



Government of the District of Columbia  
Vincent C. Gray, Mayor  
Department of Insurance, Securities and Banking



Chester A. McPherson  
Acting Commissioner

**BEFORE THE  
INSURANCE COMMISSIONER OF  
THE DISTRICT OF COLUMBIA**

Re: Report on Examination - **Government Entities Mutual, Inc., PCC**, as of December 31, 2012

**ORDER**

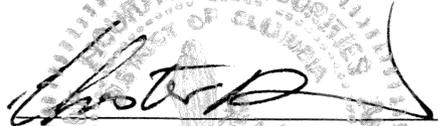
An Examination of **Government Entities Mutual, Inc., PCC**, as of December 31, 2012 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 16th day of June, 2014, that the attached financial condition examination report be adopted and filed as an official record of this Department.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, this Order is considered a final administrative decision and may be appealed pursuant to Section 31-4332 of the D.C. Official Code.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the issuance of the adopted report, the company shall file affidavits executed by each of its directors stating under oath that they have received a copy of the adopted report and related order.

Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the Department will continue to hold the content of the report as private and confidential information for a period of 10 days from the date of this Order.

  
Chester A. McPherson  
Acting Commissioner



GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

GOVERNMENT ENTITIES MUTUAL, INC., PCC

AS OF

DECEMBER 31, 2012

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Washington, D.C.  
October 4, 2013

Honorable Chester A. McPherson  
Interim Commissioner  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, NE, Suite 701  
Washington, D.C. 20002

Dear Interim Commissioner McPherson:

In accordance with Section 31-3931.14 of the District of Columbia Official Code, we have examined the financial condition and activities of

**Government Entities Mutual, Inc., PCC**

hereinafter referred to as the “Company” or “GEM.”

**SCOPE OF EXAMINATION**

This full-scope examination, covering the period from January 1, 2008 through December 31, 2012, including any material transactions and/or events noted occurring subsequent to December 31, 2012, was conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

Our examination was conducted in accordance with examination procedures established by the Department, and included a review of the Company’s business policies and practices, management and corporate matters, a verification and evaluation of assets and a determination of the existence of liabilities. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Company's financial statements for the calendar years 2008 through 2012. We placed substantial reliance on the audited financial statements for calendar years 2008 through 2011, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2012. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2012. We placed reliance on the work of the auditor and directed our efforts, to the extent practical, to those areas not covered by the firm's work papers.

## **STATUS OF PRIOR EXAMINATION FINDINGS**

The first examination of the Company was for the period December 19, 2002 through December 31, 2007. There were no findings and/or recommendations noted in the examination report, which was dated September 5, 2008.

## **HISTORY**

### **General:**

Government Entities Mutual, Inc. is an association sponsored captive insurance company domiciled in the District of Columbia. The sponsoring association is the National Association of Government Entity Programs, Inc. The Company received its certificate of authority on December 19, 2002, and commenced operations on January 1, 2003. The Company is capitalized and controlled by member public entity insurance pools.

GEM provides insurance and reinsurance coverage for eligible entities which include; municipalities, counties, schools, public entities, risk pools comprised of public entities, and risk purchasing groups comprised of public entities. The Company reinsures coverage on an excess of loss basis or quota share basis for liability, workers' compensation, auto physical damage and property for its members.

Effective January 2010, the Company converted to a protected cell captive insurer under the captive insurance laws of the District of Columbia. The Company has not created any cells as of the date of this report.

### **Membership:**

GEM is one hundred percent owned by its members/policyholders, and is capitalized with surplus contributions from its members. There are three classifications of membership with the Company: Founding, Premiere and Associate Members. The Board has adopted a Surplus Contribution and Withdrawal Policy that establishes the surplus requirements for each of the membership classes. Founding Members are those who made a surplus contribution prior to October 1, 2003. Premiere Members are eligible entities that made the required surplus contribution after October 1, 2003. Associate Members are those eligible entities who purchase reinsurance from the Company. As of December 31, 2012, the Company had a total of seventeen Founding and Premiere members.

During 2011, the Company's Board of Directors amended the Associate Membership requirements to require Associate Members to pay a minimum initial surplus contribution of \$100,000 at the time of initial membership, and additional surplus contributions of \$50,000 on each policy renewal date for the next four years, for a total contribution of \$300,000. Prior to 2011, Associate Members were required to make a minimum surplus contribution of \$20,000 at the time of initial membership and additional surplus contributions of \$20,000 on each policy renewal date for the next four years, for a total contribution of \$100,000. The three members that

originally became Associate Members joined prior to April 2008 when the minimum surplus requirement was only \$5,000. As of December 31, 2012, these Associate Members are no longer members of the Company.

