

**REPORT ON EXAMINATION**  
**OF**  
**ELIZABETHTOWN INSURANCE COMPANY**  
**AS OF**  
**DECEMBER 31, 2012**

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 OF EXAMINATION, made as of December 31, 2012 of the

**ELIZABETHTOWN INSURANCE COMPANY**

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

Attest By: Brandi Biddle

Date: June 13, 2014



In Witness Whereof, I have hereunto set my hand and affixed the official seal of this Department at the City of Dover, this 13<sup>th</sup> day of June, 2014.

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 OF EXAMINATION  
OF THE  
ELIZABETHTOWN INSURANCE COMPANY  
AS OF  
DECEMBER 31, 2012

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".

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Karen Weldin Stewart, CIR-ML  
Insurance Commissioner

Dated this 13<sup>th</sup> day of June, 2014

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## **SALUTATION**

April 8, 2014

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

Dear Commissioner;

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority No. 13.028, dated November 14, 2012, an examination has been made of the affairs, financial condition and management of

### **ELIZABETHTOWN INSURANCE COMPANY**

hereinafter referred to as the "Company" or "EIC" and incorporated under the laws of the State of Delaware as a stock corporation. The examination was conducted at the statutory home offices of the Company, located at 120 E. Uwchlan Avenue, Suite 101, Exton, Pennsylvania, 19341. The report of examination thereon is respectfully submitted.

### **SCOPE OF EXAMINATION**

The last examination was completed as of December 31, 2007 by the Pennsylvania Insurance Department. This examination covered the period of January 1, 2008, through December 31, 2012, and encompasses a general review of transactions during the period, the Company's business policies and practices, as well as management and relevant corporate matters, with a determination of the financial condition of the Company at December 31, 2012. Transactions subsequent to the examination date were reviewed where deemed necessary.

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 NAIC 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.

All accounts and activities of the Company were considered in accordance with the risk focused examination process. The examination report addresses regulatory issues reviewed during the examination process.

During the course of this examination, consideration was given to work performed by the Company's external accounting firm, Ruggerio & Company, P.C. for 2012. Certain auditor work papers were incorporated into the work papers of the examination and have been utilized in determining the scope, areas of emphasis in conducting the examination and in the area of testing of controls, risk mitigation and substantive testing.

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

- Corporate Records
- Fidelity Bonds and Other Insurance
- Pensions, Stock Ownership and Insurance Plans
- Statutory Deposits

### **SUMMARY OF SIGNIFICANT FINDINGS**

There were no significant findings or adjustments noted.

### **SUBSEQUENT EVENTS**

On February 18, 2014, Elizabethtown Insurance Company (EIC) was given approval by the Delaware Department of Insurance to be exempt from the requirement to file a Statement of Actuarial Opinion for the year ended December 31, 2013.

### **COMPANY HISTORY**

EIC, formally known as “Farmers Mutual Insurance Company”, was incorporated with a perpetual Charter by a Special Act of the General Assembly of the Commonwealth of Pennsylvania, entitled “An Act to incorporate the Farmers Mutual Insurance Company in the county of Lancaster” approved January 31, 1844, for the purpose of insuring against loss or damage by fire.

During the exam period a change was made in the corporate structure of Farmers Mutual Insurance Company in July of 2009 when the Company was demutualized and its name was changed to Elizabethtown Insurance Company. At that time, 100% of the stock of Elizabethtown Insurance Company was purchased by what was formerly known as the Mutual Fire and Marine Insurance Company, a mutual insurance company then domiciled in Pennsylvania.

Effective October 7, 2011, EIC stopped accepting new business in Pennsylvania. As ratified by the Company's Board of Directors and authorized by the Pennsylvania Insurance Department, the Company on October 26, 2011 started issuing non-renewal notices to existing policyholders. By December 31, 2011, all policyholders were notified of non-renewal. As a result, all policies in force at December 31, 2011 were run off by December 31, 2012. Effective September, 2012, EIC redomesticated to the State of Delaware.

A Certificate of Authority was issued for EIC by Delaware, on September 4, 2012. The Company is authorized to transact business of Property, Marine and Transportation, Casualty, including: Vehicle, Burglary and Theft, Personal Property Floater, Glass, Boiler and Machinery, Elevator and Miscellaneous.

