

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



Thomas E. Hampton  
Commissioner

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

Re: Report on Examination – **DC Chartered Health Plan, Inc.** as of December 31, 2007

**ORDER**

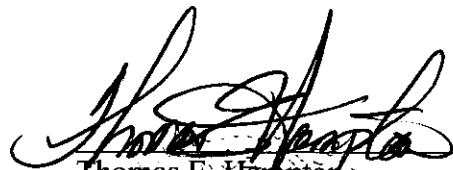
Pursuant to Examination Warrant 2008-2, a Financial Condition Examination of **DC Chartered Health Plan, Inc.** as of December 31, 2007 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 11<sup>th</sup> day of December, 2008, that the attached financial condition examination report be adopted and filed as an official record of this Department.

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

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

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

  
Thomas E. Hampton  
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

DC CHARTERED HEALTH PLAN, INC.

AS OF

DECEMBER 31, 2007

NAIC COMPANY CODE 95748

## Table of Contents Page

<b>SCOPE OF EXAMINATION</b> .....	1
<b>STATUS OF PRIOR EXAMINATION FINDINGS</b> .....	2
<b>SUMMARY OF SIGNIFICANT FINDINGS</b> .....	2
<b>SUBSEQUENT EVENTS</b> .....	2
Attorney General Complaint .....	2
President.....	3
RapidTrans .....	3
<b>HISTORY</b> .....	3
General .....	3
Capital Stock .....	4
Dividends to Stockholders .....	4
Management: .....	4
Board of directors .....	4
Officers .....	5
Committees: .....	5
Conflicts of Interest: .....	5
Corporate Records: .....	6
<b>AFFILIATED COMPANIES</b> .....	6
<b>ORGANIZATIONAL CHART</b> .....	7
<b>INTERCOMPANY AGREEMENTS</b> .....	7
<b>FIDELITY BOND AND OTHER INSURANCE</b> .....	10
<b>PENSION, STOCK OWNERSHIP AND INSURANCE PLAN</b> .....	10
<b>STATUTORY DEPOSITS</b> .....	10
<b>TERRITORY AND PLAN OF OPERATION</b> .....	10
<b>INSURANCE PRODUCTS AND RELATED PRACTICES</b> .....	10
<b>GROWTH OF COMPANY</b> .....	11
<b>REINSURANCE</b> .....	11
<b>ACCOUNTS AND RECORDS</b> .....	12
<b>FINANCIAL STATEMENTS</b> .....	13
Balance Sheet.....	14
Assets .....	14
Liabilities, Surplus and Other Funds .....	15
Statement of Revenue and Expenses .....	16
Capital and Surplus Account .....	17
Analysis of Examination Changes to Surplus.....	17
<b>NOTES TO FINANCIAL STATEMENTS</b> .....	17
<b>COMMENTS AND RECOMMENDATIONS</b> .....	19
<b>CONCLUSION</b> .....	22
<b>ACKNOWLEDGMENT</b> .....	23

Washington, D.C.  
September 10, 2008

Honorable Thomas E. Hampton  
Commissioner  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, N.E., Suite 701  
Washington, D.C. 20002

Dear Sir:

In accordance with Section 31-1402 of the District of Columbia Official Code, we have examined the financial condition and activities of

**DC Chartered Health Plan, Inc.**

(hereinafter called the Company) at its home office located at 1025 15<sup>th</sup> Street N.W., Washington, D.C. 20005, and the following Report on Examination is submitted.

**SCOPE OF EXAMINATION**

The examination, covering the period from January 1, 2003 to December 31, 2007, and including any material transactions and/or events noted occurring subsequent to December 31, 2007, was a single state/district exam conducted by examiners of the District of Columbia Department of Insurance, Securities and Banking (DISB).

Our examination was conducted in accordance with the NAIC Financial Condition Examiners Handbook (NAIC), incorporating the risk-focused examination techniques and in accordance with examination policies and standards established by the District of Columbia Department of Insurance, Securities and Banking and accordingly, included such tests of the accounting records and 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 and identifying significant risks, assessing and analyzing those risks, documenting the results of the analysis, and developing recommendations for how the analysis can be applied to the ongoing monitoring of the insurer. In addition, our examination included tests to provide reasonable assurance that the Company was in compliance with applicable laws, rules and regulations. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Company was audited annually by an independent public accounting firm. The firm expressed an unqualified opinion on the Company's financial statements for the calendar years 2003 to 2007. We placed substantial reliance on the audited financial statements for calendar years 2003 through 2006, and consequently performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2007. We reviewed the working papers prepared by the independent public accounting firm related to the audit for the year ended December 31, 2007, and directed our efforts to the extent practical to those areas not covered by the firm's audit.

### **STATUS OF PRIOR EXAMINATION FINDINGS**

Our examination included a review to determine the current status of the thirteen exception conditions commented upon in our preceding Report on Examination, dated July 18, 2003, which covered the three-year period from January 1, 2001 to December 31, 2003. We determined that the Company had satisfactorily addressed twelve of those items. The remaining exception regarding no formal minutes of shareholders' meetings electing the directors, is repeated in the "Comments and Recommendations" section of this Report under the caption, "Related Parties/Management".

### **SUMMARY OF SIGNIFICANT FINDINGS**

DISB defines material adverse finding as follows:

"A material adverse finding is defined as a finding, typically made by a financial examiner or financial analyst, with respect to an event, trend, transaction or series of transactions, fluctuation, agreement, arrangement, operating results or violation of law, which either has, or reasonably could have, a significant negative impact on a company's financial position."

No material adverse findings were noted during the examination. In addition, no material changes were made to the financial statements. All non-compliance findings are noted under "Comments and Recommendations" section of this report.

### **SUBSEQUENT EVENTS**

#### **District of Columbia Office of the Attorney General Complaint**

In March 2008, the District of Columbia filed a civil complaint in the Superior Court for the District of Columbia against the Company and was later amended to add DC Health Systems, Inc. (DCHSI). The complaint pertains to disagreements on certain cost related items under the Company's risk based contract with the District of Columbia Department of Health. Subsequent to the conduct of the examination, the Company's parent company, DCHSI resolved the contract interpretation disputes with the District of Columbia government. On October 14, 2008, the complaint was dismissed with prejudice by the District. DCHSI assumed the responsibility for

the resolution of the lawsuit. Pursuant to DISB's approval, Chartered has pledged certain assets to collateralize a twenty (20) year loan for DCHSI to fund the resolution of the contract dispute.

