Government of the District of Columbia
Department of Insurance, Securities and Banking

William P. White
Acting Commissioner

BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA

Re: Report on Examination - **Caring Communities, A Reciprocal Risk Retention Group**, as of December 31, 2009

ORDER

An Examination of **Caring Communities, A Reciprocal Risk Retention Group** ("Company"), as of December 31, 2009 has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("Department").

It is hereby ordered on this 18th day of March 2011, that the attached financial condition examination report be adopted and filed as an official record of this Department.

In addition, it is hereby ordered that the Company comply with the recommendation in the attached financial condition examination report.

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.

William P. White
Acting Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

REPORT ON EXAMINATION

Caring Communities, a Reciprocal Risk Retention Group

AS OF

DECEMBER 31, 2009

NAIC NUMBER 12373

TABLE OF CONTENTS

Washington, D.C.
November 22, 2010

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

Dear Madam:

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

Caring Communities, a Reciprocal Risk Retention Group

hereinafter referred to as the "Company" or "CCrRRG," at the office of its Attorney-in-Fact, Caring Communities Shared Services ("CCSS"), located at 1850 W. Winchester Road, Suite 109, Libertyville, Illinois 60048.

SCOPE OF EXAMINATION

This full-scope examination, covering the period from November 18, 2005 through December 31, 2009, including any material transactions and/or events noted occurring subsequent to December 31, 2009, 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 procedures recommended by the National Association of Insurance Commissioners ("NAIC") and, accordingly, included such tests of the accounting records and such other examination procedures as we considered necessary in the circumstances.

Our examination 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 by an independent public accounting firm for the years 2006 through 2009. (The Company did not write any business in 2005 and was not required to file audited financial statements for that year). The 2008 and 2009 statements were audited on a consolidated basis with its two wholly owned subsidiaries, CCSS and Caring Communities Insurance Company ("CCIC"). The CPA firm expressed unqualified opinions on the Company's financial statements for all years. We placed substantial reliance on the audited financial statements for calendar years 2006 through 2008, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2009. We obtained and reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2009. 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

This is the first examination of the Company.

HISTORY

General:

The Company was initially formed in 2005, under the name of Diapason Casualty Risk Retention Group ("DCRRG"), as an association captive insurance company operating as a risk retention group (RRG) under the captive laws of the District of Columbia. DCRRG was issued its Certificate of Authority on November 18, 2005 and began operations on January 1, 2006. The Company was formed by Diapason Shared Services ("DSS"), a D.C. not-for-profit membership corporation, as a wholly owned subsidiary. The Company was formed to provide insurance coverage exclusively to DSS members, which are not-for-profit, predominantly faith-based senior citizen care organizations. These organizations include continuing care retirement communities, affordable housing providers, and other organizations that provide a mix of services including independent living, assisted living and skilled nursing. Coverage includes primary professional and general liability insurance on a claims-made basis as well as excess automobile liability.

Effective January 1, 2008, the Company converted from a stock company to a reciprocal, and changed its name to Caring Communities, a Reciprocal Risk Retention Group. In addition, the Company was party to a January 1, 2008 "Plan and Agreement of Conversion." The other parties to this agreement were CCIC, an affiliated Cayman Islands stock insurance company, CCSS, and DSS. The conversion resulted in the shareholders of CCIC becoming subscribers/members of CCrRRG. At the time of the conversion, CCIC was owned by, and provided insurance to a group of unrelated not-for-profit long-term care providers based in the U.S. As a result of the conversion, CCIC became a wholly-owned subsidiary of CCrRRG, and CCSS, which previously provided services to DCRRG and CCIC, became the Company's Attorney-in-Fact and also became a wholly owned subsidiary of the Company.

Membership:

The Company is authorized to have participating and non-participating subscribers/members, but as of December 31, 2009 only has participating subscribers/members. Only participating subscribers/members are eligible for allocations to Subscriber/Member savings accounts and are eligible to vote for or appoint members of the Board or vote on other matters.

New subscribers/members are required to make surplus contributions equal to the full mature net primary premium. Members are allowed to pay twenty percent down with the remaining balance to be paid over a maximum of seven years. New subscriber/member surplus contributions totaled $769,270 in 2009. As of December 31, 2009, outstanding surplus contributions amounted to $667,131. These outstanding amounts are not recorded as surplus until collected. As a reciprocal, the Company does not issue shares of common stock.

