



THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF CONSUMER AFFAIRS AND BUSINESS
REGULATION
DIVISION OF INSURANCE

REPORT OF EXAMINATION OF THE
CATHOLIC ASSOCIATION OF FORESTERS

Boston, Massachusetts

As of December 31, 2004

NAIC COMPANY CODE 58130

EMPLOYERS ID NO. 04-1589950

For Information Purposes Only

CATHOLIC ASSOCIATION OF FORESTERS

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June 2, 2006

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Honorable Commissioners:

Pursuant to your instructions and in accordance with Massachusetts General Laws, Chapter 176, Section 44, an examination has been made of the financial condition and affairs of the

CATHOLIC ASSOCIATION OF FORESTERS
Boston, Massachusetts

at its home office located at 182 Forbes Avenue, Suite 119, Braintree, Massachusetts 02184.
The following report thereon is respectfully submitted.

Catholic Association of Foresters

SCOPE OF EXAMINATION

The Catholic Association of Foresters, (hereinafter referred to as the “Society”) was last examined as of December 31, 2001 by the Massachusetts Division of Insurance (the “Division”). The current examination was also conducted by the Division and covers the period from January 1, 2002 through December 31, 2004, including any material transactions and/or events subsequent to the examination date and noted during the course of this examination through the report date.

The examination was conducted in accordance with standards and procedures established by the National Association of Insurance Commissioners (“NAIC”) Financial Condition (E) Committee and prescribed by the current NAIC Financial Condition Examiners Handbook.

In addition to a review of the financial condition of the Society, the examination also included a review of the Society’s business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, employees’ pension and benefits plans, disaster recovery plan, treatment of policyholders and other pertinent matters to provide reasonable assurance that the Society was in compliance with applicable laws, rules and regulations. In planning and conducting the examination, consideration was given to the concepts of materiality and risk and examination efforts were directed accordingly.

As a fraternal benefit association, the Society is not required by Massachusetts law or regulations to include an opinion of independent certified public accountants in its annual statement. Consequently, workpapers of a public accounting firm were not available for this examination..

For a summary of findings contained within this report, refer to the “Comments and Recommendations” section.

Status of Prior Examination Findings

The examination included a review to verify the current status of any exception conditions commented upon in the previous Report of Examination dated December 31, 2001. There were outstanding exceptions as of the current examination, and those exceptions are included in this report.

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HISTORY

General

The Society was chartered on July 30, 1879, and was incorporated on July 31, 1879 as the Massachusetts Catholic Order of Foresters, a fraternal benefit society duly organized under the laws of Massachusetts for the benefits of its members, not for profit. It operates on the lodge system with subordinate branches known as Courts with a representative form of government and ritualistic work. The Society was established for charitable purposes in the promotion of Fraternity, Unity and True Christian Charity among its members.

Membership in the Society is limited to members of the Roman Catholic Church who are duly admitted to membership as benefit members or social members in accordance with the Constitution, Bylaws, Rules of the Society and the rules and regulation of the Executive Board duly enacted thereunder. A non-Catholic spouse of a Catholic member and children of such marriage also are eligible for membership. The distinction between members and social members is allowed by Chapter 176, Section 9 of Massachusetts General Laws.

A benefit member is any member who is insured for life, endowment, annuity, hospital and medical or disability benefits. Applications for benefit membership are to be accompanied by evidence of insurability acceptable to the Society under such underwriting rules, regulations and restrictions as the Executive Board may adopt. A benefit member receives a certificate of insurance specifying the amount and nature of benefits provided herein. An adult benefit member is a member of insurance age sixteen or over who has been issued a certificate of insurance upon his/her own application.

A social member is an uninsured member sixteen years or over who has been duly admitted to social membership in the Society under the rules adopted by the Executive Board. A social member is not eligible to serve as an officer of a subordinate court or as a delegate to the Society Convention and has no voice or vote in the management of the Society.

The Health and Accident Insurance Department was established in 1957 by amendment of the Constitution to provide members insurance protection for the payment of hospital and medical expenses and for the services of surgeons, physicians, and nurses needed as a result of sickness, accident or injury and for the payment of benefits in the event of accidental death. Although some certificates remain in force, the Society has not issued certificates for these coverages since 1987, other than through a rarely exercised conversion option.