### President

Karen Dale, who was previously with Chartered in 2002, replaced Tamara Smith as president in June of 2008.

### RapidTrans

Effective May 6, 2008, the Company discontinued operations with RapidTrans, an affiliated company, and contracted transportation services with a non-affiliated provider.

## **HISTORY**

### General

The Company was established on December 1, 1986, under the laws of the District of Columbia. The Company's primary purpose is to provide quality health care within a managed care framework. It accomplishes this primarily through a contract with the District of Columbia Department of Health (DOH), which requires Chartered to provide health care services to Medicaid recipients of the District of Columbia through a Health Maintenance Organization (HMO).

In December 1996, the District of Columbia passed the HMO ACT requiring all HMOs to obtain a license to operate in the District of Columbia. In accordance with the HMO ACT, the Company obtained its HMO license on January 9, 1998. Prior to 1998, it operated under a managed care agreement with the District of Columbia.

On August 31, 1993, the Company became a wholly owned subsidiary of PHP Healthcare Corporation (PHP). PHP exchanged 118,024 shares of common stock valued at \$722,897 for 100 percent of the common stock of Chartered. This acquisition was accounted for using the purchase method of accounting and accordingly, the purchase price was allocated to acquire tangible and identifiable intangible assets, and assumed liabilities based on their respective fair values. The push down basis of accounting was adopted to recognize the goodwill associated with the acquisition of the Company and reported accordingly on its financial statements.

On November 19, 1998, PHP (parent company), filed with the United States Bankruptcy Court, a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. In October 1999, the United States Bankruptcy Court confirmed the Second Amended Joint Plan of Liquidation for PHP Healthcare Corporation, whereby PHP's ownership interest in the Company and certain other assets were transferred to a Collateral Trust awaiting their sale and/or liquidation. However, the Company remained unaffected by the transfer of its stock and continued to provide healthcare services to its members outside of bankruptcy.

On March 29, 2000, the Collateral Trust entered into a Stock Sale and Transfer Agreement pursuant to which the stock of the Company was sold to DC Healthcare Systems, Inc. (DCHSI)

for \$4,000,000 in cash (the purchase price). The agreement was subject to certain closing requirements, principally approval by the Insurance Commissioner of the District of Columbia and notification of the District of Columbia Medical Assistance Administration. Approval was obtained on May 16, 2000 and the sale of Chartered to DCHSI occurred on May 17, 2000.

DC Law 14-252, the "Health Maintenance Organization Amendment Act of 2002", became effective March 27, 2003 requiring compliance with Title 31 Subtitle II Chapter 7 of the DC Code (Holding Company System).

Capital Stock

The Company's Restated Articles of Incorporation authorize the Company to issue 1,000 shares of common stock with a par value of \$1 per share. As of December 31, 2007, the Company had issued 1,000 shares. All outstanding shares of the Company's common stock are owned by DC Healthcare Systems, Inc.

Dividends to Stockholders

The Company declared and paid the following dividends to its sole stockholder, DC Healthcare Systems, Inc, during our examination period:

<u>Year</u>	<u>Type</u>	<u>Amount</u>
2006	Cash	\$1,536,543
2007	Cash	\$4,022,671

The dividends paid in 2007 consisted of an ordinary distribution of \$2,022,671, which was approved by the board of directors of the Company and an extra-ordinary distribution of \$2,000,000, which was approved by the board of directors of the Company and also approved by DISB.

Management:

Board of directors

The following persons were serving on the Company's board of directors as of December 31, 2007:

<u>Name and Address</u>	<u>Principal Occupation</u>
Jeffrey E. Thompson, CPA Washington, DC	Chairman of the Board Chairman and CEO of Thompson, Cobb, Bazilio & Associates, P.C.
Johnnie Booker, MSW Atlanta, GA	Director of Supplier Diversity-Coca Cola Co.
Myrtle Gomez, RN	President and Owner of Nursing Enterprise, Inc.

Washington, DC	
William Strudwick, MD Washington, DC	Director of Emergency Services – Providence Hospital
Nicholas G. Karambelas, Esq. Washington, DC	Attorney at Law Sfikas & Karambelas

### Officers

The following persons were serving as the Company’s officers as of December 31, 2007:

Jeffrey Thompson	Chairman of the Board
Tamara Smith **	President and CEO
Gabriel Hanna	CFO
Robert Watkins	Vice President
Lavdena Orr, MD, CMO	Vice President
Leslie Smith	Vice President

\*\* Effective June, 2008, Tamara Smith was replaced by Karen Dale.

### Committees:

The following committees were in place at December 31, 2007:

#### *Operations and Quality Committee:*

Dr Strudwick, Chair; Nicholas Karambelas and Myrtle Gomez

#### *Finance and Audit Committee:*

Nicholas Karambelas, Chair, Johnnie Booker and Myrtle Gomez

DC Code 31-706 (c) (4) requires that the board establish one or more committees comprised of individuals who are not officers or employees of the Company, or of any entity controlling, controlled by or under common control with the Company. This committee or committees shall have responsibility for recommending the selection of independent certified public accountants, reviewing the Company’s financial condition, nominating candidates for director, evaluating the performance of officers of the Company, and recommending to the board the selection and compensation of principal officers. While the Company established an Audit Committee that meets the requirements of the law in July of 2007, the Company’s board performed the actions that the statute required the independent committee to perform, and therefore, the Company was not in full compliance with the requirement of the statute.

See the “Comments and Recommendations” section of this report, under the caption “Related Parties/Management” for further comment regarding this issue.

### Conflicts of Interest:



Directors and officers of the Company regularly responded to conflict of interest questionnaires. If possible conflicts were disclosed, they were scrutinized further by Company officials. Our review of the responses to the questionnaires completed for 2007 disclosed that there were no significant conflicts of interest reported. Furthermore, no additional potential conflicts of interest were noted during the examination. Additionally, the Chairman removes himself in voting on certain proposals that might be construed as a conflict based on his ownership in various interests that are being discussed.

