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

Karima Woods
Acting Commissioner

BEFORE THE INSURANCE COMMISSIONER OF THE DISTRICT OF COLUMBIA

Re: Report on Examination – **District of Columbia Property Insurance Facility** as of December 31, 2017

ORDER

An Examination of the **District of Columbia Property Insurance Facility** (the "Facility") as of December 31, 2017, has been conducted by the District of Columbia Department of Insurance, Securities and Banking ("the Department").

It is hereby ordered on this 24th day of January 2020, 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 Facility 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.

Karima Woods
Acting 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, 2017

TABLE OF CONTENTS Page

Washington, D.C.
December 4, 2019

The Honorable Karima Woods
Acting Commissioner of Insurance
Department of Insurance, Securities and Banking
Government of the District of Columbia
1050 First Street, NE, Suite 801
Washington, D.C. 20002

Dear Acting Commissioner Woods:

In accordance with the provisions of Sections 31-5006 and 31-1402 of the District of Columbia Official Code, we have examined the financial condition and activities of the

DISTRICT OF COLUMBIA PROPERTY INSURANCE FACILITY

hereinafter referred to as the "Facility", has been completed. The Facility's administrative office is located at 3290 N Ridge Road., Suite 210, Ellicott City, Maryland 21043, and the following Examination Report ("Report") thereon is respectfully submitted.

SCOPE OF EXAMINATION

The Facility was last examined as of December 31, 2009 by the examiners of the District of Columbia Department of Insurance, Securities and Banking (the "Department"). The current examination was a full-scope financial examination of the Facility, covering the period from January 1, 2010 through December 31, 2017, including any material transactions and/or events noted occurring subsequent to the examination date.

The examination was conducted in accordance with generally accepted statutory insurance examination standards consistent with the insurance laws of the District of Columbia and in accordance with the *Financial Condition Examiners Handbook* (the "Handbook") published by the National Association of Insurance Commissioners ("NAIC"). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Facility, and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Facility's surplus to be materially misstated both currently and prospectively. Our examination did not cover market conduct related areas.

All accounts and activities of the Facility were considered in accordance with the Risk-Focused Examination process. This may include assessing significant estimates made by management and evaluating management's compliance with Statutory Accounting Principles. In planning and conducting our examination, we gave consideration to the concepts of materiality and risk, and our examination efforts were directed accordingly.

The Report includes significant findings of facts, as mentioned in Section 31-1404 of the District of Columbia Code, and does not attest to the fair presentation of the financial statements included herein. If, during the course of the Examination, an adjustment is identified and considered material, the impact of such adjustment was documented separately in this Report following the Facility's financial statements. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not including in the Report but may be separately communicated to the Facility and/or other regulators.

The Facility was audited annually by independent public accounting firms. During the Examination period, on August 1, 2014, the Facility changed its auditor from Stout, Causey & Horning, PA to Buffamante, Whipple, Buttafaro, P.C. These firms expressed unqualified opinions on the Facility's financial statements for the years ended December 31, 2010 through December 31, 2017. We placed substantial reliance on the audited financial statements for the years ended 2010 through 2016 and, consequently, we performed only minimal testing for those periods. We concentrated our examination efforts on the year ended December 31, 2017. We reviewed the working papers prepared by the independent public accounting firm relating to the audit for the year ended December 31, 2017, and we directed our efforts to the extent practical to those areas not covered by the firm's audit.

SUMMARY OF SIGNIFICANT FINDINGS

Status of Prior Examination Findings:

Our examination included a review to determine the current status of the three (3) exception conditions commented upon in our preceding Report on Examination dated May 6, 2011, which covered the period from January 1, 2005 to December 31, 2009. We determined that all exception conditions were corrected.

Other significant matters:

There were no significant findings of material nature as a result of this examination.

SUBSEQUENT EVENTS

In January 2018, the Facility experienced a cyber data breach. According to the Facility's management, the Facility retained counsel, notified appropriate agencies and regulatory bodies, and complied with all regulator and consumer protection and notification laws. The Facility's designated plan administrator, JIA maintained a cyber insurance policy to cover the cost of such an event. A claim was filed under the JIA's cyber insurance policy, and the insurance company, CNA, hired a specialist to conduct a forensic review of the breach. As a result of the review, the Facility determined that data was not distributed beyond the individual responsible for the breach. As a result of the breach, the Facility transitioned to a new software support vendor and updated its IT infrastructure.

