

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



William P. White
Commissioner

BEFORE THE
INSURANCE COMMISSIONER OF
THE DISTRICT OF COLUMBIA

Re: Report on Examination – District of Columbia Property Insurance Facility as of December 31, 2009

ORDER

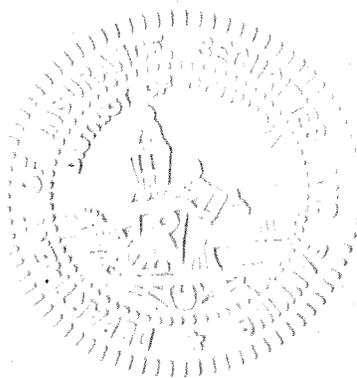
Pursuant to Examination Warrant 2010-3, an Examination of the **District of Columbia Property Insurance Facility** as of December 31, 2009 has been conducted by the District of Columbia Department of Insurance, Securities and Banking (“the Department”).

It is hereby ordered on this 16th day of June, 2011, 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 Association 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
Commissioner

GOVERNMENT OF THE DISTRICT OF COLUMBIA

DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT ON EXAMINATION

DISTRICT OF COLUMBIA PROPERTY
INSURANCE FACILITY

AS OF

DECEMBER 31, 2009

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Washington, D.C.
May 6, 2011

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

Dear Sir:

In accordance with the provisions of Sections 31-5006 and 31-1402 of the D.C. Official Code, an examination has been made of the financial condition and activities of the

**DISTRICT OF COLUMBIA PROPERTY INSURANCE FACILITY
1225 I STREET, N.W. SUITE 500
WASHINGTON, D.C. 20005**

(hereinafter called the "Facility") at its administrative offices located at 170 West Ridgely Road, Suite 230, Lutherville, Maryland 21093, and the following Report on Examination is submitted.

SCOPE OF EXAMINATION

This examination, covering the period from January 1, 2005 through December 31, 2009, including any material transactions and/or events noted occurring subsequent to December 31, 2009, was conducted by examiners of the District of Columbia Department of Insurance, Securities and Banking.

Our examination was conducted in accordance with examination policies and standards established by the Department of Insurance, Securities and Banking and procedures recommended by the National Association of Insurance Commissioners 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 Facility's business policies and practices, management 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 Facility 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.

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The Facility was audited annually by an independent public accounting firm. The firm expressed unqualified opinions on the Facility's financial statements for the years ended December 31, 2005 through December 31, 2009. We placed substantial reliance on the audited financial statements for the years ended 2005 through 2008 and, consequently, performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2009. We reviewed the working papers prepared by the independent public accounting firm relating to the audit for the year ended December 31, 2009, 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 four exception conditions commented upon in our preceding Report on Examination dated August 15, 2005, which covered the period from January 1, 1999 to December 31, 2004. We determined that all exception conditions, except that concerning the Facility reconciliation of premiums receivable, were corrected. This exception is covered in the "Comments and Recommendations" under Premiums Receivable.

HISTORY

General:

The Facility is established pursuant to Title 31, Chapter 50 ("Insurance Placement") of the D.C. Official Code (the Code). The stated purposes of Title 31, Chapter 50 of the Code are:

1. To assure stability in the property insurance market in the District of Columbia;
2. To assure availability of property insurance in the District of Columbia;
3. To encourage maximum use, in obtaining basic property insurance, of the normal insurance market provided by authorized insurers;
4. To provide for the equitable distribution among insurers of the responsibility for insuring qualified property in the District of Columbia for which insurance cannot be obtained through the normal insurance market and to authorize the establishment of a joint underwriting association in the District of Columbia to provide for insuring and reinsuring of basic property insurance and homeowner's insurance without regard to environmental hazards;
5. To encourage the delivery of essential property insurance, and the homeowner's insurance that is provided by the Facility, at the most reasonable cost possible, provided that insurance pricing by the Facility is
 - (A) actuarially self-supporting, and
 - (B) does not actively compete with insurance pricing in the normal insurance market provided by authorized insurers.

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In accordance with these stated purposes, the primary function of the Facility is to provide property insurance to property owners who cannot obtain insurance in the standard insurance market-place.