On August 11, 1958 the Agreement of Association, Articles of Incorporation, Constitution and Bylaws of the Society were amended to change the name of the organization to "Catholic Association of Foresters".

The Society is a Catholic family membership society engaged in fraternal, charitable and religious activities with a life insurance program for both adult and juvenile members. It has

Catholic Association of Foresters

subordinate branches known as courts, but it is not part of a holding company organization. It has no parent, subsidiary or affiliated companies.

Growth of the Society

The growth of the Society for the years 2002 through 2004 is shown in the following schedule which was prepared from the Society's Annual Statements, including any changes as a result of the examination.

<u>Year</u>	<u>Admitted Assets</u>	<u>Net Premiums Written</u>	<u>Capital and Surplus</u>
2002	\$ 8,916,938	\$ 315,336	\$ 2,153,125
2003	8,790,686	302,771	2,175,450
2004	8,668,144	268,627	2,049,927

Capital Stock

As a fraternal benefit association in compliance with Chapter 176, Section 1 of the Massachusetts General Laws, the Society is a not-for-profit organization that does not have any capital stock.

Management

According to the Society's Bylaws, the governing authority of the Society is reserved to the membership thereof acting through duly elected delegates in the Convention assembled. The Convention is the supreme legislative and governing body of the Society with full jurisdiction and final authority to resolve all appeals brought before it by Subordinate Courts and members.

Annual Meeting

The Bylaws require the Society to hold a Convention between May 1 and June 30 of each year at a date and place selected by the Executive Board. A special Convention of the Society may also be called by the Executive Board at its discretion or by the written request of one-fourth of the number of Subordinate Courts for the transactions of such business as stated in the notice of the special Convention.

The Society's Convention is composed of the present members of the Executive Board and past members in good standing. The members of the Investment Board, the Finance Board, the Corporation Counsel, the Chief Rangers of Subordinate Courts during their term of office, the duly elected delegates of the Subordinate Courts, and no more than fifteen delegates-at-large. Each Subordinate Court is entitled to elect one adult benefit member in good standing in the Court as a delegate to the Convention for every twenty-five members of the Court; the Court also elects an alternate for each delegate who may act only in the absence of the delegate. In addition

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to the delegates elected by the Subordinate Courts, fifteen delegates-at-large are elected by membership by mail. The delegates of the Subordinate Court and delegates-at-large are eligible to serve as delegates for a term of one year from the date of their election and constitute at least two-thirds of the voting membership of the Convention. A quorum for the transaction of business at any session of the Convention consists of one-third of the duly accredited delegates who have registered as delegates for that session.

Board of Directors

In the interim between Conventions, the responsibility for managing the affairs of the Society is vested in a subcommittee of the board of the directors known as the Executive Board, except for the powers specifically delegated in the Bylaws to the Investment and Finance Board. The Officers of the Society are directors by virtue of office and constitute the Executive Board.

Members of the Executive Board of the Society at December 31, 2004 were as follows:

<u>Name of Director</u>	<u>Business Affiliation</u>	<u>Residence</u>
Mary C Cahalane	High Chief Ranger Retired	East Boston, MA
Janet A. King	High Vice Chief Ranger Licensed Practical Nurse	West Roxbury, MA
John F. Anderson, Jr.	High Secretary-Treasurer Catholic Association of Foresters	Dedham, MA
Mary C. McNeil	High Inside Sentinel Building Inspector, Randolph	Carver, MA
Thomas J. King	High Outside Sentinel Worcester Police Department	Worcester, MA
Ronald R. Michaud	High Conductor Accountant, BankAmerica	New Bedford, MA
Rev. Leonard M. Mullaney	Pastor St. Anthony's Church	Mattapoisett, MA
Peter H. Maher, MD	Physician Greenwich, Connecticut	Cos Cob, CT
Joseph J. Brady	Junior Past High Chief Ranger Retired	Worcester, MA

Committees

The Constitution, Bylaws and Rules of the Society define the establishment and empowerment of the three standing boards and seven Convention Committees. The Executive Board, the Investment Board and the Finance Board perform necessary duties of the Society between Conventions. The seven Convention Committees are: the Committee on Constitution, Credentials, Resolution, Appeals, Nominations, State of the Order and the Committee on Ritualistic Work.