On March 11, 2018 the Board of Directors of the Facility authorized membership assessment in conjunction with the closing of accounting years 2012 through 2013, and an assessment of the 2017 accounting year. The impact was a net assessment of approximately $2.1 million to member companies.

On June 14, 2019, the Facility filed a revised Plan of Operation ("Plan") with the Department that replaces the Plan that had been effective since October 1, 2013. The impact of the revisions was related to cancellation notices and certain plan services. This Plan was approved by the Department pursuant to a letter dated August 21, 2019. Furthermore, the revised Plan was approved by the Facility's directors pursuant to a Board of Directors meeting minutes consent dated June 14, 2019.

On June 14, 2019, the Facility entered into a new Management and Services Sharing Agreement with its plan administrator, the Joint Insurance Association ("JIA") nullifying the previous agreement dated January 11, 2013. The main impact of the changes per management was updates to the monthly fee schedule structure and to reflect certain changes that would allow both the Facility and JIA Board Chairs and Vice Chairs execute such agreement after approval by their respective Boards. This new agreement was approved by the Facility's Board of Directors pursuant to a Board of Directors meeting minutes consent dated June 14, 2019.

HISTORY

General:

The Facility is established pursuant to Title 31, Subtitle VII, Chapter 50 ("Insurance Placement") of the D.C. Official Code, as an unincorporated association of all insurers licensed to write in the District of Columbia, on a direct basis, essential property insurance or any component thereof in multi-peril policies. Basic property insurance includes standard fire and homeowner's coverage. The Facility began operations on October 1, 1972. It replaced the Insurance Placement Facility, which had been in operation since October 1, 1968. The change involved converting from a procedure where most member companies issued their own policies to a procedure by which the Facility issued policies directly.

In addition to Title 31, Chapter 50 of the D.C. Official Code, the Facility is governed by District of Columbia Municipal Regulations (DCMR), Title 26 ("Insurance"), Chapter 13 ("Insurance Placement Facilities"), which establishes the "Constitution" of the Facility. The Facility is also governed by its "Plan of Operation" which is required by Title 31, Chapter 50 of the Code. The Facility's revised "Plan of Operation" approved by the Department and 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 revision contained modifications to the Plan of Operation that increased the maximum limits of liability from $500,000 to $1,500,000, with certain sub limits, on real or personal property composed of or contained in a single building.

The primary function of the Facility is to provide property insurance to property owners who cannot obtain insurance in the standard insurance marketplace. The Facility operates as the District of Columbia's Fair Access to Insurance Requirements ("FAIR") plan. FAIR plans were created in the late 1960s as a "shared market plan" in an effort to make property insurance more readily available to people who have difficulty obtaining insurance from private insurers because their property is considered "high risk". The FAIR plans are operated by the insurance industry and make insurance available to property owners meeting certain requirements, regardless of location.

The Facility and its plan administrator, the Maryland Joint Insurance Association ("JIA") which is the State of Maryland's equivalent FAIR plan have both common officers, board of directors and share common operational management. The Facility's tax status is as a partnership, but the entity itself is unique, with an organizational structure as created by DC Code Section 31-5003 *et seq*. 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. A history of assessments from the Facility's inception through December 31, 2017 is as follows:

Year	Amount
1990	$ 1,000,000
1993	$ 1,000,000
1998	$ 1,000,000
2007	$ 2,000,000
2016	$ 2,515

MANAGEMENT AND CONTROL

Annual Meetings:

In accordance with Article VI of the Facility's Constitution, the Annual Meeting of the Board of Directors shall be held on a date fixed by the Board, for the election of directors and for such other business as may be necessary. Written notice of the annual or any special meeting, stating the time and place and matter to be considered, shall be given to all members at least ten (10) days in advance of the meeting. At any annual or special meeting members, representing at least fifty-one percent (51%), of the aggregate Premiums Written by members of the Facility, based on the most recent available data, shall constitute a quorum. Members may be represented by proxy. The minutes of the Board reviewed during the course of the examination documented that annual meetings were held at places of mutual convenience each year throughout the examination period.

