

**REPORT ON EXAMINATION**  
**AS TO CONDITION OF THE**  
**SLOVAK GYMNASTIC UNION SOKOL OF THE U.S.A.**  
**EAST ORANGE, NEW JERSEY 07102**  
**AS AT DECEMBER 31, 2008**  
**NAIC SOCIETY CODE 57207**

**FILED**

**December 7, 2009**

Commissioner  
Department of Banking & Insurance

**Table of Contents****Page**

Salutation	1
Scope of Examination	1
Compliance with Prior Recommendations	2
History and Kind of Business	2
Conflict of Interest	3
Management	3
Fidelity Bond and Other Insurance Coverages	6
Pension Stock Ownership and Insurance Plans	7
Policy Forms and Underwriting Practices	7
Territory and Plan of Operation	7
Advertising and Sales Material	8
Treatment of Policyholders	9
Continuity of Operations	9
Accounts and Records	9
Auditing and Internal Control	10
Financial Statements:	
Exhibit I: Comparative Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2003 and December 31, 2008	11
Exhibit II: Summary of Operations for the Five-Year Period Ended December 31, 2008	12
Exhibit III: Unassigned Funds for the Five-Year Period Ended December 31, 2008	13
Note 1: Bonds	14
Note 2: Cash and Cash Equivalents	14
Note 3: Aggregate Reserves for Life Certificates and Contracts	14
Note 4: Unassigned Funds (Surplus)	14
Summary of Recommendations	15
Conclusion	16
Notary Page	17

**August 31, 2009**  
**Honorable Neil N. Jasey**  
**Commissioner of Banking and Insurance**  
**Trenton, N. J. 08625**

**In accordance with the authority vested in you by the Revised Statutes of New Jersey, an examination has been made of the assets and liabilities, method of conducting business and other affairs of the:**

**SLOVAK GYMNASTIC UNION SOKOL  
OF THE UNITED STATES OF AMERICA  
EAST ORANGE, NEW JERSEY  
N.A.I.C. SOCIETY CODE 57207**

**Hereinafter referred to in this report as the “Sokol” or the “Society”**

### **SCOPE OF EXAMINATION**

**This financial condition examination was called by the Commissioner of Banking and Insurance of the State of New Jersey pursuant to the authority granted by Section 17:44A-35 of the New Jersey Revised Statutes.**

**The examination was made as at December 31, 2008 and addressed the five-year period from December 31, 2003, the date of the last financial condition examination. During the five-year period under examination, the Society’s assets increased from \$9,686,066 to \$10,629,357. Liabilities increased from \$4,917,110 to \$5,336,041 and the Society’s surplus to policyholders increased from \$4,768,956 to \$5,293,316.**

**The conduct of the examination was governed by the procedures outlined in the N.A.I.C. Financial Condition Examiner’s Handbook and followed accepted procedures of regulatory authorities and generally accepted insurance company examination standards. In determining the emphasis to be placed on specific accounts, consideration was given to the Society’s system of internal control, the nature and size of each account, its relative importance to solvency, the results of the last financial condition examination, and the Society’s IRIS test results.**

**The verification of financial statements and review of the Society’s affairs as reported herein was obtained through test checks of the detail supporting the accounts. The level of compliance with the pertinent Statutes of New Jersey and related NAIC rules and regulations was also a consideration. Original documents, vouchers and related records were examined in order to help substantiate the conclusions and findings of this examination. Consideration was given for limiting the verification on certain accounts determined to be substantially correct, or considered insignificant and not critical to the Society’s solvency.**

**Accounts requiring standard emphasis were:**

**Bonds**

**Common Stocks**

**Preferred Stocks**

**Mortgage Loans**

**Other Invested Assets**

**Cash and Short Term Investments**

**Aggregate Reserve for Life Certificates and Contracts**

**Liability for Deposit Type Contracts**

**Interest Maintenance Reserve**

**General Expenses Due or Accrued**

**Taxes Licenses and Fees**

All other accounts were determined to require reduced emphasis.

**COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS**

The following is a summary of the Society's responses to the recommendations of the previous examination report:

1. It was again recommended, as in the prior examination report, that in the future the Society should conduct Board meetings on a quarterly basis in order to be in compliance with the requirements of NJSA 17:44B-4a (2).

The Society did not have four meetings for two of the examination years and did not fully comply with this recommendation.

2. It was again recommended, as in the prior examination report, that in the future the Society escheat uncashed checks three years or older to the State of New Jersey pursuant to the provisos of NJSA 46:30.

The Society has not complied with this recommendation.

**HISTORY AND KIND OF BUSINESS**

The Slovak Gymnastic Union Sokol of the United States of America was organized pursuant to the laws of the State of New Jersey and particularly to the act of the legislature of said state entitled "An Act to Incorporate Associations Not for Pecuniary Profit." An original Certificate of Incorporation was received by the Clerk's office of the County of Middlesex on June 5, 1912. The Certificate was filed and recorded with Secretary of the State of New Jersey on June 7, 1912.

The original home office location of the Society was 285 Oak Street, Perth Amboy, New Jersey. The Certificate of Incorporation was amended on June 25, 1975 to change the location of the principal office to its current address of 276 Prospect Street, East Orange, the County of Essex and State of New Jersey. The registered agent upon whom process against this corporation may be served is Milan S.

**Kovac, the Supreme Secretary. Neither the Certificate of Incorporation or the by-laws were amended during this examination period.**

**The Society is authorized to provide the following types of contractual benefits in any form: (except in the form of group insurance) death benefits; endowment benefits; annuity benefits; temporary or permanent disability benefits; hospital, medical or nursing benefits; and monument or tombstone benefits to the memory of deceased members not to exceed the amount of \$300 for each claim.**

### **CONFLICT OF INTEREST**

**The Society's by-laws maintain a policy statement on conflict of interest. The by-laws stipulate: "Every Supreme Lodge Officer and responsible employee is obligated to reveal to the Supreme Lodge any interests or affiliations that they may be engaged in which would be in conflict with their official duties and will so certify each year on a form provided for that purpose."**

**The Board of Directors (the Supreme Lodge) reviews the conflicts of interest questionnaires for any potential conflicts of interest, and note the Board minutes accordingly. A review of the Board minutes for the examination period indicated the conflict of interest questionnaires and responses were submitted to, and reviewed by the Society's legal counsel.**

**The legal advisor then advises the Supreme Lodge (Board of Directors) of any potential conflicts of interest. The Board would then act upon any potential conflicts of interest as needed. The review of the questionnaires and Board minutes for the examination period did not indicate any potential conflicts of interest.**

### **MANAGEMENT**

**The by-laws of the Society provide for the establishment of a Supreme Lodge. The Supreme Lodge serves as the official body whose purpose it is to transact all business matters pertaining to the Society for the four year period between convention meetings. The Supreme Lodge meetings are held on a bi-annual basis and all meetings for the period under examination were well attended.**

**The election of officers and committee members is held at the regular quadrennial convention. The Thirty-Second Convention of the Slovak Gymnastic Union of the United States of America was held in August of 2005.**

**The by-laws provide for the establishment of an Executive Board consisting of the President, Vice-President, Secretary, Treasurer, and the Chairman of the Finance Committee. The duty of the Executive Board is the interim administration of the Society's affairs between Supreme Lodge meetings.**

**The Supreme President is the head of the Society and as such he or she has the responsibility to enforce the Society's by-laws and all other enactments of the Convention.**

The Supreme Secretary is the Chief Operating Officer for the Slovak Gymnastic Union Sokol of the U.S.A. The Supreme Secretary executes and carries into effect all decisions of the Convention and Board of Directors.

The Supreme Treasurer receives statements of receipts and disbursements from the Supreme Secretary at least once every three months and verifies them to the Board of Directors.

