secretary
Omar Everett Jones	National Treasurer

Committees

The following committees were functioning as of December 31, 2012:

Executive Committee

Fredron Dekarlos Blackmon
Athanas Joseph Jones, Jr.
William Toussaint Everette, Jr.

James Kenneth Ellis
Omar Everett Jones

Investment Committee

Fredron Dekarlos Blackmon
Omar Everett Jones
Gene Anthony Phillips, Sr.

Athanas Joseph Jones, Jr.
William Toussaint Everette, Jr.
Vertelle Amos Kenion

Conflict of Interest

The Order has an established procedure for the disclosure of conflicts of interest by its board members for the two-year period for which the board members are elected to serve.

The conflict of interest statements for 2010-2012 and 2012 - 2014 were obtained and reviewed. All board members signed the conflict of interest statement.

Dividends to Policyholders

No dividends were paid during the examination period.

CORPORATE RECORDS

The Order's Articles of Incorporation and the Charter - Constitution and By-laws, revised as of August 4, 2011, were inspected and found to provide for the Operation of the Order in accordance with usual corporate and applicable statutes and regulations.

The minutes of the Board of Directors (BOD) meetings for the period under examination were reviewed and it was determined that the BOD was involved in discussing the pecuniary need of its members and the promotion of charitable ideas of the Order along with matters relating to the yearly conventions. The discussion in reference to the insurance business was limited to the presentation of the operating budget by the executive director. It is necessary that the BOD discuss issues in reference to the Order's financial condition and solvency including the following:

- Financial Statements
- Budgets
- External auditor's examination findings
- Risk Management Activities
- Alabama Department of Insurance examination findings and how the Order has or will comply with the findings
- Prospective risks faced by the Order

The minutes of the investment committee meetings were reviewed and it was determined that the investment committee had its investment advisor brief the members of the committee about the performance of the Order's portfolio and had approved the sales and purchases of its investments in accordance with the investment guidelines.

Audit Committee

The Order did not have a designated audit committee; therefore, the entire board of directors was the audit committee as required by ADMIN. CODE 482-1-141.03(2008), which states:

... If an Audit committee is not designated by the insurer, the insurer's entire board of directors shall constitute the Audit committee....

The examiners determined that the Order had 10,536 policyholders/ Certificate holders in 2011; therefore, the Order is required to comply with ADMIN. CODE 482-1-141-.02(2008), which states:

....Every insurer shall be subject to this chapter. Insurers having direct premiums written in this state of less than \$1,000,000 in any calendar year and less than 1,000 policyholders or certificateholders of direct written policies nationwide at the end of the calendar year shall be exempt from this chapter for the year...

HOLDING COMPANY AND AFFILIATES

The Order is a non-profit fraternal benefit society with a purpose to serve its members. The Order is not part of a holding company system.

FIDELITY BONDS AND OTHER INSURANCE

The Order was covered by an Employee Dishonesty Bond issued by Western Surety Company, a South Dakota corporation as of December 31, 2012. The bond met the suggested minimum amount of insurance as mandated by Exhibit R of the 2012 NAIC Financial Condition Examiners Handbook.

Other Insurance Policies

1. Workers' Compensation and Employer's Liability:
 - Bodily Injury by Accident
 - Bodily Injury by Disease
2. Directors and Officer Liability Coverage
3. Commercial Wind and Hail Coverage
4. Flood Insurance
5. Commercial Property Coverage
6. Commercial General Liability Coverage.

The coverages provided under the policies listed were reviewed during the course of the examination, and appeared to be adequate to protect the Company from the risks faced in the normal course of business.

EMPLOYEES' AND AGENTS' WELFARE

Employees' Benefits

The following are the benefits provided to the employees of the Company as of December 31, 2012:

- Paid Vacation
- Paid Holidays (10 holidays)
- Sick Leave (12 days of sick leave per year)
- Workers Compensation
- Health Insurance
- Flexible Benefits Plan (100% employees' contribution).

Section 1033 of Title 18 of the U.S. CODE

Under ALA. ADMIN. CODE 482-1-146-.11 (2009), the Order is required to comply with the Violent Crime Control and Law Enforcement Act of 1994, US Code, Title 18, Section 1033 (e)(1)(A), which prohibits individuals who have been convicted of any criminal felony involving dishonesty, breach of trust or a violation of the Act

from engaging in the business of insurance in interstate commerce without the specific written consent from the Commissioner of Insurance. The Order implemented a policy that would require current and prospective individuals seeking employment or volunteer work with the Order to submit them to a criminal background check. The examiners determined that the Order's policies and procedures did not include a procedure, applied on a periodic basis, to ascertain the existence of a felony conviction; therefore, the Order did not comply with ALA. ADMIN. CODE 482-1-146-.11 (2009), which states:

Responsibilities of Section 1033 Insurers.

- (1) A Section 1033 insurer subject to the Commissioner's examination authority shall have and apply the following:
 - (a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.
 - (b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.
 - (c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.
- (2) Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department.
- (3) As part of an examination or otherwise, the Department may determine the existence of such procedures, whether and how they are being followed, and the effectiveness of the procedures.

SPECIAL DEPOSITS

The Order had the following securities on deposit with state authorities as of December 31, 2012 in order to satisfy the statutory deposit requirements of the state:

<u>State</u>	<u>Par Value</u>	<u>Statement Value</u>	<u>Fair Value</u>
South Carolina	\$ <u>12,206</u>	\$ <u>12,206</u>	\$ <u>12,206</u>
TOTALS	\$ <u>12,206</u>	\$ <u>12,206</u>	\$ <u>12,206</u>

MARKET CONDUCT ACTIVITIES

Territory

As of December 31, 2012, the Order was licensed to transact business in the following ten states:

Alabama	District of Columbia	Louisiana	Maryland
Nebraska	Oklahoma	Pennsylvania	South Carolina
Texas	Virginia		

The certificates of authority issued by the respective states were inspected for the period under review and found to be in order. There were no pending applications at December 31, 2012.

Plan of Operation

Membership in the Order is restricted to practicing Roman Catholics who at the time of initiation, are eighteen and over for Knights and Ladies. For Junior Knights and Junior Daughters, the prospective member must be between the ages of seven and eighteen. The assessments and dues are collected by the financial secretary of the subordinate councils and courts and are reported monthly to the Order's home office.

Policy Forms and Underwriting

As of December 31, 2012, the Order provided its members group term life insurance in the states in which it was licensed to do business. The group policy form in use was approved by the Alabama Department of Insurance on July 9, 1997 which was effective January 1, 1998. Membership of the Order is the only prerequisite condition to obtain insurance and the amount of insurance coverage is based on the age of issue. The Order verifies the date of birth before paying the claims via the death certificate. The age of issue and the benefits are listed in the following table:

<u>Age at Issue</u>	<u>Benefits</u>
18 through 30	\$ 2,500
31 through 35	2,087
36 through 40	1,900
41 through 45	1,712
46 through 50	1,600
51 through 55	1,450
56 and older	1,225

No individual policies were issued during the period covered by the examination. No new policy form filings were pending approval as of December 31, 2012.

