

Examination Warrant Number 20-00000-56871-R1

Report of Examination of
Russian Brotherhood Organization of the United States of
America
Yardley, Pennsylvania
As of December 31, 2020

Russian Brotherhood Organization of the United States of America

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Harrisburg, Pennsylvania
May 3, 2022

Honorable Melissa L. Greiner
Deputy Insurance Commissioner
Commonwealth of Pennsylvania
Insurance Department
Harrisburg, Pennsylvania

Dear Madam:

In accordance with instructions contained in Examination Warrant Number 20-00000-56871-R1, dated July 30, 2020, an examination was made of

**Russian Brotherhood Organization of the United States of America, NAIC
Code: 56871**

a Pennsylvania domiciled, multi-state, fraternal benefit society, hereinafter referred to as the "Society." The examination was conducted at the Society's home office, located at 301 Oxford Valley Road, Suite 1602B, Yardley, Pennsylvania.

A report of this examination is hereby respectfully submitted.

SCOPE OF EXAMINATION

The Pennsylvania Insurance Department ("Department") has performed an examination of the Society, which was last examined as of December 31, 2015. This examination covered the five-year period from January 1, 2016 through December 31, 2020.

Work programs employed in the performance of this examination were designed to comply with the standards promulgated by the Department and the National Association of Insurance Commissioners ("NAIC") *Financial Condition Examiners Handbook* ("Handbook").

The Handbook requires that the Department plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Society, evaluate system controls and procedures used to mitigate those risks, and review subsequent events. An examination also includes identifying and evaluating significant risks that could cause an insurer's surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Society were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles.

The examination does not attest to the fair presentation of the financial statements included herein. If, during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Society's financial statements.

This examination report includes significant findings of fact, in accordance with

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40 P.S. § 323.5(a), and general information about the Society and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other regulators and/or the Society.

For each year of the examination period, the certified public accounting firm of Pappler – Thompson & Associates (“CPA”) has provided a unmodified opinion based on statutory accounting principles. Relevant work performed by the CPA, during its annual audit of the Society, was reviewed during the examination and incorporated into the examination workpapers.

HISTORY

The Society represents that it was incorporated on March 23, 1903, the Society was licensed by the Department on March 23, 1903, and the Society represents that it commenced business on July 1, 1900.

The Society is authorized to transact those classes of insurance described in 40 P.S. § 991.2431, (a)(1) Death benefits, (a)(2) Endowment benefits, (a)(3) Annuity benefits, (a)(4) Temporary or permanent disability benefits, (a)(5) Hospital, medical or nursing benefits, and (a)(6) Other benefits which are authorized for insurers licensed to write life, accident and health insurance and which are not inconsistent with this sub article. The Society offers life and annuity products.

MANAGEMENT AND CONTROL

MEMBERSHIP

The Society is a fraternal benefit society all assets and liabilities are owned by its membership. Eligibility for membership is any person who is of sound health, is of Russian or other Slavonic descent, or certifies his or her willingness to support the laws, regulations, and purposes of the Society, the Russian or Slavic Christian religion, culture, heritage and traditions, or of Christian religion and good moral character.

CONVENTION

The Convention of the Society (“Convention”) is the highest law-making and judicial authority of the Society and is comprised of the Society’s Board of Supreme Officers (“BSO”), district representatives, the General Council of the Society, and the qualified and elected delegates that have been accepted and seated at the Convention. The Convention has several powers as provided within the Society’s by-laws that include, but are not limited to, the power to adopt necessary legislation for the government of the Society, the power to determine the rules of its procedure; and the power to nominate and elect the members the BSO. A regular Convention shall be held at a minimum once every four years. The most recent Convention was held from August 19, 2018 to August 21, 2018. The next Convention shall be held in 2022.

BOARD OF SUPREME OFFICERS

The executive powers of the Society are vested in the BSO. The BSO is comprised of the Supreme President, Supreme Vice-President, Supreme Secretary Treasurer, three Auditing Committee members, and the five directors of the Society. The BSO meets at least annually, and each member of the BSO is elected by the Convention for a four-year term.