The Society maintained the following committees at December 31, 2008:

**The Finance Committee:**

- The review of the Society's minutes for the examination period indicated the Finance Committee meets on a biannual basis. The Committee has the responsibility for the review and approval of the monetary decisions made by the Society. The Supreme Secretary presents budgetary, investment and proposed office salaries to the Finance Committee for approval. This approval is then presented to the Supreme Lodge at its semiannual meetings.

**The Milan Getting Scholarship Committee:**

- The Milan Getting Scholarship Committee has the responsibility for reviewing the applications and recommendations received by the Society for small scholarships and grants provided by the Society to the children of its members.

**The Project 2nd Century Committee:**

- The Project 2nd Century Committee which is also known as the Reorganization Committee, has the responsibility for presenting judgments to the Supreme Lodge regarding the future direction of the Society with respects to mergers and shifts in program emphasis. The Committee's charge is to identify steps the Society can take in order to increase its future financial viability.

**The Gymnastic Committee:**

- The Gymnastic Committee, which is also known as the Gymnastic Department, is established by the Society's by-laws. The Committee is chaired by the Society Director or Directors and has responsibility for the Society's primary fraternal activities. The Committee also plans and implements sports and recreation programs. The Society Director presents requests for the funding of the activities to the Finance Committee for approval.

The Society's Officers as enlisted on the Annual Statement Jurat Page at December 31, 2008 were as follows:

<b>Name</b>	<b>Office</b>
<b>Beatrice M Walko</b>	<b>President</b>
<b>Scott Pracko</b>	<b>Vice President</b>
<b>Judith A. Smith</b>	<b>Treasurer</b>
<b>Milan Kovac</b>	<b>Supreme Secretary</b>

The following is a listing of the Supreme Lodge Directors elected and serving at December 31, 2008:

<b><u>Name and Principal Occupation</u></b>	<b><u>Home or Business Address</u></b>
<b>Joanne Check School Aide</b>	<b>1715 Keith Drive Hellertown, PA 18055</b>
<b>Joseph Bielecki Attorney</b>	<b>160 South 19<sup>th</sup> St. Pittsburgh, PA 15203</b>
<b>Christine Coleman Library Administrator</b>	<b>1650 Best Place Bethlehem, PA 18015</b>
<b>John Kamenitksy Retiree: Marketing</b>	<b>252B Agawam Drive Stratford, CT 06614</b>
<b>Karen Ondira Educator</b>	<b>1550 York Ave. Apt.8-H New York, NY 10028</b>
<b>Richard Yatchyshyn Transportation Manager</b>	<b>63 Autumn Lane Levittown, PA 19055</b>
<b>Gerald Von Schwedler Retiree: Engineer</b>	<b>522 S. Elmhurst Rd. Mt. Prospect, IL 60056</b>
<b>Deborah Golden Heath Care</b>	<b>113 Tipperary Court Woodstock, IL 60098</b>
<b>David Walko Educator</b>	<b>287 Silver Hill Lane Stamford, CT 06905</b>
<b>Christine Yatchyshyn Editor, Public Newspaper</b>	<b>63 Autumn Lane Levittown, PA 19055</b>

The minutes of the Supreme Lodge and Finance Committee were reviewed for the examination period. The minutes demonstrated the Society's approval and support of the organization's transactions and events.

The minutes of the Supreme Lodge meeting held in April of 2005 indicated that the Society had reviewed and approved the report from the prior examination. In addition, the members of the Thirty-Second Convention also approved the report.

**FIDELITY BOND AND OTHER INSURANCE COVERAGES**

At December 31, 2008 the Society maintained fidelity bond coverage with an aggregate limit of \$250,000 with a \$5,000 deductible. The coverage was determined to be adequate and in accordance with the NAIC's suggested guidelines.