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Executive Board

The responsibility for managing the affairs of the Society in the interim between Conventions is vested in the Executive Board, except for powers specifically delegated to the Investment Board and the Finance Board. The Officers of the Society constitute the Executive Board and are elected for one year at the annual Convention. Any benefit member in good standing over 21 years of age who has been a member of the Society for at least one year is eligible for election to this Board. The Executive Board may elect any benefit member in good standing over 21 years of age who has been a member of the Society for at least one year to fill a vacancy on the Board occurring between annual conventions.

The Executive Board meets at least once a month with four members constituting a quorum.

The Executive Board engages the services of one or more competent actuaries to perform such services as the Executive Board may require. The actuary(s) must report at least annually to the Board on the mortality and morbidity experience of the Society.

The Executive Board supervises and controls all funds and property of the Society except funds and property transferred to the custody of the Investment Board. The Executive Board transfers to the custody of the Investment Board from time to time the portion of the insurance funds that the High Secretary-Treasurer estimates are not needed currently for the payment of claims, dividends, surrender values and other benefits payable to members.

The Executive Board has extensive administrative authority to manage and to direct various activities of the Society.

The Executive Board and the Finance Board review the annual budget of the Society as developed by the High Secretary-Treasurer, revise, amend, or modify it as desired and make their recommendations to the annual Convention. In the interim between Conventions, expenditures in excess of the total budget appropriation require a three-fourths vote of the Executive Board.

Investment Board

The Investment Board consists of the High Chief Ranger, High Secretary-Treasurer and three elected members, each of whom are elected on successive years to serve a term of three years and whose terms of service expire alternately on successive years.

The members of the Investment Board invest such funds of the Society as are available for investment purposes in the manner as a majority of the Board determines within the classes of securities that are legal investments in accordance with the provisions of Chapter 176.

The Investment Board members are to deposit in the name of the Society all funds received by them in a bank(s) approved by the High Secretary-Treasurer and countersigned by the High Chief Ranger and the Assistant High Secretary-Treasurer. No checks for investment purposes

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may be drawn by the High Secretary-Treasurer without the approval of a majority of the members of the Investment Board.

The Investment Board submits to the Executive Board in January and July of each year a full and detailed statement of investment information ending on the last day of June and December preceding, and such other investment information as the Executive Board may require. The Investment Board makes a full and complete report of all investments to the annual Convention. The Executive Board fills a vacancy in the Investment Board between the annual Conventions.

At December 31, 2004, the Investment Board consisted of the following members:

	Charles C. Wills, Chairperson	
Richard J. Davis		Mary C. McNeil
Mary C. Cuhlane		John F. Anderson, Jr

Finance Board

The Finance Board consists of three members, each of whom are elected on successive years, to serve a term of three years and whose terms of service expire alternately on successive years. At the Annual Convention each year, one member is elected for a three-year term to fill a vacancy by any member. The Board usually elects a Chairperson from its membership who is to preside at all meetings of the Board.

The Finance Board examines all receipts, expenditures and examines and audits all accounts, books and documents of the High Secretary-Treasurer and all officers and committee once every three months or more often if a majority of the Board deems it advisable. It makes a written report to the Executive Board whenever requested. At each Convention, the Finance Board submits a report with recommendations on financial matters as it deems advisable.

At December 31, 2004, members serving on the Finance Board were as follows:

	Ronald R. Michaud, Chairperson	
Patricia Langis		Anne M. Regan

Officers

According to the By-Laws, the Officers of the Society are the High Chief Ranger, High Vice Chief Ranger, High Secretary-Treasurer, High Conductor, High Inside Sentinel, and High Outside Sentinel, all of whom are directors by virtue of office. Officers are elected by ballot at the annual Convention and serve for a term of one year or until their successors are duly elected. A majority of votes cast are necessary for election.