#### Corporate Records:

We reviewed the minutes of the meetings of the board of directors for the period under examination. Based on our review, except as noted below, it appeared that the board minutes documented the Company's significant transactions and events and that the directors approved those transactions and events.

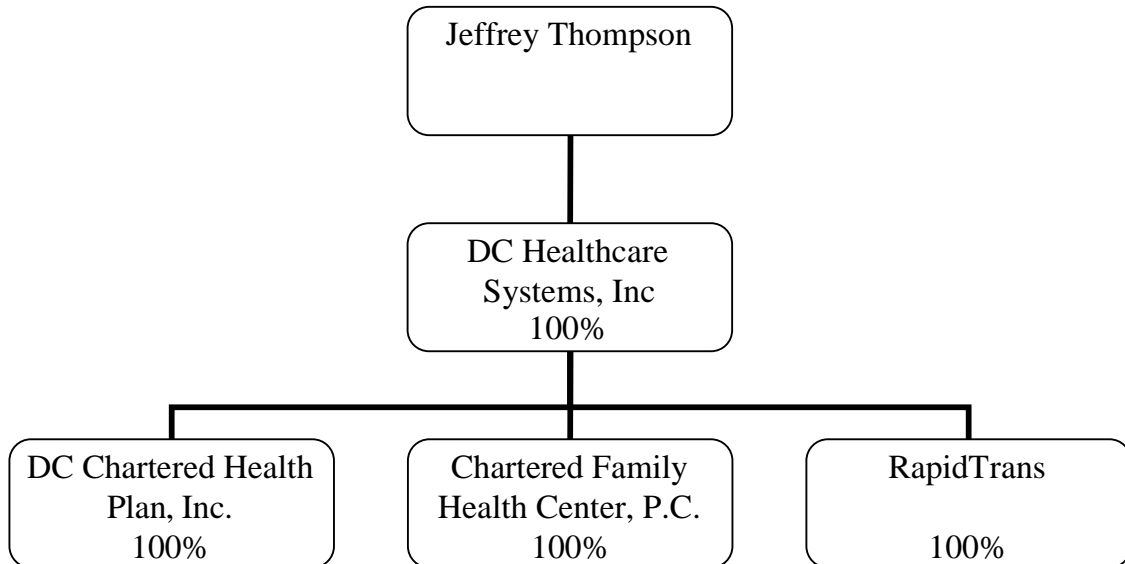
The Company's bylaws provide for an annual stockholder meeting. For the period under review, there were no documented annual meetings of the shareholder. In addition, the bylaws provide for the board of directors to be elected at the annual meeting of the shareholder. As there were no annual meetings of the shareholder, we were unable to discern the board of director's election or re-election. Chartered amended its by-laws to remove the requirement for an annual meeting; however, it did not provide a copy of the by-law amendment to DISB.

See further comments regarding this condition in the "Comments and Recommendations" section of this Report under the caption "Corporate Records"

### **AFFILIATED COMPANIES**

The Company is a private sector minority-owned HMO, with an affiliated health care center -- Chartered Family Health Center, PC, and a van transportation company - RapidTrans Inc. as of December 31, 2007. All Companies are owned by the holding company -- DC Healthcare Systems, Inc., which is 100% owned by Jeffrey E. Thompson, Chairman of DC Chartered Health Plan, Inc.

## ORGANIZATIONAL CHART



Note: In addition, Jeffrey Thompson owns 79% of TCBA, PC, an accounting and management consulting firm.

## INTERCOMPANY AGREEMENTS

The Company has entered into the following intercompany or related party agreements:

### **Management Services and Cost Allocation Agreement**

The Company had a management services agreement with DC HealthCare Systems, Inc. (DCHSI) which became effective May 18, 2000. Under this agreement, DCHSI provided technical and professional services for the health maintenance organization and healthcare insurance business of the Company, including:

- a) Financial management consulting services
- b) Enhancement of management, service delivery and systems infrastructure
- c) Short and long-term business planning
- d) Strategic financial planning
- e) Community and government relations
- f) Marketing and business development
- g) Related professional, management and technical services

The agreement was amended effective November 16, 2001 to limit costs to a maximum of \$1.8 million per year. The agreement was amended on November 8, 2006 to clarify or define the services performed.

The Company paid \$1,350,000 in 2007 and \$1,800,000 in 2006 related to the services under this agreement.

Rates and costs under this agreement appear reasonable. This agreement terminated September 30, 2007 and as of the date of this examination, no new agreement has been executed. The examination revealed an immaterial amount of \$416,280 was included for services which occurred subsequent to the expiration of the contract.

See the “Comments and Recommendations” section of this report, under the caption “Related Parties/Management” for further comment regarding this issue.

### **Lease Agreement**

On August 8, 2003, Chartered entered into a lease agreement for office space at 1025 15th Street, N.W., Washington, DC to house its headquarters in a building owned by DC Healthcare Systems. The lease is a triple net lease for 32,660 square feet of space at \$25 per square foot. It has a term of 10 years at an annual payment rate of \$816,500, plus a 2.5% annual increase on the base rent. The lease commenced July 1, 2004.

### **Memorandum of Understanding on Inter Company Administrative Services**

Effective January 23, 2003, the Company entered into a Memorandum of Understanding with affiliates, RapidTrans, Inc. and Chartered Family Health Center to provide administrative support services for payroll, employee benefits, accounting and other related administrative services. According to the memorandum, the Company will receive an amount based on the percentage time spent by the employee for these services plus 30% for estimated payroll taxes, fringe benefits and overhead costs, plus a 10% profit fee. The Company collected fees of \$275,861 in 2007 and \$495,090 in 2006 related to these services.

See the “Comments and Recommendations” section of this report, under the caption “Related Parties/Management” for further comment regarding this issue.

### **Intercompany Tax Agreement**

On July 26, 2002, the Company entered into a Memorandum of Understanding with its parent, DC HealthCare Systems, Inc., that set forth the filing of a consolidated tax return for the members of the holding company. The methodology used is for each affiliate, for any taxable year, to calculate its tax liability as a stand alone entity.

On November 8, 2006, this understanding was formally executed into a formal agreement (below). This MOU was effective for tax year beginning April 2001 and would terminate upon a member ceasing to be part of the DC HealthCare Systems, Inc. holding company.

