

REPORT ON EXAMINATION
OF THE
DELTA DENTAL OF DELAWARE, INC.
AS OF
DECEMBER 31, 2011

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

I, Karen Weldin Stewart, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2011 of the

DELTA DENTAL OF DELAWARE, INC.

is a true and correct copy of the document filed with this Department.

Attest By: Brandi Biddle

Date: February 8, 2013



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 8th day of February, 2013.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Karen Weldin Stewart, CIR-ML
Commissioner



Delaware Department of Insurance

REPORT ON EXAMINATION
OF THE
DELTA DENTAL OF DELAWARE, INC.
AS OF
DECEMBER 31, 2011

The above-captioned Report was completed by examiners of the Delaware Department of Insurance.

Consideration has been duly given to the comments, conclusions and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Karen Weldin Stewart".

Karen Weldin Stewart, CIR-ML
Insurance Commissioner

Dated this 8th day of February, 2013

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SALUTATION

October 4, 2012

Honorable Karen Weldin Stewart, CIR-ML
Commissioner
Delaware Department of Insurance
Rodney Building
841 Silver Lake Blvd.
Dover, DE 19904

Dear Commissioner:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No.12.009, dated March 12, 2012, an Association examination has been made of the affairs, financial condition and management of

DELTA DENTAL OF DELAWARE, INC.

hereinafter referred to as "Company" or "DDD" incorporated under the laws of the State of Delaware, the statutory home office was located at 203 NE Front Street, Suite 101, Milford, Delaware 19953. The main administrative offices of the Company are located at One Delta Drive, Mechanicsburg, PA 17055.

The report of this examination is respectfully submitted.

SCOPE OF EXAMINATION

The last financial condition examination of the Company covered the period from October 25, 2004 (its charter date) through December 31, 2006. This examination covered the period from January 1, 2007 through December 31, 2011 and consisted of a general review of the Company's business policies and practices; management, any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed to the extent deemed necessary.

This examination of the Company was conducted concurrently with the examinations of other Delaware domiciled Delta companies, Delta Dental Insurance Company (“DDIC”) and Dentegra Insurance Company (“DIC”). Separate reports will be issued for each Delaware Company. An examination of Delta Dental of Pennsylvania (“DDP”), a Pennsylvania domestic nonprofit corporation was also conducted concurrently with the Delaware domestic Delta companies as well. The State of New York conducted an independent concurrent examination on Delta Dental of New York, a New York domicile nonprofit corporation.

We conducted our examination in accordance with the *National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (Handbook)* and generally accepted statutory insurance examination standards consistent with the Insurance Laws and Regulations of the State of Delaware. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Company by obtaining information about the Company including corporate governance, identifying and assessing inherent risks within the Company 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.

During the course of this examination, consideration was given to work performed by the Company’s external auditing firm, Armanino McKenna LLP (“Armanino McKenna”), San Ramon, California. Certain auditor work papers of their 2011 audit have been incorporated into the work papers of the examiners and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of tests of controls, risk mitigation and substantive testing.

In addition to items noted in this report, the following topics were reviewed without material exception and are included in the work papers of this examination:

- Corporate Records
- Custodial Agreements
- NAIC Ratios
- Legal Actions
- Employee and Agents Welfare
- Regulatory Agency Correspondence
- Compliance with Prior Report Recommendations
- All Asset and Liability Items not mentioned

SUMMARY OF SIGNIFICANT FINDINGS

There were no significant findings as a result of this examination.

SUBSEQUENT EVENTS

There were no material subsequent events noted for the Company.

COMPANY HISTORY

Delta Dental of Delaware, Inc. was originally organized and incorporated as a non-stock corporation under the laws of the State of Delaware on October 24, 2004, by representatives of Delta Dental of Pennsylvania, for the particular purpose of merging the existing wholly owned corporation of the same name but being domiciled in Pennsylvania, Delta Dental of Delaware, (DDD Pennsylvania). The Company received Certificate of Authority No. 111 as a domestic dental plan organization from the Delaware Insurance Department on October 24, 2004. Effective November 15, 2004, DDD Pennsylvania, was merged into the Delaware domiciled Company, which became the surviving corporation. As the surviving corporation in the merger, the Company assumed all the assets, liabilities and other obligations of DDD Pennsylvania, which subsequently dissolved.

Common Capital Stock

DDD was formed as a nonprofit, non-stock corporation.

