

Report of the Examination of
Districts Mutual Insurance and Risk Management Services
Madison, Wisconsin
As of December 31, 2021

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. HISTORY AND PLAN OF OPERATION.....	3
III. MANAGEMENT AND CONTROL.....	5
IV. REINSURANCE.....	6
V. FINANCIAL DATA	9
VI. SUMMARY OF EXAMINATION RESULTS	18
VII. CONCLUSION.....	20
VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS	21
IX. ACKNOWLEDGMENT.....	22



September 02, 2022

Honorable Nathan D. Houdek
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53703

Commissioner:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

DISTRICTS MUTUAL INSURANCE AND RISK MANAGEMENT SERVICES
Madison, WI

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of Districts Mutual Insurance and Risk Management Services (the company or DMI) was conducted in 2017 as of December 31, 2016. The current examination covered the intervening period ending December 31, 2021 and included a review of such subsequent transactions as deemed necessary to complete the examination.

The examination was conducted in accordance with the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook and Wisconsin statutes and regulations. This approach sets forth guidance for planning and performing the examination of an insurance company to evaluate the financial condition, assess corporate governance, identify current and prospective risks (including those that might materially affect the financial condition, either currently or prospectively), and evaluate system controls and procedures used to mitigate those risks.

All accounts and activities of the company were considered utilizing a more balance sheet focused approach. This may include assessing significant estimates made by management and evaluating management's compliance with statutory accounting principles, annual statement instructions, and Wisconsin laws and regulations. The examination does not attest to the fair presentation of the

financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately at the end of the "Financial Data" section in the area captioned "Reconciliation of Surplus per Examination."

Emphasis was placed on those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation concerning the alternative or additional examination steps performed during the examination.

II. HISTORY AND PLAN OF OPERATION

District Mutual Insurance Company was organized under Ch. 611, Wis. Stat., as an assessable municipal mutual insurance company in July of 2004. The districts of the Wisconsin Technical College System, through the Wisconsin Technical College Insurance Trust (Trust), sponsored formation of DMI by providing capital and covering organization expenses. The company changed its name to Districts Mutual Insurance and Risk Management Services in October 2016. DMI is authorized to write in Wisconsin only. The company provides insurance products for the 16 technical college districts in Wisconsin, with \$7,679,305 in direct premium at year-end 2021.

The company's products include coverage that appear on the following annual statement lines of business: workers compensation, other liability-occurrence, commercial auto liability, inland marine, fire, allied lines, auto physical damage, burglary and theft, and boiler and machinery. All policies are issued directly to the policyholder, which eliminates agents' commission expenses.

In addition to insurance products, DMI also provides risk management services to its policyholders, at no additional cost, in the form of hired consultants: Risk & Loss Control Consultant, Business Continuity & Crisis Response Consultant, and Campus Security Consultant. Services provided by these consultants include: On-Site Campus Safety Audits, On-Site Material Handling Training, On-Site OSHA training, Targeted Loss Control Programs, Business Continuity & Crisis Response Assessments, Consultation and Plan Development, Campus Security Assessments, and ALICE (Alert, Lockdown, Inform, Counter, Evaluate) Training. These services were not available from the insurance carriers under previous group insurance programs and were a key reason for DMI's formation.

DMI's original equity came from contributions from the member districts. The start-up business plan proposed that the technical college districts would continue to be charged the same dollar amounts that were paid to the former insurance carrier. A portion of those overall charges was to be allocated to policy premiums and the excess would be treated as a contribution to capital. The plan was revised in 2007 to require that the third and all subsequent policy year capital contributions from the members are based on each member premium volume as a percentage of the total DMI premium.

The following table is a summary of the net insurance premiums written by the company in 2021. The growth of the company is discussed in the “Financial Data” section of this report.