Advertising and Promotion

The examiners reviewed the advertising and promotion materials used to recruit applicants for membership in the Order. The advertising and promotion is primarily accomplished through the publication of “The Claverite” Catholic fraternal magazine published by the National Council Knights of Peter Claver and National Court Knights of Peter Claver and Ladies Auxiliary. The Claverite is distributed to the members of the Order twice a year. The Order’s webpage (www.kofpc.org) was reviewed and found to include the following links: Home, Divisions, Districts/States, Headquarters, The Claverite, News and Contact Us.

The Order has established a committee to focus on recruiting and expansion of the membership base. The committee has created brochure targeting catholic families and youths. These advertising and promotional materials are sent out to units and church parishes. Members of those units will distribute them as a recruitment tool and parishes use them for stewardship/ministry drives. The Order also sends marketing and promotional materials to parishes where they are trying to establish new units. Many of the church parishes’ website has links to the Order’s website which allows nonmembers to learn about the Order.

An applicant pursuing membership in the Order must be a practicing Roman Catholic and must have approached the Holy Sacraments not less than two weeks previous to initiation. The Other requirement for membership of the Order is that the prospective member be recommended to and voted upon by the local council/ court prior to being initiated as a member. There are no other restrictions to be a member of the Order.

Treatment of Policyholders and Other Claimants

During the period under examination, the Order had 38 paid claims in Alabama. The examiner requested all 38 claims and reviewed the claims for compliance with policy provisions, timeliness of payments, and adequacy of documentation. No significant deficiencies noted.

Compliance with Producers’ Licensing Requirements

The Order did not have any producers.

Policyholders' Complaints

The Order had no complaints filed with the Alabama Department of Insurance.

The complaint register was maintained electronically on an excel spreadsheet. The review of the complaint register indicated that telephone inquiries about claims checks were included in the register. Telephone inquiries and written inquiries were responded in a timely manner.

Privacy Policies and Practices

The Order's Privacy Notice disclosed the types of information collected, the way the information is used, the manner in which information is collected and how the information is protected. The Privacy Notice also specifically stated the members' rights, and the Order does not disclose any information to any nonaffiliated third parties unless permitted to do so by law. The examiners determined that the privacy policy was last mailed to its members in January 2012, which was more than twelve months ago as of the date of the examination report. The Order did not comply with ALA. ADMIN. CODE 482-1-122-.05 & -.06 (2001), which states:

A. Initial notice requirement. A licensee shall provide a clear and conspicuous notice that accurately reflects its privacy policies and practices to both of the following: (1) Customer. An individual who becomes the licensee's customer, not later than when the licensee establishes a customer relationship.... (2) Consumer. A consumer, before the licensee discloses any nonpublic personal financial information about the consumer to any nonaffiliated third party, if the licensee makes a disclosure other than as authorized by Sections 15 & 16." "A. (1) General rule, A licensee shall provide a clear and conspicuous notice to customers that accurately reflects its privacy policies and practices not less than annually during the continuation of the customer relationship. Annually means at least once in any period of twelve (12) consecutive months during which that relationship exists. A licensee may define the twelve-consecutive-month period, but the licensee shall apply it to the customer on a consistent basis.

FINANCIAL CONDITION/GROWTH OF THE ORDER

The following table sets forth the significant items indicating the growth and financial condition of the Order for the period under review:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Premiums Earned</u>
2012*	\$ 3,048,556	\$ 1,800,662	\$ 1,247,894	\$ 1,094,973
2011	3,114,346	1,652,993	1,461,353	1,074,439
2010	3,552,717	2,006,788	1,545,929	1,119,462
2009*	3,519,555	2,078,328	1,441,227	1,132,311

*Per examination. Amounts for the remaining years were obtained from Audited Statement.

ACCOUNTS AND RECORDS

The Order's accounting records were maintained on electronic data processing equipment and manually on personal computers. The Order was manually updating some of its records including claims payment records and the general ledger. The Order lost most of its original bookkeeping records including policyholders'/ certificate holders' files and membership information during Hurricane Katrina's flooding. Management represented that 7,352 Ladies and 4,315 Knights policyholders/ membership verification update forms were mailed to council offices. The Order received 6,384 Ladies and 2,698 Knights or 77.8% of the policyholders/ membership verification forms as of December 31, 2012. Management indicated that efforts are being made to collect the completed verification forms.

All surviving records along with verification forms and membership applications received since September 2005 have been scanned and stored electronically to prevent future loss of membership information due to disaster.

External Audit and Actuarial services

The Company was audited annually by the certified public accounting firm of Bruno & Tervalon, LLP, certified public accountants (CPA's) (B&T). The audit reports and workpapers of the external auditors for 2010 and 2011 were made available. The 2012 audited financial statement was not issued by B&T. The Company's reserves were certified by Mr. James Harrison, FSA, MAAA 2010 – 2012.

Trial Balance - 2012

During the review of the 2012 Annual Statement, the examiners determined that the Contract claim liability under Liabilities, Surplus and Other Funds and Death benefits incurred in the Summary of Operations were \$1,000 more than the amount reflected on the Order's 2012 Trial Balance. The examiners also noted that the Order did not make the year-end entries in the general ledger to update the Unassigned funds (surplus) to reflect the Unassigned funds (surplus) amount reported in the 2012

Annual Statement.

In Bruno & Tervalon LLP's (B&T) 2011 Communication of Significant Deficiencies and Material Weakness in Internal Control letter to the Board of Directors of the Order, B&T noted that the amounts reflected that the Order's 2011 Annual Statement did not agree to the general ledger. B&T recommended that the Order's general ledger properly and timely reflect adjustments and amounts reported in the Annual Statement. The 2012 audit will not be completed until April 2013.

Bank Reconciliation

The Order's accounting and recordkeeping activities were reviewed during the examination. It was determined that the Order did not perform bank reconciliations on a timely basis.

The prior two examinations had recommended that the Order perform bank reconciliations on a timely basis.

Record Retention Policy and Procedures

The Order was asked to provide its record retention policy and procedures in use during the period under examination. It was determined that the Order established the record retention policy and procedure on July 1, 2011 and was approved by the National Council Board of Directors on July 29, 2011. The policy meets the requirement of ALA. ADMIN. CODE 482-1-118-.03 (1999), which states:

Every insurer, which term shall include every domestic insurer, foreign insurer, health care services corporation, health maintenance organization, prepaid dental plan, managing general agent or any other legal entity regulated by the Insurance Code and licensed to do business in this state shall maintain its books, records, documents and other business records in order that the insurer's financial condition may be readily ascertained by the Department of Insurance, taking into consideration other record retention requirements. All records must be maintained for not less than five (5) years.

Information Systems

During an examination of the Order's Information Systems, the controls governing information security were reviewed. It was determined the Order had not established a security policy. This is not in keeping with ALA. ADMIN. CODE 482-1-126-.04 (2003) - Information Security Program, which states:

Each licensee shall implement a comprehensive written information security program that includes administrative, technical and physical safeguards for the protection of customer information. The administrative, technical and physical safeguards included in the information security program shall be appropriate to the size and complexity of the licensee and the nature and scope of its activities.