In addition to Title 31, Chapter 50 of the D.C. Official Code, the Facility is governed by District of Columbia Municipal Regulations, Title 26 (“Insurance”), Chapter 13 (“Insurance Placement Facilities”), which establishes the “Constitution” of the Facility, and is also governed by the Facility’s “Plan of Operation”, which is required by Title 31, Chapter 50 of the Code. The Facility’s revised “Plan of Operation”, which was approved by the Commissioner and was deemed effective as of April 1, 2004, replaced the prior “Plan of Operation”, which had been effective as of October 1, 1972, and had been amended from its initial version.

The name of the Facility (District of Columbia Property Insurance Facility) is established by its Constitution, which also provides that the Facility shall be an unincorporated association.

The Facility operates like an insurer and underwrites and issues its own policies and assumes the risk on those policies. The Facility is primarily funded by premium income from policies but is also permitted by Title 31, Chapter 50 of the Code to assess the member insurers for any equity deficit. The last assessment of its members by the Facility occurred in 2007. A history of assessments since 1990 is as follows:

<u>Amount</u>	<u>Year</u>
1,000,000	1990
1,000,000	1993
1,000,000	1998
2,000,000	2007

The membership of the Facility is comprised of every insurer licensed to write in and is engaged in writing in the District of Columbia, on a direct basis, basic property insurance, or components of such insurance in multi-peril policies. Basic property insurance includes standard fire and homeowner’s coverage.

Management:

Section 31-5005 of the D.C. Official Code provides that the Facility shall be governed by a board of 11 directors, elected annually from among its members by cumulative voting of the members of the Facility. The following member companies/groups comprised the board of directors as of December 31, 2009:

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Member Company/Group:

St. Paul Travelers Companies
Harford Mutual Insurance Company
Amica Mutual Insurance Company
Chubb National Insurance Company
State Farm Fire & Casualty Insurance Company
Erie Insurance Exchange
The Hartford
Liberty Mutual Insurance Company
Nationwide Mutual Insurance Company
United Services Automobile Association
Westminster American Insurance Company

Designated Board Member:

Kenneth Jarvis, Chairman
Robert F. Ohler, Vice Chairman
James M. Mullholland
Bruce Thorne
Lissa Schweitzer
David Freeman
Stavroula. Alachnowicz
Maureen Sweeney
Robert J. Becker
Donna L. Leaman
Frank Hiser

Officers:

According to the Facility's Constitution, the board shall elect from its members a Chairperson and a Vice Chairperson and shall appoint a Secretary. As of December 31, 2009, the following board members were serving as the Facility's Chairman and Vice-Chairman:

Kenneth Jarvis	Chairman
Robert F. Ohler	Vice Chairman
Victor L. Mastalski	Secretary

Committees:

According to the Facility's Constitution, the Chairperson may appoint or the board may elect such committees as deemed necessary for the transaction of the board's business. The Chairperson and Vice-Chairperson shall be ex-officio members of all committees of the board with the right to vote. As of December 31, 2009, the Facility's committees were as follows:

Underwriting:

Frank Hiser, Chair
William Furr
James M. Mullholland
Stavroula. Alachnowicz

Claims:

Robert L. Barber, Chair
William Krauter
Howard Porter

Finance:

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Robert F. Ohler, Chair

Kenneth Jarvis
Charles Flickinger

Accounting
Charles Basta, Chairman
Douglas Fisher
Charles Flickinger

Appeals:
Robert F. Ohler
Frank Hiser
Robert L. Barber

Nominating Committee:
Frank Hiser , Chair
Robert F. Ohler

Manager:

According to the Facility's Constitution, the board shall have responsibility for the administration of the Facility and shall make appropriate arrangements for the daily management of the affairs of the Facility. In accordance with these provisions, the Chairman made the following appointment as Manager of the Facility for 2009:

Victor L. Mastalski

Conflicts Of Interest:

The Facility has established a formal conflict of interest policy. Under this policy, board members and employees of the Facility are required to annually complete a conflict of interest questionnaire and statement. If possible conflicts are disclosed, the policy requires further scrutiny by the board. The conflict of interest questionnaires completed by the board members and employees of the Facility for the period under examination disclosed no conflicts of interest. In addition, we did not note any potential conflicts of interest during our examination.

However, we noted that for the year 2006 and 2007, board members and employees of the Facility did not fully complete conflict of interest questionnaires by not checking the appropriate boxes. In 2007 and 2009 one questionnaire was not reviewed. According to management, this was an oversight, and management acknowledges the importance of annually completing these questionnaires and indicated the intent to do so.