Line of Business	Direct Premium	Reinsurance Ceded	Net Premium
Fire	\$ 543,798	\$ 483,306	\$ 60,492
Allied lines	418,309	371,777	46,532
Inland marine	752,953	669,195	83,758
Workers’ compensation	3,526,899	620,013	2,906,886
Other liability – occurrence	1,742,157	1,089,621	652,536
Commercial auto liability	369,025	234,353	134,672
Auto physical damage	203,483		203,483
Burglary and theft	20,915	18,589	2,326
Boiler and machinery	<u>101,766</u>	<u>101,766</u>	<u> </u>
Total All Lines	<u>\$7,679,305</u>	<u>\$3,588,620</u>	<u>\$4,090,685</u>

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of five members. Directors are elected annually to serve a three-year term; terms are staggered to ensure continuity and representation. Directors can serve a maximum of two consecutive terms. Officers are elected at the board's annual meeting. The board members currently receive \$300 per meeting, which is paid to the person's Technical College (all of which are policyholders) for expenses associated with attending the board meeting.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
John Will Rice Lake, Wisconsin	President, Northwoods Technical College	2023
Carrie Kasubaski West Bend, Wisconsin	VP Of Finance & Administration	2024
Susan Debe Kenosha, Wisconsin	VP Finance/Risk Management Coordinator	2024
Valarie Wunderlich Greenwood, Wisconsin	Director, Total Rewards, NWTC Talent/Culture	2024
Joshua Cotillier Madison, Wisconsin	Risk Manager	2025

Officers of the Company

The officers serving at the time of this examination are as follows:

Name	Office
Steven Stoeger-Moore	President
Joshua Cotillier	Secretary
Valarie Wunderlich	Treasurer
John Will	Board Chair

Committees of the Board

The company's bylaws allow for the formation of certain committees by the board of directors. There were no committees at the time of the examination.

IV. REINSURANCE

The company's reinsurance portfolio and strategy at the time of the examination are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions. The company's retention amounts listed below include members' deductible which range from \$5,000 to \$100,000.

Nonaffiliated Ceding Contracts

1. Type: Quota Share
Reinsurer: Hartford Steam Boiler Inspection & Insurance Company
Scope: Equipment breakdown
Retention: \$25,000 per accident
Coverage: 100% - Not to exceed \$100,000,000 per accident, and/or per electronic circuitry impairment, per policy
Effective date: July 1, 2021
Termination: The agreement may be terminated by either party giving the other 180 days prior notice in writing. The reinsurer shall continue to cover all losses on policies in force upon termination
2. Type: Excess of Loss
Reinsurer: Safety National Casualty Corporation
Scope: Worker's compensation, including aircraft
Retention: \$750,000 each accident
\$750,000 each employee for disease
\$500,000 each accident for aircraft
Coverage: Statutory limits above the company's retention
Effective date: July 1, 2021
Termination: July 1, 2022
3. Type: Excess of Loss
Reinsurer: General Reinsurance Corporation
Scope: Garage & General liability, auto liability, educators legal liability & employee benefits liability claims made coverage, uninsured and underinsured motorists coverage, damage to premises rented to you coverage, abuse or molestation coverage, and school counselor liability prior acts coverage.
Retention: \$500,000 for general liability and auto liability

\$500,000 for all other losses educator's legal liability and employee benefits liability combined

Coverage: The reinsurer's limit of liability is the difference between the company's retention and each occurrence limit of DMI's policy. DMI's policy limits are as follows:

\$5,000,000 per wrongful act combined single limit per occurrence for general liability, auto liability, and garage liability

\$6,000,000 per occurrence combined single limit for, auto liability, and garage liability on specified 25-passenger and 27-passenger buses

\$8,250,000 per occurrence for general liability, auto liability, and garage liability on a specified 33-passenger bus

\$500,000 comprehensive and \$500,000 collision for garage keepers' legal liability; and per occurrence of damage to premises rented to you coverage