Subscribers'/Members' equity is made up of three categories: 1) contributed surplus, 2) subscriber/member savings accounts, and 3) unassigned surplus. Contributed surplus is equal to required surplus contributions paid in to CCrRRG, plus the value of the shares in CCIC at the time they were exchanged for membership in CCrRRG when the Company converted to a reciprocal on January 1, 2008. The subscriber/member savings accounts consist of the statutory earnings of CCrRRG in such an amount as determined by the Board to be credited to the participating subscribers/members pursuant to Section 832(f) of the Internal Revenue Code, calculated in accordance with the equity allocation plan in effect and adopted by the Board and the subscribers/members. The unassigned surplus consists of the value of the other equity balances at the time of the conversion, in addition to other surplus changes since that time such as net income and gains/losses on investments.

Surplus Notes:

During 2006, DCRRG issued two surplus notes in the principal amounts of $500,000 and $1,000,000 made payable to CCIC. In addition, DCRRG's parent issued a subordinated note in the principal amount of $100,000 also payable to CCIC. These notes were transferred to CCrRRG at the time of the conversion to a reciprocal risk retention group. When the Company converted to a reciprocal risk retention group, the $100,000 surplus note was restated to include the original principal balance plus the accrued interest at that point in time of $8,000. Therefore, the face value of that surplus note is now $108,000. Total surplus notes outstanding at December 31, 2009 totaled $1,608,000.

The notes have stated interest rates of 4 percent (for the $500,000 note) and 8.5 percent (for the $1,000,000 and $100,000 notes) per annum. Surplus notes are pre-payable at any time without penalty, but all repayment of principal and interest is subject to the prior approval of the Commissioner of Insurance of the District of Columbia, and no payments have been requested, approved or made during the examination period. Accrued interest on the surplus notes totaled $360,443 as of December 31, 2009 and was reported as a liability of the Company. See **NOTE 6** in the "Notes to Financial Statements" section of this Report for further comments regarding the accrued surplus note interest.

Dividends and Distributions:

Dividends are payable to subscribers/members who have been insured by CCrRRG for at least twelve months on the date the dividend is declared and who have also made surplus contributions. The Company declared dividends of $5,502,858 in 2008 which were paid to subscribers/members in 2009 and dividends of $4,331,682 in 2009 which were paid to subscribers/members in 2010. Both dividends were approved by the Department prior to distribution. Subsequent to the period under examination, a dividend for 2010 was approved by the Department in an amount to be determined representing 2010 income before income taxes, less $2,400,000 allocated to Members' Subscriber Savings Accounts. This will be paid on or before March 31, 2011.

MANAGEMENT

The following persons were serving as the Company's directors as of December 31, 2009:

Name and State of Residence	Principal Occupation
Daniel Rexroth, Chairman Kansas	President & CEO PremierLife/John Knox Village
Robert Amberg California	General Counsel Retirement Housing Foundation
Thomas Becker Oregon	President & CEO Pacific Retirement Services
William De Young Illinois	Chief Financial Officer Rest Haven Illiana Christian Convalescent Homes/ Providence Life Services
Douglas Fleegle North Carolina	President & CEO United Church Homes & Services
Don Gilmore Florida	Former President & CEO (Retired) Otterbein Homes
James Gompers Michigan	President Gompers, Couillard & Wolfe, Inc.
Marc Herrera California	VP, Skilled Nursing Administration & Risk Management Southern California Presbyterian Homes & Services
Barbara Hood California	President & CEO Northern California Presbyterian Homes & Services

Lisa Israel Arizona	President & CEO La Posada at Park Centre, Inc.
Timothy Johnson Illinois	Executive Vice President Sears Methodist Retirement System
Laverne Joseph California	President & CEO Retirement Housing Foundation
Stephen McAlilly Mississippi	President & CEO Mississippi Methodist Senior Services, Inc.
Richard Olson Illinois	President & CEO Fairview Ministries/ Vibrant Living Communities and Services
Timothy Rhodes Illinois	President & CEO Lifelink Corporation
Ron Sawatsky Pennsylvania	President & CEO Rockhill Mennonite Community
F. Jay Shetler Arizona	President & CEO Friendship Retirement Corporation/ Glencroft Retirement Communities

The following persons were serving as the Company's officers as of December 31, 2009:

Name	Title
G. James Caldwell	President
William De Young	Treasurer
Chad Swigert	Assistant Treasurer and VP/Controller
Thomas Becker	Secretary
Richard Seligman	Assistant Secretary

Committees:

As of December 31, 2009, the Company's board of directors has established the following committees:

Executive Committee:
Daniel Rexroth, Chair
Lisa Israel, Vice Chair
Thomas Becker
William De Young
Don Gilmore
Barbara Hood
Laverne Joseph
Stephen McAlilly

Finance and Investment Committee:
William De Young, Chair
Richard Olson, Vice Chair
Douglas Fleegle
James Gompers
Timothy Johnson
Timothy Rhodes

Risk Management Committee:
Barbara Hood, Chair
Jim Formal, Vice Chair
Laura Lamb
Mary Leary
Peggy Mullan
Ron Sawatsky

Governance and Nominating Committee:
Thomas Becker, Chair
Douglas Fleegle
Kevin Gerber
Don Gilmore
Daniel Rexroth
F. Jay Shetler

Underwriting Committee:
Lisa Israel, Chair
Laverne Joseph, Vice Chair
Kevin Gerber
Ken Huff
John Kotovsky

Claims Committee:
Stephen McAlilly, Chair
F. Jay Shetler, Vice Chair
Robert Amberg
Lisa Hardy
Marc Herrera

Audit Committee:
Alan Curryer, Chair
Roger Paulsberg
Stephen Yenchek

Conflicts of Interest:

We reviewed the conflict of interest statements completed by officers and directors for the period under examination. The D.C. municipal regulations require conflict of interest statements be completed annually by all directors, officers, and key employees, however, we noted that during the period of examination the Company had not had all directors and officers consistently sign annual conflict of interest disclosure statements. All directors and officers signed disclosure statements in 2010. Our review of the conflict of interest statements signed by the Company's directors and officers in 2010 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. See the "Comments and Recommendations" section of this Report, under the caption "Conflicts of Interest," for further comments regarding the Company's conflict of interest statements.

Corporate Records:

We reviewed the minutes of the meetings of the board of directors and subscribers for the period under examination. Based on our review, it appears that the minutes documented the board's review and approval of the Company's significant transactions and events.

CAPTIVE MANAGER

The Towner Management Group ("Towner") is the Company's captive manager, and provides services including regulatory compliance and financial reporting services, accounting services, and claim and risk management information coordination. The captive manager was known as Northern States Management, Inc. as of December 31, 2009, which merged with Towner in 2010.

AFFILIATED PARTIES AND TRANSACTIONS

As previously noted in this Report, the Company has two wholly-owned subsidiaries, CCSS and CCIC. The Company and its subsidiaries are parties to a tax allocation agreement, and audited financial statements are prepared on a consolidated basis.

The Company's "Subscribers' Agreement and Power of Attorney" agreement ("the POA Agreement"), which appoints CCSS as its Attorney-in-Fact, outlines the agreement among and between the subscribers and CCSS as Attorney-in-Fact. The POA Agreement limits the compensation amount received by CCSS to a maximum of 35 percent of gross premiums of CCrRRG in any one calendar year. However, under a separate management agreement between the Company and CCSS which serves to further clarifies the responsibilities of CCSS, compensation is limited to a maximum of 25 percent of gross premiums.

Under the management agreement between CCSS and CCrRRG, CCSS manages the Company's daily operations, which includes underwriting, risk management, claims, and financial services.

In addition, the Company cedes business to its wholly-owned subsidiary, CCIC, and assumes reinsurance from Peace Church Risk Retention Group, Inc. which is also a subscriber/member. See the "Reinsurance" section of this Report for further comments regarding these reinsurance arrangements.

FIDELITY BOND AND OTHER INSURANCE

CCrRRG maintains Directors and Officers Liability coverage in the amount of $5,000,000. The Company's Attorney-in-Fact, CCSS, maintains professional liability insurance in the amount of $1,000,000 with the Company listed as an additional insured. CCSS also maintains a business owners' policy which includes coverage for items such as computers and media, business income, and employee dishonesty. This provides adequate coverage based on NAIC guidelines.

PENSION AND INSURANCE PLANS

The Company has no employees and therefore has no employee pension or insurance plans.

STATUTORY DEPOSITS

As of December 31, 2009, the Company did not have any statutory deposits in the District of Columbia and was not required to maintain any such deposits. In addition, the Company was not required to maintain statutory deposits with any other jurisdictions.