Unclaimed property filings

The Order did not report any unclaimed property to any states during the period covered by the examination. The examiners determined that two policyholders with residency in Alabama were over the age of 103 with a benefit payment of \$450. The Order was required to make an unclaimed property filing on these two policyholders. Management indicated that they were performing a review of all policyholders who have reached the limiting age of 100 years and that the review will be completed by May 31, 2013. Since the order did not file the unclaimed property report, the Order did not comply with ALA. CODE § 35-12-72 (2004), which states:

Property is presumption of abandonment (a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property: ... (10) Amount owed by an insurer on a life or endowment insurance policy or an annuity that has matured or terminated, three years after the obligation to pay arose or, in the case of a policy or annuity payable upon proof of death, three years after the insured has attained, or would have attained if living, the limiting age under the mortality table on which the reserve is based. ... (18) All other property, three years after the owner's right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.

The examination determined that 80 policyholders from other states had reached the limiting age which was equal to or greater than 100 and the total benefits payment to these policyholders was \$44,657. The Order should promptly file the unclaimed property report in accordance with the rules and regulations in which the policyholder holders reside.

REINSURANCE

There were no reinsurance transactions.

FINANCIAL STATEMENT INDEX

Financial statements included in this report, which reflect the financial condition of the Company at December 31, 2012, and its operations for the years under examination, consist of the following:

	Page
Statement of Assets, Liabilities, Capital and Surplus	17 and 18
Statement of Summary of Operations	19
Statement of Reconciliation of Surplus Account	20

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

KNIGHTS OF PETER CLAVER, INC.

STATEMENT OF ASSETS
For the Year Ended December 31, 2012

	<u>Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>
ASSETS			
Bonds (Note 1)	\$ 2,012,620		\$ 2,012,620
Stocks:			
Common stocks	163,574		163,574
Real estate:			
Properties occupied by the company (Note 2)	408,656	252,939	155,717
Properties held for the production of income	13,341	13,341	-0-
Cash (\$51,998, Sch. E-Part 1), cash equivalents (\$620,051 Sch. E – Part 2) & short-term investments (\$12,206 Sch. DA) (Note 3)	684,255		684,255
Aggregate write-ins	<u>13,628</u>	<u>13,628</u>	<u>-0-</u>
Subtotals, cash and invested assets	<u>\$ 3,296,074</u>	<u>279,908</u>	<u>\$ 3,016,166</u>
Investment income due and accrued (Note 4)	\$ 24,217		\$ 24,217
Premiums and considerations:			
Uncollected premiums and agents' balances in course of collection (Note 5)	8,173		8,173
Electronic data processing equipment and software	-0-		-0-
Furniture and equipment, including health care delivery assets	<u>21,144</u>	<u>21,144</u>	<u>-0-</u>
TOTALS	<u>\$ 3,349,608</u>	<u>\$ 301,052</u>	<u>\$ 3,048,556</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

KNIGHTS OF PETER CLAVER, INC.

STATEMENT OF LIABILITIES, CAPITAL AND SURPLUS
For the Year Ended December 31, 2012

LIABILITIES

Aggregate reserve for life contracts (Note 6)	\$ 1,371,444
Contract claims:	
Life (Note 7)	160,521
Premiums and annuity considerations for life and accident and health contracts received in advance (Note 5)	57,371
Interest maintenance reserve (Note 8)	-0-
General expenses due or accrued (Note 9)	148,622
Miscellaneous liabilities:	
Asset valuation reserve (Note 10)	62,704
Aggregate write-ins for liabilities:	
Reserve for escheat funds	<u>-0-</u>
Total Liabilities	\$ <u>1,800,662</u>
Unassigned funds (surplus) (Note 11)	<u>1,247,894</u>
TOTAL LIABILITIES AND UNASSIGNED FUNDS	\$ <u>3,048,556</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

KNIGHTS OF PETER CLAVER, INC.

STATEMENT OF SUMMARY OF OPERATIONS
For the Years Ended December 31, 2012, 2011 and 2010

<u>Income</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Premiums and annuity consideration	\$ 1,094,973	\$ 1,074,439	\$ 1,119,462
Net investment income (Note 1)	35,751	85,742	88,247
Miscellaneous Income:			
Aggregate write-ins for miscellaneous income	<u>451,486</u>	<u>496,550</u>	<u>426,589</u>
Total Income	\$ <u>1,582,210</u>	\$ <u>1,656,731</u>	\$ <u>1,634,298</u>
<u>Deductions:</u>			
Death benefits (Note 6)	\$ 479,132	\$ 460,632	\$ 424,276
Increase in aggregate reserves for life and accident and health contracts	<u>- 60,477</u>	<u>-103,108</u>	<u>83,730</u>
Totals	\$ <u>418,655</u>	\$ <u>357,524</u>	\$ <u>508,006</u>
General insurance expenses and fraternal expenses (Note 9)	1,294,441	1,431,056	1,206,459
Insurance taxes, licenses and fees, excluding federal income taxes	<u>21,255</u>	<u>32,973</u>	<u>132,439</u>
Total deductions	\$ <u>1,734,351</u>	\$ <u>1,821,553</u>	\$ <u>1,846,904</u>
Net gain from operations after refunds to members and before realized capital gains (losses)	-152,141	-164,822	-212,606
Net realized capital gains or (losses) transferred to the IMR	<u>37,883</u>	<u>79,992</u>	<u>1,501</u>
Net income	\$ <u>-114,258</u>	\$ <u>-84,830</u>	\$ <u>-211,105</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN THIS REPORT ARE AN INTEGRAL PART THEREOF.

KNIGHTS OF PETER CLAVER, INC.

STATEMENT OF CHANGES IN CAPITAL AND SURPLUS
For the Years Ended December 31, 2012, 2011, and 2010

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Surplus, December 31, prior year	\$ 1,461,353	\$ 1,545,929	\$ 1,699,015
<u>Gains and (losses) in surplus:</u>			
Net income (loss)	-114,258	-84,830	-211,105
Change in net unrealized capital gains (losses)	-11,475	-41,354	65,920
Change in nonadmitted assets	-21,733	15,133	2,742
Change in asset valuation reserve	5,480	26,475	-10,643
Aggregate write-ins for gains and losses in surplus	<u>-71,473</u>	<u>-0-</u>	<u>-0-</u>
Net change in capital and surplus for the year	\$ <u>-213,459</u>	\$ <u>-84,576</u>	\$ <u>-153,086</u>
Capital and surplus, December 31, current year	\$ <u>1,247,894</u>	\$ <u>1,461,353</u>	\$ <u>1,545,929</u>

THE NOTES IMMEDIATELY FOLLOWING THE FINANCIAL STATEMENTS IN
THIS REPORT ARE AN INTEGRAL PART THEREOF.

NOTES TO FINANCIAL STATEMENTS

Note 1 - Bonds

\$ 2,012,620

The captioned amount is \$83,130 less than the \$2,095,750 reported by the Order in its 2012 Annual Statement.