\$350,000 per accident for uninsured and underinsured motorists' coverage

\$250,000 per incident, per member, and in aggregate for school violent acts coverage

\$500,000 per occurrence and \$5,000,000 aggregate per member for school counselor liability prior acts coverage (effective July 1, 2020 through July 1, 2021)

Effective date: July 1, 2021

Termination: July 1, 2022

4. Type: Excess of Loss

Reinsurer: Allianz Global Risks US Insurance Company

Scope: All risks of direct physical loss or damage to property, including time element coverages

Retention: \$250,000 per occurrence

Coverage: 100% part of \$500,000,000 per occurrence in excess of the company's retention

Effective date: July 1, 2021

Termination: July 1, 2022

5. Type: Casualty Quota Share

Reinsurer: Beazley Syndicate 2623 AFB 82%
Beazley Syndicate 0623 AFB 18%

- Scope: Cyber Liability
- Retention: \$25,000 each cyber event
- Coverage: 100% of \$3,000,000, \$5,000,000 or \$10,000,000 per college
- Effective date: July 1, 2021
- Termination: July 1, 2022
6. Type: Excess of Loss
- Reinsurer: Lloyds Syndicates 1969/4020 as leads on behalf of underwriters at Lloyd's and others
- Scope: Sabotage and Terrorism
- Retention: \$20,000 per occurrence
- Coverage: \$100,000,000 per occurrence and in aggregate damage and financial loss combined during the period of insurance. Lower stated sub-limits of liability apply:
- Lesser of 10% of liability limit or:
 \$500,000 for brand rehabilitation
 \$100,000 for claims preparation:
- \$5,000,000 for contingent financial Loss; denial of access; seepage contamination and pollution/clean up; utilities; attraction; contract works; and threat
- \$500,000 damage/financial loss combined for damage to property at any unspecified third-party site, or while in transit; and \$500,000 for extinguishment expenses.
- Effective date: July 1, 2021
- Termination: July 1, 2022
7. Type: Excess of Loss
- Reinsurer: Lloyd's Syndicate FC0145721
- Scope: Deadly Weapon Protection
- Retention: \$10,000 for each deadly weapon event
- Coverage: \$1,000,000 for each deadly weapon event including claims and expenses in the aggregate of \$16,000,000
- Effective date: July 1, 2021
- Termination: July 1, 2022

V. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the commissioner of insurance in the December 31, 2021, annual statement. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination." Also included in this section are schedules that reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation.

Districts Mutual Insurance and Risk Management Services
Assets
As of December 31, 2021

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	\$17,782,643	\$	\$17,782,643
Stocks:			
Common stocks	4,732,255		4,732,255
Cash, cash equivalents, and short-term investments	3,213,430		3,213,430
Investment income due and accrued	88,857		88,857
Write-ins for other than invested assets:			
Miscellaneous receivable	44,909	2,694	42,215
Prepaid expense	<u>117,000</u>	<u>117,000</u>	<u> </u>
Total Assets	<u>\$25,979,094</u>	<u>\$119,694</u>	<u>\$25,859,400</u>

Districts Mutual Insurance and Risk Management Services
Liabilities, Surplus, and Other Funds
As of December 31, 2021

Losses		\$ 3,144,220
Loss adjustment expenses		1,781,206
Other expenses (excluding taxes, licenses, and fees)		52,855
Unearned premiums		2,231,949
Ceded reinsurance premiums payable (net of ceding commissions)		812,521
Write-ins for liabilities:		
Accrued return premium adjustments		<u>55,000</u>
Total Liabilities		8,077,751
Gross paid in and contributed surplus	\$ 4,484,665	
Unassigned funds (surplus)	<u>13,296,984</u>	
Surplus as Regards Policyholders		<u>17,781,649</u>
Total Liabilities and Surplus		<u>\$25,859,400</u>

**Districts Mutual Insurance and Risk Management Services
Summary of Operations
For the Year 2021**

Underwriting Income

Premiums earned		\$4,004,913
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Deductions:

Losses incurred	\$ 911,850	
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Loss adjustment expenses incurred	777,417	
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Other underwriting expenses incurred	<u>2,111,087</u>	
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Total underwriting deductions		<u>3,800,354</u>
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Net underwriting gain (loss)		204,559
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Investment Income

Net investment income earned	280,868	
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Net realized capital gains (losses)	<u>(940)</u>	
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Net investment gain (loss)		<u>279,928</u>
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Net Income (Loss)		<u>\$ 484,487</u>
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Districts Mutual Insurance and Risk Management Services
Cash Flow
For the Year 2021

Premiums collected net of reinsurance		\$3,828,528
Net investment income		<u>385,687</u>
Total		4,214,215
Benefit- and loss-related payments	\$2,009,687	
Commissions, expenses paid, and aggregate write-ins for deductions	<u>3,041,468</u>	
Total deductions		<u>5,051,155</u>
Net cash from operations		(836,940)
 Proceeds from investments sold, matured, or repaid:		
Bonds	3,790,576	
Cost of investments acquired (long- term only):		
Bonds	<u>4,602,175</u>	
Net cash from investments		(811,599)
 Cash from financing and miscellaneous sources:		
Other cash provided (applied)		<u>(41,455)</u>
 Reconciliation:		
Net Change in Cash, Cash Equivalents, and Short-Term Investments		(1,689,994)
Cash, cash equivalents, and short-term investments:		
Beginning of year		<u>4,903,423</u>
 End of Year		<u>\$3,213,430</u>

**Districts Mutual Insurance and Risk Management Services
Compulsory and Security Surplus Calculation
December 31, 2021**

Assets		\$25,859,400
Less liabilities		<u>8,077,751</u>
Adjusted surplus		17,781,649
Annual premium:		
Lines other than accident and health	\$4,090,685	
Factor	<u>20%</u>	
Compulsory surplus (subject to a minimum of \$2 million)		<u>2,000,000</u>
Compulsory Surplus Excess (Deficit)		<u>\$15,781,649</u>
Adjusted surplus (from above)		\$17,781,649
Security surplus (140% of compulsory surplus, factor reduced 1% for each \$33 million in premium written in excess of \$10 million, with a minimum factor of 110%)		<u>2,800,000</u>
Security Surplus Excess (Deficit)		<u>\$14,981,649</u>

**Districts Mutual Insurance and Risk Management services
Analysis of Surplus
For the Five-Year Period Ending December 31, 2021**

The following schedule details items affecting surplus during the period under examination as reported by the company in its filed annual statements:

	2021	2020	2019	2018	2017
Surplus, beginning of year	\$16,528,593	\$15,925,728	\$14,987,251	\$15,083,849	\$13,374,424
Net income	484,487	187,498	259,261	227,841	1,812,903
Change in net unrealized capital gains/losses	886,170	415,595	659,616	(320,299)	(205,244)
Change in nonadmitted assets	<u>(117,601)</u>	<u>(228)</u>	<u>19,600</u>	<u>(4,140)</u>	<u>101,766</u>
Surplus, End of Year	<u>\$17,781,649</u>	<u>\$16,528,593</u>	<u>\$15,925,728</u>	<u>\$14,987,251</u>	<u>\$15,083,849</u>

**Districts Mutual Insurance and Risk Management Services
Insurance Regulatory Information System
For the five-Year Period Ending December 31, 2021**

