

REPORT OF EXAMINATION
OF THE
CONSELHO SUPREMO DA IRMANDADE
DO DIVINO ESPIRITO SANTO DO
ESTADO DA CALIFORNIA (I.D.E.S.)
AS OF
DECEMBER 31, 2005

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San Francisco, California
May 4, 2007

Honorable Steve Poizner
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Commissioner:

Pursuant to your instruction, an examination was made of the

CONSELHO SUPREMO DA IRMANDADE DO DIVINO ESPIRITO SANTO
DO ESTADO DA CALIFORNIA
(I.D.E.S.)

(also referred to as the Society), at its home office located at 22237 Main Street, Hayward, California 94541.

SCOPE OF EXAMINATION

The previous examination of the Society was made as of December 31, 2002. This examination covers the period from January 1, 2003 through December 31, 2005. The present examination included a review of the Society's practices and procedures, an examination of management records, tests and analyses of detailed transaction, an evaluation of assets, and a determination of liabilities as of December 31, 2005, as deemed necessary under the circumstances.

In addition to those items specifically commented upon in this report, other phases of the Society's operations were reviewed including the following areas that require no further comment: Society history; corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of Society; business in force by states; mortality and loss experience; accounts and records; and sales and advertising.

MANAGEMENT AND CONTROL

The legislative and governing body of the Society is the Supreme Council. The Supreme Council consists of Supreme Officers, Supreme Youth Officers, Past Supreme Presidents, Present and Past First Ladies, Past Youth Presidents (to age 25), Honorary Supreme Officers, 50 Year Members, Past Supreme Officers who have retired under the I.D.E.S. Pension Plan, and delegates including youth, elected by the Subordinate Councils.

Each subordinate council in good standing is represented at the annual convention based on two delegates for the first forty members, and one for each forty or fraction thereof. In addition, each council may elect two youth members who are between the ages of 12 to 21. Each active youth club may elect one delegate, providing the age requirement is met.

The annual convention is held in August, within the State of California. The majority of the legislative body in session is a quorum. The Supreme Council has the power to make, approve, adopt, execute, enforce, change, revoke and annul the Constitution and laws and all else which it may deem necessary for its government and the administration of the Subordinate Councils and its members.

Between sessions of the Supreme Council, the general management is vested in a Board of Supreme Directors and Supreme Officers. All directors and officers are elected at the annual convention. The retiring Supreme President each year automatically becomes the seventh director, each being seated for a one-year term but not to exceed more than four consecutive years. Directors and officers elected at the 2005 annual convention, and serving as of December 31, 2005 were as follows:

Board of Directors

Name and Residence

Principal Business Affiliations

Donald J. Costa
Visalia, California

School Teacher
Tulare Unified School District

Board of Directors (continued)

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Manuel C. DaRosa Hayward, California	Retired
Leo Gonzales Kingsburg, California	Retired
Ronald V. Graham Mountain View, California	Retired
Lewis P. Mendes Riverdale, California	Retired
Carol L. Rodrigues Stratford, California	Receptionist Avenal State Prison
Genuino A. Silveira Hilmar, California	Owner Silveira and Son Drywall

Principal Officers

<u>Name</u>	<u>Title</u>
George Teixeira	President
Donald D. Valado	First Vice President
Anthony Azevedo	Second Vice President
Liliana O. Lourenco	Secretary-Treasurer
John R. Miller, FSA	Actuary

TERRITORY AND PLAN OF OPERATION

The Society operates under the lodge system as described under Division 2, Part 2, Chapter 10, of the California Insurance Code. It is licensed to transact life, annuity and disability business in the State of California. As of December 31, 2005, the Society had 58 subordinate councils.

In 2005, premiums and annuity considerations totaled \$1,565,443 of which \$561,298 (35%) was life premiums and \$1,002,920 (65%) was annuity premiums. It also included a small amount of accident and health premiums. Business was produced by a sales force of 10 part-time agents.

All operating functions are performed at the Society's home office.

The Society has a computer-issued direct billing system, which is used for collection of all premiums and dues. Depending on payment mode, premiums are remitted to the home office on either a monthly, quarterly, semi-annual or annual basis.

REINSURANCE

Assumed

The Society did not assume any reinsurance during the period under examination.

Ceded

Effective January 1, 1993, the Society reinsures new business with Optimum Re Insurance Company (Optimum Re) of Dallas, Texas, on an automatic yearly renewable term basis. Since June 15, 1995, new business was ceded to Optimum Re on a facultative basis only. The Society's maximum retention on individual life and waiver of premium benefits was \$10,000 for ages 0-55 and \$2,000 for ages 56-70. The facultative reinsurance limit on individual life and waiver of premium benefits is \$5 million and \$1 million, respectively. On individual accidental death benefit (ADB) policies and riders, Optimum Re assumes all risks above the Society's retention, but not to exceed the maximum issue limit of reinsurance per life. The ADB retention and reinsurance limits are as follows: Society's retention \$0; maximum issue limit \$300,000; maximum participation limit \$300,000; and a maximum amount reinsured per insured life \$300,000.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2005

