

REPORT ON EXAMINATION AS TO CONDITION OF
ASSOCIATION OF THE SONS OF POLAND
CARLSTADT, NEW JERSEY 07072-1043
AS OF DECEMBER 31, 2012
NAIC COMPANY CODE 57150

Filed

June 4, 2014

**Commissioner
Department of Banking &
Insurance**

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March 30, 2014

Commissioner:

Pursuant to instructions and in accordance with N.J.S.A. 17:44A-35, an examination has been made of the financial condition and affairs of

ASSOCIATION OF THE SONS OF POLAND
CARLSTADT, NEW JERSEY
NAIC COMPANY CODE 57150

Hereafter referred to as the "Association" or "Society".

SCOPE OF EXAMINATION

The examination was conducted at the home office of the Association of the Sons of Poland, located at 333 Hackensack Street, Carlstadt, New Jersey 07072 and covered the four year period from January 1, 2009 through December 31, 2012. The examination was conducted in accordance with the Association Plan of Examination guidelines established by the National Association of Insurance Commissioners.

The examination was conducted in accordance with the 2012 NAIC Financial Condition Examiner's Handbook. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Association by obtaining information about the

Association including corporate governance, identifying and assessing inherent risks within the Association and evaluating system controls and procedures used to mitigate those risks. An examination also includes assessing the principles 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 Association were considered in accordance with the risk-focused examination process as defined in the 2012 NAIC Financial Condition Examiner's Handbook.

No balance sheet accounts were designated special emphasis. The following accounts were assigned a standard emphasis:

- Aggregate reserve life certificates and contracts
- Contract claims - Life
- Bonds, Stocks and Short Term Investments
- Cash on Hand and on Deposit
- Real Estate
- Contract Loans
- Investment Income due and accrued
- Unassigned Funds

The remainder of the balance sheet accounts was assigned to either reduced emphasis or analytical review status for purposes of this examination.

In addition to the above balance sheet accounts, the following areas were also reviewed.

- History and Kinds of Business
- Management and Control
- Policy on Conflict of Interest
- Fidelity Bond and Other Insurance Coverages
- Officers and Employee Welfare and Pension Plans
- Policy Forms and Underwriting Practices
- Territory and Plan of Operation
- Advertising
- Treatment of Policyholders
- Accounts and Records
- Continuity of Operations

In conducting this examination, some reliance was placed upon work performed by the independent auditor and the actuarial work completed by the actuaries of the New Jersey Department of Banking and Insurance.

COMPLIANCE WITH PRIOR EXAMINATION REPORT RECOMMENDATIONS

It was recommended that the Company should seek to have stronger language inserted into the Custodial Agreement with Bank of America to better protect the securities entrusted to the Custodian.

The Association complied with the recommendation and it was implemented.

It was recommended that the Association should recalculate their real estate depreciation based on the cost rather than the market value.

The Association complied with the recommendation and it was implemented.

It was recommended that the Association report the correct appraisal date on the Annual Statement.

The Association complied with the recommendation and it was implemented.

HISTORY AND KIND OF BUSINESS

The Association of the Sons of Poland commenced business as a fraternal benefit society in 1903. The Society was incorporated under provision of an act of the Legislature of the State of New Jersey entitled "An Act to Incorporate Association not for Pecuniary Profit" approved April 21, 1898 and several supplements thereto and acts amendatory thereof. The Certificate of Incorporation was executed on February 24, 1911, recorded in the Office of the Clerk of Hudson County on February 27, 1911. Mergers with other similar fraternal societies were effected in various years, the last being the Polish Alliance in the East on February 26, 1914.

The Society is currently authorized to transact the business of insurance as specified in N.J.S.A. 17:44A et seq. The Society's principal office is located at 333 Hackensack Street, Carlstadt, New Jersey 07072. The registered agent upon whom process may be served is Dorothy Kostecka-Wieczerek, the General Secretary of the Association.

The Association of the Sons of Poland is a Fraternal Beneficiary Society which is composed and based upon a system of federated societies called The Lodges. The Lodges exist and operate in accordance with the Constitution, By-Laws, Rules and Regulations of the Association without infringement upon their autonomy and their funds.