See the “Comments and Recommendations” section of this report, under the caption “Related Parties/Management” for further comment regarding this issue.

## **Tax Allocation Agreement**

On November 8, 2006, the Company and DCHSI or DCHSI Group entered into an agreement whereby the parties of the Group calculate their federal tax liability as if not a member of the Group. In addition, each member will forward periodic estimates to the Group or the Internal Revenue Service.

The agreement is in effect as long as each member is part of the Group and the Group files a consolidated return. This agreement was filed with DISB and was not disapproved.

## **Thompson, Cobb, Bazilio & Associates, PC (TCBA)**

Effective January 22, 2003, the Company entered into an engagement with TCBA for the provision of certain consulting services. These consulting services are to enhance service delivery, improve compliance, operational efficiency, reduce risk and improve reporting in the enrollment, eligibility and other related areas. This engagement was approved by the board of directors and Mr. Thompson abstained from voting.

The engagement was for the period January 22, 2003 through December 31, 2007. As of December 31, 2007, this engagement was terminated. For the years 2007 and 2006, payments to TCBA were \$78,949 and \$381,031, respectively.

## **Provider Agreements**

### **Group Primary Care & Specialist Physician Agreement**

Effective December 1, 1997 the Company entered into a management agreement with an affiliate, Chartered Family Health Center, Inc. for the provision of professional medical services to the Company's members or enrollees. For these services, effective January 1, 2003, the Company paid a capitation fee of \$49.44 per member per month. For the years 2007 and 2006 the Company paid \$5,535,052 and \$6,116,592 respectively.

The capitation fee amendment for this contract that was effective January 1, 2003 was signed December 15, 2003 for retroactive rates. The capitation rates more than doubled under this amendment due to a pending \$60 Million malpractice lawsuit that was resolved in 2007.

### **Transportation Agreement**

Effective April 1, 2002, the Company entered into an agreement with an affiliate, RapidTrans, Inc. for the provision of transportation services to the Company's enrollees and members. Effective January 4, 2004, the Company paid a capitation fee of \$5.35 per member per month. For the years 2007 and 2006, the Company paid RapidTrans, Inc. \$2,479,960 and \$2,468,729.

Effective May 6, 2008, the Company discontinued operations with RapidTrans and contracted transportation services with a non-affiliated provider.

## **FIDELITY BOND AND OTHER INSURANCE**

As of December 31, 2007, the Company is included in Fiduciary Bond coverage that has a single loss limit of \$1,000,000. This is well within the NAIC recommended coverage. The Company also has adequate business liability insurance.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLAN**

Chartered sponsors a 401(k) plan (the Plan) for its employees. Employees are eligible to participate in the Plan if they are at least 21 years of age and have worked 90 days or longer at Chartered. Employees may contribute between 1% and 12% of eligible salary on a pre-tax basis. Chartered makes a discretionary matching contribution to the Plan of 12% of each employees' contribution amount. Chartered contributed \$29,730 and \$25,344 to the Plan for the years ended December 31, 2007 and 2006, respectively.

## **STATUTORY DEPOSITS**

As of December 31, 2007, in compliance with the provisions of the District of Columbia Official Code Section 31-3412(b), the Company had deposited a Certificate of Deposit with par and market values totaling \$300,000. In addition, as of December 31, 2007, the Company reported a trust deposit totaling \$1,953,075 with the District of Columbia Medical Assistance Administration.

## **TERRITORY AND PLAN OF OPERATION**

As of December 31, 2007, the Company was licensed to transact business in the District of Columbia, with direct written premiums totaling \$165.9 million. The Company's business is the provision of health care services to members or enrollees. The Company has no commercial contracts and provides health care benefits to the medical assistance population, in accordance with a contract executed with the DC Health Department. In addition, the Company provides certain health care services to enrollees of the DC HealthCare Alliance.

The Company's plan is to file an MCO application in the future to participate in Maryland's Medicaid program in Prince George's and Montgomery counties.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

DISB's Market Conduct Unit had not conducted an examination of the market conduct affairs of the Company during our examination period and, as of the date of this Report, the Unit was not planning to conduct a market conduct examination of the Company. A market conduct examination would include detailed reviews of the Company's sales and advertising, agent licensing, underwriting and rating, claims processing and complaint handling practices and procedures.

During this examination, we did not review the following market conduct-related areas:

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

### **GROWTH OF COMPANY**

The comparative financial position of the Company for the five-year period ended December 31, 2007, is as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
<b>Member Months</b>	<b>743,648</b>	<b>593,006</b>	<b>461,283</b>	<b>445,526</b>	<b>426,472</b>
Average premium pmpm	222.02	221.24	213.93	200.50	189.41
Average medical cost pmpm	183.88	181.96	173.82	164.38	153.38
Assets	44,505,463	43,031,907	32,926,001	27,136,914	24,218,036
Liabilities	22,885,701	22,805,192	17,560,636	15,768,330	14,960,878
Capital and Surplus	21,619,762	20,226,719	15,365,369	11,368,585	9,257,160
Premiums earned	165,103,707	131,197,889	98,681,260	89,326,246	80,777,042
Net underwriting gain	6,014,489	6,486,337	4,463,032	4,843,223	2,857,956
Investment gain	2,153,488	1,834,191	1,131,944	620,545	680,122
Net income	5,464,238	6,005,008	3,633,950	2,350,712	2,581,486

pmpm/per member per month

Amounts in the preceding financial statements are the amounts per examination.

### **REINSURANCE**

#### Assumed Reinsurance:

The Company did not assume any business through reinsurance treaties.

#### Ceded Reinsurance:

The Company has a stop-loss contract through which the Company pays the first \$125,000 per member per contract year and the reinsurer pays 80% of the excess of \$125,000. The contract includes a limit of \$1 million per member per contract period, subject to a lifetime maximum of \$2 million per member.

## **ACCOUNTS AND RECORDS**

The Company's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). Our review did not disclose any significant deficiencies in these records. However, we noted several accounting related areas in which controls could be improved.

These conditions are further discussed in the “Comments and Recommendations” section of this Report, under the captions “Accounts and Records”.