TERRITORY AND PLAN OF OPERATION

As of December 31, 2009, the Company was licensed in the District of Columbia, registered as a risk retention group in 50 states, D.C. and the U.S. Virgin Islands; and was writing business in 34 states and territories. (The Company writes business in Puerto Rico but is not registered there as Puerto Rico does not require it.) During 2009, CCrRRG wrote premiums totaling $19,537,759. $5,024,382 (26 percent) of the Company's written premium in 2009 was in California, $2,456,151 (13 percent) in Illinois, $1,864,101 (10 percent) in Missouri, $1,598,597 (8 percent) in Ohio, $1,358,774 (7 percent) in Texas, $984,769 (5 percent) in Florida, $901,877 (5 percent) in Michigan, $844,185 (4 percent) in Arizona, $837,195 (4 percent) in Pennsylvania, $817,384 (4 percent) in Mississippi, $487,193 (3 percent) in Washington, $486,847 (3 percent) in Oregon, and 2 percent or less in Colorado, Delaware, District of Columbia, Georgia, Hawaii, Idaho, Indiana, Iowa, Kentucky, Maryland, Massachusetts, Nebraska, New Hampshire, New Jersey, New York, North Carolina, Oklahoma, South Carolina, Virginia, Wisconsin, Puerto Rico, and U.S. Virgin Islands.

The Company provides insurance coverage exclusively to its members, which are not-for-profit, predominantly faith-based senior citizen care organizations. These organizations include continuing care retirement communities, affordable housing providers, and other organizations that provide a mix of services including independent living, assisted living and skilled nursing. Coverage includes primary professional and general liability insurance on a claims-made basis as well as excess automobile liability. Limits offered are $1 million per claim and $3 million in the aggregate per member in excess of self-insured retentions ranging from $2,500 to $150,000 for each loss. The Company also assumes business from one of its members, which is also a risk retention group. See the "Reinsurance" section of this Report for further comments regarding the Company's assumed business. In addition, the Company offers excess coverage with limits ranging from $2 million to $10 million in excess of $1 million, with aggregate limits up to $10 million per member.

The Company has no employees and its daily business operations are managed by its Attorney-in-Fact and various service providers based on the service agreements. During the examination period and as of the date of this report, the Company's captive manager, Towner, is managing the Company's accounting and regulatory filings from offices in Burlington, Vermont. The underwriting, policy issuance, premium billing and collection, risk management, financial services, and claims services are handled by the Company's Attorney-in-Fact in Libertyville, Illinois.

INSURANCE PRODUCTS AND RELATED PRACTICES

This examination was a financial examination, and generally did not include market conduct procedures. An examination of the market conduct affairs of the Company has never been conducted. A market conduct examination would include detailed reviews of the Company's sales and advertising, agent licensing, timeliness of claims processing, and complaint handling practices and procedures.

The scope of our examination did not include market conduct procedures, including, but not limited to, market conduct procedures in the following areas:

- Policy Forms
- Fair Underwriting Practices
- Advertising and Sales Materials
- Treatment of Policyholders:
    - Claims Processing (Timeliness)
    - Complaints

REINSURANCE

Assumed Reinsurance:

Effective January 1, 2008, the Company assumes reinsurance from Peace Church Risk Retention Group, Inc., which is a member of the Company, on a claims made basis for a layer of $500,000 excess of $500,000 with a 350 percent loss ratio cap including loss adjustment expenses. The Company's assumed premiums from this member totaled $856,483 in 2009 and $901,616 in 2008. As of January 1, 2010, the loss ratio cap was increased to 400 percent.

Ceded Reinsurance:

Prior to the Company's January 1, 2008 conversion from a stock company to a reciprocal risk retention group, the Company ceded losses to CCIC, an affiliated Cayman Islands insurance company with a (A-) rating from A.M. Best. Additionally, the Company ceded losses to five unrelated commercial reinsurers which all have financial strength ratings of excellent to superior from A.M. Best.

Effective January 1, 2008, the Company entered into a quota share agreement with CCIC whereby the Company ceded 90 percent of all net losses and loss adjustment expenses above each insured's self-insured retention up to $1,000,000 to CCIC without an aggregate limit. CCIC has a financial strength rating of (A-) from A.M. Best and for purposes of CCrRRG's reinsurance program, CCIC has been designated an "authorized" reinsurer by the Department. The cession to CCIC changed to 80 percent effective January 1, 2009 and 70 percent effective January 1, 2010.

