

Report of Examination of  
Order Sons of Italy in America – Grand Lodge of Ohio  
Cleveland, Ohio  
As of December 31, 2009

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Columbus, Ohio

September 10, 2010

Honorable Mary Jo Hudson  
Director  
State of Ohio  
Department of Insurance (“Department”)  
50 West Town Street, Suite 300  
Columbus, Ohio 43215

Dear Madam:

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

Order Sons of Italy in America – Grand Lodge of Ohio

an Ohio domiciled, fraternal benefit society, hereinafter referred to as the (“Company.”) The examination was conducted at the Company’s home office located at 10900 Pearl Road, Unit C-3, Cleveland, Ohio.

A report of this examination is hereby respectfully submitted.

The Company was last examined as of December 31, 2007, by the Department. Representatives of the Department conducted the current examination covering the intervening period to and including December 31, 2009.

Management and Control

Board of Trustees

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

<u>Name</u>	<u>Occupation</u>
Chuck Burelli	Retired
Don Ferrante	Retired
Timothy Komara	Caseworker, Mahoning County Child Support

Anthony Marino	Retired
Richard Marrapese	Chief Operating Officer North Shore Gastroenterology
Anne Ray	Retired
Anthony Spazani	Restaurant owner and operator
Candra Stablein	Office Manager State Farm Insurance
James Togliatti	Owner, Togliatti Heating & Cooling, Trustee

### Officers

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

<u>Name</u>	<u>Title</u>
Richard Marrapese	President
Anthony Spazani	Vice President
Chuck Borelli	Financial Secretary
Anne Ray	Treasurer

### Reinsurance

The Company has no assumed or ceded reinsurance.

### Territory and Plan of Operations

The Company is only licensed to transact business in the State of Ohio.

### Scope of Examination

The purpose of the examination was to make an assessment of the financial condition of the Company as of December 31, 2009. To substantiate the various items, tests were made either by complete audits of accounts or by sampling methods prescribed by the National Association of Insurance Commissioners (“NAIC”) Examiner's Handbook. In selecting the examination procedures used, due consideration was given to the importance of each account to overall solvency. Transactions occurring subsequent to the date of the examination were reviewed to the extent deemed necessary.

In addition, the following items were reviewed during the course of this examination:

1. Company history;
2. Fidelity bonds and other insurance;
3. Officers', employees', and agents' welfare and pension plans;
4. Mortality and loss experience;
5. Pending litigation; and
6. Constitution and Bylaws.

### Financial Statements

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

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

## Statement of Assets, Liabilities, Surplus and Other Funds

	<u>December 31, 2009</u>
Cash and invested assets:	
Bonds	\$894,578
Common stocks	125,684
Contract loans	1,471
Cash and short-term investments	273,242
Total cash and invested assets	<u>\$1,294,975</u>
Uncollected premiums and agents' balances in course of collection	114
Investment income due and accrued	6,207
Total admitted assets	<u><u>\$1,301,296</u></u>
Liabilities:	
Aggregate reserve for life certificates and contracts	\$851,000
Liability for deposit-type contracts	10,196
Life contract claims	8,000
Refunds apportioned for payment	4,000
Interest maintenance reserve	31,472
General expenses and commissions due or accrued	2,044
Taxes, licenses and fees due or accrued	497
Amounts withheld or retained by Society as agent or trustee	175,322
Asset valuation reserve	27,151
Total liabilities	<u>1,109,682</u>
Unassigned funds	191,614
Total surplus	<u>191,614</u>
Total liabilities and unassigned funds	<u><u>\$1,301,296</u></u>

## Statement of Operations

December 31, 2009

Premiums and other revenues:	
Life and accident and health certificates	\$128,943
Net investment income	42,159
Amortization of Interest Maintenance Reserve	8,074
Aggregate write-ins for miscellaneous income	937
Total premiums and other revenues	<u>180,113</u>
Benefits paid or provided:	
Death benefits	16,304
Annuity and old age benefits	8,444
Interest and adjustments on deposit-type contracts	6,078
Increase in life, annuity, and accident and health reserves	99,000
Total benefits paid or provided	<u>129,826</u>
General expenses	111,320
Insurance taxes, licenses and fees	3,048
Total insurance expenses and other deductions	<u>244,194</u>
Gain from operations before refunds to members	(64,081)
Refunds to members	-0-
Gain from operations after refunds and before realized capital losses	<u>(64,081)</u>
Net realized capital gains	<u>(3,429)</u>
Net loss	<u><u>\$(67,510)</u></u>