The legislative and appellate power is vested in a convention, the membership of which shall consist of duly elected delegates of the Lodges.

MANAGEMENT AND CONTROL

The supreme legislative and appellate powers of the Society are vested in a convention of representatives of the members composed of duly elected delegates from the branch lodges. A regular convention is held every four years, the most recent being held on May 12, 2012. All proposed amendments as indicated in the Association quadrennial convention minutes of the Revision of Constitution Committee were ratified at the convention.

The executive and administrative powers of the Association are vested in the Board of Directors elected at the convention. The Constitution and By-laws state that the Board of Directors shall manage the business of the Society and do and perform all that shall be proper, necessary and lawful to accomplish its objectives and purposes. The Association's Board of Directors is composed of nine members. The Board of Directors duly elected at the Convention is composed of the following:

President
Vice President
Secretary
Treasurer
Five (5) Directors

The following members were serving at December 31, 2012:

Frank Knurowski – President	Retired
Louis J. Gill – Vice President	Retired – Owns Business
Dorothy Kostecka-Wieczerek	General Secretary
Wallace Nowosielecki – Treasurer	Bergen County Investments
Dorothy Jaworski – Director	Teacher – Realtor
Theresa Gradek	Part-Time Worker - Target
Janet Piscopo	Unemployed
Dayle Vander Sande	Organist
Henry Walentowicz Esq.	Attorney

Investment Committee

Wallace Nowosielecki – Treasurer
Frank Knurowski - President
Dorothy Kostecka-Wieczerek - Secretary
Henry Walentowicz, Esq. - Director
Dorothy Jaworski – Director

Audit Committee

Louis J. Gill – Vice President
Teresa Gradek - Director
Janet Piscopo - Director

Marketing Committee

Dayle Vander Sande – Director

As required by the Association's Constitution and By-Laws, the Board of Directors held regular quarterly meetings. The Board of Director meetings were well attended. Five members of the Board constitute a quorum, which is the minimum number required to enact solid proceedings at the meetings.

The By-Laws state that "the election of the members of the Board of Directors shall be by a secret ballot. If there shall be more than one (1) candidate for the office and position of President, Vice President, Secretary, and Treasurer, the candidate who receives the highest number of votes shall be elected to said office and position. As to the Directors, if there shall be a number of positions to be filled, the candidate(s) who receive the highest number of votes shall be elected to said office(s) and position(s). In the event of a tie vote between candidates for any office and position, an election shall be held between the candidates with the tie vote by secret ballot and the candidate who receives the highest number of votes shall be elected to said office or position."

President – The President shall be the chief executive officer of the Association; he shall preside at all meetings; he shall manage the business of the Association and the accomplishment of its objects and purposes and shall see that all orders and resolutions of the Board are carried into effect; he shall sign all checks and vouchers, certificates and policies of insurance and all other documents and papers as may be required.

Vice President - The Vice President shall act and serve in the absence of the President and do and perform all duties imposed and delegated by the Board of Directors.

Secretary – The Secretary shall supervise the operation of the office of the Association and the performance of the business and affairs therein and the activities and functions of the personnel and do and perform all that shall be necessary and required to accomplish the business, objects and purposes of the Association; attend all meetings of the Board of Directors and prepare the agenda therefore; give or cause to be given notice of all meetings and all matters or functions as shall be required by the Board or otherwise; record all votes and minutes of all proceedings in a book kept for that purpose; keep in safe custody the seal of the Association and affix it to all documents, papers, instruments and records as required by law or otherwise in a proper and safe manner; assist in the supervision of the performance of his duties and in the supervision of the performance of same by others as shall be required and imposed by the Board.