**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). The Board shall consist of not less than seven Directors. The Directors need not be residents of the State of Delaware or shareholders in the corporation. The management and control of the Company is vested in the Board. The persons elected and serving as Directors of the Company at December 31, 2012 were:

Directors	Primary Business Affiliation
Alexander Bratic Exton, PA	Chairman FHA Holding Company (FHA)
Michael J. Petrelia Exton, PA	President (FHA) & Franklin Management (FM)
G. Alan Bailey Exton, PA	General Counsel (FHA)
Francis J. McCall Exton, PA	Vice President and Controller (FHO, EIC and FM)
James DeTurck McGuigan Exton, PA	Vice President and Treasurer (FHO, EIC and FM)
Joseph P. Proko Exton, PA	Senior Claims Consultant (FHO)
Theresa Ann Roberts Exton, PA	Assistant Vice President (FHA)

The Officers of the Company are elected by the Board of Directors. Those persons serving as of December 31, 2012 were:

Officers	Title
Michael J. Petrelia	President
George A. Bailey	Secretary
James DeTurck McGuigan	Treasurer

The minutes of the meetings of the Board of Directors and Committees, which were held during the period of examination, were read and noted. Attendance at meetings, election of directors and officers and approval of investment transactions were also noted.

### **INSURANCE HOLDING COMPANY SYSTEM**

The Company is a member of an insurance holding company system as defined under 18 Del. C. §5001 of the Delaware Insurance Code. EIC is a direct subsidiary of Elizabethtown Group Holdings, Inc. which is a direct subsidiary of FHA Holding Company (FHA is a stock company). The 2012 amounts below were reported in the most recent FHA's unaudited annual report:

Assets	\$124,263,667
Equity	\$120,385,896
Gain from Operations (pre-tax)	\$2,007,340

The following holding company system, as of December 31, 2012, reflects only identities and interrelationships between the Company and its ultimate parent and affiliates concurrently examined.

	ID #	NAIC No.	State	% owned
FHA Holding Company	23-2863514		PA	
Elizabethtown Group Holdings	45-2712222		PA	100%
Elizabethtown Insurance Company	23-0579280	17124	DE	100%
Franklin Homeowners Assurance Company	23-2863517	10680	DE	100%
Franklin Management	23-2956447		PA	100%
Manayunk Condominiums, LLC	87-0774435		PA	100%

120 Uwchlan Associates, Inc.	86-1060195		PA	100%
20 South Village Corporation	16-1675685		PA	100%
Honeybrook Estates, LLC	56-2578647		PA	100%

The examiners have reviewed the Company's most recently filed Form B- Insurance Holding Company Registration Statement. Based on that review, it appears that the Company has disclosed all intercompany arrangements and in turn has filed the applicable information/agreements with the Delaware Insurance Department.

### **INTERCOMPANY AGREEMENTS**

#### **Tax Allocation Agreement**

Effective July 1, 2009, EIC entered into a Tax Allocation Agreement with FHA and affiliates. All taxes and related fees and expenses incurred by the Parent in the course of preparing, filing and paying taxes, Federal or otherwise, shall be shared among the Affiliates of Franklin Group. Effective September 1, 2010, the agreement was amended to reflect that in the event any Affiliate fails to settle and pay taxes and/or expenses no later than 90 days after the date of filing of the consolidated return that delinquent affiliate will be assessed late fees at the interest rate of 6% per annum, calculated monthly. Effective October 1, 2012, the Company implemented a revised agreement reflecting all prior amendments and the deletion of Mutual Fire.

### **TERRITORY AND PLAN OF OPERATION**

EIC is licensed in Pennsylvania and Delaware. The Company wrote business that was predominately personal lines, concentrated in homeowners, both preferred and standard. Commercial represented approximately 20% of the book of business. The business was produced by independent agents. The business was entirely in Pennsylvania with a concentration in Lancaster, Erie, York, Schuylkill, Chester, and Dauphin counties. As stated above, the

Company was licensed in Pennsylvania only and effective October 7, 2011, the Company stopped accepting new business in Pennsylvania and went into run off.

The Company's total net premiums for the year ended December 31, 2012, were as follows:

<u>Direct Business</u>	
Fire	\$ (86,258)
Allied Lines	(343)
Farmowners Multiple Peril	(5,439)
Homeowners Multiple Peril	(114,484)
Commercial Multiple Peril	(35,427)
Unland marine	(2,528)
Other Liability Occurrence	(3,406)
Boiler and Machinery	(1,764)
Total Direct	<u>\$ (249,649)</u>
<u>Ceded Premium</u>	
Fire	\$ 315,600
Allied Lines	7,497
Farmowners Multiple Peril	11,559
Homeowners Multiple Peril	427,004
Commercial Multiple Peril	126,740
Unland marine	1,961
Other Liability Occurrence	12,106
Boiler and Machinery	(952)
Credit	4,226
Total Ceded	<u>\$ 905,741</u>
Total Net Premiums Written	<u>\$ (1,155,390)</u>

### Reinsurance

EIC total Net Premiums for the year ended December 31, 2012, were as follows:

<u>Direct Business</u>	
Total Direct	<u>(249,649)</u>
<u>Ceded Premium</u>	
Total Ceded	<u>905,741</u>
Total Net Premiums Written	<u>\$(1,155,390)</u>

**Assumed Reinsurance:**

EIC did not assume any reinsurance during the examination period.