DIRECTORS

The Society's directors take part in the ordinary and special meetings of the BSO. In addition, the directors help the Society's Executive Committee in the administration of the Society. The following are the Society's elected directors as of December 31, 2020:

Name and Address	Principal Occupation
David A. Carlock Curtisville, Pennsylvania	Maintenance Supervisor Bochek's Collision Center
Nicholas G. Petronko Neptune, New Jersey	Teacher Somerville Board of Education
Alexander B. Russin Forty Foot, Pennsylvania	Attorney
Walter Z. Dudich Hartville, Ohio	Retired
Stephen Wasilewski Bayonne, New Jersey	Unemployed

The Society's by-laws provide for five directors to be elected by the Convention for a four-year term.

The Society has a Code of Conduct policy, adopted by the BSO that governs the action of all employees, officers, and directors of the Society.

COMMITTEES

The Executive Committee is comprised of the Society's Supreme President, Supreme Vice-President and Supreme Secretary Treasurer and is responsible for managing the affairs of the Society in the interim between meetings of the Convention and such other powers and authorities prescribed in the Society's by-laws.

The Auditing Committee is comprised of three members that shall audit all books, records, and business transactions of the Society at least once each fiscal year and such other powers and authorities prescribed in the Society's by-laws.

As of December 31, 2020, the following committees were appointed and serving in accordance with the Society's by-laws:

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Auditing Committee

Daniel M. Carlock
David M. Brzuchalski
Harrison B. Russin

Executive Committee

John A. Wanko
Basil G. Russin
Stephen J. Wanko

OFFICERS

As of December 31, 2020, the following officers were elected, unless otherwise noted, and serving in accordance with the Society's by-laws:

Name

John A. Wanko
Stephen J. Wanko
Basil G. Russin
Heather M. Bradley
*appointed officer

Title

Supreme President
Supreme Secretary Treasurer
Supreme Vice President
Secretary*

CORPORATE RECORDS

MINUTES

A compliance review of the Society's minutes determined that:

- BSO members were elected by the Convention and the BSO held annually meetings in compliance with the by-laws.
- The actions of the officers were annually presented to and ratified by the BSO.
- Quorums were present at all BSO, Executive Committee, and Auditing Committee meetings.
- The investment transactions are approved by the Executive Committee.

ARTICLES OF INCORPORATION

There were no changes to the Society's Articles of Incorporation during the five-year period under examination.

BY-LAWS

There were no changes to the Society's by-laws during the five-year period under examination.

During the review of the Society's by-laws, it was determined that the by-laws were not in compliance with 40 P.S. § 991.2428, as the Society's by-laws did not include required provisions for an authorized control level event.

It is recommended that the Society modify their by-laws to ensure compliance with 40 P.S. § 991.2428.

SERVICE AND OPERATING AGREEMENTS

Administration Software Agreement

Effective January 1, 2010, the Society entered into an Administrative Software Agreement with CPS Actuaries (“CPSA”). Pursuant to the terms of the agreement, CPSA provides administrative software for the administration of the Society’s insurance policies.

REINSURANCE

CEDED

The Society did not cede any business during the examination period.

ASSUMED

The Society did not assume any business during the examination period.

TERRITORY AND PLAN OF OPERATIONS

The Society is licensed in the following jurisdictions: Connecticut, New Jersey, New York, Ohio, and Pennsylvania.

There has been no change in the Society’s marketing philosophy since the last examination and its major lines of business and premium writings are shown below:

Line of Business	Direct and Assumed Premium	Ceded Premium	Net Premium	Percentage of Total
December 31, 2020				
Ordinary life	\$ 85,546	\$ 0	\$ 85,546	22.7%
Individual annuities	290,863	0	290,863	77.3%
Totals	<u>\$ 376,409</u>	<u>\$ 0</u>	<u>\$ 376,409</u>	<u>100.0%</u>

The Society sells whole life, single-pay whole life, twenty-pay whole life, and annuities.