Treasurer – The Treasurer shall have the custody of the funds and securities of the Association and keep and maintain same in a safe and proper manner; deposit or cause to be deposited all money and other valuables in the name and to the credit of the Association in such depositories as may be designated by the Board; to keep or cause to be kept and to supervise such keeping of full and accurate accounts of receipts and disbursements and other financial transactions of the Association; when authorized by the Board to report and to report to the Board as required at meetings and other times all financial transactions and the financial condition of the Association; and to do and perform all other duties as may be prescribed by the Board and shall deposit all funds within twenty-four (24) hours of their receipt.

Directors – The Directors shall do and perform all that shall be proper and meaningful to promote membership in the Association and to encourage active participation in the Lodges and all activities and functions of the Association.

A review was made of the Board and all Committee minutes for the period covered by this examination. The review determined that the minutes ratified all Association transactions and events.

POLICY ON CONFLICT OF INTEREST

Questionnaires are sent to and are completed by the members of the Board of Directors and elected Officers. The Association's Audit Committee reviews the completed conflict of interest questionnaires and provides a summary to the Board. This is noted in the minutes of the Board of Director meeting and also approved by the Board.

It is the Officer's responsibility to report any changes occurring after the questionnaire is completed. Officers, Board members and other members of the Association filed questionnaires for each of the four years under examination.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

A review of the fidelity bond indicated that the Association maintains coverage which is in excess of the NAIC suggested minimum. The Bond is with St. Paul Fire & Marine Company and has a single loss limit of \$100,000 and a single loss deductible of \$5,000.

The Association also maintains a commercial package insurance policy for property with Penn National Mutual Casualty Insurance Company. This policy provides protection for buildings and contents, business income, earthquake and inland marine coverage. This policy has the following limits:

1. Building - \$310,522
2. Liability & Medical Expenses - \$1,000,000 per occurrence
3. Medical Expenses - \$5,000 per occurrence
4. Fire Legal Liability - \$50,000 per occurrence

Workers Compensation is underwritten by Penn National Mutual Casualty Insurance Company. The following are policy limits:

- Bodily Injury per accident - \$100,000 each accident
- Bodily Injury per disease - \$100,000 each employee
- Bodily Injury per disease - \$500,000 total policy

OFFICERS/DIRECTORS AND EMPLOYEES COMPENSATION, WELFARE AND PENSION PLAN

The Secretary of the Association, Dorothy Kostecka-Wieczerek, conducts the everyday operations from the home office in Carlstadt, New Jersey. Also, the Association has one full time employee and two part time employees to assist the Secretary. The fringe benefits that are provided by the Association for its office employees and Directors are as follows:

1. The Association has a health plan for one individual full-time employee. The Secretary, Dorothy Kostecka-Wieczerek, has Medicare coverage.
2. After one year of employment, an employee is entitled to one week's paid vacation. After two years, each employee may take up to two weeks, or a total of ten days of paid vacation, which may be taken at one time, or at the convenience of the employee. Full time staff, including the Secretary, is entitled to five (5) sick days per year. In addition the employees are entitled to eight paid holidays. After 15 years of employment an additional week of vacation will be given.

3. The Association does not have a pension plan for any employee or Director.

POLICY FORMS AND UNDERWRITING PRACTICES

Applicants in good health may submit non-medical applications for the following maximum amounts of insurance with the age classifications based on the age at the nearest birthday. As of January 1, 2012 all certificates are being written based upon the 2001 CSO Blended Mortality Table. The Society writes the following types of coverage:

Single Premium Life
Twenty Year Payment Life
Five Year Payment Life
Twenty year Endowment
Fifteen Year Cash Value Endowment
Juvenile Term

The following are limits of Face Values issued without medical examination:

For 20 Payment Life and Endowment:

\$20,000 0 to age 40
\$10,000 41 to age 55
\$5,000 56 to age 65
\$3,000 66 to age 70

For Single Premium and 5 Year Pay Life:

\$20,000 0 to age 40
\$10,000 41 to age 65
\$5,000 66 to age 70
\$3,000 71 to age 80

For single Premium Life Only:

\$3,000 80 to age 85

Juvenile term insurance to age 25 is also available. The Association does not issue certificates providing disability benefits, accidental death benefits or sickness benefits.