**Ceded Reinsurance:**

EIC’s business is mitigated by their ceded reinsurance program. The Company has one significant reinsurer, Farmers Mutual Hail Insurance Company of Iowa (FMHICI). FMHICI is an authorized reinsurer in Delaware. The Company ceded \$908,000 and has \$1.4 million in recoverable as of the examination date. EIC has an excess of loss reinsurance treaty with the net retention of \$40,000 per loss. Additionally, there is also a “stop loss” agreement in place with FMHICI that activates at a 65% loss ratio to provide protection for catastrophic and adverse claim experience in a given accident year. These contracts have been in force since the prior examination. The following provides additional information regarding the EIC reinsurance program as of December 31, 2012:

TYPE	REINSURER	COVERAGE	LINES OF BUSINESS
Aggregate Excess of Loss	Farmers Mutual Hail Insurance Company of Iowa	95% of Loss for ratios between 65% and 290%.	Property coverage’s including: Fire, Allied lines, Inland Marine, Homeowners, Farmowners, Commercial multi-peril; Casualty
Excess of Loss (Per Risk)	Farmers Mutual Hail Insurance Company of Iowa	\$960,000 excess of \$40,000.	Property including: Fire, Allied Lines, Inland Marine, Homeowners, Farmowners, Commercial Multi-Peril; Casualty

Regulatory approval has not been required for any reinsurance agreements during the examination period. The net retention on Elizabethtown Insurance Company's excess of loss per risk reinsurance agreement has varied between \$40,000 and \$60,000 during the examination period. The

cost of the treaty has varied accordingly.

**Growth of Company**

Year	Admitted Assets	Liabilities	Policyholders' Surplus	Net Written Premium	Net Income
2007	\$ 4,905,250	\$ 3,237,189	\$ 1,668,061	\$ 3,087,174	\$ (114,691)
2008	\$ 4,423,202	\$ 3,444,861	\$ 978,341	\$ 3,226,137	\$ 51,479
2009	\$ 6,708,673	\$ 3,421,070	\$ 3,287,603	\$ 2,931,267	\$(1,002,845)
2010	\$ 5,752,324	\$ 3,395,363	\$ 2,356,961	\$ 3,081,818	\$ (870,995)
2011	\$ 6,747,059	\$ 3,420,370	\$ 3,326,689	\$ 2,812,546	\$ (792,986)
2012	\$ 4,010,175	\$ 699,834	\$ 3,310,341	\$ (1,155,390)	\$ 2,096

Since December 2007 to December 31, 2012, the Company's financial results were as follows:

- 18.25% decrease in admitted assets
- 78.38% decrease in liabilities
- 98.45% increase in policyholders' surplus
- 137.43% decrease in net written premium

**Admitted Assets**

EIC's total admitted assets were \$4.0 million at December 31, 2012. Assets decreased \$895,075 or 18.25% from 2007 to 2012. During the exam period, the Company received capital contributions. However, due to the run-off, invested assets returned to 2008 levels.

**Liabilities**

Liabilities were reported in the amount of \$699,834 at December 31, 2012. Total Liabilities decreased \$2.5 million or 78.38% from 2007 to 2012. Liabilities consist primarily of Losses and Loss Adjustment Expenses (LAE).

**Losses and LAE**

Losses and LAE represented \$632,000 or 94.28% of total liabilities. There were 47 pending claims as of December 31, 2012. Currently, there are now 16 pending claims as of this writing. Losses and LAE were reviewed by INS Consultants, Inc. (INS). Net incurred losses and LAE decreased from \$2.2 million in 2011 to \$585,000 in 2012.

### **Policyholders' Surplus**

Policyholders' Surplus ("PHS") was reported in the amount of \$3,310,341 at December 31, 2012. PHS remained consistent throughout except for years 2008 to 2009. PHS increased via capital contributions of \$4.8 million throughout the exam period. This represents the majority of the increase in PHS.