The review of Schedule D - Part 1, indicated that the Order was not amortizing bonds to the par value as required by SSAP No. 26, Paragraph 6, of the NAIC Accounting Practices and Procedures Manual, which states:

Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions (where the issue can be called away from the reporting entity at the issuer's discretion) shall be amortized to the call or maturity value/date which produces the lowest asset value (yield to worst).

Since the Order did not amortize its bonds and did not provide amortization workpapers to the examiners, the amortized value of the bonds was not readily determinable by examiners. Therefore, in the interest of conservatism, the examination change of \$83,130 reflects an adjustment to report bonds at adjusted book value or the par value, whichever is less as of December 31, 2012. The Order should amortize the premium or discount using the scientific (constant yield) interest method as required by SSAP No. 26, paragraph 6 and provide the workpapers when requested by the examiners.

Since the Order did not amortize bonds it did not comply with the recommendation made during the prior examination.

The reconciliation of the Order's securities to the custodial bank statement as of December 31, 2012 was requested on March 6, 2013, the information was provided on April 2, 2013. The Order did not comply with ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an

extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

Schedule D - Part 1 - Bonds

The Order did not complete Columns 17 and 18 of the 2012 Annual Statement appropriately. The Order left the column 17 - Effective Rate of Interest blank and in column 18 - included "MONTH" for U.S. Government bonds and "QUART" for industrial and miscellaneous bonds which was not in compliance with the NAIC Annual Statement Instructions, which states:

Column 17 – Effective Rate of Interest: For issuer obligations, include the effective rate at which the purchase was made. For single class and multi-class mortgage-backed/asset-backed securities, report the effective yield used to value the security at the reporting date. The Effective Yield calculation should be modified for other than temporary impairments recognized....

Column 18 – Interest – When Paid: For securities that pay interest annually, provide the first 3 letters of the month in which the interest is paid (e.g., JUN for June). For securities that pay interest semi-annually or quarterly, provide the first letter of each month in which interest is received (e.g., JD for June and December, and MJSD for March, June, September and December). For securities that pay interest on a monthly basis, include "MON" for monthly. Finally, for securities that pay interest at maturity, include "MAT" for maturity....

The Order should complete Schedule D - Part 1 in accordance with the guidance provided by the NAIC Annual Statement Instructions.

A similar recommendation was made during the prior examination.

Trade Confirmations

The Order was requested to provide the trade confirmations for the acquisition and disposal of securities in order to ascertain that the securities were recorded on their trade date and not the settlement date and to compare the CUSIP, description, par value, interest rate, maturity date, cost and interest paid on purchase of securities. The Order did not maintain the records at the home office as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its

assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

The information request was made on March 21, 2013 and when the Order obtained the information from the investment advisor and provided the same to the examiners on April 15, 2013. The information was not provided within ten working days as required by ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

BOND - CUSIP #

The review of the NAIC jump-start documents indicated that the Order had a wrong CUSIP number on COCA COLA ENTERPRISES INC. NOTES in the 2012 Annual Statement. The examiners determined that during the review of the 2011 Annual Statement, the Order was asked by the Alabama Department of Insurance financial analyst to explain the designation exception of the above mentioned bond along with four other bonds. The Order had indicated that the designations were wrong and that the Order would correct the designations. As indicated above, the error was in the CUSIP Number and the Order had not provided an appropriate response to the ALDOI financial analyst.

Note 2 - Real estate: Properties occupied by the company \$155,717

The captioned amount is the same as reported in the Order's 2012 Annual Statement.

The Order did not provide the documents supporting the cost of the real estate reported in the 2012 Annual Statement as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

A similar recommendation was made during the prior exam.

The examination determined that Schedule A - Part 1, "Column 10 - Fair value Less Encumbrances," reported the fair value of the home office property at \$619,858; this amount was more than the \$580,000 ascertained by the most recent appraisal dated March 13, 2007. The Order also did not disclose in the Notes to Financial Statements, the basis on which the fair value of the property was determined as required by the guidance provided by the NAIC Annual Statement Instructions, which states:

Column 10 – Fair Value Less Encumbrances: Report the fair value of the property less encumbrances. Discuss in Notes to Financial Statements, Summary of Significant Accounting Policies, the basis on which fair value was determined.

This recommendation was made during the prior examination.

The examination determined that the March 13, 2007 appraisal was prepared by an appraiser licensed in the state of Louisiana. The appraiser did not certify that he was familiar with the provisions of Alabama regulation and that he was willing to testify under oath on request concerning the appraisal as required by ALA. ADMIN. CODE, 482-1-059-.04 (2005), which states:

Certification by Appraiser. The appraiser shall certify that he is familiar with the provisions of this chapter and that the appraisal is made in conformity with the chapter. He shall also certify that he is willing to testify under oath on request concerning the appraisal.

The Order obtained an appraisal dated January 7, 2013. The appraiser was not licensed in Alabama in accordance with ALA. ADMIN. CODE (2005) 482-1-059-.02, which states:

Qualifications of the Appraiser. All real estate appraisals conducted at the request of the Insurance Department, if to be used by the Department for valuation of assets, must be performed by a person licensed under Section 34-27A-1 et seq., Code of Alabama 1975, specifically 34-27A-9 by the Alabama Real Estate Appraisers Board.

Note 3 - Cash, cash equivalents and short-term investments

\$ 684,255

The captioned amount is the same as reported by the Order, but \$12,206 more than that determined by this examination. No changes were made to the financial statements contained in this report because the error was determined to be a reclassification error, which would have no significant impact on the Order's surplus.

The certificate of deposit in the amount of \$12,206 issued by Liberty Bank was held as a Special Deposit for the benefit of the Director of Insurance of the State of South Carolina. The last renewal date was April 10, 2011 with a maturity date of April 10, 2013. The amount was reported on Schedule DA - Part 1 - Short-term Investment instead of Schedule D - Part 1 - Bonds as required by SSAP No. 26, paragraph 2, of the NAIC Accounting Practices and Procedures Manual, which states:

Bonds shall be defined as any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payment. This definition includes: ..g). Certificates of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition...

The examiners determined the \$12,206 amount when recorded as bond will increase AVR by \$2,075 and is considered immaterial for any changes to the financial statements. See Note 10 - Asset Valuation Reserve.

The Order had not complied with similar recommendations during the prior two examinations.

Note 4 - Investment income due and accrued

\$24,217

The captioned amount is the same as reported by the Order in its 2012 Annual Statement.

The Order was requested to provide the Investment income due and accrued calculation along with documentation supporting the calculation. The management of the Order indicated that the Investment income due and accrued was taken directly from the custodian's investment statement and that the due and accrued interest was not independently calculated by the Order. Therefore, the Order was not in compliance with the requirements of ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

During the examination, the Order computed the Investment income due and accrued and provided the same to the examiners, which was reconciled to the 2012 Annual Statement. The request for workpapers was made on March 6, 2013 and the information was provided on April 11, 2013. The Order did not comply with ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

<u>Note 5 – Uncollected premiums and agents’ balances in the course of collection</u>	<u>\$ 8,173</u>
<u>Premiums and annuity considerations for life and accident and health contracts received in advance</u>	<u>\$ 57,371</u>

The captioned amounts are \$2,303 and \$32,030 more than the \$5,870 and \$25,341 reported by the Order in its 2012 Annual Statement.