Surplus Notes

Effective July 1, 2007, DDD issued a \$1 million surplus note to Delta Dental of Pennsylvania with whom the Company maintains an administrative agreement. The note was approved by the Delaware Department of Insurance. The \$1 million surplus note has a 5% per annum interest rate and is to mature June 30, 2017. Interest paid during 2011 was \$50,137.

MANAGEMENT AND CONTROL

Pursuant to the General Corporation Law of the State of Delaware, as implemented by the Company's Certificate of Incorporation and bylaws, all corporate powers and its business property and affairs are managed by, or under the direction of, its Board of Directors (Board).

Board of Directors

The bylaws of the Company specifies that its Board of Directors shall be composed of no less than three (3) and no more than thirteen (13) members. Directors serve for three year terms and can serve two consecutive terms before a one year break in service is required. The number of Directors who are not dentists must exceed the number of Directors who are dentists by at least one. The five Directors as of December 31, 2011 were as follows:

Directors

Philip Nevin Engle

Michael James Castro

Cheryl Ann Lerner, D.M.D.

Whitney Hanelius Sherbocker

Patrick Scott Steele

Principal Business Affiliation

SVP, Information Technology - Delta Dental of Pennsylvania

EVP/Chief Financial Officer - Delta Dental of California

VP, Professional Relations - Delta Dental of PA

Director, Regulatory - Delta Dental of Pennsylvania

EVP, Chief Information Officer - Delta Dental of California

The Company's bylaws provide for two standing committees, an Executive and Nominating Committee. The Executive Committee shall consist of the Chairman, the Secretary and the Treasurer of the Corporation and such other members of the Board as the Chairman may, from time to time, designate. The Nominating Committee must consist of at least (1)

Delta Dental of Delaware, Inc.

member of the Board. Any other committees are considered ad hoc and the composition of those committees is at the discretion of the Board. As of December 31, 2011, the Board had appointed the following committees.

Executive Committee

Philip Nevin Engle, Chairman
Cheryl Ann Lerner, D.M.D., Secretary
Michael James Castro, Treasurer

Finance Committee**

Eugene F. Carter, Chair
Joseph P. Beck, Jr.
Glen F. Bergert, CPA

Nominating Committee

Whitney H. Sherbocker

Audit Committee*

Eugene F. Carter,
Joseph P. Beck, Jr. Chair
Glen F. Bergert, CPA

* DDD designated the Audit Committee of DDP as its Audit Committee.

** DDD designated the Finance Committee of DDP as its Finance Committee

A review of the Company's corporate records show that regular business of the Board was conducted via written consents in lieu of regular meetings.

Officers

In accordance with its bylaws, officers serving the Company shall be a Chairman, a secretary, a treasurer and President and other officers as appointed by the Board. The following officers were elected and serving their respective offices as of December 31, 2011:

Officer

Philip Nevin Engle
Gary Dennis Radine
Michael J. Castro
Whitney Hanelius Sherbocker
Anthony Scott Barth
Charles Lamont Esq.
Patrick Scott Steele

Office

Chairman
President, Chief Executive Officer
Treasurer, Chief Financial Officer
Secretary
Chief Operating Officer
Chief Legal Officer
Chief Information Officer

Conflict of Interest

The Company has an established procedure for the disclosure to its Board of any material interest or affiliation on the part of any of its officers, directors, or responsible employees which is

Delta Dental of Delaware, Inc.

in or is likely to conflict with the official duties of such person. The disclosures are made annually. Conflict of Interest Statements completed by all directors and officers were reviewed and the information contained therein disclosed no evidence of conflicting interests.