SIGNIFICANT OPERATING TRENDS

The following table indicates the growth of the Society during the period covered by this examination:

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	2020	2019	2018	2017	2016
Admitted Assets	\$ 15,728,794	\$ 15,180,683	\$ 14,956,328	\$ 14,610,965	\$ 14,174,530
Liabilities	\$ 12,384,294	\$ 11,903,888	\$ 11,670,482	\$ 11,255,224	\$ 10,927,478
Capital and Surplus Funds	\$ 3,344,500	\$ 3,276,795	\$ 3,285,846	\$ 3,355,741	\$ 3,247,052
Net Premiums Written	\$ 380,486	\$ 368,353	\$ 215,129	\$ 255,020	\$ 407,910
Benefits to Members	\$ 372,823	\$ 318,185	\$ 316,933	\$ 245,181	\$ 273,119
Net Investment Income	\$ 768,080	\$ 764,639	\$ 756,225	\$ 743,536	\$ 729,622
Net Income	\$ 134,373	\$ (196,291)	\$ 331	\$ 150,495	\$ (190,158)

Since the prior examination, the Society has experienced the following changes in its total number of certificates in-force, the overall amount of insurance in-force, and the average amount of insurance in-force per policy:

	Certificates In Force	Insurance In Force	Average Policy In Force
Ordinary Life			
December 31, 2020	3,160	\$ 17,960,000	\$ 5,684
December 31, 2015	3,405	17,072,000	5,014
Net Increase/(decrease)	(245)	\$ 888,000	\$ 670

The Society had a small decline in certificates in-force during the examination period.

PENDING LITIGATION

As of the date of this examination report, the Society's Management attested that the Society was not involved in any litigation and was not aware of any threatened litigation that could have a material adverse effect on its financial condition.

FINANCIAL STATEMENTS

The financial condition of the Society, as of December 31, 2020, and the results of its operations for the five-year period under examination, are reflected in the following statements*:

- Comparative Statement of Assets, Liabilities, Surplus and Other Funds;
- Comparative Statement of Income;
- Comparative Statement of Capital and Surplus;
- Comparative Statement of Cash Flow

*Note: Some financials shown in this report may contain immaterial differences to those reported in the Society's filed Annual Statements due to rounding errors.

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Comparative Statement of Assets, Liabilities, Surplus and Other Funds As of December 31,

	2020	2019	2018	2017	2016
Bonds	\$ 13,946,490	\$ 13,676,487	\$ 12,714,203	\$ 12,138,321	\$ 11,482,595
Preferred stocks	391,060	391,060	391,060	541,060	463,609
Common stocks	350,709	0	0	0	0
Mortgage loans on real estate	569,131	625,045	1,056,190	1,306,541	1,577,159
Real estate	159,561	164,396	169,231	174,066	178,902
Cash, cash equivalents and short-term investments	64,549	97,775	67,190	213,615	242,990
Contract loans	41,569	38,171	42,932	42,018	51,291
Receivable for securities	0	0	318,314	0	0
Subtotal, cash and invested assets	15,523,069	14,992,934	14,759,120	14,415,621	13,996,546
Investment income due and accrued	203,325	181,191	180,247	174,174	174,813
Premiums and considerations	2,400	3,800	6,900	5,900	3,000
Electronic data processing equipment and software	0	2,758	10,061	15,270	171
Total	\$ 15,728,794	\$ 15,180,683	\$ 14,956,328	\$ 14,610,965	\$ 14,174,530
Aggregate reserve for life contracts	\$ 10,153,331	\$ 9,872,661	\$ 9,540,833	\$ 9,399,276	\$ 9,184,568
Liability for deposit-type contracts	118,273	30,797	22,355	30,329	7,654
Contract claims:					
Life	13,377	12,140	20,023	27,555	66,501
Amounts provisionally held for deferred dividend policies	0	0	0	0	71,250
Premiums and annuity considerations received in advance	118,870	124,257	110,719	79,079	0
Contract liabilities not included elsewhere:					
Interest maintenance reserve	12,811	8,797	0	15,704	37,223
Commissions to agents due or accrued	0	5,623	5,542	2,940	5,996
General expenses due or accrued	62,487	47,456	37,246	102,042	72,378
Taxes, licenses and fees due or accrued	100,244	75,000	50,129	28,229	(782)
Amounts withheld or retained by company as agent or trustee	1,587,483	1,608,853	1,429,495	1,396,283	1,353,095
Miscellaneous liabilities:					
Asset valuation reserve	155,884	56,643	207,927	154,979	107,369
Payable for securities	0	0	211,897	0	0
Aggregate write-ins for liabilities	61,534	61,661	34,316	18,808	22,226
Total liabilities	12,384,294	11,903,888	11,670,482	11,255,224	10,927,478
Unassigned funds (surplus)	3,344,500	3,276,795	3,285,846	3,355,741	3,247,052
Surplus	3,344,500	3,276,795	3,285,846	3,355,741	3,247,052
Total capital and surplus	3,344,500	3,276,795	3,285,846	3,355,741	3,247,052
Totals	\$ 15,728,794	\$ 15,180,683	\$ 14,956,328	\$ 14,610,965	\$ 14,174,530