### **Net Premiums Written**

Net Premiums Written ("NPW") was reported in the amount of (\$1,155,390) at December 31, 2012. This was a decrease of \$4.2 million from 2008 due to EIC's decision to non-renew its entire book of business in 2011.

### **Net Income**

Net income was reported in the amount of \$2,096 at December 31, 2012. This was a \$795,000 increase from 2011. The increase is primarily due to decreases in Net Losses Incurred and Other Underwriting Expenses Incurred, partially offset by the decrease in Net Premiums Earned. The decreases are consistent with the Company's plan of run-off. During 2009 net income decreased \$1.1 million due to increase in net losses incurred.

## **LOSS EXPERIENCE**

The change in the provision for Incurred Loss and Loss Adjustment Expense attributable to insured events of prior years was immaterial. There were no additional premiums or return premiums accrued as a result of the prior-year effects.

## **ACCOUNTS AND RECORDS**

The statutory-basis financial statements of the Company have been audited annually by the external accounting firm: Ruggerio & Company, P.C. (CPA). The Company's CPA did not review the internal control structure in order to establish the necessary audit procedures required to express an opinion on the financial statements as of each year end. The CPA opined that the financial statements present fairly in all material respects.

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 were evaluated.

The Company's significant applications include Quick Books for general ledger and accounts payable, EPS for investments, and Microsoft Office. These applications reside on an Intel Xeon x3430 server with Windows Small Business Server 2008 platform software, located and managed in Exton, PA. Dell PCs, used in the office, run Windows 7. The Company does not permit remote access to its network.

All investments are managed in-house.

### **FINANCIAL STATEMENTS**

The following pages contain a statement of assets, liabilities, surplus and other funds as of December 31, 2012, as determined by this examination, along with supporting exhibits as detailed below:

Analysis of Assets, December 31, 2012  
Statement of Liabilities, Surplus and Other Funds, December 31, 2012  
Statement of Income, December 31, 2012  
Reconciliation of Surplus from Prior Examination  
Schedule of Examination Adjustments

**Analysis of Assets**  
**As of December 31, 2012**

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Note</u>
Bonds	\$ 1,253,456		\$ 1,253,456	1
Common stocks	1,742,173		1,742,173	2
Cash and short-term investments	887,534		887,534	
Properties occupied by the company	101,850		101,850	
Investment income due and accrued	14,805		14,805	
Amounts recoverable from reinsurers	9,687		9,687	
Electronic data processing	3,333	\$ 3,333	-	
Furniture and Equipment	1,417	\$ 1,417		
Aggregate write-ins:	670	\$ -	670	
Total Assets	<u>\$ 4,014,925</u>	<u>\$ 4,750</u>	<u>\$ 4,010,175</u>	

**Statement of Liabilities, Surplus and Other Funds**  
**As of December 31, 2012**

<u>Liabilities, Surplus and Other Funds</u>		<u>Note</u>
Losses	\$ 407,577	3
Loss adjustment expenses	224,000	3
Other expenses	104,245	
Taxes, licenses and fees	2,353	
Ceded reinsurance premiums payable	(38)	
Amounts withheld or retained by company for account of others	42	
Remittances and items not allocated	(38,345)	
Total Liabilities	<u>\$ 699,834</u>	
Unassigned funds (surplus)	<u>\$ (1,487,607)</u>	
Surplus as regards policyholders	<u>\$ 3,310,341</u>	
Total Liabilities, Capital and Surplus	<u><u>\$ 4,010,175</u></u>	

**Statement of Income**  
**As of December 31, 2012**

Premiums earned	\$ 789,382
Losses incurred	414,581
Loss adjustment expense	170,596
Other underwriting expenses incurred	388,067
Total underwriting deductions	<u>\$ 973,244.00</u>
Net underwriting gain (loss)	<u>\$ (183,862.00)</u>
Net investment income	\$ 105,605.00
Net realized capital gains (losses)	73,097
Net investment gain (loss)	<u>\$ 178,702.00</u>
Finance and service charges not included in premiums	\$ 8,727.00
Aggregate write-ins for miscellaneous income	(1,471)
Total other income	<u>\$ 7,256.00</u>
Net income before dividends	\$ 2,096.00
Dividends to policyholders	-
Net income before taxes	<u>\$ 2,096.00</u>
Federal and foreign income taxes incurred	-
Net Income	<u><u>\$ 2,096</u></u>