Holding Company System

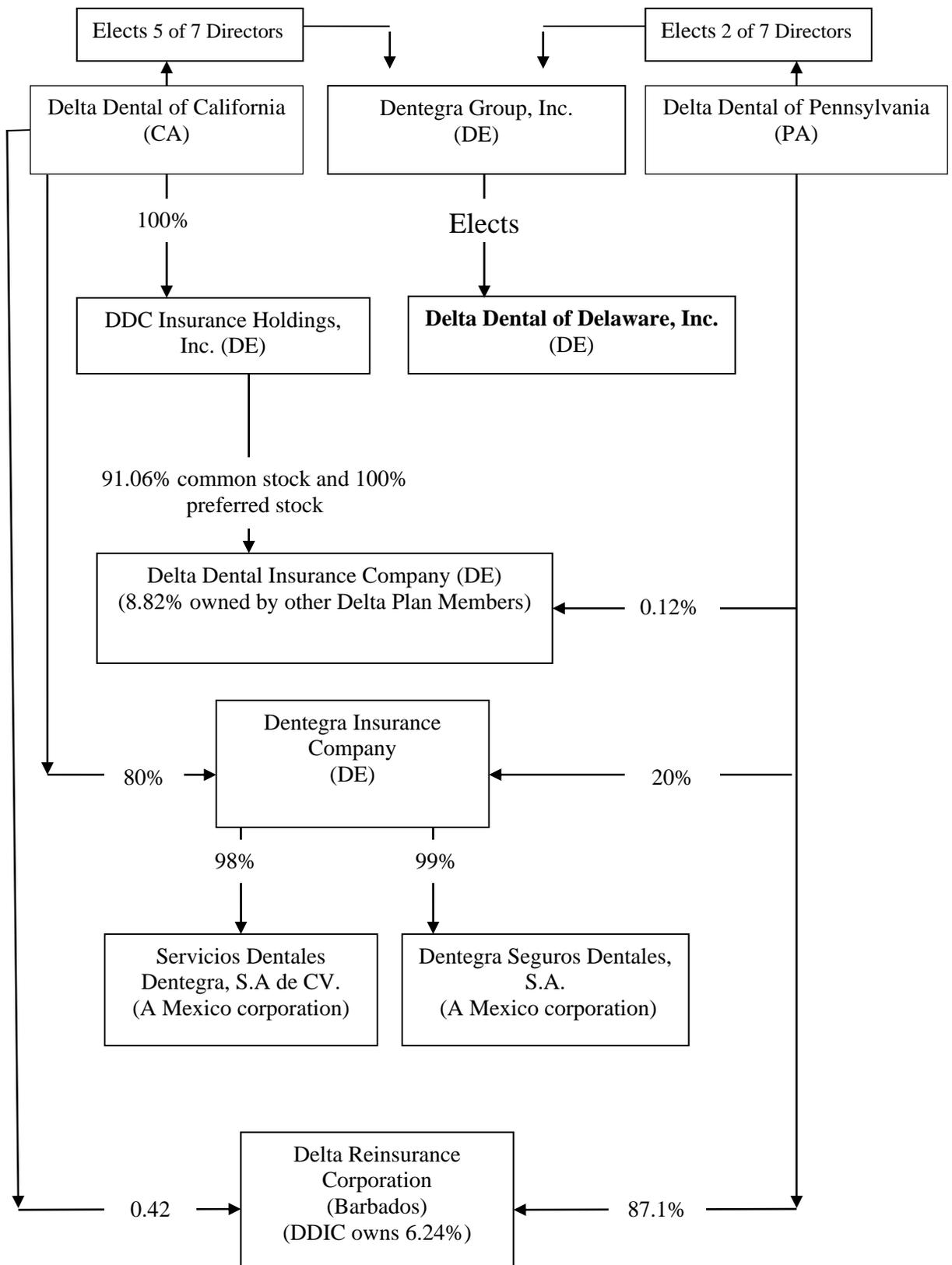
The Company is a member of a holding company system as defined in 18 Del. C. §5001 (4) “Insurance Holding Company System”. The Company’s Holding Company Registration Statements were properly filed with the Delaware Insurance Department for the years under examination.

The Company is part of the Dentegra Group, Inc. (Dentegra Group) holding company system, which has combined the resources of Delta Dental of California, (DDC) and DDP to pool common resources in an effort to eliminate duplication in the areas of market development and technology.

Certain companies of the holding company system, including the Company, are members of the Delta Dental Plans Association (Delta Plans). Delta Plans, headquartered in Oak Brook, Illinois, is a national network of independent service corporations specializing in providing Delta Dental benefit programs to individuals and employee groups throughout the United States.

Organizational Chart

The abbreviated organizational chart below indicates the ownership and the control relationships considered material to the Company.



Intercompany Agreements

The Company had entered into one agreement with members of the affiliated group in an effort to obtain efficiencies in operations and limit costs.

Amended and Restated General Agency Agreement

Effective January 1, 2006, the Company entered into an Amended and Restated General Agency Agreement with DDP and DDIC under which the Company acts as general agent for DDIC in Delaware and DDP provides management services to the Company. DDP general administrative duties for the Company include providing all personnel, office and storage space at DDP, postage and telephone service, supplies, all bank transactions, general bookkeeping, arrangement for annual independent audit, all rate and form filings for contracts, marketing, group services, administration of claims, professional relations, premium collections and distributions, and other services as parties mutually agree upon. The Company paid DDP \$1.72 million for these services in 2011.