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Comparative Statement of Income For the Year Ended December 31,

	2020	2019	2018	2017	2016
Premiums and annuity considerations for life and A&H contracts	\$ 380,486	\$ 368,353	\$ 215,129	\$ 255,020	\$ 407,910
Net investment income	768,080	764,639	756,225	743,536	729,622
Amortization of interest maintenance reserve (IMR)	12,613	8,808	9,720	15,050	22,006
Miscellaneous income:					
Aggregate write-ins for miscellaneous income	54,100	0	5,390	27,959	25,012
Totals	1,215,279	1,141,800	986,464	1,041,565	1,184,550
Death benefits	106,048	129,818	105,215	81,894	160,048
Matured endowments	15,443	15,282	21,410	6,381	23,040
Annuity benefits	241,414	155,172	181,102	135,151	66,756
Surrender benefits and withdrawals for life contracts	6,691	8,646	7,537	20,116	13,880
Interest and adjustments on contract or deposit-type funds	1,558	715	0	0	295
Payments on supplementary contracts with life contingencies	1,669	8,552	1,669	1,669	9,100
Increase in aggregate reserves for life and A&H policies and contracts	280,670	331,828	141,557	214,708	366,578
Totals	653,493	650,013	458,400	469,889	639,697
Commissions on premiums, annuity considerations & deposit-type funds (direct)	13,142	16,207	13,788	10,211	14,839
General insurance expenses	373,217	411,418	427,069	425,396	425,401
Insurance taxes, licenses and fees	41,054	40,816	38,574	41,614	31,826
Totals	1,080,906	1,118,454	937,921	937,110	1,111,763
Net gain from operations before dividends to policyholders and federal income taxes	134,373	23,346	48,543	104,455	72,787
Net gain from operations after dividends to policyholders and before federal income taxes	134,373	23,346	48,543	104,455	72,787
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	134,373	23,346	48,543	104,455	72,787
Net realized capital gains or (losses) less capital gains tax (excluding gains/losses transferred to the IMR)	0	(219,637)	(48,212)	46,040	(262,945)
Net income	\$ 134,373	\$ (196,291)	\$ 331	\$ 150,495	\$ (190,158)

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Comparative Statement of Capital and Surplus For the Year Ended December 31,

	2020	2019	2018	2017	2016
Capital and surplus, December 31, previous year	\$ 3,276,795	\$ 3,285,847	\$ 3,355,742	\$ 3,247,054	\$ 3,133,034
Net income	134,373	(196,291)	331	150,495	(190,158)
Change in net unrealized capital gains or (losses)	34,353	0	0	0	157,096
Change in nonadmitted assets	4,567	36,101	(13,924)	6,608	(16,794)
Change in asset valuation reserve	(99,241)	151,284	(52,948)	(47,610)	163,879
Aggregate write-ins for gains and losses in surplus	(6,347)	(146)	(3,355)	(806)	(5)
Net change in capital and surplus for the year	67,705	(9,052)	(69,896)	108,687	114,018
Capital and surplus, December 31, current year	<u>\$ 3,344,500</u>	<u>\$ 3,276,795</u>	<u>\$ 3,285,846</u>	<u>\$ 3,355,741</u>	<u>\$ 3,247,052</u>