TERRITORY AND PLAN OF OPERATIONS

The Association is licensed to do business as a fraternal benefit society in the States of New Jersey and New York.

The Association employs one full time employee and two part-time employees who conduct the daily operations of the Association along with the General Secretary. The principal office of the Association is in the Borough of Carlstadt, New Jersey.

The objectives of the Association are to unite all American citizens and nationals of Polish descent, origin or background, to promote education, to render fraternal mutual assistance in distress and to help the widowed and orphaned families.

Exemplifying the ideals of the Constitution of the United States of America, the Association acknowledges religious freedom and may accept as members, Americans of Polish descent of Christian creeds.

The Association is composed of and based upon the system of federated societies hereinafter called the Lodges. The Lodges exist and operate in accordance with the Constitution, By-laws, Rules and Regulations of the Association without infringement upon their autonomy and their funds.

The Society does not have any authorized agents.

ADVERTISING & SALES MATERIAL

The Association advertises regularly in the Polish American Journal, a national publication that acts as the official publication for five fraternal organizations. Occasionally, the Society will also submit an advertisement in souvenir journals issued at various Polish American social events. The Association complies with the N.J.S.A. 17B-18-48 whereby when assets are advertised, liabilities must also be advertised in print, as conspicuous as the assets.

TREATMENT OF POLICYHOLDERS

A review was made of the complaints filed with the Enforcement and Compliance Division, Department of Banking and Insurance, for the period of the examination. The complaint register maintained by the Association in compliance with N.J.S.A. 17B:30-13 was also reviewed. The review of policy files indicated that the policyholders were treated in a fair and satisfactory manner.

ACCOUNTS AND RECORDS

The general books of accounts and records are maintained at the Association's administrative office located at 333 Hackensack Street, Carlstadt, New Jersey 07072. At December 31, 2012, the computerized general ledger was maintained on a statutory accounting principles (SAP) basis for the statutory statements filed with the New Jersey Department of Banking and Insurance.

The following systems were used by the Association:

<u>System</u>	<u>Description</u>
IMS	Insurance Management System
PC Network	Used to Access the above system

The Association's billing system is based on monthly Lodge Assessments which contains two pages and mailed on or around the first (1st) day of each month to the Financial Secretary of each Lodge.

Financial Secretaries receive a small commission per dues paying members, on a quarterly basis. Once a year, each Lodge/Group receives a small commission based on the number of dues paying members per month. As new members are introduced, the introducer receives a one-time commission of four months premium for dues paying members and \$15.00 per thousand face amount written of Single Premium Life.

For death claims and cash surrenders, the home office is usually notified by the beneficiary or member. Matured policyholders receive notification from the Home Office and then choose from three options, one requires full payment of the total endowment proceeds, and the other two options will continue insurance with partial cash payment. All of these claims are processed by the Home office staff.

All investments are handled by the Association's Treasurer with initial selections presented to the investment committee composed of the President, Secretary and two (2) Directors.

The independent accounting firm of Vision Financial Group CPAs, LLP of Morganville, New Jersey examined the statutory basis statements of admitted assets, liabilities and unassigned funds of the Association of the Sons of Poland as of December 31, 2012 and related statutory statements of Income and Cash Flows for the year ended and offered the opinion that those "financial statements present fairly, in all material aspects, the admitted assets, liabilities, and unassigned funds of the Association of the Sons of Poland as of December 31, 2012 and 2011, and the results of operations, and statement of changes in unassigned funds and cash flows for the year then ended, in conformity with accounting practices prescribed or permitted by the New Jersey Department of

Banking and Insurance and the National Association of Insurance Commissioners, which is as comprehensive basis of accounting other than generally accepted accounting principles."

CONTINUITY OF OPERATIONS

A backup of all computer files is made on a weekly basis and a copy of those files is removed from the premises to insure the continuity of operations in the event of damage to the on-site records.