During the review of the accounting records, the examiners determined that the Order had utilized the amounts paid by the policyholders to obtain insurance and excluded the membership fees for computing the uncollected and advance premiums balances. During the review of a sample of 40 items from the uncollected premiums listing, the examiners determined that one policy in the sample had a premium paid to date of October 1, 2013, which translated to premiums paid through the month of October 31, 2013. The policy had an uncollected premium balance for two month instead of advance premiums of ten months. The Order recomputed the uncollected premiums amount to include the fees and corrected the errors in the computation noted above. The recomputed amount was \$8,173 which was \$2,303 more than the amount reported in the 2012 Annual Statement.

Management of the Order indicated that Bruno & Tervalon, CPA, Order’s external auditors had identified errors during the review of the advance premiums and

recomputed the advance premiums amount. The recomputed amount was \$57,371, which was \$32,030 more than the \$25,341 reported in the 2012 Annual Statement.

Management of the Order indicated that the errors made during the computation of *Uncollected premiums and agents' balances in the course of collection* and *Premiums and annuity considerations for life and accident and health contracts received in advance* were identified and fixed. The examination determined that the recomputed amounts were appropriately stated.

The examination also determined that premiums receipts were not applied to the policyholders' accounts appropriately including applying a premium receipt twice to the certificateholder's account.

The Order should maintain the following documents:

1. If the Order is utilizing manual process to compute the uncollected and advance premiums, it should check the completeness of the listing and test check the calculations for accuracy and maintain the documents for review by the examiners.
2. The Order should test checks its premiums records to identify if the premiums were applied to the appropriate accounts and maintain the documents for review by the examiners.

The Order is required to maintain the records and provide the same to the examiners as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

Note 6 - Aggregate reserve for life contracts

\$ 1,371,444

The captioned amount is \$38,884 more than the \$1,332,560 reported by the Order in its 2012 Annual Statement.

The examination determined that some policies which lapsed from the individual in-force listing during the period under examination were not provided with the paid-up non-forfeiture benefit. The Order indicated that they failed to update the extended-term in-force listing to include the policies lapsed during the period under examination. Therefore, the following adjustments were made to increase the reserve by \$38,884.

1. The examiners determined that 55 policies which were on the 2009 in-force listing of premium paying policies were not included on the 2012 in-force listing. The Order recalculated the reserve for a total of \$24,833. The examiner determined that one additional policyholder which the Order indicated in their response was deceased was lapsed for non-payment of premiums. Since the Order did not calculate the reserve amount, for the purpose of conservatism the reserve amount was set at the amount of insurance of \$1,500.
2. During the testing for completeness of the in-force listing, the examiners took a sample from the premiums payments and compared the listing with the 2012 in-force listing. There were six policies in the sample which stopped paying premiums during 2012 and were removed from the in-force listing. The Order updated the extended-term report and identified 23 additional policies that were not on the in-force listing. The reserve calculated by the Order was \$10,904.
3. The examiners determined that five policies which were on the 2009 fully paid-up policies were not included on the 2012 listing. The Order recalculated the reserve for the policyholders who were over 100 years old. The reserve amount was \$1,647.

Since the Order did not include policies which lapsed during the examination period in the in-force listing, the Order did not comply with ALA. CODE § 27-34-25 (a) (1975), which states:

A society may grant paid-up nonforfeiture benefits, cash surrender values, certificate loans and such other options as its laws may permit. As to certificates issued on and after January 1, 1972, a society shall grant at least one paid-up nonforfeiture benefit...

A sample of 75 policies from the premium-paying, paid-up and extended-term in-force listings was taken by the examiners. The Order did not provide the verification forms for 43 of the 75 items in the sample, which was 57.33% of the requested number of verification forms. The 32 verification forms which were received were reviewed and the reserve factors determinants agreed to the database. The actuarial examiner determined that the reserve amount for 1) 58 CSO 3.5% CVRM, 2) <50 Years A-F Members – Nonconverted, 3) 58 CSO Extended Term, 4) IPC, 5) Group Insurance and 6) Special Contingency were appropriate. **The assumption was based on the determination that the in-force listings provided by the Order to the examiners was complete, and that the reserve determinants: i.) issue year, ii.) issue age, and iii.) amount of insurance in the database was accurate. The examination determined that the Order did not have the original documents because these documents were lost during Hurricane Katrina flooding in New**

Orleans in 2005. The examiners obtained the “Member Verification Update” forms which the Order has requested its members to complete in order to update the information in the database. As of the examination, the Order’s home office had received approximately 77.80% of the forms which were obtained and reviewed.

Note 7 - Contract claims: Life

\$160,521

The captioned amount is the same as reported by the Order, but \$10,403 less than that determined by the examination. Due to immateriality, no changes were made to the 2012 financial statements.

During the review of the unpaid claims and claims in the course of settlement, it was determined that the Order did not include three claims reported before the statement date in the listing of reported claims. The examiners determined that the benefit payments on these three claims amounted to \$4,162. The Order also did not establish a Claims adjustment expenses liability for reported claims and incurred but unreported claims. The Claim adjustment expenses liability was established at four percent of the contract claims liability of \$160,521 or \$6,241. The Order should establish a Claims adjustment liability and complete Exhibit 8 - Claims for Life and Accident and Health Contracts appropriately as required by SSAP No. 55, Paragraph 6, of the NAIC Accounting Practices and Procedures Manual, which states:

- b. Claim Liabilities for Life/Accident and health Contracts:
 - i. Due and Unpaid Claims: Claims for which payments are due as of the statement date...
 - iii. Other Claims in course of settlement: Liability for claims that have been reported but the reporting entity has not received all of the required information or processing has not otherwise been completed as of the statement date;
 - iv. Incurred But Not Reported Claims: Liability for which a covered event has occurred (such as death, accident, or illness) but has not been reported to the reporting entity as of the statement date....

- d. Claims adjustment expenses for life Reporting entities: Costs expected to be incurred (including legal and investigation) in connection with the adjustment and recording of life claims defined in subparagraph 6 b.

These recommendations were made during the prior examination.

Note 8 – Interest Maintenance reserve

-0-

The captioned amount is the same as reported by the Order in its 2012 Annual Statement.

The examination determined that the Order had not completed the IMR exhibit in the 2010, 2011 and 2012 Annual Statements. The examiners noted that the Order did not report any sale of bonds in 2010. The Order had a net loss from the sale of Bonds of approximately \$6,000 in 2011 and a net gain from the sale of bonds of \$18,274 in 2012. The Order should have calculated IMR and amortize the gains and losses over the maturity period of the bonds.