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Governing Records:

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

1. As previously noted, According to the Facility's Constitution, the board shall elect from its members a Chairman and a Vice Chairman and shall appoint a Secretary.
2. The Facility's Constitution allows for the Chairperson to appoint or the board of directors to elect, such committees as are deemed necessary for the transaction of the board's business.
3. We noted that the Facility's Constitution requires an annual meeting of the Facility's members be held.

FIDELITY BOND AND OTHER INSURANCE

The Facility's Constitution requires the Facility to generally indemnify directors and insurer members who may be made party to a proceeding by reason of the director or member's service to the Facility in the capacity of member or director, and the Facility's Constitution also provides, at the discretion of the Facility, for the Facility's indemnification of officers or employees of the Facility. In addition, the Facility's Constitution provides that the Facility may purchase and maintain insurance or other protection (e.g., surety bond, letter of credit, etc.) to protect against any liability asserted against a member, director, officer or employee. According to the Constitution, any such indemnification provided shall be secondary to any applicable coverages the Facility may have procured covering directors and officers liability or errors and omissions coverage.

As of the time we conducted our examination, the Facility was a named insured on the fidelity bond and other insurance coverage. The policy, which covered the period October 1, 2009 to October 1, 2010, provided various coverage and limits, including employee dishonesty up to \$200,000 (this coverage exceeded the minimum amount of fidelity bond coverage recommended by the National Association of Insurance Commissioners for the Facility), business personal property up to \$350,000, computers up to \$250,000, and money and securities up to \$50,000. The Facility did not have any other insurance coverage.

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PENSION, AND INSURANCE PLANS

The Facility has no employees and therefore had no active employee pension or employee benefit insurance plans.

The Facility maintained a noncontributory defined benefit pension plan (the Plan) covering persons who were employed by the Facility and were members of the Plan in 1993 at the time Facility initially entered into a management agreement with the Joint Insurance Association (JIA) and upon which time the employees of the Facility were terminated or were transferred to the JIA.

The Facility makes annual contributions to the Plan as necessary to cover future plan obligations as computed by an independent actuary.

The Facility also provides other post-retirement benefits, primarily health care and life insurance coverage to its retirees. The accrued liability for these benefits is included on the Facility's financial statements. During 2009, the Facility had accrued approximately \$80,000 for post-retirement benefits.

The Facility accrued approximately \$53,000 as an intangible asset for 2009. In accordance with SSAP 89 this asset should be nonadmitted. See the "Comments and Recommendations" Pension Asset for additional information.

TERRITORY AND PLAN OF OPERATION

As previously noted, the Facility was established for the primary purpose of providing property insurance to property owners in the District of Columbia who cannot obtain insurance in the standard insurance market-place. Any property owner eligible for basic property insurance, if unable to obtain such insurance in the normal insurance market, may apply to the Facility.

The Facility operates like an insurer and underwrites and issues its own policies and assumes the risk on those policies. The Facility is primarily funded by premium income from policies but is also permitted to assess the member insurers for any equity deficit if necessary. The last assessment of its members by the Facility occurred in 2007.

The Facility offers residential and commercial fire coverage (including extended coverage covering losses caused by wind, hail, explosion, riot, and other named perils, and including vandalism and malicious mischief coverage), and also offers homeowners coverage (beginning in August 2004). Maximum coverage limits per property are \$1,500,000 for residential and commercial fire, \$455,000 for homeowners dwelling and \$227,500 for homeowners contents.

The Facility has no employees and, effective in 1993, entered into a "Management and Services Sharing Agreement" with the Joint Insurance Association (JIA). (Prior to entering into this agreement, the JIA provided accounting services to the Facility.) The

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JIA is the State of Maryland's equivalent of the District of Columbia Property Insurance Facility. Pursuant to the agreement with the JIA, the JIA provides certain support services and operations to the Facility, including, but not limited to accounting, underwriting, policy assembly, filing, claims handling and adjustment, and management.

Under terms of the agreement, expenses directly attributable to the operation of the Facility are paid directly by the Facility. These expenses include, but are not limited to commissions, director expenses, taxes, and rent for the District of Columbia office of the Facility. For expenses incurred by the JIA that are not directly attributable to either the Facility or the JIA (i.e., overhead expenses), the Facility pays JIA a service fee for each Facility policy produced by JIA.