It was noted that there were no detail records for tests done on the disaster recovery system. It is recommended that the Association should keep a log of tests done on the disaster recovery system to substantiate that it was periodically tested.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

Financial statements and other exhibits are presented as listed below:

Exhibit A- Statement of Assets, Liabilities, Surplus and Other Funds at December 31, 2012

Exhibit B – Summary of Operations for the Period January 1, 2009 to December 31, 2012

Exhibit C - Capital and Surplus Account for the Period January 1, 2009 to December 31, 2012

**Association of the Sons of Poland
Statement of Assets, Liabilities, Surplus and
Other Funds at December 31, 2012**

Exhibit A

	Balance per Examination <u>@ 12/31/12</u>	Balance per Company <u>@ 12/31/12</u>	Examination Change	Note Number
<u>Assets:</u>				
Bonds	3,013,686	3,013,686		1
Preferred stocks	1,074,750	1,074,750		1
Common stocks	129,190	129,190		1
Real estate	98,376	98,376		
Cash, Cash Equivalents & Short - term investments	617,970	617,970		
Contract loans	6,402	6,402		2
Investment income due and accrued	42,502	42,502		
Uncollected premiums & agents' balances				
In course of collection	5,370	5,370		
Total Admitted Assets	<u>\$4,988,246</u>	<u>\$4,988,246</u>		
 <u>Liabilities, Surplus and Other Funds:</u>				
Aggregate reserve for life certificates & contracts	3,497,196	3,497,196		3
Contract claims: life	110,402	110,402		3
Premiums & annuity considerations received in advance	5,597	5,597		
Interest maintenance reserve	13,362	13,362		
Commissions due or accrued	1,358	1,358		
General expenses due or accrued	8,505	8,505		
Taxes, licenses & fees due or accrued	28,381	28,381		
Asset valuation reserve	41,508	41,508		
Aggregate write-ins for liabilities	<u>(955)</u>	<u>(955)</u>		
Total Liabilities	<u>\$3,705,354</u>	<u>\$3,705,354</u>		
 <u>Surplus and Other Funds</u>				
Unassigned funds	<u>1,282,894</u>	<u>1,282,894</u>		4
Total Liabilities, Surplus and Other Funds	<u>\$4,988,248</u>	<u>\$4,988,248</u>		

**Association of the Sons of Poland
Summary of Operations
for the period
January 1, 2009 to December 31, 2012**

Exhibit B

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
<u>Revenue</u>				
Premiums & Annuity Considerations	\$58,455	\$60,683	\$55,418	\$49,047
Net Investment Income	296,611	279,213	259,220	243,012
Amortization of Interest Maintenance Reserve	4,979	8,216	11,205	10,414
Aggregate Write-Ins for Miscellaneous Income	<u>71</u>	<u>0</u>	<u>0</u>	<u>1,096</u>
Totals	<u>\$360,116</u>	<u>\$348,112</u>	<u>\$325,843</u>	<u>\$303,569</u>
<u>Deductions</u>				
Death Benefits	\$79,511	\$117,052	\$106,983	\$120,864
Matured Endowments	41,576	19,702	26,539	24,258
Surrender Benefits	15,206	9,122	30,676	27,847
Increase in Aggregate Reserve for Life & Accident & Health Contracts	(12,119)	(32,429)	(26,240)	(68,075)
Commissions on Premiums	2,121	2,768	1,973	777
General Insurance & Fraternal Expenses	352,307	337,773	267,850	280,806
Insurance Taxes, Licenses & Fees	<u>13,727</u>	<u>19,708</u>	<u>25,042</u>	<u>6,717</u>
Total Deductions	<u>\$492,329</u>	<u>\$473,696</u>	<u>\$432,823</u>	<u>\$393,194</u>
Net Gain from Operations Before Refunds to Members	(132,213)	(125,584)	(106,980)	(89,625)
Net Realized Capital Gains	<u>0</u>	<u>1,422</u>	<u>811</u>	<u>0</u>
Net Income (Loss)	<u>(\$132,213)</u>	<u>(\$124,162)</u>	<u>(\$106,169)</u>	<u>(\$89,625)</u>