Effective December 1, 2008, the Company purchased reinsurance from one unrelated commercial reinsurer (Transatlantic Re) for 40 percent of the $500,000 excess of $500,000 layer with a 285 percent loss ratio cap. Effective December 1, 2009 the Company replaced Transatlantic Re on the first excess of loss treaty with Lloyds' of London for 70 percent of the $500,000 excess of $500,000 layer. Additionally, the Company reinsures on a 100 percent basis its $10,000,000 excess of $1,000,000 excess insurance policies with a $45 million aggregate cap. All participating reinsurers have financial strength ratings of excellent to superior from A.M. Best.

Therefore, under the above reinsurance arrangements, the Company's maximum retention in any one risk per occurrence was $160,000 for policies written during the period December 1, 2008 to December 1, 2009, $130,000 for policies written during the period December 1, 2009 to December 31, 2009 (according to the Company no policies were written during this period) and $195,000 for policies written on or after January 1, 2010.

In 2009, the Company ceded reinsurance premiums totaling $16,636,824. As of December 31, 2009, the Company reported as assets "Amounts recoverable from reinsurers" totaling $558,867 which represents amounts recoverable from reinsurers on paid losses; and "Other amounts receivable under reinsurance contracts" totaling $22,778,282, representing estimated amounts recoverable from the reinsurers on unpaid losses. In addition, the Company reported, as a deduction to the liability "Unearned premiums," ceded reinsurance unearned premiums totaling $663,530. If the reinsurers were not able to meet their obligations under these agreements, the Company would be liable for any defaulted amounts. See **NOTE 4** in the "Notes to Financial Statements" section of this Report for further comments regarding the netting of ceded reinsurance unearned premiums.

Our review of the Company's reinsurance contracts did not disclose any unusual provisions.

ACCOUNTS AND RECORDS

The primary locations of the Company's books and records are at the offices of its Attorney-in-Fact, CCSS, in Libertyville, Illinois; and at the offices of its captive manager, Towner, in Burlington, Vermont.

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers. Our examination did not disclose any significant issues with these records.

FINANCIAL STATEMENTS

The following financial statements, prepared in accordance with accounting practices generally accepted in the United States ("GAAP"), except as discussed in **NOTES 2, 4, and 6** in the "Notes to Financial Statements," reflect the financial condition of the Company as of December 31, 2009, as determined by this examination:

The accompanying Notes to Financial Statements are an integral part of these Financial Statements.

BALANCE SHEET

ASSETS

	December 31, 2009
Bonds	$ 9,997,202
Real estate:	
Properties held for the production of income	924,222
Cash ($5,225,500), cash equivalents ($0) and short-term investments ($0) **(NOTE 1)**	5,225,500
Other invested assets **(NOTE 2)**	20,621,975
Subtotals, cash and invested assets	$ 36,768,899
Investment income due and accrued	5,938,099
Uncollected premiums and agents' balances in the course of collection	764,672
Reinsurance:	
Amounts recoverable from reinsurers	558,867
Other amounts receivable under reinsurance contracts	22,778,282
Net deferred tax asset	179,377
Receivables from parent, subsidiaries and affiliates	9,341
Aggregate write-ins for other than invested assets:	
Insurance premiums prepaid	27,500
Total	$ 67,025,037

LIABILITIES, SURPLUS AND OTHER FUNDS

	December 31, 2009
Losses **(NOTE 3)**	$ 25,434,400
Other expenses (excluding taxes, licenses and fees)	162,842
Taxes, licenses and fees (excluding federal and foreign income taxes)	328,748
Current federal and foreign income taxes	15,729
Unearned premiums (after deducting unearned premiums for ceded reinsurance of $663,530) **(NOTE 4)**	149,142
Advance premiums	914,425
Dividends declared and unpaid to policyholders	4,331,682
Ceded reinsurance premiums payable (net of ceding commissions) **(NOTE 5)**	8,477,280
Aggregate write-ins for liabilities:	
Accrued interest on surplus note **(NOTE 6)**	360,443
Total Liabilities	$ 40,174,691
Aggregate write-in for special surplus funds:	
Subscribers' paid in surplus	$ 12,463,668
Aggregate write-ins for other than special surplus funds:	
Subscribers' savings accounts	3,779,483
Surplus notes **(NOTE 6)**	1,608,000
Unassigned funds (surplus)	8,999,195
Surplus as regards policyholders	$ 26,850,346
Total Liabilities and Surplus	$ 67,025,037