**Statement of Changes in the Surplus Account  
(in thousands)**

	2007	2008	2009
Surplus December 31, previous year	\$370	\$317	\$236
Net income from operations	(54)	(44)	(68)
Net unrealized capital gains (losses)	7	(65)	50
Change in asset valuation reserve	(6)	28	(27)
Change in nonadmitted assets			
Aggregate write-ins for gains (losses)			
Net change in surplus for the year	(53)	(81)	(45)
Surplus December 31, current year	\$317	\$236	\$191

**Summary of Examination Changes  
(see notes to the financial statements for an explanation of changes)**

	<u>Assets</u>	<u>Liabilities</u>	<u>Surplus</u>
As reported by Company:	\$1,301,296	\$1,109,682	\$191,614
Examination adjustment	<u>(176,328)</u>	<u>0</u>	<u>(176,328)</u>
Total as a result of this Examination	<u>\$1,124,968</u>	<u>\$1,109,682</u>	<u>\$15,286</u>

**Notes to the Financial Statements**

Investments

The Company's investment in Federal National Mortgage Association (FNMA), exceeded the limitations set forth under ORC 3907.14(S) (7) by \$176,328.

Aggregate Reserve for Life Certificates and Claims

The reserves are determined in accordance with Actuarial Standards of Practice and Actuarial Guidelines that specifically relate to the opinion required under Section 7 of the NAIC Model Actuarial Opinion and the Memorandum.

The Company's reserves were reviewed by Bruce & Bruce and believed by them to make a reasonable provision for future guaranteed benefits and meeting statutory minimum standards.

Peter Weber, ASA, MAAA, the Department's life actuary, examined and evaluated the Company's reserves performed by Bruce & Bruce and determined that the reserves presented in the December 31, 2009 statutory financial statement made a reasonable provision for future guaranteed benefits and meeting statutory minimum standards.

#### Subsequent Events

It is the Department's view that the Company is in hazardous financial condition as defined by Ohio Administrative Code ("OAC") 3901-3-04 and is operating in a manner that is hazardous to its members, creditors and the public based on the following facts:

- An adverse earnings trend has been experienced in each of the past five years as net losses amount to \$67,510 in 2009, \$43,770 in 2008, \$54,401 in 2007, \$28,857 in 2006 and \$72,304 in 2005.
- From 12/31/2004 to 12/31/2009 surplus has decreased from \$471,987 to \$15,286
- The Company has net losses minus realized gain/losses greater than 20% of its surplus in a 12 month period ending December 31, 2009.
- There are significant examination adjustments in this examination report.

#### Conclusion

The balance sheet contained in this Report of Examination reflects the financial condition of the Company as of December 31, 2009, and is summarized as follows:

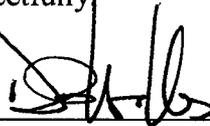
Total Assets	<u>\$1,124,968</u>
Liabilities	\$1,109,682
Unassigned Funds	<u>15,286</u>
Total Liabilities and Unassigned Funds	<u>\$1,124,968</u>

Acknowledgement

Appreciation is expressed for the assistance extended by the officers and employees of the Company during the course of this examination.

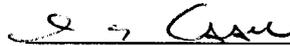
In addition to the undersigned, the following representatives of the Department participated in this examination: Ed Nagorny, CPA, CFE.

Respectfully



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Donnie G. Wells, CFE  
Examiner In Charge  
Ohio Department of Insurance



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

Verification

As required by Section 3901.07 of the Ohio Revised Code, the undersigned hereby attest to the best of their knowledge and belief that the attached is a true Report of Examination as of December 31, 2009.

[Signature]  
Examiner In Charge

10/13/10  
Date

[Signature]  
Assistant Chief Examiner

10/13/10  
Date

State of Ohio  
County of Franklin

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

Subscribed and sworn to before me this 13 day of October, 2010.

[Signature]  
(Notary Public)  
**ELIZABETH CHASE**  
**NOTARY PUBLIC, STATE OF OHIO**  
**MY COMMISSION EXPIRES MAY 22, 2012**  
My Commission Expires

State of Ohio  
County of Franklin

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

Subscribed and sworn to before me this 13 day of October, 2010.

[Signature]  
(Notary Public)  
**ELIZABETH CHASE**  
**NOTARY PUBLIC, STATE OF OHIO**  
**MY COMMISSION EXPIRES MAY 22, 2012**  
My Commission Expires