In addition, the Society also maintains an insurance program designed to protect its assets from losses arising out of property and casualty risks. In general the principal coverages which include the Society as the named insured are as follows:

**Max Specialty Umbrella Liability Policy**

Limits of Insurance Coverage A & B Combined:

Each Occurrence	1,000,000
Per'l Injury & Adv. Injury	1,000,000
General Aggregate Limit	1,000,000
Retention	10,000

General Liability:

Each Occurrence	1,000,000
Gen'l Aggregate Policy	2,000,000

Auto Liability:

Each Accident or Occurrence	1,000,000
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Employers Liability:

Each Accident	1,000,000
Each Employee for Disease	1,000,000
Aggregate	1,000,000

**Non Profit Professional Liability**

Directors and Officers Liability - Each Claim	1,000,000
-In The Aggregate	1,000,000
-Retention Each Claim	1,000

Employment Practices Liability- Each Claim	1,000,000
- In The Aggregate	1,000,000
- Retention Each Claim	1,000

**Workers Compensation And Employers Liability**

Bodily Injury by Accident-Each Accident	1,000,000
Bodily Injury by Disease -Each Employee	1,000,000
Bodily Injury by Disease - Policy Limit	1,000,000



**Commercial Automobile**

Each accident	1,000,000
Uninsured Motorist	1,000,000

**PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Society provides group health insurance for two full time employees through Horizon Blue Cross and Blue Shield of New Jersey. It also provides a \$2,000 per year payment to an annuity for the Secretary of the organization. The Society also provides the Supreme Secretary the use of a car and pays for the related expenses. There are no other benefits afforded the employees.

**POLICY FORMS AND UNDERWRITING PRACTICES**

As of December 31, 2008, the Society was approved to write the following types of life insurance:

<b><u>Plan</u></b>	<b><u>Applicable To</u></b>
Single Premium Life	Juvenile and Adult
Three Payment Life	Juvenile and Adult
20 Payment Life	Juvenile and Adult
Life Paid Up at Age 65	Juvenile and Adult
Life Paid Up at Age 85	Juvenile and Adult
Single Premium Deferred Annuity	Juvenile and Adult
Flexible Premium Deferred Annuity	Juvenile and Adult

Applications are accepted from all members of the Society, and the applicant's responses to the health questions are reviewed in order to identify any health-related concerns indicated by the applicant. These applications are subject to further review by a medical doctor contracted by the Society. In rare cases the physician can deny the applicant from coverage.

The Society issues certificates in \$1,000 minimum and \$50,000 maximum coverages with a maximum benefit for members between the ages of 65 and 70, not to exceed \$10,000. The declaration and distribution of dividends is not guaranteed by the Society. The insured may take dividends in cash, left on deposit, or utilized to purchase additional paid up insurance.

**TERRITORY AND PLAN OF OPERATION**

At December 31, 2008 the Society was authorized to transact business as a Fraternal Benefit Society in the ten states listed below and possessed the applicable Certificates of Authority. The Society also has 57 subordinate lodges located in the United States and Canada as shown in the following schedule:

<u>Locations</u>	<u>Licensed</u>	<u>Number of Lodges</u>
Canada	No	1
Connecticut	Yes	5
Florida	No	3
Illinois	Yes	3
Indiana	Yes	2
Massachusetts	Yes	1
Michigan	Yes	1
New Jersey	Yes	8
New York	Yes	9
Ohio	Yes	5
Pennsylvania	Yes	18
Wisconsin	Yes	1
<b>Total</b>		<b>57</b>

The Society also possesses a properly filed and executed Certificate of Compliance as granted by the State of NJ, authorizing it to write business in NJ.

Apart from its Statutory Home Office located at 276 Prospect Street, East Orange, New Jersey, the Society does not maintain any other offices. The Society has two full-time and one part-time employee and the operational functions for all of the Society's lodges are performed at this office.

Each lodge acts as an intermediary towards its own members. All marketing functions are conducted through the lodges that are part of the Society. Therefore the Society does not use any agents, producers, or brokers to market its products.

All claims are reported to the local lodges. The local lodge sends the claim application and death certificate to the East Orange Administrative Office for claims processing. The claim settlement check is then issued in the name of the beneficiary and lodge secretary, and is sent to the local lodge.