STATEMENT OF INCOME

		2009
UNDERWRITING INCOME		
Premiums earned	$	3,608,276
DEDUCTIONS		
Losses incurred	$	1,989,692
Other underwriting expenses incurred		1,417,389
Total underwriting deductions	$	3,407,081
Net underwriting gain	$	201,195
INVESTMENT INCOME		
Net investment income earned	$	5,893,048
Net realized capital losses		(188)
Net investment gain	$	5,892,860
Dividends to policyholders	$	4,331,682
Federal and foreign income taxes incurred		(17,110)
Net income	$	1,779,483

CAPITAL AND SURPLUS ACCOUNT

Net loss, 2006	$	(34,147)
Change in surplus notes		1,500,000
Initial capital: Paid in		100,000
Net change in surplus as regards policyholders, 2006		1,565,853
Surplus as regards policyholders, December 31, 2006	$	1,565,853
Net income, 2007		3,643
Net change in surplus as regards policyholders, 2007		3,643
Surplus as regards policyholders, December 31, 2007	$	1,569,496
Net income, 2008		1,905,800
Change in net deferred income tax		(14,388)
Change in surplus notes		108,000
Capital changes: Transferred to surplus		(100,000)
Surplus adjustments: Transferred from capital		8,394,248
Subscribers' paid in surplus		11,694,398
Net change in surplus as regards policyholders, 2008		21,988,058
Surplus as regards policyholders, December 31, 2008	$	23,557,554
Net income, 2009		1,779,483
Change in net unrealized capital gains		89,139
Subscribers' paid in surplus		769,270
Audit adjustments		654,900
Net change in surplus as regards policyholders, 2009		3,292,792
Surplus as regards policyholders, December 31, 2009	$	26,850,346

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 since inception is as follows:

	2009	2008	2007	2006
Assets	$ 67,025,037	$ 54,503,340	$ 6,002,610	$ 4,034,926
Liabilities	40,174,691	30,945,786	4,433,114	2,469,073
Capital and surplus	26,850,346	23,557,554	1,569,496	1,565,853
Gross written premium (direct and assumed)	20,394,242	19,316,176	3,395,999	3,441,889
Net earned premium	3,608,276	1,210,540	96,675	96,104
Net investment income	5,892,860	7,387,460	19,453	1,852
Net income (loss)	$ 1,779,483	$ 1,905,800	$ 3,643	$ (34,147)

Note:

Amounts in the preceding financial statements for the years ended December 31, 2006 through December 31, 2008 were taken from the Company's Annual Statements as filed with the Department. Amounts for the year ended December 31, 2009 are amounts per examination.

The large increase in the above balances from 2007 to 2008 is due to the aforementioned January 1, 2008 conversion whereby CCrRRG converted from a stock insurer to a reciprocal risk retention group and the former shareholders of Caring Communities Insurance Company became subscribers/members of CCrRRG. In addition, as part of the conversion, CCIC became a wholly owned subsidiary of CCrRRG.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Cash:

As of December 31, 2009, the Company reported "Cash and cash equivalents" totaling $5,225,500; $1,489,071 of which was held in one institution and exceeds the amount insured by the Federal Deposit Insurance Corporation ("FDIC"). During our examination, we discussed with management the potential risk to the Company from maintaining balances in excess of the FDIC insured limit in a single institution. Management agreed potential risk existed and indicated steps would be taken to evaluate this risk in the future.

NOTE 2 – Investment in Subsidiaries:

As of December 31, 2009, the Company reported "Other invested assets" totaling $20,621,975 which represents the Company's equity investments in its wholly-owned subsidiaries, CCIC and CCSS. This reporting of subsidiaries as investments is not in accordance with GAAP accounting, which requires that these wholly owned subsidiaries be consolidated. However, for purposes of the Company's NAIC "Annual Statement" reporting, the Department has instructed the Company to report its investments in subsidiaries as investments. Therefore the Company treats its investments in its subsidiaries using an equity basis. (The Company's audited financial statements are prepared on a consolidated basis in accordance with GAAP.)

NOTE 3 – Losses and Loss Adjustment Expense Reserves:

The Company reported "Losses" reserves of $25,434,400 which represent management's best estimate of the amount necessary to pay all claims and related expenses that have been incurred but are still unpaid as of December 31, 2009. The Company does not separately record reserves for loss adjustment expenses ("LAE"), but records all LAE reserves as "Losses" reserves. The Company does not utilize a discount rate to reduce its loss reserves.