The service fee per policy is estimated at the beginning of each fiscal year of the JIA. (The JIA fiscal year is October 1 to September 30.) Payments are made by the Facility to the JIA during the year based on this estimate. At the end of the fiscal year, the actual cost per policy is calculated based on overhead costs incurred by the JIA. Amounts paid by the Facility to the JIA during the year are then adjusted to reflect the actual expenses incurred by the JIA on behalf of the facility on a per policy basis. The actual cost per policy calculated at the end of the fiscal year becomes the new estimated cost per policy to be charged in the upcoming fiscal year. The cost per policy paid by the Facility for the period October 1, 2008 to September 30, 2009 was \$220.

The Facility's Constitution provides that the principal office of the Facility shall be in the District of Columbia or at a location approved by the Commissioner. In accordance with this provision, the Facility maintains an office in the District of Columbia to serve walk-in customers of the Facility. With the permission of the Commissioner, the Facility's general ledger and all of its accounting records, including the underwriting, policy and claim records are maintained in Lutherville, Maryland, at the home offices of the Facility's manager, the Joint Insurance Association.

INSURANCE PRODUCTS AND RELATED PRACTICES

The District of Columbia's Market Conduct Unit last conducted an examination of the market conduct affairs of the Facility covering the period from January 1, 1998 through December 31, 1999. The market conduct examination included detailed reviews of the Facilities underwriting, claims processing and complaint handling practices and procedures. Our review of the market conduct examination report disclosed no issues impacting the financial condition of the Facility.

During our current financial examination, we did not review market conduct-related areas, including, but not limited to, the following:

- Policy Forms
- Fair Underwriting Practices
- Advertising and Sales Materials

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Treatment of Policyholders:
Claims Processing (Timeliness)
Complaints

REINSURANCE

The Facility does not assume or cede reinsurance. As previously noted, the Facility is permitted by the DC Official Code to assess the member insurers for any equity deficit.

ACCOUNTS AND RECORDS

As previously noted, the Maryland Joint Insurance Association (“JIA”) maintains the Facility’s accounting records. Our review did not disclose any significant deficiencies in these records. However, we noted weaknesses in the Facility’s accounting for its premiums receivable. The above weaknesses are addressed in the “Comments and Recommendations” section of this Report, under the caption “Premiums Receivable”.

In addition, our review of the Facility’s electronic data processing system disclosed several areas in which the electronic data processing controls could be improved. See additional comments on these conditions in the “Comments and Recommendations” section of this Report, under the caption "Management Information Systems General Controls."

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FINANCIAL STATEMENTS

The following financial statements reflect the financial condition of the Facility as of December 31, 2009, as determined by this examination (See **NOTE 1** in the “Notes to Financial Statements” section of this Report for comments regarding these financial statements):

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

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BALANCE SHEET

ASSETS

	Assets	Nonadmitted Assets	Net Admitted Assets
Cash and cash equivalents	\$ 2,747,822	\$ 0	\$ 2,747,822
Installment premiums receivable	25,447	0	25,477
Other Assets (Pension Fund) (Note 2)	53,858	53,858	0
Subtotals, cash and invested assets	\$ 2,827,127	\$ 53,858	\$ 2,773,269
	\$ 0	\$	\$
Totals	\$ 2,827,127	\$ 53,858	\$ 2,773,269

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LIABILITIES AND MEMBERS' EQUITY

Losses (NOTE 3)	\$	602,012
Loss adjustment expenses (NOTE 3)		41,854
Pension Liability		144,030
Other Postretirement benefits		64,642
Other liabilities		54,442
Unearned premiums		260,549
Advance premiums		13,576
Amounts withheld or retained by company for account of others		8,902
Maryland Joint Insurance Association		13,959
Total liabilities	<u>\$</u>	<u>1,203,966</u>
Members' equity	<u>\$</u>	<u>1,569,303</u>
Total liabilities and members' equity	<u>\$</u>	<u>2,773,269</u>

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STATEMENT OF INCOME

Underwriting Income:

Premiums Written		\$	541,440
Change in unearned premiums			75,526
Underwriting deductions:	\$		490,643
Losses incurred			
Loss expenses incurred			59,750
Other underwriting expenses incurred			262,618
Total underwriting deductions		\$	813,011
Net underwriting gain (Loss)		\$	(196,045)