## **FINANCIAL STATEMENTS**

The following financial statements reflect the financial condition of the Company as of December 31, 2007, as determined by this examination:

<u>STATEMENT</u>	<u>PAGE</u>
Balance Sheet:	
Assets	14
Liabilities, Surplus and Other Funds	15
Statement of Revenue and Expenses	16
Capital and Surplus Account	17
Examination Changes to Policyholder Surplus	17

The accompanying “Notes to Financial Statements” are an integral part of these financial statements.



Balance Sheet

Assets

	Assets	Nonadmitted Assets	Net Admitted Assets	Examination Adjustment Increase (Decrease)	Net Admitted Assets Per Examination
Bonds (NOTE 1)	\$ 9,142,172	\$ 0	\$ 9,142,172	\$ 0	\$ 9,142,172
Cash \$6331931, cash equivalents \$18428793 and short-term investments \$0 (NOTE 1)	24,760,724		24,760,724		24,760,724
Subtotals, cash and invested assets	33,902,896	0	33,902,896	0	33,902,896
Investment income due and accrued	583,203		583,203		583,203
Uncollected premiums and agents' balances in the course of collection (premiums and considerations)	7,616,723		7,616,723		7,616,723
Amounts receivable relating to uninsured plans	241,012		241,012		241,012
Net deferred tax asset	1,921,693	1,061,642	860,051		860,051
Electronic data processing equipment and software	408,920	268,874	140,046		140,046
Furniture and equipment, including health care delivery assets (\$0)	115,605	115,605			
Receivables from parent, subsidiaries and affiliates	1,566,101	404,567	1,161,534		1,161,534
Health care (\$0) and other amounts receivable	204,000	204,000			
Aggregate write-ins for other than invested assets	2,782,647	2,782,647			
Totals	\$ 49,342,798	\$ 4,837,335	\$ 44,505,463	\$ 0	\$ 44,505,463

Liabilities, Surplus and Other Funds

	<b>Liabilities per Company</b>	<b>Examination Adjustments</b>	<b>Liabilities per Examination</b>
Claims Unpaid (NOTE 2)	\$20,181,467		\$20,181,467
Unpaid claims adjustment expenses (NOTE 2)	636,219		636,219
General expenses due or accrued	1,555,627		1,555,627
Amounts withheld or retained for the account of others	67,903		67,903
Aggregate write-ins for other liabilities	444,486		444,486
<b>Total liabilities</b>	<b>22,885,701</b>		<b>22,885,701</b>
Common capital stock	\$100		\$100
Gross paid in and contributed surplus	4,690,419		4,690,419
Unassigned funds (surplus)	16,929,243		16,929,243
<b>Total capital and surplus</b>	<b>21,619,762</b>		<b>21,619,762</b>
<b>Total liabilities and surplus</b>	<b>\$ 44,505,463</b>		<b>\$ 44,505,463</b>

Statement of Revenue and Expenses

Member months		743,648
Net premium income (including \$0 non-health premium income)	<u>\$165,103,707</u>	
Total revenues		\$165,103,707
Hospital/medical benefits (hospital and medical)	66,860,277	
Other professional services (hospital and medical)	42,875,582	
Emergency room and out-of-area (hospital and medical)	15,328,717	
Prescription drugs (hospital and medical)	10,663,530	
Aggregate write-ins for other hospital and medical (hospital and medical)	1,011,050	
Subtotal (hospital and medical)	136,739,155	
Net reinsurance recoveries (less)	836,616	
Total hospital and medical (less)	135,902,539	
Claims adjustment expenses, including \$3994191 cost containment expenses (less)	5,016,191	
General administrative expenses (less)	18,170,487	
Total underwriting deductions		<u>159,089,218</u>
Net underwriting gain or (loss)		6,014,489
Net investment income earned	<u>2,153,4880</u>	
Net investment gains or (losses)		2,153,488
Aggregate write-ins for other income or expenses		<u>176,672</u>
Net income or (loss), after capital gains tax and before all other federal income taxes		8,344,649
Federal and foreign income taxes incurred		<u>2,880,411</u>
<b>Net income</b>		<b><u><u>\$ 5,464,239</u></u></b>

### Capital and Surplus Account

Capital and surplus prior reporting year		\$20,226,717
Net income or (loss)	\$5,464,239	
Change in net deferred income tax	577,226	
Change in nonadmitted assets	(517,529)	
Dividends to stockholders	(4,022,671)	
Aggregate write-ins for gains or (losses) in surplus	<u>(108,221)</u>	
Net change in capital and surplus		<u>1,393,045</u>
<b>Capital and surplus end of reporting year</b>		<b><u>\$21,619,762</u></b>

### Analysis of Examination Changes to Surplus

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

### **NOTES TO FINANCIAL STATEMENTS**

#### 1. Basis of Valuation of Invested Assets

**Bonds:** Bonds are represented by long-term certificates of deposit (CD's) aggregating \$9,142,172 and are valued at cost.

**Cash & Short-Term Investments:** For financial statement purposes, short-term CD's are classified as cash according to SSAP No.2, paragraph 3, and are valued at cost. The total cash admitted is \$24,760,724, consisting of open deposits in banks of \$6,331,931 and short-term CD's of \$18,428,793.

#### 2. Loss Reserves

The Company reported "claims unpaid" and "unpaid claims adjustment expenses" reserves totaling \$20,181,467 and \$636,219 respectively. These reserves, which represent management's best estimate of the amounts necessary to pay all claims and related expenses that had been incurred but still unpaid as of December 31, 2007, are shown net of estimated amounts recoverable from various reinsurance companies under the Company's reinsurance treaty. Reserve credits taken as of December 31, 2007 for cessions to reinsurer totaled

approximately \$389,600. If the reinsurer was not able to meet its obligations under the reinsurance treaty, the Company would be liable for any defaulted amounts.

The methodologies utilized by the Company to compute reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2007, were reviewed as part of our examination. As part of our review, we relied on the Company's independent actuary, who concluded that the methodologies and reserves appeared to be sufficient. In addition, the methodologies utilized by the Company to compute these reserves, and the adequacy of the loss reserves and loss adjustment expense reserves were reviewed by an independent actuary engaged as part of our examination. This independent actuary engaged as part of our examination, concluded that overall, the methodologies and reserves appeared to be reasonable.