#### **ADVERTISING AND SALES MATERIAL**

The Society's primary advertisement tool is "The Sokol Times" which is a monthly newspaper published by the Society. The newspaper contains articles regarding past events, an upcoming calendar of events and meetings, and solicitations of life insurance policies and single/flexible premium annuities.

In accordance with the Society's by-laws, the newspaper includes the financial reports of the Society on a quarterly basis. These reports equally delineate the Society's assets and/or capital, as well as liabilities. Therefore, the quarterly statements are in compliance with the provisos of N.J.S.A. 17:18-10.

## **TREATMENT OF POLICYHOLDERS**

A review of the complaints filed with the New Jersey Department of Banking and Insurance was undertaken during the examination. The review indicated only one complaint was filed during the five-year examination period. The Society's complaint log was obtained and reviewed. The review indicated the log was properly maintained during the examination period. Therefore the Society is in compliance with the provisos of N.J.S.A. 17:29B-4. An examination of policy and claim files did not disclose any unfair treatment of policyholders.

## **CONTINUITY OF OPERATIONS**

The Society sends two copies of each life certificate to CPS Actuaries in Stamford, CT. CPS Actuaries keeps one copy of the certificate at its Stamford office and forwards the other to a record storage facility. The Society also keeps copies of all pertinent accounting records in a fireproof cabinet at the Home Office. The bonds and stocks are held at the PNC Bank in New Jersey, in accordance with the established custodial agreement. The Society has also made provisions for the succession of officers in its by-laws.

## **ACCOUNTS AND RECORDS**

The Supreme Secretary has the responsibility to keep all financial records of the Society as provided for in the by-laws. The Supreme Secretary manages the Society's investments and all transactions are presented, discussed, and approved at the deliberations of the Finance Committee. In addition, the Finance Committee is provided with copies of all quarterly statements filed with the NAIC.

The subsidiary books of account, including investments, assessments and other insurance operations are maintained on a manual basis at the Home Office through the utilization of the "Quick Book" method. Copies of all accounting transactions are forwarded to the accounting firm of Vision Financial Group CPAs, LLP. The firm updates the general ledger and generates a trial balance on both a quarterly and annual basis. This process serves as the basis for the preparation of the quarterly and annual statements.

Each month premiums are collected at the local lodge level and forwarded to the Society's Home Office. Premiums received at the Home Office are credited on a lodge ledger sheet and all funds received are deposited with various custodians.

All claims are submitted through the local lodge and forwarded to the Home Office. Upon receipt of a death claim, the individual file is taken from the archives and when a valid death certificate is presented, a check is drawn and made payable to the beneficiary and lodge secretary.

The Society's by-laws mandate, that on a quarterly basis, the Supreme Secretary prepare statements of receipts and disbursements and submit them to the

**Supreme Treasurer. The Supreme Secretary also provides the Supreme Treasurer and all members of the Board with copies of the quarterly statements as those statements are filed with the NAIC. The Finance Committee has the responsibility to inspect the financial books and submit reports of its findings at the annual spring meeting of the Supreme Lodge and also to the Convention.**

**The Society's by-laws direct the Board of Directors to meet on a quarterly basis in order to be compliant with the requirements of NJSA 17:44B-4a(2). The review of the Board of Directors minutes for the examination period indicated the Supreme Lodge only met three times in 2008 and three times in 2007. Therefore, the Society is not fully in compliance with the provisos of NJSA 17:44B-4a(2). It is recommended that the Supreme Lodge meet on a quarterly basis as required by the provisos of NJSA 17:44B-4a (2).**

### **AUDITING AND INTERNAL CONTROL**

**Pursuant to N.J.A.C. 11:2-26.4, an annual audit is performed by Vision Financial Group CPAs, LLP., the Society's independent certified public accounting firm. The firm files an audited CPA report, with the New Jersey Commissioner of Banking and Insurance.**

