



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

REPORT OF EXAMINATION OF
SUPREME COUNCIL OF THE ROYAL ARCANUM

Boston, Massachusetts

As of December 31, 2011

NAIC SOCIETY CODE 58181

EMPLOYER ID NUMBER 04-1885430

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COMMONWEALTH OF MASSACHUSETTS

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May 24, 2013

Honorable Joseph G. Murphy
Commissioner of Insurance
Commonwealth of Massachusetts
Division of Insurance
1000 Washington Street, Suite 810
Boston, Massachusetts 02118-6200

Honorable Commissioner:

Pursuant to your instructions and in accordance with of Massachusetts General Laws ("M.G.L."), Chapter 176, Section 44 an examination has been made of the financial condition and affairs of

SUPREME COUNCIL OF THE ROYAL ARCANUM

at its home office located at 61 Batterymarch Street, Boston, Massachusetts 02110. The following report thereon is respectfully submitted.

SCOPE OF EXAMINATION

Supreme Council of the Royal Arcanum ("Order") was last examined as of December 31, 2008, by the Massachusetts Division of Insurance ("Division"). The current examination also was conducted by the Division and it covers the three year period from January 1, 2009, through December 31, 2011, including any material transactions and/or events occurring subsequent to the examination date and noted in the course of this examination.

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, the examination standards of the Division and with M.G.L. The examination was conducted following the NAIC Risk Focused Examination Model. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Order by obtaining information about the Order, including corporate governance, identifying and assessing inherent risks within the Order, and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with statutory accounting principles and Annual Statement instructions, when applicable to domestic state regulations. All accounts and activities of the Order were considered in accordance with the risk-focused examination process.

In addition to a review of the financial condition of the Order, the examination included a review of the Order's business policies and practices, corporate records, reinsurance treaties, conflict of interest disclosure statements, fidelity bonds and other insurance, disaster recovery plan, and other pertinent matters to provide reasonable assurance that the Order 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.

In accordance with 211 CMR 23.00, the Order was audited annually by an independent certified public accounting firm, Vision Financial LLP. The firm expressed unqualified opinions on the Order's financial statements for the calendar years 2009 through 2011. A review and use of certified public accountants' work papers were made to the extent deemed appropriate and effective.

An evaluation of the adequacy and effectiveness of controls over information systems was done by the Division staff to determine the level of reliance to be placed on summary information generated by the data processing systems.

For a summary of findings contained within this Report, refer to the Comments and Recommendations Section on page 19 of this Report.

Status of Findings from the Prior Examination

The prior exam noted that the Order was not in compliance with M.G.L. Chapter 176 section 40 which limits the investment in stocks to 25% of surplus and recommended that the Order bring their investments in compliance with the statute. The Order is still not in compliance with M.G.L. Chapter 176 section 40.

HISTORY

General

The Order was founded June 23, 1877, and incorporated under the laws of the Commonwealth of Massachusetts on November 5, 1877, as a fraternal benefit society with the power to make and to amend its own Constitutional Rules and General Laws for the government of the whole Order.

The Order exists as a non-sectarian, non-political, fraternal benefit society in the United States of America and in the Dominion of Canada. Current qualifications for admission to membership in the Royal Arcanum are an applicant must be a person of good moral character, a believer in a Supreme Being, and attainment of the age of eighteen years.

The objectives of the Order are:

- (1) To unite fraternally all eligible persons of sound bodily health and good moral standing who are socially acceptable and between eighteen and eighty-five years of age in the Adult Department and from birth to seventeen years of age in the Junior Department;
- (2) To give moral and material aid in its power to its members and those dependent upon them;
- (3) To educate the members socially, morally and intellectually and to assist the families of deceased members;
- (4) To establish funds for the payment of disability, old age and death benefits, for educational loans; and for annuities;
- (5) To establish, support and maintain charitable institutions; and
- (6) To provide juvenile protection for children and to issue certificates of insurance thereon from birth to seventeen years and eleven months of age.