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Comparative Statement of Cash Flow For the Year Ended December 31,

	2020	2019	2018	2017	2016
Cash from Operations					
Premiums collected net of reinsurance	\$ 376,499	\$ 384,991	\$ 245,769	\$ 259,949	\$ 421,367
Net investment income	776,416	794,068	789,006	764,343	732,615
Miscellaneous Income	54,100	0	5,390	27,959	25,012
Total	1,207,015	1,179,059	1,040,165	1,052,251	1,178,994
Benefit and Loss related Payments	371,586	326,068	324,465	284,127	276,597
Commissions, expenses paid and aggregate write-ins for deductions	392,889	405,934	504,217	425,020	482,369
Total deductions	764,475	732,002	828,682	709,147	758,966
Net Cash from Operations	442,540	447,057	211,483	343,104	420,028
Cash from Investments					
Proceeds from investments sold, matured or repaid:					
Bonds	1,770,893	2,100,214	643,375	829,934	1,086,403
Stocks	11	0	468,314	919,516	943,262
Mortgage loans	59,499	440,106	250,350	270,618	99,583
Miscellaneous applications	0	318,314	211,897	0	0
Total investment proceeds	1,830,403	2,858,634	1,573,936	2,020,068	2,129,248
Cost of investments acquired (long-term only):					
Bonds	2,049,901	3,269,540	1,265,724	1,509,146	1,731,165
Stocks	316,355	0	366,527	948,475	345,165
Mortgage loans	0	0	0	0	300,000
Miscellaneous applications	0	211,897	318,314	0	0
Total investments acquired	2,366,256	3,481,437	1,950,565	2,457,621	2,376,330
Net increase (decrease) in policy loans and premium notes	3,398	(4,761)	914	(9,273)	(9,115)
Net cash from investments	(539,251)	(618,042)	(377,543)	(428,280)	(237,967)
Cash from Financing and Miscellaneous Sources					
Cash provided (applied):					
Net deposits on deposit-type contracts and other insurance liabilities	81,421	7,727	(7,769)	21,005	(5,122)
Other cash provided or (applied)	(17,936)	193,843	27,404	34,796	(126,583)
Net cash from financing and miscellaneous sources	63,485	201,570	19,635	55,801	(131,705)
Reconciliation of cash and short-term investments:					
Net change in cash and short-term investments	(33,226)	30,585	(146,425)	(29,375)	50,356
Cash and short-term investments:					
Beginning of the year	97,775	67,190	213,615	242,990	192,634
End of the year	\$ 64,549	\$ 97,775	\$ 67,190	\$ 213,615	\$ 242,990

SUMMARY OF EXAMINATION CHANGES

There were no examination changes to the preceding financial statements as filed with regulatory authorities over the review period.

NOTES TO FINANCIAL ITEMS

ASSETS

INVESTMENTS

As of December 31, 2020, the Society's invested assets were distributed as follows:

	Amount	Percentage
Bonds	\$ 13,946,490	89.8 %
Preferred stocks	391,060	2.5 %
Common stocks	350,709	2.3 %
Mortgage loans on real estate	569,131	3.7 %
Real estate occupied by Company	159,561	1.0 %
Cash	64,549	0.4 %
Contract loans	41,569	0.3 %
Totals	<u>\$ 15,523,069</u>	<u>100.0 %</u>

The Society's bond portfolio had the following quality and maturity profiles:

NAIC Designation	Amount	Percentage
1 - highest quality	\$ 2,185,425	15.6 %
2 - high quality	9,285,485	66.6 %
3 - medium quality	2,075,580	14.9 %
4 - low quality	400,000	2.9 %
Totals	<u>\$ 13,946,490</u>	<u>100.0 %</u>

Years to Maturity	Amount	Percentage
2 to 5 years	950,145	6.8 %
6 to 10 years	2,235,307	16.0 %
11 to 20 years	4,558,383	32.7 %
over 20 years	6,202,655	44.5 %
Totals	<u>\$ 13,946,490</u>	<u>100.0 %</u>

The Society's custodial agreement is in compliance with 31 Pa. Code § 148a.3. The Society has a written investment policy as required by 40 P.S. § 504.1(c) and the Society is following its investment policy.