Since the Order did not have the amortization workpapers the exact impact on surplus is not readily determinable. However, based on the gains and losses noted in 2011 and 2012, the impact on the surplus would not be material. The Order should maintain the amortization schedule for the sale of bonds and provide the workpapers when requested by the examiners as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

A similar recommendation was made during the prior examination.

Note 9 - General expenses due and accrued

\$ 148,622

The captioned amount is \$56,512 more than the \$92,110 reported by the Order in the 2012 Annual Statement.

The review of the general expenses subsequent to the year-end 2012 indicated that the Order had not accrued for supplies in the amount of \$6,512. The 2012 statutory examination of the Order was scheduled to begin in the month of January 2013. Based on the information provided to the Order, the examination would cost the Order approximately \$50,000. The examiner increased the General expenses due and accrued liability by a total of \$56,512 in accordance with the guidance provided by the SSAP No. 5, paragraph 7, of the NAIC Accounting Practices and Procedures Manual, which states:

An estimated loss from a loss contingency or the impairment of an asset shall be recorded by a charge to operations if both of the following conditions are met:

- a. Information available prior to issuance of the statutory financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the statutory financial statements. It is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability; and
- b. The amount of loss can be reasonably estimated.

Note 10 - Asset Valuation Reserve

\$ 62,704

The captioned amount is the same as reported in the 2012 Annual Statement, but \$17,896 more than the \$44,808 determined by the examination. Due to immateriality no changes were made to the financial statements.

The Order included a Certificate of Deposit in the amount of \$12,206 with a maturity date in excess of one year as short-term investment. The \$12,206 was reclassified as bond to comply with SSAP No. 26, paragraph 2, of the NAIC Accounting Practices and Procedures Manual - See *Note 3 - Cash, cash equivalents and short-term*. Since the NAIC designation of the bond could not be determined and in the interest of conservatism, the bond was included as lower quality bond with an NAIC designation of 5 in accordance with the guidance provided by the NAIC Annual Statement Instructions, which states:

Lines 1 through 7 – Long-Term Bonds: Report the book/adjusted carrying value of all bonds and other fixed income instruments owned in Columns 1 and 4... Categorize the bonds and other fixed income instruments into classes one through six as directed by the NAIC Securities...

The examiners recalculated the basic contribution, reserve objective and the maximum reserve calculations to determine the impact from reclassifying the short-term investment as bond on AVR. The maximum impact on AVR was an increase in the liability by \$2,075.

The examination determined that the Order had included the value of the real estate (home office and properties held for the production of income) reported in Asset column 1 instead of using the Net admitted asset from column 3. The examiners recalculated the basic contribution, reserve objective and the maximum reserve calculations to determine the impact from using the real estate amount admitted by the Order. The maximum impact on the AVR was a decrease in the liability of \$19,971.

The net impact on AVR calculation was \$17,896 which was considered immaterial for any changes to the financial statements.

Note 11 – Unassigned funds (surplus) **\$ 1,247,894**

The unassigned funds (surplus) balance of the Order, as determined by this examination is \$208,253 less than the \$1,456,147 reported by the Order in its 2012 Annual Statement. The following presents a reconciliation of unassigned funds per the Order’s filed Annual Statement to that developed by this examination:

<u>Unassigned funds balance per Company</u>	\$ 1,456,147
<u>Examination increase/(decrease) to assets:</u>	
• Bonds	\$ -83,130
• Uncollected premiums and agents’ balances in the course of collection	<u>2,303</u>
Decrease to assets	\$ <u>-80,827</u>
<u>Examination (increase) / decrease to liabilities:</u>	
• Aggregate reserves for life contracts	\$ -38,884
• Premiums and annuity considerations for life and accident and health contracts	-32,030
• General expenses due and accrued	<u>-56,512</u>
Increase to liabilities	\$ <u>-127,426</u>
Total decrease in surplus	\$ <u>-208,253</u>
Unassigned fund balance per Examination	<u>\$ 1,247,894</u>

CONTINGENT LIABILITIES AND PENDING LITIGATION

The examination for contingent liabilities and pending litigation included the review of the Order’s statutory financial statement disclosures, minutes of the Board of Directors, pending claims, and the usual examination of accounts and unrecorded items. The examiners obtained the letters of representation from management and obtained a letter from the Order’s National Advocate as of March 5, 2013. This review did not disclose any items that would have a material effect on the Order’s financial condition in the event of an adverse outcome.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

Corporate records – Page 6

The examination determined that the minutes of the Board of Directors' meetings did not document the review and assessment of matters critical to the financial condition and ultimate solvency of the Order such as: financial statement review, budgets, risk management activities and prospective risks.

The examination determined that the meeting minutes did not clearly document the Board of Directors' disposition on matters such as audit findings and examination findings including how the Order intends to comply with the recommendations.

Accounts and records – Page 13

The examination determined that the Order did not perform bank reconciliations on a timely and monthly basis.

Bonds – Page 21

The Order did not amortize the bond premium or discount as per the requirements of SSAP No. 26, Paragraph 6, of the NAIC Accounting Practices and Procedures Manual, which states:

Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions (where the issue can be called away from the reporting entity at the issuer's discretion) shall be amortized to the call or maturity value/date which produces the lowest asset value (yield to worst).

The Order did not complete the Schedule D - Part 1 column 17 - Effective Date of Interest and column 18 - Interest - When Paid in accordance with the guidance provided by the NAIC Annual Statement Instructions.

The Order did not maintain the trade confirmations for the acquisition and disposal of securities at its home office as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its

assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

Real estate: Properties occupied by the company – Page 23

The Order did not maintain the documents supporting the cost of real estate as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

The Order again reported the fair value of the real estate property in excess of the appraised value on Schedule A - Part 1, Column 10, and did not disclose the basis on which the fair value was determined in Notes to Financial Statements as required by NAIC Annual Statement Instructions, which states:

Column 10 – Fair Value Less Encumbrances: Report the fair value of the property less encumbrances. Discuss in Notes to Financial Statements, Summary of Significant Accounting Policies, the basis on which fair value was determined.

Cash, cash equivalents and short-term investments – Page 24

The examination determined that the Order reported a certificate of deposit issued by Liberty Bank with a maturity period at acquisition in excess of one year on Schedule DA -Part 1 instead of Schedule D - Part 1 - Bond, which was not in compliance with SSAP No.26, paragraph 2, of the NAIC Accounting Practices and Procedures Manual which States:

Bonds shall be defined as any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payment. This definition includes: ..g). Certificates of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition...

The recommendation was made during the prior two examinations.

Investment income due and accrued – Page 25

The Order did not provide the Investment income due and accrued calculation along with documentation supporting the calculation as required ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

Aggregate reserve for life contracts – Page 27

The Order did not provide its individual (non-group) certificate holders with a paid-up nonforfeiture benefit as required by ALA. CODE § 27-34-25 (a) (1975), states:

a) A society may grant paid-up nonforfeiture benefits, cash surrender values, certificate loans and such other options as its laws may permit. As to certificates issued on and after January 1, 1972, a society shall grant at least one paid-up nonforfeiture benefit....