The High Secretary-Treasurer is the full time administrative officer of the Society charged with the duty of managing the business affairs of the Society subject to the supervision of the Executive Board. He receives compensation for his services as determined by the annual Convention. He is to prepare and file with the Insurance Departments of States in which the

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Society conducts business the Annual Statements of the financial condition of the Society as required by Law.

Officers elected as of December 31, 2004 were as follows:

<u>Name of Officer</u>	<u>Title</u>
Mary C. Cahalane	High Chief Ranger
Janet A. King	High Vice Chief Ranger
John F. Anderson, Jr.	High Secretary-Treasurer
Ronald R. Michaud	High Conductor
Mary C. McNeil	High Inside Sentinel
Thomas J. King	High Outside Sentinel
Rev. Leonard M. Mullaney	High Court Chaplain
Peter H. Maher, MD	High Medical Examiner
Joseph J. Brady	Jr. Past High Chief Ranger

Conflict of Interest Procedures

The Society has adopted a policy statement pertaining to conflict of interest in accordance with Question 14 of the General Interrogatories of the Annual Statement. The Society has an established procedure for the disclosure to the Board of Directors of any material interest or affiliation on the part of any Officer or Director which is in or is likely to conflict with his/her official duties.

Annually, each officer, director and responsible employee completes a questionnaire disclosing any material conflicts of interest. The completed questionnaires were reviewed and no discrepancies were noted.

Corporate Records

Articles of Incorporation and Bylaws

The bylaws and Articles of Incorporation and amendments thereto were read. There were no changes to the bylaws or Articles of Incorporation since the prior examination.

Disaster Recovery and Business Continuity

The Society does not provide for the continuity of management and operations in the event of a catastrophe or national emergency. (see Comments and Recommendations)

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Board of Directors Minutes

The minutes of the Board of Directors for the period under statutory examination were read and indicated that all meetings were held in accordance with the Society's bylaws and the laws of the Commonwealth of Massachusetts.

FIDELITY BOND AND OTHER INSURANCE

The Society maintains fidelity coverage with an authorized Massachusetts insurer, consistent with M.G.L. c.175 s.60. The aggregate limit of liability meets the NAIC suggested minimum.

The Society has further protected its interests and property by securing policies of insurance covering other insurable risks. Coverage is provided by insurers licensed in the Commonwealth of Massachusetts and was in force as of December 31, 2004.

PENSION AND INSURANCE PLANS

To fulfill the Bylaws, a retirement plan for employees was established by the Society effective January 1, 1958. Under the plan, retirement benefits shall be paid to eligible employees upon retirement at age sixty-five or upon actual retirement if any employee continues in services after attaining such age. It is a non-contributory pension plan that covers substantially all of the Society's employees. The plan has been amended from time to time as necessary to remain qualified under Internal Revenue Service standards. All earned benefits, vested and non-vested, are fully funded and, other than benefit payments, no expenses are charged to the plan that is managed by the Society. The Society has no deferred compensation plans and no post-retirement benefit plans. The Society offers life insurance to its employees effective September 1, 2002. On a non-contributory basis, the Society offers its employees health protection through a choice of plans with health maintenance organizations.

Territory and Plan of Operation

The Society is licensed to write business in the following States:

Connecticut
Florida
Maine
Massachusetts
New Hampshire
Rhode Island
Vermont

The Society's principal lines of business are Life and Accident and Health Insurance.

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Treatment of Policyholders

Claims Settlement Practices

Procedures performed in conjunction with the claims testwork indicated that the Society investigates and settles claims on a timely and equitable basis.

REINSURANCE

Ceded Reinsurance

The Society has one reinsurance agreement with Swiss Re Life and Health America Inc. (formerly known as North American Reinsurance Company); a New York company authorized to conduct business in Massachusetts. One agreement, which has been in effect since January 1, 1959, provides excess reinsurance on an automatic basis of all life insurance risks for life, waiver of premium, payer, and accidental death benefits above the Society's retention. Subject to certain jumbo limits for total insurance on any one life, the reinsurer will automatically accept life reinsurance for an amount not exceeding 150% of the amount retained by the Society; the Society's maximum retention on any one risk is \$20,000. Reinsurance of life risks under the agreement is upon the yearly renewable term plan for the amount at risk under the certificate(s) reinsured.