LIABILITIES

POLICYHOLDER AND CLAIM RESERVES

During the examination period, Allan P. Ferrone, FSA, MAAA, an associate of CPS Actuaries, Consulting Actuaries, provided independent actuarial services to the Society under the appointment from the BSO. The Statement of Actuarial Opinion as of December 31, 2020 stated that the Life reserves of \$5,093,857, the Annuity reserves of \$4,398,301, Accidental Death and Disability reserves of \$973, and the Supplemental contracts of \$118,273:

- a.) “Are computed in accordance with presently accepted Actuarial Standards of Practice (ASOPs) consistently applied and fairly stated, in accordance with sound actuarial principles,
- b.) are based on assumptions and methods that produce reserves at least as great as those called for in any contract provision as to reserve basis and method, and are in accordance with all other contract provisions,
- c.) meet the requirements of the insurance laws and regulations of the State of Pennsylvania, and are at least as great as the minimum aggregate amounts required by the state this Society is licensed, with the exception of the State of New York that complies with their requirements,
- d.) are computed on the basis of assumptions and methods consistent with those used in computing the corresponding items in the annual statement of the preceding year-end, and
- e.) include provision for all actuarial reserves and related statement items that ought to be established.”

The on-site examination team reviewed the controls over data compilation and reviewed and tested samples of the data furnished to the consulting actuary for use in generating the reserves. The purpose of the tests was to assess the accuracy and completeness of the data used by the actuary.

The Department’s Bureau of Life Accident and Health Insurance conducted a review of the actuarial assumptions and methods used in determining reserves. The review concluded that there was no material, unresolved issues or problems related to the calculation of the Society’s reserves. Based upon the foregoing work and the assertions by the Society’s consulting actuary, the Society’s reserves are considered to be adequate as of December 31, 2020.

SUBSEQUENT EVENTS

The Department is monitoring the impact of the COVID-19 global pandemic. The Department recognizes that COVID-19 could have a significant financial and operational impact on all of its domestic insurers, including the Society. As such, the Department will continue to monitor and share information with the Society as appropriate related to COVID-19 developments.

RECOMMENDATIONS

PRIOR EXAMINATION

The prior examination report contained the following recommendation:

1. It is recommended that the Society record and report unclaimed property annually, by April 15, as required by Pennsylvania's Disposition of Abandoned and Unclaimed Property Act, 72 P.S. §§ 1301.1 – 1301.29.

CURRENT EXAMINATION

As a result of the current examination, the following recommendations are being made:

1. It is recommended that the Society modify their by-laws to ensure compliance with 40 P.S. § 991.2428. (See "By-Laws", page 4)

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CONCLUSION

As a result of this examination, the financial condition of Russian Brotherhood Organization of the United States of America, as of December 31, 2020, was determined to be as follows:

	Amount	Percentage
Admitted assets	\$ 15,728,794	100.0 %
Liabilities	\$ 12,384,294	78.7 %
Capital and Surplus	3,344,500	21.3 %
Total liabilities, capital and surplus	\$ 15,728,794	100.0 %

Since the previous examination, made as of December 31, 2015, the Society's assets increased by \$1,727,066, its liabilities increased by \$1,515,598, and its surplus increased by \$211,468.

This examination was conducted by David Smith, CISA, CPDSE, AES, CDPP, CFE, and Glenn LeGault, CPA, CFE, with the latter in charge.

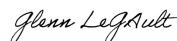
Respectfully submitted,



Matthew C. Milford, CFE
Director
Bureau of Financial Examinations



Stephanie Ohnmacht, CFE
Examination Manager



Glenn LeGault, CFE, CPA
Examiner-in-Charge

The CFE designation has been conferred by an organization not affiliated with the federal or any state government. However the CFE designation is the only designation recognized by the NAIC for the purposes of directing statutory Association examinations of insurance companies.