Contract claims: Life - Page 28

The Order should complete Exhibit 8, in accordance with the guidance provided by SSAP No. 55, paragraph 6, of the NAIC Accounting Practices and Procedures Manual, which states:

- b. Claim Liabilities for Life/Accident and health Contracts:
 - i. Due and Unpaid Claims: Claims for which payments are due as of the statement date...
 - iii. Other Claims in course of settlement: Liability for claims that have been reported but the reporting entity has not received all of the required information or processing has not otherwise been completed as of the statement date;
 - iv. Incurred But Not Reported Claims: Liability for which a covered event has occurred (such as death, accident, or illness) but has not been reported to the reporting entity as of the statement date....

- d. Claims adjustment expenses for life Reporting entities: Costs expected to be incurred (including legal and investigation) in connection with the adjustment and recording of life claims defined in subparagraph 6 b.

Interest maintenance reserve - Page 30

The Order did not calculate IMR; therefore, did not have the workpapers for the amortization of the sale of bonds as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

Asset valuation reserve – Page 31

The Order should utilize the real estate amount from the Net Admitted Asset column 3 of the balance sheet in the calculation of AVR for the equity component group.

COMMENTS AND RECOMMENDATIONS

Corporate records – Page 6

It is recommended that the minutes of the Board of Directors meetings contain a complete and thorough account of the Board of Directors' review and assessment of matters critical to the financial condition and ultimate solvency of the Order such as: financial statement review, budgets, risk management activities and prospective risks.

It is recommended that the minutes of the Board of Directors meetings clearly document the Board of Directors' disposition on matters such as audit findings and examination findings including how the Order intends to comply with the recommendations.

It is recommended that the Order designate an audit committee or the entire Board of Directors act at the audit committee including institution of an audit committee charter as required by ADMIN. CODE 482-1-141.03 which states:

... If an Audit committee is not designated by the insurer, the insurer's entire board of directors shall constitute the Audit committee....

Section 1033 of Title 18 of the U.S. CODE – Page 8

It is recommended that the Order’s policy and procedure to Comply with Violent Crime and Law Enforcement Act of 1994 include a procedure, applied on a periodic basis, to ascertain the existence of felony conviction a required by with ALA.

ADMIN. CODE 482-1-146-.11 (2009), which states:

Responsibilities of Section 1033 Insurers.

(1) A Section 1033 insurer subject to the Commissioner’s examination authority shall have and apply the following:

(a) An internal procedure for determining, by means of background checks or investigations or otherwise, whether applicants for employment or individuals with whom the insurer intends to contract for activities in the business of insurance, whether or not in a capacity requiring a license, have a felony conviction for a Section 1033 offense.

(b) An internal procedure after initial employment or contracting, applied on a periodic basis, to ascertain the existence of a felony conviction for a Section 1033 offense.

(c) An internal procedure for assuring that affected employees or individual contractors have obtained and hold any required Section 1033 consent during the period of employment or contracting.

(2) Such procedures shall be maintained in a format capable of being furnished to the Department as part of the examination process or otherwise as requested by the Department.

(3) As part of an examination or otherwise, the Department may determine the existence of such procedures, whether and how they are being followed, and the effectiveness of the procedures.

Privacy Policies and Practices – Page 12

It is recommended that the Order provide its members with the privacy policy not less than annually as required by ALA. ADMIN. CODE 482-1-122-.05 & -.06 (2001), which states:

A. Initial notice requirement. A licensee shall provide a clear and conspicuous notice that accurately reflects its privacy policies and practices to both of the following: (1) Customer. An individual who becomes the licensee’s customer, not later than when the licensee establishes a customer relationship.... (2) Consumer. A consumer, before the licensee discloses any nonpublic personal financial information about the consumer to any nonaffiliated third party, if the licensee makes a disclosure other than as authorized by Sections 15 & 16.” “A.

(1) General rule, A licensee shall provide a clear and conspicuous notice to customers that accurately reflects its privacy policies and practices not less than annually during the continuation of the customer relationship. Annually means at least once in any period of twelve (12) consecutive months during which that relationship exists. A licensee may define the twelve-consecutive-month period, but the licensee shall apply it to the customer on a consistent basis.

Accounts and records – Page 13

It is recommended that the Order update the general ledger/trial balance in a timely manner to reflect adjustments and amounts reported in the Annual Statement.

It is again recommended that the Order perform its bank reconciliations on a timely basis.

It is recommended that the Order establish controls governing information security and comply with ALA. ADMIN. CODE 482-1-126-.04 (2003), which states:

Each licensee shall implement a comprehensive written information security program that includes administrative, technical and physical safeguards for the protection of customer information. The administrative, technical and physical safeguards included in the information security program shall be appropriate to the size and complexity of the licensee and the nature and scope of its activities.

It is recommended that the Order promptly make the unclaimed property filing in the State Of Alabama in accordance with ALA. CODE § 35-12-72 (2004), which states:

Property is presumption of abandonment (a) Property is presumed abandoned if it is unclaimed by the apparent owner during the time set forth below for the particular property: ... (10) Amount owed by an insurer on a life or endowment insurance policy or an annuity that has matured or terminated, three years after the obligation to pay arose or, in the case of a policy or annuity payable upon proof of death, three years after the insured has attained, or would have attained if living, the limiting age under the mortality table on which the reserve is based. ... (18) All other property, three years after the owner's right to demand the property or after the obligation to pay or distribute the property arises, whichever first occurs.

It is recommended that the Order escheat un-cashed funds in accordance with the states' rules and regulations in which the certificate holders reside.

Bonds – Page 21

It is again recommended that the Order amortize its bonds to the par value per the requirements of SSAP No. 26, Paragraph 6, of the NAIC Accounting Practices and Procedures Manual, which states:

Amortization of bond premium or discount shall be calculated using the scientific (constant yield) interest method taking into consideration specified interest and principal provisions over the life of the bond. Bonds containing call provisions (where the issue can be called away from the reporting entity at the issuer's discretion) shall be amortized to the call or maturity value/date which produces the lowest asset value (yield to worst).

It is recommended the Order provide information requested by the examiners within ten working days as required by ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

It is recommended that the Order complete the Schedule D - Part 1 - Bonds in accordance with the guidance provided by the NAIC Annual Statement Instructions, which states:

Column 17 – Effective Rate of Interest: For issuer obligations, include the effective rate at which the purchase was made. For single class and multi-class mortgage-backed/asset-backed securities, report the effective yield used to value the security at the reporting date. The Effective Yield calculation should be modified for other than temporary impairments recognized....

Column 18 – Interest – When Paid: For securities that pay interest annually, provide the first 3 letters of the month in which the interest is paid (e.g., JUN for June). For securities that pay interest semi-annually or quarterly, provide the first letter of each month in which interest is received (e.g., JD for June and December, and MJSD for March, June, September and December). For securities that pay interest on a monthly basis, include “MON” for monthly.

Finally, for securities that pay interest at maturity, include “MAT” for maturity....