### 3. Collateral Agreement

As a result of the 1998 bankruptcy proceedings of PHP Corporation, the Company's previous parent, the stock of the Company was held in a trust (the Collateral Trust), and in October of 1999, Bank of America, N.A. (BOA) was designated and appointed as the Collateral Trustee, obtaining full legal title to the collateral and full legal power and authority to transfer, sell, assign, or dispose of the collateral, including the stock of the Company. The Collateral Trust entered into a stock sale and transfer agreement pursuant to which the stock of Chartered was sold to DCHSI on May 17, 2000. DCHSI financed the purchase through a \$3,500,000 bank loan at a floating prime rate of interest. Payments of principal and interest on the loan will continue monthly through May 12, 2011. The outstanding principal balance on the loan was \$987,607 and \$1,131,276 at December 31, 2007 and 2006, respectively. Chartered and the owner of DCHSI are guarantors on the loan. This loan is partially collateralized by a \$1,000,000 certificate of deposit from DCHSI that will be held for the entire term of the loan. The balance of the certificate of deposit held by DCHSI, including accrued interest was \$1,389,300 and \$1,313,047 at December 31, 2007 and 2006, respectively. Additionally, Chartered granted the lender a first security interest in certain collateral held by Chartered. However, in the event the lender exercises its rights under the guaranty, the owner of DCHSI has agreed in writing to irrevocably and unconditionally hold Chartered harmless and indemnify Chartered for any monies that Chartered may be obligated to pay under the guaranty.

## COMMENTS AND RECOMMENDATIONS

### Related parties/Management

#### *Audit Committee:*

District of Columbia Official Code Section 31-706(c)(4) requires that the board of directors of a domestic insurer (which is part of a holding company system) establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of an entity controlling, controlled by or under common control with the insurer. The committee or committees shall have responsibility for recommending the selection of independent audit and any internal audit, nominate candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer, and recommending to the board of directors the selection and compensation of the principal officers. As of December 31, 2007, the Company's Audit Committee was not comprised solely of directors who were not officers or employees of the Company. While the Company established an Audit Committee that meets the requirements of the law in July of 2007, the Company's board performed the actions that the statute required the independent committee to perform, and therefore, the Company was not in full compliance with the requirement of the statute.

**We recommend that the Company come into full compliance with the above-mentioned requirement of the District of Columbia Code.**

#### *Holding Company Filings:*

Title 31 Subtitle II Chapter 7 Paragraph 706 (a)(2) of the DC Code requires an insurer to notify the Mayor of its intention to enter into transactions with a member of the insurer's holding company system. This applied to HMO's effective March 27, 2003. While the Company has reported all of its related party transactions in its Form B Filings for the years 2004-2007 in compliance with Title 31, Subtitle II Chapter 7 Paragraph 705(a)(2) on April 30 of each year, we, however, noted the following:

- Effective May 18, 2000, the Company entered into a Management Services and Cost Allocation Agreement with DC HealthCare Systems, Inc. Under this agreement, DCHSI provides technical and professional services for the Company. This agreement was not submitted to DISB under a Form D filing.
- Effective August 8, 2003 the Company entered a lease agreement with DC HealthCare Systems, Inc. This agreement was not submitted to the DISB under a Form D filing
- Effective December 1, 1997 the Company entered into a management agreement with Chartered Family Health Center for the provision of professional medical services to the Company's members. This agreement was not submitted to DISB under a Form D filing.
- Effective April 1, 2002, the Company entered into an agreement with RapidTrans, Inc. for the provision of transportation services for the Company's members. This agreement was not submitted to DISB under a Form D filing.

- We noted several amendments to the above agreements were made during the examination period, however, such amendments were not submitted to DISB under a Form D filing. It was also noted that some of the amendments were made retroactively.

**We recommend that the Company notify DISB of its intention to enter into transactions with members of its holding company system in compliance with Title 31 Subtitle II Chapter 7 Paragraph 706 (2) of the DC Code(Form D filings)**

*Management Services and Cost Allocation Agreement:*

Management Services and Cost Allocation Agreement with DC HealthCare Systems, Inc. expired September 30, 2007, and, as of the date of this report, there was no management agreement in place.

Rates and charges under the agreement appear reasonable. The examination revealed an immaterial amount of \$416,280 was included for services which occurred subsequent to the expiration of the contract.

**It is recommended, if a management agreement is necessary, the Company take the necessary action and follow the requirements of DC Code 31-706(a)(2) by notifying the Commissioner, at least 30 days prior, of its intent to enter into a transaction with an affiliate.**

*Memorandums of Understanding:*

The Company has a history of entering into related party Memorandums of Understanding prior to the issuance of formal agreements.

**It is recommended that the Company put a process in place to execute formal agreements after a Memorandum of Understanding is agreed upon and to follow the requirements of DC Code 31-706(a)(2) by notifying the Commissioner, at least 30 days prior, of its intent to enter into a transaction with an affiliate.**

*Annual Statement Disclosures*

Related party information has been appropriately disclosed in the 2007 audited financial statements and the 2007 and prior years' Form B filing. However, the annual statements as filed with the District and the NAIC failed to include information concerning provider service agreements in place with affiliated companies.

**It is recommended that the Company put in place controls to verify that all disclosures are included in their annual statements when filed with the District and the NAIC.**

*Annual Meeting of Shareholder*

The Company's by-laws provide for an annual stockholder meeting. For the period under review, there were no documented annual meetings of the shareholder. In addition, the by-laws provide for the board of directors to be elected at the annual meeting of the shareholder. As there were no annual meetings of the shareholder, we were unable to discern the board of director's election or re-election. The Company amended its by-laws to remove the requirement of an annual shareholders' meeting, but did not submit a copy of the amendment. However, the Company did notify DISB as to selection of Directors as well as their qualifications in its DISB and NAIC filings, and DISB has accepted these Directors.

**It is recommended that the Company comply with the requirement that it submit all by-law amendments to DISB in a timely manner.**

### Accounts and Records

#### *Year-end Closing Procedures*

At year-end the company has what it calls a "soft close" to its general ledger. This closes all months' transactions but leaves open a thirteenth period for adjusting entries. The Company files its annual statement from its soft close figures. However when transactions occur in the next year that impacted the previous year, they are posted to the thirteenth period by the Company. The CPA firm takes these adjustments and any deferred tax adjustments that they make (and any other material adjustment that they may find) and adjusts income and capital on the audited statement.