Investment Income:

Net investment income earned	\$	822	
Net investment gain		\$	822

Other Income:

Aggregate write-ins for miscellaneous income	\$	1,148	
Total other income		\$	1,148

Net Income		\$	(194,075)
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MEMBERS' EQUITY ACCOUNT

Members' equity, December 31, 2004	\$ <u>228,196</u>
Gains and (losses) in members' equity, 2005	
Net income (Loss) 2005	\$ (521,369)
Change in nonadmitted assets	(31,830)
Change in Excess of additional Minimum Pension Liability over Intangible Asset	<u>37,991</u>
Members' equity, December 31, 2005	\$ <u>(287,012)</u>
Gains and (losses) in members' equity, 2006	
Net (Loss), 2006	\$ (537,527)
Change in nonadmitted assets	\$ (6,000)
Change in Excess of additional Minimum Pension Liability over Intangible Asset	<u>44,093</u>
Members' equity, December 31, 2006	\$ <u>(786,446)</u>
Gains and (losses) in members' equity, 2007	
Net income, 2007	\$ <u>377,559</u>
Change in nonadmitted assets	\$ (3,400)
Change in Excess of additional Minimum Pension Liability over Intangible Asset	85,502
Member Assessment	<u>2,000,000</u>
Members' equity, December 31, 2007	\$ <u>1,673,215</u>
Gains and (losses) in members' equity, 2008	
Net Income , 2008	\$ <u>312,412</u>
Change in nonadmitted assets	\$ (2,000)
Change in Excess of additional Minimum Pension Liability over Intangible Asset	<u> </u>
Members' equity, December 31, 2008	\$ <u>1,766,766</u>
Gains and (losses) in members' equity, 2009	
Net (Loss), 2009	\$ <u>(194,075)</u>
Change in Excess of additional Minimum Pension Liability over Intangible Asset	\$ 51,470
Change in nonadmitted assets	1000
Examination Adjustment	<u>53,858</u>
Members' equity, December 31, 2009	\$ <u>1,569,303</u>

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ANALYSIS OF EXAMINATION CHANGES TO MEMBERS' EQUITY

There was one adjustment to members' equity as result of our examination. The Intangible pension asset should be a non admitted asset.

The entry would be to decrease the intangible asset by \$53,858 and debit the equity non admitted assets in the equity section by \$53,858.

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COMPARATIVE FINANCIAL POSITION OF THE FACILITY

The comparative financial position of the Facility for the six-year period ended December 31, 2009 was as follows:

	2009	2008	2007	2006	2005
Assets	\$2,773,269	\$2,488,667	\$2,910,393	\$808,606	\$689,088
Liabilities	1,203,966	721,901	1,237,178	1,595,052	976,100
Members' equity	1,569,303	1,766,766	1,673,215	(786,446)	(287,012)
Premiums earned	616,966	739,940	851,443	884,251	917,798
Net underwriting gain (loss)	(196,045)	269,693	332,415	(539,369)	(528,505)
Investment income	1,970	42,719	45,144	1,842	7,136
Net income (loss)	(194,075)	312,412	377,559	(786,446)	(521,369)

Note: Amounts presented in the preceding financial statements for years ended December 31, 2005 through December 31, 2008 were taken from the Facility's unaudited financial statements and from the Facility's audited financial statements as filed with the Department. Amounts for the years ended December 31, 2009 are amounts per examination.

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NOTES TO FINANCIAL STATEMENTS

1. Financial Statements:

The Facility is not required to file Annual and Quarterly statements in the format required of licensed insurers (i.e., NAIC Annual and Quarterly statement blanks). Rather, as noted in the “Accounts and Records” section of this Report, the Facility annually files with the Department both audited and unaudited financial statements for the preceding calendar year. These statements filed with the Department are prepared on the basis statutory accounting principles.

The accompanying financial statements in this Report are also prepared on the basis of statutory accounting principles and are prepared for this examination from the both the Facility’s unaudited financial statements, which are supported by its trial balance and supporting accounting records, and from the audited financial statements prepared by the Facility’s independent certified public accountant.

2. Aggregate Write-Ins For Other Than Invested Assets:

The Facility’s “Other assets” was comprised of an intangible pension asset totaling \$53,858 related to its pension obligation which has been nonadmitted by this examination.