**Vision Financial Group CPAs, LLP audited the "Comparative Statement of Admitted Assets, Liabilities, and Unassigned Funds of the Slovak Gymnastic Union Sokol of the U.S.A." as of December 31, 2008 and 2007. The firm also reviewed the Society's "Statement of Income and Cash Flows."**

**The firm rendered an opinion that the financial statements of the Slovak Gymnastic Union Sokol of the U.S.A. are fairly represented with respects to its admitted assets, liabilities, and unassigned funds for December 31, 2008 and 2007.**

**Vision Financial Group CPAs, LLP further opined that the results of operations and cash flows for the same period were in accordance with the accounting practices prescribed by both the New Jersey Department of Banking and Insurance, and the National Association of Insurance Commissioners.**

**Exhibit I**  
**COMPARATIVE STATEMENT OF ASSETS,**  
**LIABILITIES AND SURPLUS**  
**AT DECEMBER 31, 2003 AND DECEMBER 31,**  
**2008**

<u>Assets</u>	Previous Exam <u>12/31/2003</u>	Current Exam <u>12/31/2008</u>	Note <u>Number</u>
Bonds	\$7,318,410	\$7,883,837	1
Common Stocks	8,720	151,192	
Preferred Stocks	390,265	791,520	
Mortgage Loans on Real Estate	1,115,773	808,077	
Real Estate	97,122	18,071	
Cash and Short Term Investments	157,339	464,529	2
Contract Loans	3,492	2,658	
Other Invested Assets	439,388	364,973	
Aggregate Write-Ins for Invested Assets	0	0	
Investment Income Due and Accrued	148,530	141,428	
Uncollected Premiums and Agents Balances in Course of Collection	6,847	3,072	
Exchange and Escrow	<u>180</u>	<u>0</u>	
<b>Total Admitted Assets</b>	<b><u>\$ 9,686,066</u></b>	<b><u>\$ 10,629,357</u></b>	
 <u>Liabilities and Unassigned Funds</u>			
Aggregate Reserve for Life Certificates and Contracts	\$3,880,521	\$4,343,357	3
Aggregate Reserve for Accident and Health Contracts	3,098	1,290	
Liability for Deposit Type Contracts	281,437	396,583	
Contract Claims Life	23,500	25,384	
Premium and Annuity Considerations Received in Advance	221	19	
Interest Maintenance Reserve	508,595	405,086	
Commissions to Fieldworkers Due or Accrued	2,627	0	
General Expenses Due or Accrued	53,909	100,779	
Taxes Licenses and Fees Due or Accrued	50,120	32,355	
Amounts Withheld or Retained by Society Agent or Trustee	0	5,354	
Net Adjustment to Assets and Liabilities Due to Foreign Exchange	0	603	
Remittances and Items not Allocated	1,117	0	
Asset Valuation Reserve	109,950	7,471	
Aggregate Write-Ins for Liabilities	<u>2,015</u>	<u>17,760</u>	
<b>Total Liabilities</b>	<b><u>\$4,917,110</u></b>	<b><u>\$5,336,041</u></b>	
 Unassigned Funds Surplus	 <u>4,768,956</u>	 <u>5,293,316</u>	 4
<b>Total Liabilities and Unassigned Funds</b>	<b><u>\$9,686,066</u></b>	<b><u>\$10,629,357</u></b>	