DDIC services provided as general agent included all underwriting and issuing of contracts, retaining discretionary authority with respect to all business of the Company, general agency appointments, and execution of contracts. There is currently no activity under this provision of the agreement.

Guaranty

Effective December 3, 1999 Delta Dental of Pennsylvania (Guarantor) executed a guarantee agreement with the Company. The Guarantor unconditionally guarantees the liabilities due to policyholders' punctual payment of all obligations "Liabilities" of the Company. In addition, the Guarantor, by means of surplus or subordinated loans, infuses capital in the amount required to exceed 125% of the "Company Action Level" under RBC calculations.

FIDELITY BONDS AND OTHER INSURANCE

The Company is covered by a Financial Institution Bond (Fidelity Bond) under coverage provided to Delta Dental of Pennsylvania and its subsidiaries. The coverage provided exceeds the suggested minimum limits of insurance per the NAIC Examiners Handbook.

In addition to the fidelity bond insurance, appropriate general insurance coverages are maintained by the Company.

TERRITORY AND PLAN OF OPERATION

Territory

As of December 31, 2011, the Company was authorized to transact business only in the State of Delaware. During 2011, the Company wrote \$19,673,970 in direct premiums.

Plan of Operation

The general corporate objective of the Company is to increase the availability of dental services to the public through the sale and administration of dental prepayment plans.

Under the above mentioned General Agency Agreement with DDP, marketing services and sales personnel are provided to the Company. The Company markets directly and through brokers and agents, a wide variety of fee-for-service (Delta Premier) and reduced fee-for-service (Delta Preferred Option) dental benefit programs to Delaware groups, such as school districts, hospitals, associations and unions, manufacturing operations, government agencies, and other similar entities. The Company offers voluntary contracts to select groups; it offers insured contracts using a prospective rating method and a retention rating method; and three types of administrative services contracts or cost-plus contracts.

Other marketing services provided to the groups include: furnishing of written benefits descriptions, service calls and explanatory meetings with group subscribers, furnishing of

monthly utilization reports and participating dentist lists, and subscriber inquiry response via toll-free telephone lines.

GROWTH OF THE COMPANY

The financial growth of the Company since the last examination (2007) compiled from its annual statements is summarized as follows:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Surplus</u>	<u>Change in Capital and Surplus</u>	<u>Gross Premiums Written</u>	<u>Net Income</u>
2011	\$ 5,730,127	\$ 1,632,885	18.87%	\$ 19,673,970	\$ 310,544
2010	4,931,612	1,373,712	0.89%	15,595,958	13,652
2009	2,822,334	1,361,605	5.66%	12,965,130	70,434
2008	4,517,778	1,288,695	1.35%	10,687,733	2,464
2007	2,889,220	1,271,543	345.33%	7,197,150	2,305
2006	780,834	285,531		2,269,404	7,447

The changes over the examination period are as follows:

- A 634% increase in Net Admitted Assets
- A 472% increase in Surplus as Regards Policyholders
- A 767% increase in Gross Written Premiums

Policyholders' Surplus increased primarily as a result of a \$1 million paid in contribution, for the issuance of the surplus note to DDP. Net Admitted Assets increased by \$5,000,000 mainly due to increases in funds held under reinsurance treaties made by DRC of \$1.5 million and ceded reinsurance premiums payable of \$2.0 million and the issuance of a \$1.0 million surplus note. The primary increase in Surplus and Net Assets was driven by the significant increases in direct written premiums. Net Income of the Company during the period was affected by net investment gains offset by underwriting losses in 3 of the 5 years.

LOSS EXPERIENCE

Net claims unpaid as of December 31, 2010 were \$111,992. During 2011, \$81,253 was paid for incurred losses attributable to insured events of prior years. Reserves remaining for the prior years are now \$651 as a result of re-estimation of unpaid claims. Therefore, there has been a \$30,088 favorable prior year development since 2010. The change is generally the result of the ongoing analysis of loss development trends.

REINSURANCE

A schedule of the Company's premiums written follows:

Direct Premiums		\$19,673,970
Assumed		-0-
Ceded –Affiliates		15,365,956
Total Net Premiums		<u>\$4,308,014</u>

Assumed Reinsurance

The Company did not assume business during the examination period.