The Society also has in place an automatic coinsurance agreement with the same reinsurer. Effective April 1, 1983, the automatic coinsurance agreement automatically provides on a coinsurance basis reinsurance of insureds under the Society's One-Year and Five-Year Term Plans, including life and waiver of premium benefits. Unless the total life insurance on a life would exceed \$2.5 million or the substandard mortality rating assessed to a risk would exceed 500%, the reinsurer will automatically accept life reinsurance for an amount not exceeding 150% of the amount retained by the Society. The Society's maximum retention on any one risk is \$20,000 and the maximum amount of coinsurance on one life is \$2.0 million.

Also in place is a health insurance reinsurance agreement with the same reinsurer. It automatically provides on a coinsurance basis reinsurance of insureds under Income Protection Certificates issued by the Society from July 1, 1978 through December 31, 1984. For loss-of-time benefits, the maximum automatic reinsurance is \$200 and the Society's maximum automatic reinsurance is \$5,000 and the Society's maximum retention is \$5,000 on any one risk.

The Society, after retaining its maximum retention for a risk, may bind the reinsurer automatically up to the limit specified under each of the agreements. Business must originate with the Society. The reinsurer agrees to accept such reinsurance automatically. Risks not automatically ceded (such as amounts in excess of maximums for automatic reinsurance) may be offered to the reinsurer for consideration on a facultative basis with acceptance optional by the reinsurer.

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According to the agreements, the liability of the reinsurer on risks reinsured commences and terminates simultaneously with that of the Society. If a claim is made upon the Society under reinsured certificate(s), whether the claim is made under strict certificate conditions or is compromised for a lesser amount, the settlement made by the Society is to be unconditionally binding on the reinsurer. If the reinsurer carries the entire risk and the claim is contestable the reinsurer is to be consulted before admission or acknowledgement of the claim is made by the Society. Effective March 31, 1999 reinsurance will terminate when the risk amount falls to \$10,000 or less.

The Society does not assume any reinsurance. All of the agreements satisfy the requirement for an insolvency clause in reinsurance agreements as set forth in Section 28, Chapter 176 of Massachusetts General Law.

ACCOUNTS AND RECORDS

The internal controls structure was discussed with management through questionnaires. No material deficiencies were noted.

The NAIC provides a questionnaire covering the evaluation of the controls in the IT systems environment. The questionnaire was completed by the Society and reviewed. No material deficiencies were noted.

The Society uses a manual general ledger system and an automated trial balance system. Account balances were traced from the general ledger and supporting documents to the 2004 Annual Statement. No material exceptions were noted.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division of Insurance of the Commonwealth of Massachusetts and by the National Association of Insurance Commissioners as of December 31, 2004.

Statement of Assets, Liabilities, Surplus and Other Funds, December 31, 2004

Statement of Income, for the Year Ended December 31, 2004

Reconciliation of Capital and Surplus, For the Three Year Period Ended
December 31, 2004

Catholic Association of Foresters
Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2004

Assets	Reported by the Society	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 7,377,203		\$ 7,377,203	
Preferred Stocks	300,000		300,000	
Common Stocks	704,910		704,910	
Real Estate – properties occupied by the company	37,900		37,900	
Cash and short-term investments	1,497		1,497	
Contract Loans	110,190		110,190	
Subtotals, cash and invested assets	8,531,700		8,531,700	
Investment income due and accrued	132,287		132,287	
Agents' balances and uncollected premiums:				
Uncollected premiums and agents' balances in course of collection	3,200		3,200	
Aggregate write-ins for other than invested assets	957		957	
Total Assets	<u>\$ 8,668,144</u>	<u>\$ 0</u>	<u>\$ 8,668,144</u>	

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Statement of Assets, Liabilities, Surplus and Other Funds (Continued)
As of December 31, 2004