**Exhibit II**  
**SUMMARY OF OPERATIONS**  
**FOR THE FIVE YEAR PERIOD ENDED**  
**DECEMBER 31, 2008**

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
<u>Income:</u>					
Premium and Annuity Considerations	\$81,865	\$96,817	\$259,222	\$213,110	\$256,222
Net Investment Income	669,870	683,079	660,628	695,914	688,525
Amortization of Interest Maintenance Reserve	49,659	51,652	52,483	51,980	52,023
Aggregate Write-in for Miscellaneous Income	<u>19,689</u>	<u>14,603</u>	<u>15,645</u>	<u>16,489</u>	<u>11,816</u>
Total Income	<u>\$821,083</u>	<u>\$846,151</u>	<u>\$987,978</u>	<u>\$977,493</u>	<u>\$1,008,586</u>
<u>Deductions:</u>					
Death Benefits	\$112,923	\$102,701	\$92,108	\$143,560	\$111,821
Matured Endowments	23,105	1,193	0	0	5,567
Annuity and Old Age Benefits	76,106	0	17,018	20,895	0
Disability and Accident and Health Benefits	785	0	885	0	0
Surrender Benefits	24,326	30,915	24,731	23,219	28,914
Interest on Certificate or Contract Funds	21,302	21,323	12,689	26,552	20,465
Increase In Aggregate Reserves	-81,972	5,484	202,543	122,886	212,087
Commissions	0	0	680	530	498
General Insurance and Fraternal Expenses	420,954	398,268	422,146	485,493	432,820
Insurance Taxes and Fees	<u>10,891</u>	<u>18,728</u>	<u>19,894</u>	<u>10,793</u>	<u>11,205</u>
Total Deductions	<u>\$608,420</u>	<u>\$578,612</u>	<u>\$792,694</u>	<u>\$833,928</u>	<u>\$823,377</u>
Net Gain from Operation Before Refund to Members	\$212,663	\$267,539	\$195,284	\$143,565	\$185,209
Refunds to Members	<u>0</u>	<u>4,101</u>	<u>5,716</u>	<u>5,297</u>	<u>5,359</u>
Net Gain From Operation After Refunds to Members and Before Realized Capital Gains and Losses	212,663	263,438	189,568	138,268	179,850
Net Realized Capital Gains or (Losses)	<u>-228,076</u>	<u>0</u>	<u>76,448</u>	<u>54,587</u>	<u>-444,188</u>
Net Income	<u>(\$15,413)</u>	<u>\$263,438</u>	<u>\$266,016</u>	<u>\$192,855</u>	<u>(\$264,338)</u>

**Exhibit III**  
UNASSIGNED FUNDS  
FOR THE FIVE YEARS ENDED  
DECEMBER 31, 2008

Gains and Losses In Surplus	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Net Income	<u>-\$15,413</u>	<u>\$263,438</u>	<u>\$266,016</u>	<u>\$192,855</u>	<u>-\$264,338</u>
Change in Net Unrealized Capital Gain or Loss	-5,875	-37,139	-7,342	-21,941	-342,210
Change in net Unrealized Foreign Exchange	298	127	160	624	-694
Change in Non-Admitted Assets	96,544	177,454	-29,212	70,626	78,256
Change in Asset Valuation Reserve	81,546	-40,677	-25,950	-61,338	148,898
Aggregate Write-in for Gain and Loss in Surplus	<u>-120</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>-236</u>
Net Change In Surplus for the Year	<u>\$156,980</u>	<u>\$363,203</u>	<u>\$203,672</u>	<u>\$180,829</u>	<u>-\$380,324</u>
Unassigned Funds December 31 Previous Year	<u>\$4,768,956</u>	<u>\$4,925,936</u>	<u>\$5,289,139</u>	<u>\$5,492,811</u>	<u>\$5,673,640</u>
Unassigned Funds December 31 Current Year	<u>\$4,925,936</u>	<u>\$5,289,139</u>	<u>\$5,492,811</u>	<u>\$5,673,640</u>	<u>\$5,293,316</u>

#### **NOTE 1: BONDS**

At December 31, 2008, the Society reported an asset for Bonds of \$7,883,837. The amount is accepted as stated for examination purposes.

The review indicated the Company had a signed custodial agreement for securities in place at December 31, 2008. However, the wording of the agreement does not explicitly state the Custodian's responsibility to replace said securities should it be found responsible for them by negligence or loss. Therefore it is recommended that the Society seek to have stronger language inserted into the agreement to better protect the securities entrusted to the Custodian.

The Sokol reported bond acquisition dates as the settlement date and not the trade date. According to SSAP #26, a bond acquisition or disposal shall be recorded on the trade date and not the settlement date. It is recommended that the bond should be reported as of the trade date and not the settlement date.