Ceded Reinsurance

During the examination period, the Company maintained a 90% quota share agreement with an affiliated company, Delta Reinsurance Corporation (DRC), a Barbados reinsurance corporation. The Company's total ceded premium written in 2011 was \$15.4 million. During the examination period the funds held balance was increased from \$1 million to \$1.5 million.

ACCOUNTS AND RECORDS

The accounts and records reviewed included an evaluation of the Company's operation and organization controls. The areas evaluated included computer systems, accounting systems, organization structure and the processing structure. The Company operates in a computer dominated environment. DDD records financial transactions into the Enterprise Financial Oracle

General Ledger System. Statutory reports are developed from financial information that is exported from the Oracle General Ledger System into Microsoft Excel spreadsheets which are then compiled into SunGard, a web-based application that assists in the formatting of statutory financial statements.

The accounts and records review included an assessment of the Company's risk management process in identifying and controlling risks in the key operational areas of the Company. In making the assessment in each key area, processes were reviewed, risks were identified, operational and organizational controls were identified and tested and the Company's methodology for assessing the effectiveness of the established mitigation factors was evaluated.

The consulting firm of INS Services, Inc. performed a review of the Company's global controls over its information and technology IT environment. It was determined that global controls surrounding the EDP environment were found to be sufficient.

STATUTORY DEPOSITS

The Company was not required to maintain a state statutory deposit for any state.

FINANCIAL STATEMENTS

The following pages contain the Company's Financial Statements for the year ending December 31, 2011, as determined by this examination, with supporting exhibits as detailed below:

Assets,
Liabilities, Capital and Surplus,
Statement of Income and Capital and Surplus Account,
Reconciliation of Surplus since last Examination

It should be noted that the various schedules and exhibits may not add to the totals shown due to rounding. Narratives on certain individual accounts have been included in order to provide the reader with additional supporting information.

Assets
As of December 31, 2011

	<u>Assets</u>	Non admitted <u>Assets</u>	Net <u>Admitted Assets</u>	<u>Notes</u>
Bonds	\$2,201,506	\$ 0	\$ 2,201,506	1
Cash, cash equivalents and short-term investments	883,933	0	883,933	
Subtotal, cash and invested assets	<u>\$3,085,439</u>	<u>\$ 0</u>	<u>\$ 3,085,439</u>	
Investment income due and accrued	26,502	0	26,502	
Uncollected premiums and agents' balances in the course of collection	114,368	290	114,078	
Amounts recoverable from reinsurers	1,884,642	0	1,884,642	
Other amounts receivable under reinsurance contracts	49,573	0	49,573	
Amounts receivable relating to uninsured plans	527,598	4,301	523,297	
Receivables from parent, subsidiaries and affiliates	8,389	0	8,389	
Health care and other amounts receivable	81,909	43,702	38,207	
Prepays	4,623	4,623	0	
Total assets	<u>\$5,783,043</u>	<u>\$ 52,916</u>	<u>\$ 5,730,127</u>	

Liabilities, Capital and Surplus
As of December 31, 2011

	<u>Covered</u>	<u>Uncovered</u>	<u>Total</u>	<u>Notes</u>
Claims unpaid	\$ 105,000	\$ 0	\$ 105,000	3
Unpaid claims adjustment expenses	40,443	0	40,443	3
Premiums receivable in advance	10,520	0	10,520	
General expenses due and accrued	385,012	0	385,012	
Ceded reinsurance premiums payable	1,985,705	0	1,985,705	
Amounts withheld or retained by company for account of others	34,659	0	34,659	
Funds held under reinsurance treaties	1,500,000	0	1,500,000	
Payable to parent, subsidiaries, and affiliates	8,626	0	8,626	
Liability for amounts held under uninsured plans	27,277	0	27,277	
Total liabilities	<u>\$ 4,097,242</u>	<u>\$ 0</u>	<u>\$ 4,097,242</u>	
Surplus notes			\$ 1,000,000	4
Unassigned funds (surplus)			632,885	
Total capital and surplus			<u>\$ 1,632,885</u>	
Totals liabilities, surplus and other funds			<u><u>\$ 5,730,127</u></u>	