On January 21, 2000, the Royal Arcanum Insurance Agency, Inc. ("Agency") was incorporated under the laws of the Commonwealth of Massachusetts as a for-profit entity. This wholly-owned subsidiary of the Order was established to provide members access to additional insurance products not otherwise available within the Order and to generate commissions on the business placed with certain insurance companies. As of the date of this examination, there has been no activity in the Agency.

On April 14, 2004, the Royal Arcanum Scholarship Fund, Inc. ("Fund") was incorporated under the laws of the Commonwealth of Massachusetts to award scholarships and grants to provide educational assistance to students pursuing college or university degrees. This not-for-profit corporation was organized as a private foundation exclusively for charitable, literary, scientific, religious, or educational purposes provided for under Section 501(c)(3) of the Internal Revenue Code, and it does not contemplate pecuniary gain or profit, incidental or otherwise. Monies in the Fund are provided by the Order, charitable donations, and unclaimed property from the Order.

On December 28, 2005 the Association of Lithuanian Workers ("ALW"), a fraternal benefit society based in New York, merged with and into the Order which became the surviving entity. The merger was approved by both the Division and the New York Insurance Department.

On October 29, 2008, the Office of the Superintendent of Financial Institutions in Canada officially approved the transaction between the Order and the Ukrainian Fraternal Association ("UFA"); a fraternal benefit society domiciled in Pennsylvania, whereby the Order would take over UFA's Canadian operations on 830 policies with insurance coverage totaling approximately \$2.15 million. On December 1, 2008, the Order received \$856,000 from UFA for this business.

On September 8, 2008, the Superior Court of New Hampshire placed ACA Assurance ("ACA"), a fraternal benefit society domiciled in the State of New Hampshire in rehabilitation. In the first quarter of 2009, the Order assumed certain life, disability, and annuity business of ACA which was estimated to be in excess of \$22.0 million, covering approximately 13,000 members. In 2011, the Order acquired pre-need policies of ACA. This consisted of 5,868 policies with a face amount of \$15.1 million.

Growth of the Order

The growth of the Order for the years 2009 through 2011 is indicated in the following schedule which was prepared from information in the Order's Annual Statements, including changes, if any, made as a result of this examination:

Year	Admitted Assets	Net Premiums Written	Surplus
2011	\$97,763,473	\$5,151,900	\$14,458,681
2010	86,251,186	6,422,347	14,026,271
2009	82,774,608	4,151,550	12,644,349

MANAGEMENT

Biennial Meeting

The Constitution and Laws of the Order stipulate that the Supreme Council shall meet biennially in even number years on the first Tuesday following the first Monday in September at such place as may be selected by the Executive Committee; however, the Executive Committee is authorized to call a two-thirds affirmative vote of its membership a regular meeting of the Supreme Council in any odd number year, provided that such meeting shall be held in some state, province, or territory wherein a Grand Council or Subordinate Council is established, or as otherwise provided by Massachusetts laws, and provided that if the Executive Committee deems it expedient to change the time for holding a Supreme Council meeting, the Executive Committee or majority of the Executive Committee may select another time. The one hundredth session of the Supreme Council was held in August 2010 in Florida.

Per the Order's Constitution and Laws, one-third of the entire membership of the Supreme Council shall constitute a quorum. Minutes of the meeting document that a quorum was obtained.

Supreme Council

The Constitution provides that the Supreme Council shall be composed of its elective Officers, representatives from the Grand Councils, Past Supreme Regents, Life Members of the Executive Committee, and members who have served thirty or more years in the Supreme Council, provided that they remain in good standing in their Subordinate Council and provided further that no member who is a full-time paid representative of the Field, Promotion, or Council Service Departments shall be eligible for membership in such Supreme Council.

At December 31, 2011, the surviving Past Supreme Regents were:

Joyce Audrey Crawford
Robert Herman Law III
Donald Gerard Foley

James Edward O'Neil
Cynthia Ann Macon
August Magnotta

Hebert J. Synder
William Wire

At December 31, 2011, those members of the Order who served as Life Members of the Supreme Council were Joseph R. Macon and Joseph J. Radecki, Sr.