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

Ratio	2021	2020	2019	2018	2017
#1 Gross Premium to Surplus	43%	40%	46%	48%	47%
#2 Net Premium to Surplus	23	22	29	38	38
#3 Change in Net Premiums Written	12	-20	-20	0	6
#4 Surplus Aid to Surplus	0	0	0	0	0
#5 Two-Year Overall Operating Ratio	92	98	98	88	90
#6 Investment Yield	1.1*	1.6*	2.1	2.0*	1.7*
#7 Gross Change in Surplus	8	4	6	-1	13
#8 Change in Adjusted Surplus	8	4	6	-1	13
#9 Liabilities to Liquid Assets	31	37	38	41	41
#10 Agents' Balances to Surplus	0	0	0	0	0
#11 One-Year Reserve Development to Surplus	-10	-4	-12	-9	-19
#12 Two-Year Reserve Development to Surplus	-8	-11	-15	-22	-22
#13 Estimated Current Reserve Deficiency to Surplus	-3	-16	-11	-12	-15

The exceptional results for Ratio #6, "Investment Yield", can be attributed to a low interest rate environment in recent years.

Growth of Districts Mutual Insurance and Risk Management Services

Year	Admitted Assets	Liabilities	Surplus as Regards Policyholders	Net Income
2021	\$25,859,400	\$ 8,077,751	\$17,781,649	\$ 484,487
2020	26,246,328	9,717,735	16,528,593	187,498
2019	25,783,788	9,858,060	15,925,728	259,261
2018	25,411,946	10,424,695	14,987,251	227,841
2017	25,582,267	10,498,418	15,083,849	1,812,903
2016	24,124,529	10,750,105	13,374,424	(79,403)

Year	Direct Premium Written	Net Premium Written	Premium Earned	Loss and LAE Ratio	Expense Ratio	Combined Ratio
2021	\$7,679,305	\$4,090,685	\$4,004,913	42.2%	51.6%	93.8%
2020	6,645,999	3,658,160	3,798,216	71.9	35.2	107.1
2019	7,309,396	4,577,698	5,144,903	61.1	49.7	110.8
2018	7,183,821	5,726,748	5,806,086	56.2	49.0	105.2
2017	7,038,546	5,725,149	5,663,933	37.7	49.6	87.3
2016	6,686,242	5,406,762	5,430,259	59.6	48.8	108.4

The company reported a net underwriting gain in two years and a net income in all five years under examination. Surplus increased 33% during the same period due to a combination of a net income and unrealized capital gains. The expense ratio was relatively steady at about 50% in 2017 through 2019 but decreased to 35.2% in 2020 and jumped up to 51.6% in 2021. The change in expense ratio from 35.2% in 2020 to 51.6% in 2021 was primarily due to the payments under the Risk Management Project Award (RMPA) program. DMI has established the RMPA program in 2014 under which it provides funding for the colleges to address and support a local risk management initiative. In 2020 DMI did not make any payments, whereas it paid approximately \$800,000 under this program in 2021. 2020 was the first year since 2014 DMI did not make any payments under the program. Overall, DMI has paid \$3.5 million to its policyholders under the program. Direct premium written increased 14% since 2016 and net premium written decreased 24% in the same period due to the increased reinsurance costs as well as a change in certain reinsurance coverages. Prior to 2019, instead of traditional reinsurance contract, DMI purchased excess insurance coverage to cover property and sabotage and terrorism claims. DMI

entered into traditional reinsurance contracts for property and sabotage and terrorism starting July 1, 2019. Premium paid for these reinsurance coverages further reduced net premium written. In 2020 and 2021, DMI provided a premium return to its policyholders in the amount of \$800,000 and \$320,000, respectively. These amounts were recorded as a reduction of premiums earned. In addition, in 2020 DMI also provided policyholders with a reduction in auto premiums in the amount of \$50,000, which was also recorded as a reduction of premium earned.

Reconciliation of Surplus per Examination

No adjustments were made to surplus as a result of the examination. The amount of surplus reported by the company as of December 31, 2021, is accepted.

Examination Reclassifications

There were no examination reclassifications as a result of this examination.

VI. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were three specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Conflict of Interest— It is recommended that each of the company’s officers, directors, and advisors to the board of directors annually make conflict of interest disclosures to the company, and that the company retain the disclosures in the company’s records from examination to examination, in compliance with the directive of the commissioner of insurance.