The Company is a non-assessable mutual insurance company. However, the Board may request additional surplus contributions, in such amounts and at such times as may be deemed necessary and appropriate by the Board, in order to maintain adequate surplus to premium ratios for the safe and sound operation of the Company.

Founding and Premiere Members shall have one vote for each \$100,000 of the Member's allocated surplus account. Associate Members will receive one vote once the total surplus contribution of \$100,000 is attained.

If a Member ceases to obtain insurance from the Company, it can either withdraw its surplus account or maintain the account. If the Member elects to withdraw the account, such withdrawal will be completed, at the sole discretion of the Board and approval by the Department, no later than five years from the date of notice of withdrawal. Founding and Premiere Members withdrawing from the Company within a five year period of becoming a Member will forfeit all contributed surplus and any amounts allocated to the Members' surplus account. Associate Members electing to withdraw from the Company will forfeit all of their initial surplus contribution of \$100,000. Additional paid in surplus contributions, in excess of the \$100,000 may be returned to the Member at the sole discretion of the Company's Board of Directors.

Dividends and Other Distributions to Members:

During the period under examination, there have been no dividends or other distributions declared or paid by the Company.

**MANAGEMENT**

The following persons were serving as the Company's directors as of December 31, 2012:

<u>Name and State of Residence</u>	<u>Principal Occupation</u>
Gregory Womack, Chairman Texas	Program Executive Texas Council Risk Management Fund
Brett Davis, Vice Chairman Illinois	Chief Executive Officer Park District Risk Management Agency
Micheon Balmer California	General Manager California Transit Insurance Pool
Dean Boes Wisconsin	Executive Director Wisconsin Municipal Mutual Insurance Company

Parker Chambers Texas	Program Executive Texas Water Conservation Association Risk Management Fund
David Harmer Virginia	Trust Administrator Virginia Transit Liability Pool
Allen Hatten Washington	Executive Director Washington State Transit Insurance Pool
Alan Hulse Montana	Chief Executive Officer Montana Municipal Interlocal Authority
Richard Lee Pennsylvania	Trust Administrator Delaware Valley Insurance Trust
Michael Rhyner Michigan	Executive Director Michigan Municipal Risk Management Authority

The following persons were serving as the Company's officers as of December 31, 2012:

<u>Name</u>	<u>Title</u>
John Foehl, Jr.	President
Dean Boes	Secretary
Marietherese D'Agostino	Treasurer

Committees:

As of December 31, 2012, the Company's board of directors had established the following committees:

Governance & Nominating Committee

Alan Hulse, Chairman  
Micheon Balmer  
Allen Hatten

Audit Committee\*

Richard Lee, Chairman  
Bryan Anderson  
Ty Gagne  
David Harmer  
Tom Judy  
Martha Radamacher

Executive Compensation & Benefits Committee

Brett Davis, Chairman

Dean Boes

Melanie Matt

Gregory Womack

\*The Company has requested and received approval from the Department that audit committee members are not required to be members of the Company's board of directors.

Conflicts of Interest:

Our review of the conflict of interest statements signed by the Company's directors and officers for the period under examination disclosed that there were no conflicts of interest reported that would adversely impact the Company. Furthermore, no additional conflicts of interest were identified during our examination.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors, members, and the committees for the period under examination. Based on our review, the minutes thoroughly document review and approval of all of the Company's significant transactions and events.

**CAPTIVE INSURANCE MANAGER**

The Company has been approved by the Department to self-manage.

**AFFILIATED PARTIES AND TRANSACTIONS**

As indicated in the "Membership" section of this report, the Company is one hundred percent owned by its members/policyholders.

**FIDELITY BOND AND OTHER INSURANCE**

The Company maintains a fidelity bond policy with a \$5 million limit. This provides adequate coverage based on NAIC guidelines.

In addition, the Company maintains property, liability, workers' compensation, directors and officers, and employment practices liability insurance coverages. The Company's insurance coverage is deemed adequate.

## **PENSION AND INSURANCE PLANS**

The Company has established a 401(k) plan for employees. The Company provides an annual contribution to this plan in an amount equal to 10 percent of an employee's base salary. The employees are able to contribute an additional amount to this plan. The plan assets are held in trust on behalf of the employees and are not included within the assets of the Company. In addition, the Company provides employee medical and dental insurance coverage to its full time employees.

## **STATUTORY DEPOSITS**

As of December 31, 2012, the Company did not have a statutory deposit in the District of Columbia, and was not required to maintain such deposits with any other jurisdictions.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2012, the Company was only licensed in the District of Columbia. During 2012, the Company assumed approximately \$9.7 million in premiums from its seventeen members, located in fourteen states. GEM is exempt from Federal Income Tax, under private letter ruling issued by the Internal Revenue Service.