Reserve credits taken as of December 31, 2009 for loss reserve cessions to the Company's reinsurers totaled $23,337,149. This amount was reported in the Company's assets as "Amounts recoverable from reinsurers," totaling $558,867, which represents amounts recoverable from reinsurers on paid losses; and "Other amounts receivable under reinsurance contracts," totaling $22,778,282, representing estimated amounts recoverable from the reinsurers on unpaid losses. If the reinsurers are unable to meet their obligations under the reinsurance treaties, the Company would be liable for any defaulted amounts. The Company's net undiscounted loss reserves totaled $2,097,251 as of December 31, 2009.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and LAE reserves as of December 31, 2009, 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 reserves appeared to be sufficient. In addition, as part of our review of the

Company's reserves, we engaged an independent actuary to review the methods employed, assumptions relied upon, and conclusions reached by the Company's actuary. The independent actuary utilized in our examination concluded that the methodologies and assumptions utilized by the Company's independent actuary to compute these reserves, and the amount of the reserves as of December 31, 2009, were reasonable and adequate.

As noted above, the Company does not separately record reserves for LAE, but records all loss and LAE reserves as "Losses" reserves. Management has determined that because the Company's policies have self-insured retentions up to $150,000 per policy, this method of recording loss and LAE reserves is most appropriate for the Company. This methodology is considered reasonable by the Company's actuary and by the independent actuary utilized in our examination. However, although the independent actuary utilized in our examination concluded the Company's "Losses" reserves were adequate to cover all losses and LAE, the independent actuary utilized in our examination did recommend to the Company that specific reserves for unallocated loss adjustment expenses ("ULAE") be recorded by the Company. Management agreed with this recommendation and indicated going forward a portion of its bulk reserves would be specifically allocated to ULAE.

NOTE 4 – Unearned Premiums:

The Company reported "Unearned premiums" totaling $149,142. This amount was comprised of direct unearned premiums totaling $812,672, less unearned premiums for ceded reinsurance totaling $663,530. The reporting of unearned premiums on a net basis is not in accordance with GAAP reporting and is not in accordance with the Department's instructions for reporting unearned premium, both of which require gross reporting of direct unearned premiums (as a liability) and reporting of ceded unearned premiums (as an asset). During the examination, management indicated its intent to reflect gross balances for these amounts on its financial statements beginning in 2010.

NOTE 5 – Ceded Reinsurance Premiums Payable:

The Company reported "Ceded reinsurance premiums payable" totaling $8,477,280. This amount was comprised of ceded reinsurance premiums payable to the Company's reinsurers totaling $15,775,052, which included amounts due to the Company's subsidiary, CCIC. In addition, netted out of the ceded premiums payable was a dividend receivable from CCIC totaling $7,297,772, resulting in the net reported balance of $15,775,052. During the examination, management indicated its intent to reflect gross balances for these amounts on its financial statements beginning in 2010.

NOTE 6 – Surplus Notes and Surplus Note Interest:

At December 31, 2009, the Company's surplus as regards policyholders included $1,608,000 in surplus notes. The surplus notes and related interest may not be paid without approval of the Department. Inclusion of surplus notes as surplus as regards policyholders is not in accordance with GAAP, however surplus notes approved by the Department are allowed as surplus as regards policyholders.

The Company reported a liability totaling $360,443 for accrued interest on its surplus notes. In addition, the Company reported 2009 interest expense associated with these surplus notes of $114,180 as part of investment income. During the examination we discussed with management that surplus note interest should not be expensed or accrued until payment of such interest is approved by the Department. Management agreed and indicated its intent to cease expensing or accruing surplus note interest in future periods until payment of such interest is approved by the Department.

COMMENTS AND RECOMMENDATIONS

Conflicts of Interest:

As indicated in the "Conflicts of Interest" section of this Report, the D.C. Municipal Regulations, section 26-3712, require that conflict of interest statements from officers, directors and key employees be completed annually. However, we noted that although all directors and officers signed disclosure statements in 2010, during the period of examination the Company had not had all directors and officers sign annual conflict of interest disclosure statements. **We recommend that the Company require all officers, directors, and key employees to complete conflict of interest statements on an annual basis in compliance with the aforementioned section of the D.C. Municipal Regulations.**

CONCLUSION

Our examination disclosed that as of December 31, 2009 the Company had:

Admitted Assets	$	67,025,037
Liabilities and Reserves	$	40,174,691
Subscribers' Paid in Surplus		12,463,668
Subscribers' Savings Accounts		3,779,483
Surplus Notes		1,608,000
Unassigned Funds (Surplus)		8,999,195
Total Surplus	$	26,850,346
Total Liabilities, Capital and Surplus	$	67,025,037

Based on our examination, the accompanying balance sheet properly presents the financial position of the Company at December 31, 2009, 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 concluded that the Company's capital and surplus funds exceeded the minimum requirements during the period under examination.