3. Loss Reserves:

The Facility reported “Losses” and “Loss adjustment expenses” reserves (collectively referred to as “loss reserves”), totaling \$602,012 and \$41,854, respectively. These amounts represent management’s best estimate of the present value of the cost of settling all known and unknown claims that have been incurred as of December 31, 2009.

The methodologies utilized by the Facility to compute these reserves, and the adequacy of the loss and loss adjustment expense reserves as of December 31, 2009, were reviewed as part of our examination. As part of our review, we relied on the Facilities independent certified public accountant, who reviewed the Facility’s reserves as part of its audit of the Facility’s financial statements and who concluded that these reserves appeared to be sufficient.

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COMMENTS AND RECOMMENDATIONS

Premiums Receivable:

A review of the nonadmitted premiums disclosed the detail accounts receivable did not agree to the control account in the General Ledger. The Examiners noted that the difference was considered an allowance for doubtful accounts. This condition also existed in the examination conducted in 2004. The amount of the “allowance” was \$3,000.

We again recommend that the Facility reconcile its premiums receivable per its policy administration system to the premiums receivable balance generated from the Facility’s general ledger, and that documentation of this reconciliation be maintained for future review. The examiners noted that this condition was corrected in the December 31, 2010 financials.

Management Information Systems General Controls:

The Facility uses electronic data processing systems to process the majority of its critical applications. These include the general ledger, premium processing, and claims processing functions. The Facility’s manager, the Maryland Joint Insurance Association (JIA), processed these critical applications on behalf of the Facility. Our examination included a limited review and evaluation of the general and security access procedures and controls in place over the systems utilized to process the Facility’s transactions. During our review, we noted the following:

Contingency Planning Controls:

A disaster recovery plan for recovery of the Facility’s remaining computer systems which are located at the offices of the JIA has not been developed. These systems include the personal computer network on which the Facility’s general ledger system is processed. Such a plan should include a contingency plan regarding how to restore computer operations in the event of an emergency or disaster causing prolonged disruption of the computer systems at the JIA offices. The plan would include formal arrangements for alternative processing capabilities at another location with compatible hardware and software, and provision for re-establishing communications with the data processing vendor. As a result of not having a plan, the Facility may be unable to effectively restore critical applications and data processing in the event of a disaster, resulting in prolonged business interruption to the Facility.

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We again recommend that the Facility develop and implement formal contingency planning controls that include comprehensive disaster recovery and business continuity plans. Furthermore, we recommend that the plans be periodically tested to ensure that they are current and function as intended.

Pension asset not nonadmitted:

The Facility reported Other Assets of \$53,858 on the financial statement. These assets are actually intangible pension assets. However, SSAP 87 states that "Assets having economic value other than those which can be used to fulfill policy holders obligations,...should not be recognized on the balance sheet and are therefore considered nonadmitted." SSAP 89 Paragraph 4 (a) states that "a prepaid pension cost asset has been recognized as a nonadmitted asset" for statutory accounting purposes

We recommend that the Pension Asset should be nonadmitted in future financial statements and disclosed in the footnotes

Additional Comments and Recommendations:

In addition to the above Comments and Recommendations, during our examination we made other suggestions and recommendations to the Facility with regard to record keeping and other procedures relating to its operations. These additional suggestions and recommendations were not deemed significant for purposes of our Report on Examination, and are not included in our Report on Examination.

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CONCLUSION

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

Admitted Assets	<u>\$ 2,773,269</u>
Liabilities and Reserves	\$ 1,203,966
Members' Equity	<u>\$ 1,569,303</u>
Total Liabilities and Members' Equity	<u>\$ 2,773,269</u>

Based on our examination, the accompanying balance sheet properly presents the statutory financial position of the Facility as of December 31, 2009, 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 D.C. Official Code, the District of Columbia Municipal Regulations and the National Association of Insurance Commissioners.

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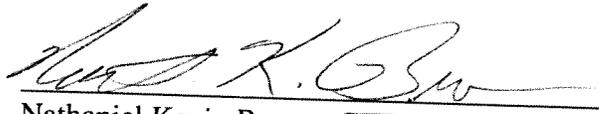
SIGNATURES

Respectfully submitted,



Frank Ryan, AFE, CPA
Examiner-in-Charge
District of Columbia Department of
Insurance, Securities and Banking

Under the Supervision of,



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