Executive Committee

The Supreme Regent, Supreme Vice Regent, Supreme Orator, Sitting Past Supreme Regent, Supreme Secretary, the elective members to be selected from any of the members who compose the Supreme Council and Life Members of the Executive Committee, shall constitute a standing committee to be known as the Executive Committee. Such Executive Committee shall elect from its membership a Chairman who shall appoint all sub-committees and is an ex-officio member thereof and shall appoint a member of the Order to act as Recording Secretary thereof.

Members of the Executive Committee of the Order as of December 31, 2011 are as follows:

<u>Director</u>	<u>Business Affiliation</u>
Carol Zavitz	Supreme Regent
Peter Ferrara	Supreme Vice Regent
Carl Krzystofczyk	Supreme Orator
William Wire, Chairman	Past Supreme Regent
Kenneth J. Kolek	Supreme Secretary
Herbert Snyder	Elective Member
James O'Neill	Elective Member
Donald Foley	Elective Member
Cynthia Macon	Elective Member

Committees

Management of the Order is achieved through the Constitution and Laws of the Order which define the establishment, powers, and duties of the five standing committees and which allow numerous other special committees or sub-committees as may be required. At December 31, 2011, the standing committees of the Order with their respective membership were:

Executive Committee: noted above

Committee on Laws: Paul D'Emilio, Antal Basa, Jr., Karen Lockaby

Committee on Finance: Joseph Macon, Albert Sausto, Ralph Ferrara

Committee on Appeals: Harold Estes, Ethel Reitsmea, Joe Merrill, Janice Brazas

Committee on Juniors: Donald Ferry, Jr., Edwin Calain, Genevieve Macon, Errica Conforto

In addition a sub-committee, Committee on Investments was established. It is composed of Kenneth J. Kolek, William Wire and Donald Foley. Additionally, four elective Officers are designated as Supreme Trustees who individually or collectively perform duties as may be

assigned to them by the Supreme Council or the Executive Committee. At December 31, 2011, the Supreme Trustees were Gilles Bedard, Diane Calain, Tammy Fluegge, and Jay Newlin.

Officers

The elective Officers of the Supreme Council are Supreme Regent, Supreme Vice Regent, Supreme Orator, Sitting Past Supreme Regent, Supreme Auditor, who is also Chairman of the Committee on Finance, Supreme Secretary, Supreme Treasurer, Supreme Chaplain, Supreme Guide, Supreme Warden, Supreme Sentry, four elective members of the Executive Committee, three members of the Committee on Laws, two additional members of the Committee on Finance, four Supreme Trustees, four members of the Committee on Juniors, and four members of the Committee on Appeals. Officers are elected to serve for a term of two years or until their respective successors are elected or installed.

At December 31, 2011, in addition to the four Elective Members of the Executive Committee named above, the Officers of the Order are:

<u>Name</u>	<u>Title</u>
Carol Zavitz	Supreme Regent
Peter Ferrara	Supreme Vice Regent
Carl Krzystofczyk	Supreme Orator
William Wire	Sitting Past Supreme Regent
Kenneth J. Kolek	Supreme Secretary
John D. Crisanti	Supreme Treasurer
Joseph R. Macon	Supreme Auditor
Donald Ferry, Sr.	Supreme Chaplain
David Covelli	Supreme Guide
Robert A. Galdon, Jr.	Supreme Warden
Louise Reynolds	Supreme Sentry

Conflict of Interest Procedures

As reported in its answer to Question 14 of Part 1 Common Interrogatories of its 2011 Annual Statement, the Order has adopted a code of ethical business conduct which includes a procedure for the disclosure of any material interest or affiliation on the part of any Director, Officer or family member which may conflict with his/her official duties.

At the beginning of each year, every Director and Officer must complete, sign, and file with the Supreme Secretary an Annual Conflict Report Form disclosing any material conflict(s) of interest. No material conflicts were noted.