GEM functions as a niche market reinsurer, providing coverage to eligible public entity pool members above the underlying retention. GEM requires a minimum self-insured retention (SIR) of \$100,000. The Company's member reinsureds retain varying limits with coverage attaching as low as \$100,000 and as high as \$15,000,000. The members' primary policies are written either on an occurrence basis or on a claims-made basis. Coverage provided by the Company in excess of the members' self-insured retention is limited to a maximum of \$2,500,000 per occurrence.

With the Department's approval, the Company is self-managed. Its daily business operations, including underwriting, claims administration, and other functions are managed by its own employees. The Company outsources its accounting and regulatory reporting services.

The Company contracts with an independent investment consultant to recommend changes to its investment policy, monitor policy compliance and provide periodic investment reports to the board of directors. The Company has also retained an investment manager to provide investment management services and custodial services.

## **REINSURANCE**

The Company assumes liability, workers' compensation, auto physical damage and property insurance risks from its members. The Company then cedes a portion of its liability and property

risks through retrocessional contracts. All of the Company's reinsurers are rated A or A+ by A.M. Best. No unusual provisions were noted during the review of the reinsurance contracts.

The Company ceded premiums totaling approximately \$2.1 million during 2012, and as of December 31, 2012 had recorded reinsurance recoverables on ceded business totaling approximately \$17,537,000; \$1,351,000 of which represented ceded unearned premiums. If the reinsurers were not able to meet their obligations under these agreements, the Company would be liable for any defaulted amounts.

### **ACCOUNTS AND RECORDS**

The location of the Company's books and records is at the Company's offices in Concord, New Hampshire.

The Company's general accounting records consist of an automated general ledger and various subsidiary ledgers. Our review disclosed no significant deficiencies in these records.

### **FINANCIAL STATEMENTS**

The following financial statements, prepared in accordance with Statutory Accounting Principles (SAP), reflect the financial condition of the Company as of December 31, 2012, as determined by this examination:

<b><u>STATEMENT</u></b>	<b><u>PAGE</u></b>
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The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

**BALANCE SHEET**

**ASSETS**

	<i>December 31, 2012</i>
Bonds	\$ 55,334,013
Common stocks	7,433,784
Cash (\$ 4,401,556), cash equivalents (\$ 0) and short-term investments (\$ 13,179) ( <b>NOTE 1</b> )	<u>4,414,735</u>
Subtotals, cash and invested assets	\$ 67,182,532
Investment income due and accrued	350,612
Uncollected premiums and agent balances in the course of collection	748,452
Electronic data processing equipment and software	18,608
Total	<u>\$ 68,300,204</u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

	<i>December 31, 2012</i>
Losses (NOTE 2)	\$ 36,089,497
Loss adjustment expenses (NOTE 2)	392,746
Other expenses (excluding taxes, licenses and fees)	721,266
Taxes, licenses and fees (excluding federal and foreign income taxes)	21,856
Unearned premiums (after deducting unearned premiums for ceded reinsurance of \$1,351,564 and including warranty reserves of \$0)	2,351,147
Ceded reinsurance premiums payable (net of ceding commissions)	802,077
Payable for securities	<u>2,593,545</u>
Total liabilities	\$ 42,972,134
Gross paid in and contributed surplus	15,387,370
Unassigned funds (surplus)	<u>9,940,700</u>
Surplus as regards policyholders	\$ 25,328,070
Total Liabilities and Surplus	<u><u>\$ 68,300,204</u></u>

## STATEMENT OF INCOME

	<u>2012</u>
UNDERWRITING INCOME	
Premiums earned	\$ 8,168,708
DEDUCTIONS	
Losses incurred	\$ 6,698,474
Loss expenses incurred	(4,767)
Other underwriting expenses incurred	1,677,291
Total underwriting deductions	<u>\$ 8,370,998</u>
Net underwriting (loss)	\$ (202,290)
INVESTMENT INCOME	
Net investment income earned	\$ 1,652,371
Net realized capital gains	1,033,664
Net investment gain	<u>\$ 2,686,035</u>
Net income, after dividends to policyholders, after capital gains tax and before all other federal and foreign income taxes	\$ 2,483,745
Federal and foreign income taxes incurred	<u>\$ 0</u>
Net income	<u><u>\$ 2,483,745</u></u>

## CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, December 31, 2007	\$ 16,671,094
Net income, 2008	2,290,149
Change in net unrealized capital (losses)	(516,330)
Change in nonadmitted assets	3,890
Paid in capital	20,000
Net change in surplus as regards policyholders, 2008	1,797,709
Surplus as regards policyholders, December 31, 2008	\$ 18,468,803
Net income, 2009	1,760,950
Change in net unrealized capital gains	381,633
Change in nonadmitted assets	(146,970)
Change in provision for reinsurance	(24,684)
Paid in capital	150,001
Net change in surplus as regards policyholders, 2009	2,120,930
Surplus as regards policyholders, December 31, 2009	\$ 20,589,733
Net loss, 2010	(447,314)
Change in net unrealized capital gains	324,351
Change in nonadmitted assets	57,378
Change in provision for reinsurance	24,684
Net change in surplus as regards policyholders, 2010	(40,901)
Surplus as regards policyholders, December 31, 2010	\$ 20,548,832
Net income, 2011	1,762,676
Change in net unrealized capital (losses)	(524,829)
Change in nonadmitted assets	(70,184)
Paid in capital	500,000
Net change in surplus as regards policyholders, 2011	1,667,663
Surplus as regards policyholders, December 31, 2011	\$ 22,216,495
Net income, 2012	2,483,745
Change in net unrealized capital gains	218,307
Change in nonadmitted assets	34,523
Paid in capital	375,000
Net change in surplus as regards policyholders, 2012	3,111,575
Surplus as regards policyholders, December 31, 2012	\$ 25,328,070

### **ANALYSIS OF EXAMINATION CHANGES TO SURPLUS**

There were no changes to the Company's surplus as a result of our examination.

### **COMPARATIVE FINANCIAL POSITION OF THE COMPANY**

The comparative financial position of the Company for the periods under examination is as follows:

	2012	2011	2010	2009	2008
Assets	\$ 68,300,204	\$ 60,391,719	\$ 57,318,350	\$51,315,209	\$ 43,665,801
Liabilities	42,972,134	38,175,224	36,769,518	30,725,476	25,196,998
Capital and surplus	25,328,070	22,216,495	20,548,832	20,589,733	18,468,803
Gross written premium	9,713,954	13,502,176	11,526,266	11,475,929	12,642,575
Net earned premium	8,168,708	8,408,168	7,558,570	7,974,877	7,838,141
Net investment income	2,686,035	2,459,817	2,616,783	2,151,931	838,315
Net income (loss)	\$ 2,483,745	\$ 1,762,676	\$ (447,314)	\$ 1,760,950	\$ 2,290,149

**Note:** Amounts in the preceding financial statements for the years ended December 31, 2008 through 2011 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2012 are amounts per examination.

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1: Cash and Cash Equivalents**

The Company's cash and cash equivalents balance as of December 31, 2012 was \$4,414,735, held primarily at two depository institutions. The Federal Deposit Insurance Corporation ("FDIC") currently insures amounts on deposit with financial institutions up to \$250,000. The Company had deposits with financial institutions in excess of the FDIC coverage; however, deposits are secured by an irrevocable letter of credit issued by the Federal Home Loan Bank of Pittsburgh to cover amounts in excess of FDIC limits.

### **NOTE 2 – Loss and Loss Adjustment Expenses Reserves:**

The Company reported "Losses" and "Loss adjustment expenses" reserves totaling \$36,089,497 and \$392,746, respectively. These reserves, which represent management's best estimate of the amounts necessary to pay all claims and related expenses that had been incurred but still unpaid as of December 31, 2012, are shown net of estimated amounts recoverable from various reinsurance companies under the Company's reinsurance contracts. Reinsurance recoverables at December 31, 2012 totaled approximately \$16,187,000. If the reinsurers were not able to meet their obligations under the reinsurance treaties, the Company would be liable for any defaulted amounts.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expenses reserves as of December 31, 2012, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary, who concluded that the Company's carried loss and loss adjustment expense reserves appeared to be sufficient. In addition, as part of our review of the Company's loss and loss adjustment expenses reserves, we contracted an independent actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary. The contracted independent actuary utilized in our examination concluded that the methods employed, assumptions relied upon, and conclusions reached by the Company's independent actuary appeared reasonable.

## **COMMENTS AND RECOMMENDATIONS**

During our examination, no issues warranting comments or recommendations in this examination report were noted.

## CONCLUSION

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2012, and the accompanying statement of income properly presents the results of operations for the period then ended.

Chapter 39 ("CAPTIVE INSURANCE COMPANIES") of Title 31 ("Insurance and Securities") of the D.C. Official Code specifies the level of capital and surplus required for the Company. We conclude that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

## SIGNATURES

In addition to the undersigned, the actuarial portion of this examination was completed by Steven P. Lattanzio, FCAS, MAAA, FCA, and Kristine M. Fitzgerald, ACAS, MAAA, FCA, of Actuarial & Technical Solutions, Inc.