SIGNATURES

In addition to the undersigned, the following examiners representing the District of Columbia Department of Insurance, Securities and Banking participated in certain phases of this examination:

Christina M. Bonney, Collins Consulting, Inc.
Ronald E. Smith, Collins Consulting, Inc.
Peter F. Toy, Collins Consulting, Inc.

The actuarial portion of this examination was completed by N. Terry Godbold, ACAS, MAAA, FCA, President & Senior Actuary, Godbold, Malpere & Co.

Respectfully submitted,

Pamela R Collins

Pamela R. Collins
Examiner-In-Charge
Collins Consulting, Inc.

Under the Supervision of,

Xiangchun Li

Xiangchun (Jessie) Li, CFE
Supervising Examiner
District of Columbia Department of Insurance, Securities and Banking

Government of the District of Columbia
Department of Insurance, Securities and Banking

Gennet Purcell
Commissioner

February 8, 2011

G. James Caldwell
President
Caring Communities, A Reciprocal Risk Retention Group
c/o The Towner Management Group, LLC
148 College Street, Suite 204
Burlington, VT 05401

RE: Examination of **Caring Communities, A Reciprocal Risk Retention Group**, as of December 31, 2009

Dear Mr. Caldwell:

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 Caring Communities, A Reciprocal Risk Retention Group ("Company") as of December 31, 2009.

Please submit, to my attention, a written response calling attention to any errors or omissions in the draft Report. In addition, the Company's response shall include a response to the recommendation included in the "Comments and Recommendations" section of this Report. The response should indicate the Company's agreement or disagreement with the recommendation, as well as a summary of the corrective measures which will be taken by the Company for the recommendation. If the Company disagrees with the recommendation, the response shall indicate the reason(s) for the disagreement, as well as an explanation of alternative measures to be taken by the Company to address the conditions which lead to the recommendation.

The response must be in writing and shall be furnished to this Department by February 22, 2011. 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.

Sincerely,

Sean O'Donnell

Sean O'Donnell
Director of Financial Examination,
Risk Finance Bureau

Enclosure

March 16, 2011

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau
D. C. Department of Insurance, Securities and Banking
810 First Street, NE, Suite 701
Washington, DC 20002

RE: Caring Communities, a Reciprocal Risk Retention Group
December 31, 2009 Examination Report

Sean,

We are writing to acknowledge and respond to the transmittal letter dated February 8, 2011, received from the Department in conjunction with the December 31, 2009 examination of Caring Communities, a Reciprocal Risk Retention Group. As noted in the "Comments and Recommendations" section of the report the Company will ensure a Conflict of Interest Statement is obtained from each director and officer on an annual basis. The Company will maintain the original Conflict of Interest Statement on file with the corporate records.

Management of the company has reviewed the "DRAFT" examination report provided and we have no changes or comments to the draft. We therefore respectively request the Department proceed with the issuance of the examination report at your convenience.

Please contact me at (802) 861-2930 x 102 should you have any questions.

Best regards,

Stephen Brown

Stephen Brown
Vice President
The Towner Management Group, LLC
As managers for
Caring Communities, a Reciprocal Risk Retention Group

Government of the District of Columbia
Department of Insurance, Securities and Banking

William P. White
Acting Commissioner

March 18, 2011

G. James Caldwell
President
Caring Communities, A Reciprocal Risk Retention Group
c/o The Towner Management Group, LLC
148 College Street, Suite 204
Burlington, VT 05401

RE: Examination of **Caring Communities, A Reciprocal Risk Retention Group**, as of December 31, 2009

Dear Mr. Caldwell:

We are in receipt of a response, dated March 16, 2011, from Stephen Brown, Vice President, The Towner Management Group, LLC, as managers for Caring Communities, A Reciprocal Risk Retention Group ("Company"), regarding the Report on Examination of the Company, as of December 31, 2009. The response is deemed adequate.

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. The Department of Insurance, Securities and Banking will forward the adopted Report electronically to each Commissioner whose name is set forth on Page 1 of the Report, as well as to the National Association of Insurance Commissioners.

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

Sean O'Donnell
Director of Financial Examination
Risk Finance Bureau

Enclosures