#### **NOTE 2: CASH AND CASH EQUIVALENTS**

The examination review of the Society's treatment of escheat checks disclosed that the Society has failed to forward uncashed checks, three years or older, to the State as required by NJSA 46:30. Therefore, it is again recommended that in the future the Society escheat uncashed checks three years or older to the State pursuant to the provisos of NJSA 46:30.

#### **NOTE 3: AGGREGATE RESERVE FOR LIFE CERTIFICATES AND CONTRACTS**

The Society reported a liability for Aggregate Reserve for Life Certificates and Contracts at December 31, 2008 of \$4,343,357. A review of this reserve by an actuary with the New Jersey Department of Banking and Insurance, Life and Health Actuarial Division indicated the amount established by the Society was reasonable.

Data supplied to the actuaries was reconciled to the Society's annual statement and other supporting records without exception. Samples of policies in force at December 31, 2008 were reconciled to the Society's policy files without exception.

It was noted that one policy file for the loss sample could not be located and two deposit-type contract files could not be located. It is recommended that the Society should keep better control of their original source documents for better record keeping.

#### **NOTE 4: UNASSIGNED FUNDS (SURPLUS)**

The Society's unassigned surplus funds as reported by the Society and as determined by this examination, was \$5,293,316.



## **SUMMARY OF RECOMMENDATIONS**

- 1.) The Society's by-laws direct the Board of Directors to meet on a quarterly basis in order to be compliant with the requirements of NJSA 17:44B-4a(2). The review of the Board of Directors minutes for the examination period indicated the Supreme Lodge only met three times in 2008 and three times in 2007. Therefore, the Society is not fully in compliance with the provisos of NJSA 17:44B-4a(2). It is recommended that the Supreme Lodge meet on a quarterly basis as required by the provisos of NJSA 17:44B-4a (2). (Page 10)
- 2.) The review indicated the Company had a signed custodial agreement for securities in place at December 31, 2008. However, the wording of the agreement does not explicitly state the Custodian's responsibility to replace said securities should it be found responsible for them by negligence or loss. Therefore it is recommended that the Society seek to have stronger language inserted into the agreement to better protect the securities entrusted to the Custodian. (Page 14)
- 3.) The Sokol reported bond acquisition dates as the settlement date and not the trade date. According to SSAP #26, a bond acquisition or disposal shall be recorded on the trade date and not the settlement date. It is recommended that the bond should be reported as of the trade date and not the settlement date. (Page 14)
- 4.) The examination review of the Society's treatment of escheat checks disclosed that the Society has failed to forward uncashed checks, three years or older, to the State as required by NJSA 46:30. Therefore, it is again recommended that in the future the Society escheat uncashed checks three years or older to the State pursuant to the provisos of NJSA 46:30. (Page 14)
- 5.) It was noted that one policy file for the loss sample could not be located and two deposit-type contract files could not be located. It is recommended that the Society should keep better control of their original source documents for better record keeping. (Page 14)

**CONCLUSION**

A regular statutory condition examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.

The examination and audit was conducted at the Society's office in East Orange, New Jersey. The courteous assistance and cooperation of the Society's officers and employees is acknowledged.

Respectfully Submitted,

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Daniel J. Fialkowski, CFE, AIE, FLMI, CPM  
Examiner-In- Charge

**SLOVAK GYMNASTIC UNION SOKOL OF THE U.S.A.**

I, Daniel J. Fialkowski, do solemnly swear that the foregoing report of examination is hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2008 to the best of my information, knowledge and belief.

**Respectfully Submitted,**

**/S/**

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**Examiner-In-Charge  
New Jersey Department of Banking and Insurance**

**State of New Jersey  
County of Mercer**

**Subscribed and sworn to before me,  
on this 22<sup>nd</sup> day of September 2009**

**/S/**

\_\_\_\_\_  
**Thomas B. Walker  
Notary Public of New Jersey**

**My commission expires September 2013**