According to the Annual Statement Instructions, changes in accounting estimates should be included in the Statement of Revenue and not in the Aggregate write-ins for gains or losses in surplus.

**It is recommended that the Company estimate transactions that they know will occur for their financial statement purposes instead of waiting for actual charges to come in.**

#### *Check Signing Authority:*

The chairman and owner is the sole signer of checks for the HMO and has access to manual checks. Although controls appear to be in place, the Company should strengthen those controls.

**It is recommended that the Company not allow the chairman and owner access to manual checks and require two signatures on all manual checks.**

### Additional Comments and Recommendations

During our examination, in addition to the above Comments and Recommendations, we made other suggestions and recommendations to the Company with regard to record keeping and other procedures related to its operations. These additional suggestions and recommendations were not deemed significant for purpose of our Report on Examination, and not included in our Report on Examination.



## CONCLUSION

Our examination disclosed that as of December 31, 2007, the Company had:

Admitted assets	<u>\$ 44,505,463</u>
Liabilities	<u>\$ 22,885,701</u>
Common capital stock	100
Gross paid in and contributed surplus	4,690,419
Unassigned funds (surplus)	<u>16,929,243</u>
Capital and Surplus	<u>21,619,762</u>
Total liabilities, capital and surplus	<u>\$ 44,505,463</u>

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Company as of December 31, 2007, and the accompanying statement of income properly presents the statutory results of operations for the period then ended. The supporting financial statements properly present the information prescribed by the District of Columbia Official Code and the National Association of Insurance Commissioners.

Chapters 20 (“Risk-Based Capital”) and 34 (“Health Maintenance Organizations”) of Title 31 (“Insurance and Securities”) of the District of Columbia Official Code specify 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.

**ACKNOWLEDGMENT**

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:

Ilona Klasons, CFE, CIE, Huff Thomas & Company  
Chidinma Ukairo, D.C. Department of Insurance, Securities and Banking

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DEPARTMENT OF INSURANCE  
AND BANKING

The electronic data processing review and computer assisted data analysis were performed by Brandon Thomas, HISP from Huff Thomas & Company.

The actuarial portion of this examination was completed by Donna Novak, FCA, ASA, MAAA, MBA, of NovaRest, Inc.

Respectfully submitted,



Ruth Lieberman, CPA, CFE  
Examiner-In-Charge  
Representing the District of Columbia  
Department of Insurance, Securities and  
Banking

Under the Supervision of,



Nathaniel Kevin Brown, CPA, CFE  
Chief Financial Examiner  
District of Columbia Department of  
Insurance, Securities and Banking

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



Thomas E. Hampton  
Commissioner

October 17, 2008

Karen Dale  
President  
DC Chartered Health Plan, Inc.  
1025 15<sup>th</sup> Street, N.W.  
Washington, DC 20005

Dear Ms. Dale:

Pursuant to the provisions of Section 31-1404 of the D.C. Official Code, enclosed is a draft copy of the Report on the Examination of the affairs and financial condition of **DC Chartered Health Plan, Inc.**, as of December 31, 2007.

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

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

All of your comments concerning these matters must be in writing and shall be furnished to this Department within **thirty (30) days from the date of this letter (November 17, 2008)**.

Sincerely,

Nathaniel Kevin Brown, CFE, CPA  
Acting Chief Financial Examiner

Enclosure



## COMMENTS AND RECOMMENDATIONS

### DC Chartered Health Plan, Inc. Response

#### Related parties/Management

##### **Audit Committee:**

District of Columbia Official Code Section 31-706(c)(4) requires that the board of directors of a domestic insurer (which is part of a holding company system) establish one or more committees comprised solely of directors who are not officers or employees of the insurer or of an entity controlling, controlled by or under common control with the insurer. The committee or committees shall have responsibility for recommending the selection of independent audit and any internal audit, nominate candidates for director for election by shareholders or policyholders, evaluating the performance of officers deemed to be principal officers of the insurer, and recommending to the board of directors the selection and compensation of the principal officers. As of December 31, 2007, the Company's Audit Committee was not comprised solely of directors who were not officers or employees of the Company. While the Company established an Audit Committee that meets the requirements of the law in July of 2007, the Company's board performed the actions that the statute required the independent committee to perform, and therefore, the Company was not in full compliance with the requirement of the statute.

**We recommend that the Company come into full compliance with the above-mentioned requirement of the District of Columbia Code.**

##### ***Response:***

*Chartered's Board of Directors has appointed an Audit Committee and approved the Audit Committee Charter on March 13, 2008. Effective with the 2008 annual Board meeting to be held in December 2008, the Audit Committee will assume all authority and functions associated with its Charter, including recommending the selection of independent auditors, review of reports of the Internal Auditors, review of the reports of independent auditors, and holding regularly-scheduled meetings separate from the General Board. As constituted, the Audit Committee is composed of independent Board members, and meets the other requirements of the statute. The Internal Audit Department will functionally report direct to the Audit Committee and administratively to the Chief Executive Officer.*

##### **Holding Company Filings:**

Title 31 Subtitle II Chapter 7 Paragraph 706 (a)(2) of the DC Code requires an insurer to

**D.C. CHARTERED HEALTH PLAN, INC.**

1025 15th Street NW • Washington, DC 20005-2601 • Tel: (202) 408-4720 • Fax: (202) 408-4730

## **DC Chartered Health Plan, Inc. Response**

notify the Mayor of its intention to enter into transactions with a member of the insurer's holding company system. This applied to HMO's effective March 27, 2003. While the Company has reported all of its related party transactions in its Form B Filings for the years 2004 - 2007 in compliance with Title 31, Subtitle II Chapter 7 Paragraph 705(a)(2) on April 30 of each year, we, however, noted the following:

- Effective May 18, 2000, the Company entered into a Management Services and Cost Allocation Agreement with DC HealthCare Systems, Inc. Under this agreement, DCHSI provides technical and professional services for the Company. This agreement was not submitted to DISB under a Form D filing.
- Effective August 8, 2003 the Company entered a lease agreement with DC HealthCare Systems, Inc. This agreement was not submitted to the DISB under a Form D filing
- Effective December 1, 1997 the Company entered into a management agreement with Chartered Family Health Center for the provision of professional medical services to the Company's members. This agreement was not submitted to DISB under a Form D filing.
- Effective April 1, 2002, the Company entered into an agreement with RapidTrans, Inc. for the provision of transportation services for the Company's members. This agreement was not submitted to DISB under a Form D filing.
- We noted several amendments to the above agreements were made during the examination period, however, such amendments were not submitted to DISB under a Form D filing. It was also noted that some of the amendments were made retroactively.