Statement of Revenue and Expenses
As of December 31, 2011

Member months	698,519
Net premium income	\$ 4,308,014
Change in unearned premium reserves and reserve for rate credits	(8,626)
Total revenues	<u>\$ 4,299,388</u>
Hospital/medical benefits	<u>\$ 18,127,400</u>
Subtotal	<u>\$ 18,127,400</u>
Net reinsurance recoveries	<u>16,314,660</u>
Total hospital and medical	<u>\$ 1,812,740</u>
Claims adjustment expenses	882,449
General administrative expenses	<u>1,330,478</u>
Total underwriting deductions	<u>\$ 4,025,667</u>
Net underwriting gain or (loss)	<u>\$ 273,721</u>
Net investment income earned	<u>36,820</u>
Net investment gains or (losses)	<u>\$ 36,820</u>
Miscellaneous income	<u>\$ 3</u>
Net income or (loss); after capital gains tax and before all other federal income taxes	<u>\$ 310,544</u>
Federal and foreign income taxes incurred	<u>0</u>
Net income (loss)	<u>\$ 310,544</u>
Capital and surplus as of 12/31/2010	<u>\$ 1,373,712</u>
Net income or (loss)	310,544
Change in non-admitted assets	<u>(51,371)</u>
Net change in capital and surplus	<u>\$ 259,173</u>
Capital and surplus as of 12/31/2011	<u><u>\$ 1,632,885</u></u>

Reconciliation of Surplus since last Examination

		<u>Notes</u>
Capital and Surplus, December 31, 2006	<u>\$ 285,531</u>	
Net Income	\$ 399,399	
Change in non-admitted assets and related items	(52,045)	
Change in surplus notes	<u>1,000,000</u>	4
Change in surplus as regards policyholders for the 5 years	<u>\$ 1,347,354</u>	
Capital and Surplus, December 31, 2011	<u><u>\$ 1,632,885</u></u>	

NOTES TO FINANCIAL STATEMENTS

Assets

Note 1 - Bonds: \$ 2,201,506

The Company's bond holdings totaled \$2.2 million and were approximately 38.4% of total admitted assets and 71.4% of the Company's total invested assets. Security composition for the year ending 2011 was comprised of the following:

Industrial & Miscellaneous	<u>\$ 2.2 million</u>
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The Company's industrial and miscellaneous bond holdings were made up of 100% Class 1 designation with respect to NAIC credit quality standards.

<u>Note 2 - Cash:</u>	\$ 871,387
<u>Note 2 - Cash Equivalents and Short-Term Investments:</u>	<u>12,546</u>
	<u>\$ 883,933</u>

The Company's cash holding totaled \$883,933 and was approximately 15.4% of total admitted assets and 28.6% of the Company's total invested assets. The Company's short-term holding was comprised of a class one, money market fund.

Liabilities

<u>Note 3 – Claims Unpaid:</u>	<u>\$ 105,000</u>
<u>Note 3 – Claims Unpaid Adjustment Expenses:</u>	<u>\$ 40,443</u>

The Delaware Insurance Department retained the services of the actuarial firm INS Consultants, Inc. for the purposes of conducting an independent review of the Company's claims unpaid and claims unpaid adjustment expenses reserves as of December 31, 2011. Based on their analysis, the above reported amount for claims and claims unpaid adjustment expenses reserves were concluded to be reasonably stated. The Company's reported net retained aggregate reserves for unpaid claims and claims unpaid adjustment expenses represent 3.55% of the Company's liabilities at year-end 2011.

<u>Note 4 – Surplus Notes:</u>	<u>\$ 1,000,000</u>
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As noted in "Surplus Notes" above, as of December 31, 2011, DDD listed one surplus note with a total reported amount of \$1 million, issued July 1, 2007. The one surplus note was issued to DDP.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

The prior exam noted one recommendation, which was;

1. It was recommended that the Company comply with Section 4919 of Delaware Insurance Code to notify the Delaware Department of Insurance when a director or officer was changed. **The Company has complied.**

SUMMARY OF RECOMMENDATIONS

No recommendations were noted in this examination.

CONCLUSION

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>December 31, 2006</u>	<u>December 31, 2011</u>	<u>Increase/ (Decrease)</u>
Assets	\$ 780,834	\$ 5,730,127	\$ 4,949,293
Liabilities	\$ 495,303	\$ 4,097,242	\$ 3,601,939
Surplus Notes		1,000,000	1,000,000
Unassigned Funds (Surplus)	285,531	632,885	347,354
Total Surplus as Regards Policyholders	\$ 285,531	\$ 1,632,885	\$ 1,347,354
Totals	<u>\$ 780,834</u>	<u>\$ 5,730,127</u>	<u>\$ 4,949,293</u>

The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. is acknowledged.

Respectfully submitted,



Richard Randour, CFE
Examiner-In-Charge
State of Delaware
Northeastern Zone, NAIC