Respectfully submitted,



Judy R. D. Nako, CFE  
Examiner-In-Charge  
Innovative Service Solutions LLC

Under the Supervision of,



David Schleit, CFE  
Supervising Examiner  
District of Columbia Department of Insurance,  
Securities and Banking



Government of the District of Columbia  
Vincent C. Gray, Mayor  
Department of Insurance, Securities and Banking



Chester A. McPherson  
Interim Commissioner

April 22, 2014

Mr. John Foehl, Jr.  
President  
Government Entities Mutual, Inc., PCC  
46 Donovan Street, Suite 1  
Concord NH, 03301

RE: Examination of **Government Entities Mutual, Inc., PCC**, as of December 31, 2012

Dear Mr. Foehl:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on Examination (“Report”) of the affairs and financial condition of Government Entities Mutual, Inc., PCC (“Company”) as of December 31, 2012.

Please submit, to my attention, a written response calling attention to any errors or omissions. In addition, if this Report on Examination contains a section entitled “Comments and Recommendations” that discloses certain areas requiring action, the Company shall submit a statement covering the corrective measures which will be taken. If the Company’s position on any of these points is contrary to the Examiner’s findings, an explanation should be submitted covering each contested comment and/or recommendation.

If there are no errors or omissions to be brought to our attention, and there are no “Comments and Recommendations” requiring a response, please submit a statement that the Company accepts the Report.

The response must be in writing and shall be furnished to this Department by May 22, 2014. In addition to a hard-copy response, please also furnish the response electronically via e-mail to me, in a Microsoft “Word” format, to [sean.odonnell@dc.gov](mailto:sean.odonnell@dc.gov).

Sincerely,

Sean O'Donnell  
Director of Financial Examination  
Risk Finance Bureau

Enclosure

**From:** John Foehl [<mailto:John.Foehl@gemre.com>]

**Sent:** Thursday, May 01, 2014 2:40 PM

**To:** Schleit, David (DISB)

**Cc:** O'Donnell, Sean (DISB)

**Subject:** FW: Government Entities Mutual, Inc., PCC - Final Draft December 31, 2012 Exam Report

David –

I have made two comments in the Word version of the document and several minor edits. The first comment I have attached the suggested verbiage in the DISB footnote PDF above. Other than that I am fine with the examination report and you can issue a final copy at your convenience. We also assent to having a copy posted on the DISB web site.

If you have any questions please feel free to contact me.

Regards,

John

**John M Foehl, Jr**

*President*

*Government Entities Mutual, Inc*

*46 Donovan Street, Suite 1*

*Concord, NH 03301*

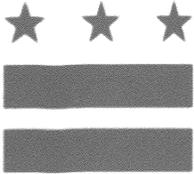
[john.foehl@gemre.com](mailto:john.foehl@gemre.com)

*(603) 223-0321*



GOVERNMENT  
ENTITIES  
MUTUAL, INC.

FINANCIAL STABILITY. SHARED-RISK.



Government of the District of Columbia  
Vincent C. Gray, Mayor  
Department of Insurance, Securities and Banking



Chester A. McPherson  
Acting Commissioner

June 16, 2014

Mr. John Foehl, Jr.  
President  
Government Entities Mutual, Inc., PCC  
46 Donovan Street, Suite 1  
Concord NH, 03301

RE: Examination of **Government Entities Mutual, Inc., PCC**, as of December 31, 2012

Dear Mr. Foehl:

We are in receipt of your response dated May 1, 2014, regarding the Report on Examination of Government Entities Mutual, Inc., PCC ("Company") as of December 31, 2012. The response is deemed adequate. In addition, we have made the suggested changes as indicated in your May 1, 2014 response.

The adopted Report (which includes a copy of this letter), and the Order evidencing such adoption are enclosed. Pursuant to Section 31-1404(e)(1) of the D.C. Official Code, the adopted Report will be held private and confidential for a period of 10 days from the date of the Order evidencing such adoption. After this 10 day period has passed, the Report will be publicly available.

Pursuant to Section 31-1404(d)(1) of the D.C. Official Code, within 30 days of the date of the above-mentioned Order, affidavits executed by each Company director stating under oath that he or she has received a copy of the adopted examination Report and related Order shall be filed with this Department. Please send these affidavits to my attention at the Department.

Please contact me at 202-442-8153 if you have any questions.

Sincerely,

Sean O'Donnell  
Director of Financial Examination  
Risk Finance Bureau

Enclosures