Summary of Operations and Surplus Account for the Year Ended
December 31, 2005

Reconciliation of Surplus from December 31, 2002
through December 31, 2005

Reconciliation of Examination Changes as of December 31, 2005

Statement of Financial Condition
as of December 31, 2005

<u>Assets</u>	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
Bonds	\$11,520,736	\$	\$11,520,736	(1)
Common stocks	217,044		217,044	(1)
Mortgage loans on real estate:				
First liens	8,171,103		8,171,103	
Real estate:				
Properties occupied by the Society	63,003		63,003	
Certificate loans and liens	39,673		39,673	
Cash and short-term investments	3,651,150	55,142	3,596,008	(2)
Investment income due and accrued	229,785		229,785	
Other assets nonadmitted	<u>39,685</u>	<u>39,685</u>	<u> </u>	
Total assets	<u>\$23,797,588</u>	<u>\$ 94,827</u>	<u>\$23,837,352</u>	
 <u>Liabilities, Surplus and Other Funds</u>				
Aggregate reserve for life certificates and contracts			\$21,287,182	(3)
Liability for deposit-type contracts			1,032,258	
Contract claims:				
Life			151,885	
Premiums and annuity considerations received in advance			129,062	
Interest maintenance reserve			178,383	
General expenses due and accrued			52,257	
Asset valuation reserve			<u>219,341</u>	
Total liabilities			23,050,368	
Unassigned funds		<u>\$ 786,924</u>		
Total surplus and other funds			<u>786,924</u>	
Total liabilities, surplus and other funds			<u>\$23,837,352</u>	

Summary of Operations and Surplus Account
for the Year Ended December 31, 2005

Summary of Operations

Premiums and annuity considerations	\$1,510,124
Net investment income	1,421,682
Amortization of interest maintenance reserve	19,475
Aggregate write-ins for miscellaneous income	<u>39,167</u>
Total	<u>2,990,448</u>
Deduct:	
Death benefits	161,205
Matured endowments	34,097
Annuity and old age benefits	650,888
Surrender benefits	61,219
Interest and adjustment on contracts or deposit-type contract funds	363,215
Increase in aggregate reserve for life and accident and health certificates and contracts	1,027,896
Commissions on premiums and annuity considerations	57,923
General insurance expenses and fraternal expenses	751,857
Insurance taxes, licenses and fees	<u>27,588</u>
Total	<u>3,135,888</u>
Net loss	<u>\$ (145,440)</u>

Surplus Account

Surplus, December 31, 2004	<u>\$ 982,443</u>
Net loss	(145,440)
Change in unrealized losses	(12,766)
Change in nonadmitted assets	(28,153)
Change in asset valuation reserve	<u>(9,160)</u>
Net change in surplus for the year	<u>(195,519)</u>
Surplus, December 31, 2005	<u>\$ 786,924</u>

Reconciliation of Surplus
from December 31, 2002 through December 31, 2005

Surplus, December 31, 2002, per Examination			\$1,347,572
	<u>Gain in</u>	<u>Loss in</u>	
	<u>Surplus</u>	<u>Surplus</u>	
Net loss	\$	\$427,246	
Change in net unrealized capital losses		55,142	
Change in nonadmitted assets and related items	117,970		
Change in asset valuation reserve		172,754	
Change in net unrealized foreign exchange capital gain		17,956	
Change in reserve on account of change in valuation basis	<u> </u>	<u>5,520</u>	
Total gains and losses in surplus	<u>\$117,970</u>	<u>\$678,618</u>	
Decrease in surplus for the period under examination			<u>(560,648)</u>
Surplus, December 31, 2005 per Examination			<u>\$ 786,924</u>

Reconciliation of Examination Changes
as of December 31, 2005

<u>Assets</u>	<u>Per</u> <u>Society</u>	<u>Per</u> <u>Examination</u>	<u>Surplus</u> <u>Increase</u> <u>(Decrease)</u>	<u>Notes</u>
Cash and Short-Term Investments	\$3,651,150	\$3,596,008	<u>\$(55,142)</u>	(2)
Net decrease to unassigned funds			(55,142)	
Surplus and Other Funds, December 31, 2005, per Society			<u>842,066</u>	
Surplus and Other Funds, December 31, 2005, per Examination			<u>\$786,924</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Bonds and Stocks

The Society has a portion of its securities held in a non-qualified custodian in violation of California Insurance Code Section 1104.9. It is recommended that the Society move its securities to a qualified custodian.

(2) Cash and Short-Term Investments

The examination amount is \$55,142 less than the amount reported by the Society. The Society reported three mutual fund accounts on a cost basis under cash. The mutual funds should have been classified as common stocks and reported in Schedule D, Part 2 of the Annual Statement. The above amount represents the difference between the market value of the mutual fund accounts as of December 31, 2005 and their acquisition costs. It is recommended that the Society take corrective action on this matter. This is a repeat comment from the prior examination.

(3) Aggregate Reserve for Life Certificates and Contracts

The Society's reserve trends were reviewed by a California Department of Insurance actuary and found to be consistent and reasonable.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Comments on Financial Statement Items – Bonds and Stocks (Page 10):

The Society has a portion of its securities held in a non-qualified custodian in violation of California Insurance Code (CIC) Section 1104.9. It is recommended that the Society move its securities to a qualified custodian.

Comments on Financial Statement Items – Cash and Short-Term Investments (Page 10):

It is recommended that the Society take corrective action on this matter. This is a repeat comment from the prior examination.

Previous Report of Examination

Accounts and Records-Electronic Files (Page 5): It was recommended that several generations of the most recent backup files be rotated periodically to an offsite location that is physically secure and not subject to theft and unauthorized access. The Society has made appropriate changes.

Comments on Financial Statement Items – Cash and Short-Term Investments (Page 10): It was recommended that the Society reclassify these mutual funds to common stocks and market value should be used as admitted asset in the Annual Statement. The Society is still not in compliance.

Comments on Financial Statement Items – Contract Claims: Life (Page 10): It was recommended that the Society comply with CIC Section 10172.5 by paying interest on death claims that were settled more than 30 days from the date of death. The Society is now in compliance.

ACKNOWLEDGMENT

The cooperation and assistance extended by the Society's officers and employees are acknowledged.

Respectfully submitted,

Jennifer Edie, AFE
Examiner-In-Charge
Associate Insurance Examiner
Department of Insurance
State of California