Corporate Records

Constitution and General Laws

The Constitution and Laws of the Order were read. There were no changes to the Constitution since the prior examination.

Disaster Recovery and Business Continuity

The Order provides for the continuity of management and operations in the event of a catastrophe or national emergency in accordance with Sections 180M through 180Q of M.G.L. Chapter 175.

Biennial Meeting

In accordance with the Constitution, the Biennial Meeting of the Order was held during the even number year during the examination period. The minutes of the meeting were reviewed to ensure compliance with the Constitution and to verify the election of the Officers and Executive Committee.

Minutes of Meetings

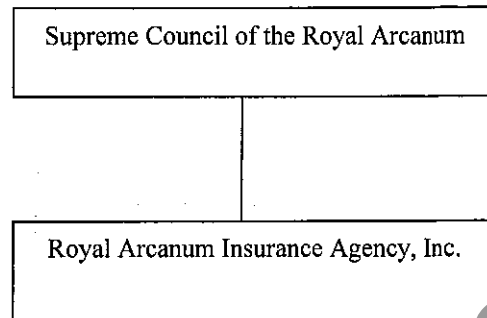
The minutes of meetings of the Executive Committee and of other Committees for the period under examination were read and they indicated that all meetings were held in accordance with the Order's Constitution and the laws of the Commonwealth of Massachusetts. Activities of the various Committees were ratified at the meetings of the Executive Committee.

AFFILIATED COMPANIES

The Order is the sole owner of an insurance agency, Royal Arcanum Insurance Agency, Inc., which was incorporated in January 2000 as a for-profit entity. In addition, the Order subsidizes Royal Arcanum Scholarship Fund, Inc., a not-for-profit foundation incorporated in April 2004 whose board is composed of Supreme Regent Carol Zavitz, Supreme Secretary Kenneth Kolek and Supreme Treasurer John Crisanti.

ORGANIZATIONAL CHART

The corporate organization of which the Order was the uppermost controlling entity at December 31, 2011 is represented as follows:



Transactions and Agreements with Subsidiaries and Affiliates

There are no agreements between the Order and its subsidiary, Royal Arcanum Insurance Agency, Inc. Nor are there any agreements between the Order and Royal Arcanum Scholarship Fund, Inc.

Acquisitions and Mergers

In 2009, the Order assumed certain life, disability, and annuity business of ACA Assurance which had been placed in rehabilitation by the New Hampshire Insurance Department. They received \$22.4 million for 7,448 life certificates, 3,114 Accident and Health certificates and 872 annuities. In 2011, the Order assumed the pre-need business of ACA Assurance. The business had a face amount of \$15,096,000 for 5,658 policies. They received \$11.9 million in cash, a \$50,000 mortgage and a \$5,000 CD on deposit with South Carolina.

FIDELITY BOND AND OTHER INSURANCE

The Order maintains fidelity coverage with an authorized Massachusetts insurer, consistent with Section 60 of M.G.L. Chapter 175. The aggregate limit of liability meets the NAIC suggested minimum. The Order has further protected its interests and property by policies of insurance covering other insurable risks. Coverages were provided by insurers licensed in the Commonwealth of Massachusetts and were in-force as of December 31, 2011.

PENSION AND INSURANCE PLANS

The Order offers various insurance plans including individual and family health, dental, and life coverages. Until January 1, 2011, the Order sponsored the Royal Arcanum Employees Pension Plan, a non-contributory defined benefit plan. Effective January 1, 2011 the Order established a defined contribution 401 (k) plan.

STATUTORY DEPOSITS

The statutory deposits of the Order as of December 31, 2011:

<u>Location</u>	<u>Description</u>	<u>Par Value</u>	<u>Book/Adjusted Carrying Value</u>	<u>Fair Value</u>
Canada	Bonds	\$12,795,000	\$12,742,658	\$15,367,638
North Carolina	Money Market	15,000	15,222	15,222
South Carolina	Certificate of Deposit	5,000	5,000	5,000
New Hampshire	Fannie Mae 4.0% Due 9/30/2030	500,000	499,881	501,180
Totals		<u>\$13,315,000</u>	<u>\$13,262,761</u>	<u>\$15,889,040</u>

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Order operates as a fraternal benefit society on the lodge system with a representative form of government. Presently, there are 146 lodges, 17 of which are from the Association of Lithuanian Workers, 3 of which are from the Ukrainian Fraternal Association and 17 of which are from ACA Assurance. At the time of the prior exam the lodges totaled 210.