**Reconciliation of Surplus from Prior Examination**

	Notes	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>	<u>12/31/2012</u>
Beginning Surplus		1,668,061	978,341	3,297,312	2,366,670	3,336,398
Net income	1	51,479	(1,002,845)	(870,995)	(792,986)	2,096
Capital Gain	1	(541,228)	238,000	8,534	60,700	(40,712)
Change in deferred Tax	1	(19,445)	(906,706)	(128,652)		
Change in non admitted	1	(304,673)	971,104	(55,768)	30,014	22,268
Common Stock			2 1,000,000	2 116,100	2 1,600,000	
Gross paid in and contributed			2 2,009,709			
Gross paid in and contributed			3 9,709	3 139	3 72,000	
Other		124,147				
subtotal		<u>(689,720)</u>	<u>2,318,971</u>	<u>(930,642)</u>	<u>969,728</u>	<u>(16,348)</u>
End Surplus		<u>978,341</u>	<u>3,297,312</u>	<u>2,366,670</u>	<u>3,336,398</u>	<u>3,320,050</u>

1 - Amount represents net income, unrealized capital gain, change in deferred income tax and change in nonadmitted assets

2 -Capital infusions via issuance of common stock and gross paid in and contributed surplus.

3 - Capital contributions

**SCHEDULE OF EXAMINATION ADJUSTMENTS**

There were no financial examination adjustments.

**NOTES TO FINANCIAL STATEMENTS**

**Note 1 - Bonds**

**\$1,253,456**

Investments in bonds are reported at values (amortized cost) adopted and approved by the Securities Valuation Office (SVO) of the NAIC. Bonds owned by the Company are as follows:

<u>Type</u>	<u>Statement Value</u>
US government sponsored agencies	\$ 99,952
States, territory's and possessions	252,558
Revenue and assessment obligations	100,474
Unaffiliated domestic securities	600,924
Unaffiliated non-US securities	199,548
Total	<u>\$ 1,253,456</u>

Of the Company's bond holdings, which comprised 31.5% of the Company's total

invested assets and 31.3% of total admitted assets at December 31, 2012, 100% were categorized as Class 1 or 2 with respect to NAIC credit quality standards and with maturity dates consistent with the Company expected reserve payout.

The Company did not hold any loan backed securities at December 31, 2012. The Company did not have any Other Than Temporary Impaired securities during 2012.

**Note 2 – Common Stock**

**\$1,742,173**

As of December 31, 2012, the Company held securities as follows:

<u>Type</u>	<u>Statement Value</u>
Investments in mutual funds	1,205,685
Publically traded equity securities (Unaffiliated)	525,222
Other equity securities (Unaffiliated)	11,266
Total	<u>\$ 1,742,173</u>

Based on Delaware Investment Limitation Calculation, the Company is in compliance with 18 Del. C. §1305 (2), voting stock.

**Note 3 – Losses**

**\$ 407,577**

**Note 3 – LAE**

**\$ 224,000**

The Delaware Insurance Department retained the firm of INS Consultants, Inc. (INS or consulting actuary) to review the Company’s stated reserves. The consulting actuary was provided with the Company’s statement of actuarial opinion and an actuarial report as supporting documentation of the actuarial opinion from which the loss and loss adjustment expense reserves were evaluated as of December 31, 2012

INS accepted the methodology and factor selections utilized by the Company’s actuaries. In conjunction with the actuarial review, the examination team validated loss data used by the

Company without material exception. The reserves reported by the Company were accepted by the consulting actuary; no change to reported amounts was indicated.

**COMPLIANCE WITH PRIOR EXAMINATION RECOMMENDATIONS**

There were no recommendations made in the December 31, 2007 Report on Examination.

**SUMMARY OF RECOMMENDATIONS**

There are no current recommendations.

**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, 2008</u>	<u>December 31, 2012</u>	<u>Increase (Decrease)</u>
Assets	\$ 4,423,202	\$ 4,010,175	\$ (413,027)
Liabilities	\$ 3,444,861	\$ 699,834	\$ (2,745,027)
Common Capital Stock	-	2,716,100	2,716,100
Gross Paid In and Contributed Surplus	-	2,081,848	2,081,848
Unassigned Funds (Surplus)	978,341	(1,487,607)	(2,465,948)
Total Surplus	\$ 978,341	\$ 3,310,341	\$ 2,332,000
Totals	\$ 4,423,202	\$ 4,010,175	\$ (413,027)

In addition to the undersigned, Anthony Cardone CFE, CPA (Examination Supervisor) participated in the examination. The assistance of Delaware's consulting actuarial firm, INS Consultants, Inc. and INS Services, Inc. are acknowledged.

Respectfully submitted,



*Albert M. Piccoli, Sr.*

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Albert M. Piccoli, Sr., CFE  
Examiner-In-Charge  
State of Delaware