Liabilities	Reported by the Society	Examination Changes	Per Statutory Examination
Aggregate reserve for life certificates and contracts	\$ 5,422,627		\$ 5,422,627
Aggregate reserve for accident and health contracts	6,530		6,530
Liability for deposit-type contracts	54,229		54,229
Contract claims: Life	23,000		23,000
Contract claims: Accident and health	3,000		3,000
Refunds due and unpaid	2,315		2,315
Provisions for refunds payable in following calendar year-estimated amounts	15,000		15,000
Premiums and annuity considerations for life and accident and health contracts	2,500		2,500
Interest Maintenance Reserve	90,793		90,793
General expenses due and accrued	24,000		24,000
Amounts withheld or retained by Society as agent or trustee	1,324		1,324
Liability for benefits for employees and fieldworkers if not included above	822,859		822,859
Asset Valuation Reserve	95,375		95,375
Aggregate write-ins for liabilities	54,665		54,665
Total Liabilities	<u>6,618,217</u>		<u>6,618,217</u>
Unassigned funds	2,049,927		2,049,927
Total Liabilities, Capital and Surplus	<u>\$ 8,668,144</u>	<u>\$ 0</u>	<u>\$ 8,668,144</u>

Catholic Association of Foresters
Summary of Operations
For the Year Ended December 31, 2004

	Reported by the Society	Examination Changes	Per Statutory Examination
Premiums and annuity considerations for life and accident and health contracts	\$ 268,627		\$ 268,627
Net investment income	475,901		475,901
Amortization of Interest Maintenance Reserve	14,894		14,894
Aggregate write-ins for miscellaneous income	677		677
Totals	<u>760,099</u>		<u>760,099</u>
Death benefits	188,499		188,499
Matured endowments	35,500		35,500
Disability, accident and health benefits	1,992		1,992
Surrender benefits and withdrawals for life contracts	74,374		74,374
Interests and adjustments on contract or deposit-type Contracts funds	1,818		1,818
Increase in aggregate reserve for life and accident and health contracts	(43,210)		(43,210)
Totals	<u>258,973</u>		<u>258,973</u>
Commissions on premiums, annuity considerations and deposit-type contract funds	16,750		16,750
General insurance expenses and fraternal expenses	513,927		513,927
Insurance taxes, licenses and fees	20,906		20,906
Aggregate write-ins for deductions	55,451		55,451
Totals	<u>866,007</u>		<u>866,007</u>
Net gains from operations before refunds to members	(105,908)		(105,908)
Refunds to members	15,805		15,805
Net gains from operations after refunds to members and before realized capital gains (losses)	(121,713)		(121,713)
Net realized capital gains (losses) (excluding gains (losses) transferred to the IMR less capital gains Tax	(3,098)		(3,098)
Net Income	<u>\$ (124,811)</u>	<u>\$ 0</u>	<u>\$ (124,811)</u>

Catholic Association of Foresters
Reconciliation of Capital and Surplus
For the Three Year Period Ended December 31, 2004

	2004	2003	2002
Surplus, December 31, previous year	\$ 2,175,450	\$2,153,125	\$ 2,361,193
Net income from operations	(124,811)	48,157	80,639
Change in net unrealized capital gains (losses)	41,357	(9,470)	(296,297)
Change in asset valuation reserve	(42,071)	(16,549)	7,468
Aggregate write-ins for gains and losses in Surplus	2	187	122
Net change in surplus for the year	(125,523)	22,325	(208,068)
Surplus December 31, current year	\$ 2,049,927	\$ 2,175,450	\$ 2,153,125

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COMMENTS AND RECOMMENDATIONS

DISASTER RECOVERY/BUSINESS CONTINUITY PLANS:

The Society currently has no formal disaster recovery/business continuity plan that would allow it to effectively and without delay recover from both the succession of officers and most importantly recover from a disaster affecting its computer systems or business.

We recommend that the Society design, test and implement a disaster recovery/business continuity plan that will allow it to continue vital business operations in the event of an emergency.

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ACKNOWLEDGMENT

Acknowledgment is made of the cooperation and courtesies extended by the officers and employees of the Society to all the examiners during the course of the examination.

The following member of the Massachusetts Division of Insurance is hereby acknowledged for his participation in this examination:

Algernon Flowers

Insurance Examiner II

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Commonwealth of Massachusetts
Division of Insurance

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Division of Insurance

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