The Order is licensed to transact business in the following jurisdictions in the United States of America:

Arizona	Georgia	Nebraska	Pennsylvania
California	Illinois	New Hampshire	Rhode Island
Colorado	Maine	New Jersey	South Carolina
Connecticut	Maryland	New York	Vermont
Delaware	Massachusetts	North Carolina	Virginia
District of Columbia	Michigan	Ohio	Washington
Florida	Missouri	Oregon	Wisconsin

The Order is also licensed to transact business in the Canadian provinces of Ontario, Quebec and Manitoba.

Products

The Order offers various life insurance and annuity products. In addition, accidental death benefits, waiver of assessment coverage and a guaranteed insurability option rider are available. The maximum retention limit, net of reinsurance is \$100,000 per risk.

Refunds to Members

Certificate holders are entitled to share in the distribution of surplus, if any, as determined by the Order annually. Any share of such surplus is distributed as refunds. Refunds to members for the past three years as reported in the Order's Annual Statement are shown below:

<u>2009</u>	<u>2010</u>	<u>2011</u>
\$89,700	\$138,155	\$168,913

REINSURANCE

Ceded Reinsurance

The Order participates in several reinsurance agreements with Swiss Re; there is a net retention of \$100,000. As a result of the acquisition of ACA the Order took over their reinsurance agreements. The following is a brief summary of the ACA reinsurance agreements.

Reinsurer	Business Covered	Retention
Swiss Re	Individual Life and Waiver of Premium Disability	\$35,000
Swiss Re	Individual Life and Waiver of Premium Disability on Form 53 and Form 53-R1	\$100,000
RGA	Term 100 simplified issue	25% up to a maximum of \$25,000
Optimum	Inforce policies issued between January 1, 1996 to December 31, 2006	50%
RGA	Accidental Death	0%
Optimum	Ordinary Life	\$50,000
Optimum	10 yr R&C Increasing Benefit Term	50%

Assumed Reinsurance

The acquisition of the pre-need business from ACA Assurance was treated as assumed reinsurance.

ACCOUNTS AND RECORDS

The internal control structure was discussed with management through questionnaires, interviews, and through a review of work performed by the Order's independent certified public accountants. No material deficiencies were noted.

The NAIC provides a questionnaire covering evaluation of controls in the IT systems environment. The questionnaire was completed by the Order and reviewed by the Division to evaluate the adequacy of the IT controls. In addition to the questionnaire, interviews were conducted with the Order's staff to gather supplemental information and corroborate the Order's responses to the questionnaire.

The Order uses an automated general ledger system. Trial balances were traced from the general ledger and supporting documents to the 2011 annual statement. No material exceptions were noted.

The books and records of the Order are audited annually by Vision Financial LLP, independent Certified Public Accountants, in accordance with 211 CMR 23.00.

FINANCIAL STATEMENTS

The following financial statements are presented on the basis of accounting practices prescribed or permitted by the Division and the NAIC as of December 31, 2011:

Statement of Assets, Liabilities, Surplus and Other Funds as of December 31, 2011

Statement of Income for the Year Ended December 31, 2011

Statement of Capital and Surplus for the Year Ended December 31, 2011

Reconciliation of Capital and Surplus for the Three-Year Period Ended December 31, 2011