Action—Noncompliance, see comments in the “Summary of Current Examination Results.”

2. Reinsurance Intermediary-Broker Agreement— It is recommended that in addition to the Compensation Agreement between Districts Mutual Insurance & Risk Management Services and the reinsurance intermediary broker, the company implement a Reinsurance Intermediary Agreement containing all of the required contract provisions in accordance with s. Ins. 47.03, Wis. Adm. Code.

Action—Compliance.

3. Business Continuity— It is recommended that the company develop a Business Continuity Plan that recognizes its reliance on third parties to ensure that the company is able to continue the organization’s business activities and processes should an interruption occur. The review of the plan should be done on an annual basis and should incorporate an assessment of the third parties’ disaster recovery plans as it relates to the business activities including the security of the company’s data. This assessment should also include a review of testing performed by third party providers.

Action—Compliance.

Summary of Current Examination Results

This section contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comment on the remaining areas of the company's operations is contained in the examination work papers.

Conflict of Interest

It was recommended during the prior examination that each of the company's officers, directors, and advisors to the board of directors annually make conflict of interest disclosures to the company, and that the company retain the disclosures in the company's records from examination to examination, in compliance with the directive of the commissioner of insurance.

During the review of the company's conflict of interest disclosure forms, it was noted that one of the company's officers did not complete conflict of interest statements from 2018 to 2021. It is again recommended that each of the company's officers, directors, and advisors to the board of directors annually make conflict of interest disclosures to the company, and that the company retain the disclosures in the company's records from examination to examination, in compliance with the directive of the commissioner of insurance.

Management and Control

The examination found that the company did not list a director in the jurat page in the period from third quarter 2020 to second quarter 2021, nor did it file the director's biographical information with OCI. In accordance with s. Ins 6.52 (5), Wis. Adm. Code, biographical information of any new director and principal officer shall be filed with the commissioner within 15 days of appointment or election. It is recommended that the company properly disclose all directors and officers on jurat page and file their biographical data in accordance with s. Ins 6.52 (5), Wis. Adm. Code.

VII. CONCLUSION

The company was organized in July 2004, under the name Districts Mutual Insurance Company. The districts of the Wisconsin Technical College System, through the Wisconsin Technical College Insurance Trust, sponsored formation of DMI by providing capital and covering organization expenses. The company changed its name to Districts Mutual Insurance and Risk Management Services in October 2016. The company provides insurance products for the 16 technical college districts in Wisconsin, with \$7,679,305 in direct premium at year-end 2021. In addition to insurance coverage, the company also provides risk management services to its policyholders. The company reported net income in the five years under examination and surplus increased during the same period due to net income and unrealized gains.

The current examination resulted in two recommendations, one of which was a repeat from the previous examination. The repeat recommendation pertains to each of the company's officers, directors, and advisors annually making conflict of interest disclosures to the company. There were no adjustments to capital and surplus.

VIII. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 19 - Conflict of Interest— It is again recommended that each of the company's officers, directors, and advisors to the board of directors annually make conflict of interest disclosures to the company, and that the company retain the disclosures in the company's records from examination to examination, in compliance with the directive of the commissioner of insurance.
2. Page 19 - Management and Control—It is recommended that the company properly disclose all directors and officers on jurat page and file their biographical data in accordance with s. Ins. 6.52 (5), Wis. Adm. Code.

IX. ACKNOWLEDGMENT

The courtesy and cooperation extended by the officers and employees of the company during the course of the examination are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Abdel-Aziz Kondoh	Insurance Financial Examiner
Adam Donovan, CISSP	Financial Technology Specialist
Kongmeng Yang	Quality Control Specialist
Jerry DeArmond, CFE	Reserve Specialist

Respectfully submitted,



Vickie Ostien
Examiner-in-Charge