It is recommended that the Order maintain the trade confirmations for the acquisition and disposal of securities and provide the documentation when requested by the examiners as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

It is recommended that the Order provide the trade confirmations within ten working days as required by ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

It is recommended that the Order include the appropriate CUSIP number to identify the bond and it is necessary that the Order’s response to the financial analyst is appropriate.

Real estate: Properties occupied by the company – Page 23

It is recommended that the Order maintain the documents supporting the cost of real estate and provide the same when requested by the examiners as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

It is recommended that the Order not report the fair value of the real estate property in excess of the appraised value on Schedule A - Part 1, Column 10, and

disclose the basis on which the fair value was determined in Notes to Financial Statements as required by NAIC Annual Statement Instructions, which states:

Column 10 – Fair Value Less Encumbrances: Report the fair value of the property less encumbrances. Discuss in Notes to Financial Statements, Summary of Significant Accounting Policies, the basis on which fair value was determined.

It is recommended that the Order request the licensed real estate appraiser to certify in the appraisal report that he is familiar with the provisions of Alabama regulation and was willing to testify under oath concerning the appraisal as required by ALA. ADMIN. CODE, 482-1-059-.04, which states:

Certification by Appraiser. The appraiser shall certify that he is familiar with the provisions of this chapter and that the appraisal is made in conformity with the chapter. He shall also certify that he is willing to testify under oath on request concerning the appraisal.

It is recommended that the appraiser of the real estate occupied by the Order be licensed in Alabama in accordance with ALA. ADMIN. CODE (2005) 482-1-059-.02, which states:

Qualifications of the Appraiser. All real estate appraisals conducted at the request of the Insurance Department, if to be used by the Department for valuation of assets, must be performed by a person licensed under Section 34-27A-1 et seq., Code of Alabama 1975, specifically 34-27A-9 by the Alabama Real Estate Appraisers Board.

Cash, cash equivalents and short-term investments – Page 24

It is again recommended that the Order classify certificates of deposit as bonds if the certificates of deposit have a maturity date in excess of one year from the date of acquisition in accordance with the guidance provided by SSAP No. 26, paragraph 2, of the NAIC Accounting Practices and Procedures Manual, which states:

Bonds shall be defined as any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payment. This definition includes: ..g). Certificates of deposit that have a fixed schedule of payments and a maturity date in excess of one year from the date of acquisition...

Investment income due and accrued – Page 25

It is recommended that the Order maintain documentation in support of the calculation of Investment income due and accrued and provide the same to the examiners as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

It is recommended that the Order provide the information requested by the examiners within ten working days as required by ALA. ADMIN. CODE 482-1-118-.06 (1999), which states:

The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the nonproduction shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay.

Uncollected premiums and agents' balances in the course of collection – Page – Page 26

Premiums and annuity considerations for life and accident and health contracts received in advance – Page 26

It is recommended that the Order verify the completeness and accuracy of the *Uncollected premiums and agents' balances in the course of collection* and *Premiums and annuity considerations for life and accident and health contracts received in advance* and maintain the documents for the examiners review as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

Aggregate reserve for life contracts – Page 27

It is recommended that the Order provide its individual (non-group) certificate holders with a paid-up nonforfeiture benefit as required by ALA. CODE § 27-34-25 (a) (1975), states:

- a) A society may grant paid-up nonforfeiture benefits, cash surrender values, certificate loans and such other options as its laws may permit. As to certificates issued on and after January 1, 1972, a society shall grant at least one paid-up nonforfeiture benefit...

It is recommended that the Order continue to pursue obtaining the verification forms from certificate holders' so that the Order's database can be validated.

Contract claims: Life – Page 28

It is recommended that the Order include all claims reported before the statement date in the listing of reported claims.

It is recommended that the Order complete Exhibit 8, in accordance with the guidance provided by SSAP No. 55, paragraph 6, of the NAIC Accounting Practices and Procedures Manual, which states:

- b. Claim Liabilities for Life/Accident and Health Contracts:
 - i. Due and Unpaid Claims: Claims for which payments are due as of the statement date...
 - iii. Other Claims in course of settlement: Liability for claims that have been reported but the reporting entity has not received all of the required information or processing has not otherwise been completed as of the statement date;
 - iv. Incurred But Not Reported Claims: Liability for which a covered event has occurred (such as death, accident, or illness) but has not been reported to the reporting entity as of the statement date....
- d. Claims adjustment expenses for life Reporting entities: Costs expected to be incurred (including legal and investigation) in connection with the adjustment and recording of life claims defined in subparagraph 6 b.

It is again recommended that the Order establish a claims adjustment expense liability in accordance with the guidance provided by SSAP No. 55, paragraph 6, of the NAIC Accounting Practices and Procedures Manual.

Interest maintenance reserve – Page 30

It is recommended that the Order complete the IMR schedule and maintain workpapers to support the schedule and provide the same to the examiners as required by ALA. CODE § 27-27-29 (a) (1975), which states:

Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions, and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

General expenses due and accrued – Page 30

It is recommended that the Order record all expenses in accordance with the guidance provided by SSAP No. 5, paragraph 7, of the NAIC Accounting Practices and Procedures Manual, which states:

An estimated loss from a loss contingency or the impairment of an asset shall be recorded by a charge to operations if both of the following conditions are met:

- a. Information available prior to issuance of the statutory financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the statutory financial statements. It is implicit in this condition that it is probable that one or more future events will occur confirming the fact of the loss or incurrence of a liability; and
- b. The amount of loss can be reasonably estimated.”

Asset valuation reserve – Page 31

It is recommended that the Order categorize the bond portfolio into classes one through six , depending the quality of its bond portfolio, and comply with the guidance provided by the NAIC Annual Statement Instructions, which states:

Lines 1 through 7 – Long-Term Bonds: Report the book/adjusted carrying value of all bonds and other fixed income instruments owned in Columns 1 and 4.... Categorize the bonds and other fixed income instruments into classes one through six as directed by the NAIC Securities...

It is recommended that the Order use the real estate amount from the Net Admitted Asset column 3 of the balance sheet in the calculation of AVR for the equity component group.

SUBSEQUENT EVENTS

The Order started offering group life policies from a third-party insurer to its members in states where the Order is not licensed to do business.

CONCLUSION

Acknowledgement is hereby made of the courtesy and cooperation extended by all persons representing the Knights of Peter Claver during the course of the examination.

The customary insurance examination procedures, as recommended by the National Association of Insurance Commissioners, have been followed to the extent appropriate in connection with the verification and valuation of assets and the determination of liabilities set forth in this report. **This Report of Examination is qualified to the extent disclosed in Note 6 – Aggregate reserve for life contracts under the caption NOTES TO FINANCIAL STATEMENTS – Page 21.**

In addition to the undersigned Mr. Charles Turner, CISA, examiner and Mr. Harland Dyer, ASA, MAAA, Consulting Actuarial Examiner; all representing the Alabama Department of Insurance, participated in this examination.

Respectfully submitted,

Francis Blase Abreo

Blase Abreo, CFE
Examiner-in-charge
Alabama Department of Insurance