**Statement of Assets, Liabilities, Surplus and Other Funds
As of December 31, 2011**

Assets	As Reported by the Order	Examination Changes	Per Statutory Examination	Notes
Bonds	\$ 82,222,303	\$ 0	\$ 82,222,303	
Preferred stocks	4,567,581		4,567,581	
Common stocks	3,733,402		3,733,402	
Mortgage loans - First liens	49,500		49,500	
Real estate - Properties held for production of income	264,561		264,561	
Cash and short-term investments	1,211,208		1,211,208	
Contract loans	4,401,859		4,401,859	
Subtotals, cash and invested assets	96,450,414		96,450,414	
Investment income due and accrued	1,282,774		1,282,774	
Premiums and considerations:				
Uncollected premiums and agents' balances				
in course of collection	12,500		12,500	
Electronic data processing equipment	17,785		17,785	
Total Assets	<u>\$ 97,763,473</u>	<u>\$ 0</u>	<u>\$ 97,763,473</u>	

Statement of Assets, Liabilities, Surplus and Other Funds (continued)
As of December 31, 2011

Liabilities	As Reported by the Order	Examination Changes	Per Statutory Examination	Notes
Aggregate reserves for life contracts	\$ 79,248,211	\$ 0	\$ 79,248,211	(1)
Aggregate reserves for accident and health contracts	20,782		20,782	(1)
Liability for deposit type contracts	1,947,830		1,947,830	(1)
Contract claims - life	415,777		415,777	(1)
Provisions for refunds payable - not yet apportioned	175,000		175,000	
Premiums and annuity considerations received in advance	153,928		153,928	
Interest maintenance reserve	101,837		101,837	
General expenses due and accrued	10,448		10,448	
Taxes, licenses and fees	25		25	
Miscellaneous liabilities: Asset Valuation Reserve	901,183		901,183	
Aggregate write-in for liabilities:				
Degree fees and dues	144,954		144,954	
Age 96 maturities	101,551		101,551	
Real estate - security deposit	31,517		31,517	
Association of Lithuanian Workers Scholarship Fund	28,752		28,752	
Commissions held on deposit	16,150		16,150	
Mortgage tax escrow	6,847		6,847	
Total Liabilities	<u>83,304,792</u>		<u>83,304,792</u>	
Unassigned funds (surplus)	<u>14,458,681</u>		<u>14,458,681</u>	
Surplus as regards policyholders	<u>14,458,681</u>		<u>14,458,681</u>	
Total Liabilities, Capital, and Surplus	<u>\$ 97,763,473</u>	<u>\$ 0</u>	<u>\$ 97,763,473</u>	

Statement of Income
For the Year Ended December 31, 2011

	As Reported by the Order	Examination Changes	Per Statutory Examination	Notes
Premium and annuity considerations	\$ 5,151,900	\$ 0	\$ 5,151,900	
Net investment income	5,007,515		5,007,515	
Amortization of interest maintenance reserve	55,332		55,332	
Totals	10,214,747		10,214,747	
Death benefits	3,072,676		3,072,676	
Matured endowments	186,507		186,507	
Annuity benefits	2,124,787		2,124,787	
Disability benefits and benefits under accident and health	3,940		3,940	
Surrender benefits and withdrawals for life contracts	1,666,541		1,666,541	
Interest and adjustments	91,041		91,041	
Payments on supplementary contracts	19,543		19,543	
Increase in aggregate reserve for life	(652,439)		(652,439)	
Totals	6,512,596		6,512,596	
Commissions on premiums, annuities and deposit-type contracts	323,818		323,818	
General insurance expenses and fraternal expenses	2,655,507		2,655,507	
Insurance taxes, licenses and fees	119,822		119,822	
Increase in loading on deferred and uncollected premium	(1,008)		(1,008)	
Totals	9,610,735		9,610,735	
Net gain from operations before refunds to members	604,012		604,012	
Refunds to members	168,913		168,913	
Net gain from operations after refunds to members and before realized capital gains	435,099		435,099	
Net realized capital losses	(99,436)		(99,436)	
Net Income	\$ 335,663	\$ 0	\$ 335,663	