**Association of the Sons of Poland
Capital and Surplus for the period
January 1, 2009 to December 31, 2012**

Exhibit C

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Surplus, December 31, Previous Year	\$2,164,218	\$1,827,297	\$1,689,147	\$1,480,108
Net Income from Operations	(132,213)	(124,162)	(106,169)	(89,625)
Change in Net Unrealized Capital Gains (Losses)	(766)	(2,981)	1,767	2,448
Change in Non-Admitted Assets	4,735	(2,200)	0	(6,622)
Change in Reserve on Account of Change in Valuation Basis	<u>(200,000)</u>	<u>0</u>	<u>(100,000)</u>	<u>(100,000)</u>
Change in Asset Valuation Reserve	(8,677)	(8,827)	(4,637)	(3,415)
Aggregate Write-Ins for Gains & Losses in Surplus	0	20	0	0
Net Change in Surplus for the Year	<u>(\$336,921)</u>	<u>(\$138,150)</u>	<u>(\$209,039)</u>	<u>(\$197,214)</u>
Surplus December 31, Current Year	<u>\$1,827,297</u>	<u>\$1,689,147</u>	<u>\$1,480,108</u>	<u>\$1,282,894</u>

NOTES TO FINANCIAL STATEMENTS

Note

1. Bonds and Stocks

The Company reported \$3,013,686 for bonds, \$1,074,750 for preferred stocks and \$129,190 for common stocks at December 31, 2012. Securities were verified through confirmations and review of bank statements.

2. Cash on Hand and On Deposit

It was noted that the Association had not filed with the State of New Jersey any Unclaimed Property reports as required by N.J.S.A. 46:30B-46 of the "Uniform Unclaimed Property Act" for the period 1/1/09 to 12/31/12. It is recommended that the Association file with the State of New Jersey any Unclaimed Property reports required by N.J.S.A. 46:30B-46.

3. Aggregate Reserves and Life Contract Claims

The Company reported an amount of \$3,497,196 for aggregate reserves for life certificates and contracts and an amount of \$110,402 for life contract claims, as of December 31, 2012. These amounts were verified as follows:

Aggregate reserves for life certificates and contract – The amount of \$3,497,196 was verified by the Chief of the Valuation Division of the New Jersey Department of Banking and Insurance and no major discrepancies were noted.

Life contract claims – The amount of \$110,402 was verified by the examination of the Association's records including death certificates, policies and cancelled checks in subsequent periods. No discrepancies were noted.

Based on the audit steps performed, this account is accepted as reported by the Association for purposes of this examination.

4. Unassigned Funds

The Society's unassigned funds as reported by the Society and as determined by this examination were \$1,282,894.

It was noted that the unassigned funds amount has been decreasing steadily over the years. Subsequent to the examination date the surplus was at \$1,046,023 as of December 31, 2013. The Association has been taking initiatives to try to increase business by using and issuing prescription drug discount cards and making improvements to their website. These efforts have been only mildly successful.

EXAMINATION RECOMMENDATIONS

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11 Continuity of Operations

It was noted that there were no detail records for tests done on the disaster recovery system. It is recommended that the Association should keep a log of tests done on the disaster recovery system to substantiate that it was periodically tested.

Cash on Hand and on Deposit

- 15 It was noted that the Association had not filed with the State of New Jersey any Unclaimed Property reports as required by N.J.S.A. 46:30B-46 of the "Uniform Unclaimed Property Act" for the period 1/1/09 to 12/31/12. It is recommended that the Association file with the State of New Jersey any Unclaimed Property reports required by N.J.S.A. 46:30B-46.

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 Carlstadt, New Jersey. The courteous assistance and cooperation of the Society's officers and employees is acknowledged.

Respectfully Submitted,

/S/

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

ASSOCIATION OF THE SONS OF POLAND

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 Association of the Sons of Poland as of December 31, 2012 to the best of my information, knowledge and belief.

Respectfully submitted,

/S/

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

State of New Jersey
County of Mercer

Subscribed and sworn to before me
On this 1st day of May, 2014.

/S/

Sheila M. Tkacs
Notary Public of New Jersey
My Commission Expires on July 2015