**We recommend that the Company notify DISB of its intention to enter into transactions with members of its holding company system in compliance with Title 31 Subtitle II Chapter 7 Paragraph 706 (2) of the DC Code (Form D filings)**

### ***Response:***

*Although Chartered fully notified DISB of these transactions on Form B and in its annual audited financial statements, in the future, Chartered agrees to file such related party transactions on Form D in addition to Form B.*

### ***Management Services and Cost Allocation Agreement:***

Management Services and Cost Allocation Agreement with DC HealthCare Systems, Inc. expired September 30, 2007, and, as of the date of this report, there was no management agreement in place.



## **DC Chartered Health Plan, Inc. Response**

Rates and charges under the agreement appear reasonable. The examination revealed an immaterial amount of \$416,280 was included for services which occurred subsequent to the expiration of the contract.

**It is recommended, if a management agreement is necessary, the Company take the necessary action and follow the requirements of DC Code 31-706(a)(2) by notifying the Commissioner, at least 30 days prior, of its intent to enter into a transaction with an affiliate.**

### ***Response:***

*Chartered will notify the Commissioner, at least 30 days prior, of its intent to enter into a new management services transaction with an affiliate.*

### ***Memorandums of Understanding:***

The Company has a history of entering into related party Memorandums of Understanding prior to the issuance of formal agreements.

**It is recommended that the Company put a process in place to execute formal agreements after a Memorandum of Understanding is agreed upon and to follow the requirements of DC Code 31-706(a)(2) by notifying the Commissioner, at least 30 days prior, of its intent to enter into a transaction with an affiliate.**

### ***Response:***

*Chartered will execute formal contracts within sixty (60) days of entering into a Memorandum of Understanding that creates contractual obligations. In addition, Chartered will notify the Commissioner, at least 30 days prior, of its intent to enter into a transaction with an affiliate.*

### ***Annual Statement Disclosures***

Related party information has been appropriately disclosed in the 2007 audited financial statements and the 2007 and prior years' Form B filing. However, the annual statements as filed with the District and the NAIC failed to include information concerning provider service agreements in place with affiliated companies.

**It is recommended that the Company put in place controls to verify that all disclosures are included in their annual statements when filed with the District and the NAIC.**

## DC Chartered Health Plan, Inc. Response

### *Response:*

*All related party transactions, including provider agreements, were included in Chartered's Audited Financial Statements that were filed with DISB and NAIC. Chartered will continue this practice and where necessary will enhance and expand its controls over audit footnote disclosures.*

### *Annual Meeting of Shareholder*

The Company's by-laws provide for an annual stockholder meeting. For the period under review, there were no documented annual meetings of the shareholder. In addition, the by-laws provide for the board of directors to be elected at the annual meeting of the shareholder. As there were no annual meetings of the shareholder, we were unable to discern the board of director's election or re-election. The Company amended its by-laws to remove the requirement of an annual shareholders' meeting, but did not submit a copy of the amendment. However, the Company did notify DISB as to selection of Directors as well as their qualifications in its DISB and NAIC filings, and DISB has accepted these Directors.

**It is recommended that the Company comply with the requirement that it submit all by-law amendments to DISB in a timely manner.**

### *Response:*

*Chartered will send all by-law amendments to DISB.*

## Accounts and Records

### *Year-end Closing Procedures*

At year-end the company has what it calls a "soft close" to its general ledger. This closes all months' transactions, but leaves open a thirteenth period for adjusting entries. The Company files its annual statement from its soft close figures. However when transactions occur in the next year that impacted the previous year, they are posted to the thirteenth period by the Company. The CPA firm takes these adjustments and any deferred tax adjustments that they make (and any other material adjustment that they may find) and adjusts income and capital on the audited statement.

According to the Annual Statement Instructions, changes in accounting estimates should be included in the Statement of Revenue and not in the Aggregate write-ins for gains or losses in surplus.

## DC Chartered Health Plan, Inc. Response

**It is recommended that the Company estimate transactions that they know will occur for their financial statement purposes instead of waiting for actual charges to come in.**

*Response:*

*Chartered has already established a change in its accounting practices to comply with this recommendation effective for 2008.*

***Check Signing Authority:***

The chairman and owner is the sole signer of checks for the HMO and has access to manual checks. Although controls appear to be in place, the Company should strengthen those controls.

**It is recommended that the Company not allow the chairman and owner access to manual checks and require two signatures on all manual checks.**

**Response:**

*Chartered has already implemented this change in 2008 and manual checks will no longer be issued, except in extenuating circumstances, e.g., temporary accounting software malfunction. In such instance, the check writing approval process will be adhered to.*

**Additional Comments and Recommendations**

During our examination, in addition to the above Comments and Recommendations, we made other suggestions and recommendations to the Company with regard to record keeping and other procedures related to its operations. These additional suggestions and recommendations were not deemed significant for purpose of our Report on Examination, and not included in our Report on Examination.



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



**Thomas E. Hampton**  
**Acting Commissioner**

December 12, 2008

Karen Dale  
President  
DC Chartered Health Plan, Inc.  
1025 15<sup>th</sup> Street, N.W,  
Washington, DC 20005

Dear Ms. Dale:

We are in receipt of your responses, dated November 18, 2008 and December 5, 2008, which address the corrective actions taken by DC Chartered Health Plan, Inc., to comply with the recommendations made in the Report on Examination as of December 31, 2007, dated September 10, 2008.

The Company's December 5, 2008 letter adequately addresses the recommendations made in the Report. During our next examination of the Company, we will review the implementation of the corrective actions taken.

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, and will be forwarded 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, and to each state in which the Company is licensed, according to your Annual Statement.

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 here at the Department.

Please contact me at 202-442-7785 if you have any questions.

Sincerely,

Nathaniel Kevin Brown, CFE, CPA  
Chief Examiner

Enclosures