**Statement of Capital and Surplus
For the Year Ended December 31, 2011**

	As Reported by the Order	Examination Changes	Per Statutory Examination
Surplus as regards policyholders December 31, prior year	\$14,026,271	\$ 0	\$14,026,271
Net income	335,663		335,663
Change in net unrealized capital gains	304,170		304,170
Change in net unrealized foreign exchange capital loss	(318,587)		(318,587)
Change in nonadmitted assets	(77,442)		(77,442)
Change in reserve on account of change in valuation basis	(11,767,502)		(11,767,502)
Change in asset valuation reserve	42,981		42,981
Aggregate write-in for gains:			
ACA Assurance fund balance entry for pre need	11,911,809		11,911,809
Change in net unrealized foreign exchange liabilities	1,318		1,318
Change in surplus as regards policyholders for the year	432,410		432,410
Surplus as regards policyholders as of December 31, current year	<u>\$ 14,458,681</u>	<u>\$ 0</u>	<u>\$ 14,458,681</u>

**Reconciliation of Capital and Surplus
For the Three-Year Period Ended December 31, 2011**

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Surplus as regards policyholders as of December 31, prior year	\$ 14,026,271	\$ 12,644,349	\$ 10,648,785
Net income	335,663	704,000	440,805
Change in net unrealized capital gains	304,170	131,011	2,457,240
Change in net unrealized foreign exchange capital gain (loss)	(318,587)	672,319	1,749,342
Change in nonadmitted assets	(77,442)	(1,476)	(48,237)
Change in reserve on account of change in valuation basis	(11,767,502)	(345,940)	(23,614,079)
Change in asset valuation reserve	42,981	223,706	(1,143,324)
Aggregate write-in for gains and (losses) in surplus:			
ACA Assurance fund balance entry for pre need	11,911,809		
ACA Assurance fund balance entry and deposit type contracts			22,156,921
Change in net unrealized foreign exchange liabilities gain (loss)	1,318	(1,698)	(3,104)
Net change in surplus as regards policyholders for the year	<u>432,410</u>	<u>1,381,922</u>	<u>1,995,564</u>
Surplus as regards policyholders as of December 31, current year	<u>\$ 14,458,681</u>	<u>\$ 14,026,271</u>	<u>\$ 12,644,349</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1

The Supreme Council of the Royal Arcanum appointed Allan P. Ferrone, FSA of the firm CPS Actuaries to determine the reserves on an annual basis. In the Statement of Actuarial Opinion, the appointed actuary concluded that, in his opinion, the amounts carried in the balance sheet on account of actuarial items for the Order:

- (i) are computed in accordance with presently accepted actuarial standards of practice and actuarial compliance guidelines that specifically relate to the opinion required under Section 95.8 of New York Insurance Department Regulation 126 and a Section 8 opinion under the Model Regulation (to the extent that the guidelines are not inconsistent with that section), consistently applied, and are fairly stated in accordance with sound actuarial principles,
- (ii) are based on actuarial assumptions which 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,
- (iii) meet the requirements of the insurance laws and regulations of the state of Massachusetts, and are at least as great as the minimum aggregate amounts required by the state of New York and by the state in which this statement is filed,
- (iv) are computed on the basis of assumptions consistent with those used in computing the corresponding items in the annual statement of the preceding year-end, and
- (v) include provision for all actuarial reserves and related statement items which ought to be established.

COMMENTS AND RECOMMENDATIONS

M.G.L. Chapter 176 Section 40 states that a Society may invest in stocks up to 25% of the excess of admitted assets over liabilities. It was determined that the Order owns in excess of this amount. It is recommended that the Order comply with M.G.L. Chapter 176 Section 40. This was a comment in both the 2005 and 2008 examination reports.

For Informational Purposes Only

ACKNOWLEDGEMENT

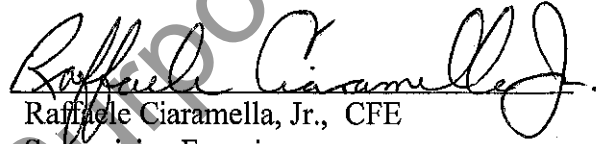
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