Board of Directors:

The Facility's Plan of Operation and 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 and their respective designated representatives who were serving on the Facility's board as of December 31, 2017, were as follows:

Designated Board Member	Principal Occupation / Title
James M. Mulholland, Chair	Branch Manager Amica Mutual Insurance Co.
Bruce Thorne, Vice Chair	Sr. Vice President Chubb Group of Insurance Companies
Joe Evelius	Vice President, Claims Brethren Mutual Insurance Co.
Steven D. Linkous	President Harford Mutual Insurance Co.
Robert J. Becker	Managing Counsel Nationwide Mutual Insurance Co.
Amy Archer	Auto Claims Manager State Farm Fire & Casualty Ins. Co.
Paolo Abelli	VP, Director State Op Liberty Mutual Group
Stavroula Alachnowicz	VP, Exec U/W Officer The Hartford
Todd Rush	Property Claim Mgr. Travelers Companies
Frank Hiser	Executive Vice President Westminster American Ins. Co.
Kristopher Marrion	VP & Branch Manager Erie Insurance Exchange

Committees:

According to the Facility's Constitution, the Chairperson may appoint, or the board may elect such standing 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, 2017, the Board of the Facility had established the following committees:

Finance:	Claims:	Underwriting:
Bruce Thorne – Chair	Todd Rush – Chair	Stavroula Alachnowicz – Chair
Jim Mulholland	Joe Evelius	Frank Hiser
	Richard Parente	Kristopher Marrion

Appeals*:	Nominating:	Accounting / Audit:
Bruce Thorne	Frank Hiser – Chair	Michael Pfarr – Chair
Stavroula Alachnowicz	James Mulholland	Douglas J. Fisher
Todd Rush		Steven Linkous

*The Appeals Committee does not have a designated chairperson.

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. The duly elected officers at December 31, 2017, are as follows:

Name of Director / Officer	Office Position Held
James M. Mulholland	Chairman of the Board
Bruce Thorne	Vice Chairman of the Board
Christopher Dooley	Manager and Secretary of the Facility

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 Board appointed Mr. Christopher Dooley as the principal administrative officer and Manager of the Facility effective 2012.

Conflicts of Interest:

The Facility has established a formal conflict of interest policy. This policy required the Board of Directors, and management of the Facility to annually complete a conflicts-of-interest questionnaire and statement. The conflict of interest questionnaires completed by the board members and employees of the Facility for the period under examination disclosed no material conflicts of interest.

Corporate Records:

We reviewed the minutes of the meetings of the Board of Directors and its committees for the period under examination. Based on our review, it appears that the minutes documented the Facility's significant transactions and events, and the Board approved those transactions and events.

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's plan administrator, JIA that provides the management of the affairs of the Facility's operations had fidelity bond and other insurance coverages. However, the Facility was not a named insured on any of these coverages nor had any other insurance coverage. During our examination, we discussed this condition with the Facility's management.

PENSION, AND INSURANCE PLANS

The Facility maintained a noncontributory defined benefit pension plan and other postretirement benefits (the Plans) covering persons who were employed by the Facility and were members of the Plans in 1993 at the time the Facility initially entered into a management services 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 following is a description of the Plans:

Defined Benefit Pension Plan:

The Pension Plan is a multiple-employer noncontributory defined benefit pension plan. The Facility makes contributions to the Penson Plan as computed by an independent actuary. Total pension expenses for the year ended December 31, 2017, were $11,212. The accrued pension benefit cost as of December 31, 2017, was $25,808, which represents the Pension Plan's funded status measured by the difference between pension plan assets at fair value and the Pension Plan's projected benefit obligation, and was included in the balance sheet of the accompanying financial statements as a liability. The total expected contribution to the Pension Plan for the year beginning January 1, 2018 was $6,368.

Other Post Retirement Benefits:

The Facility also provided other postretirement benefits, primarily health care and life insurance coverage, to its retirees. All obligations related to this other postretirement benefits were settled in 2017 and no further obligation existed as of December 31, 2017.

HOLDING COMPANY STRUCTURE

The Facility is not a member of an insurance holding company system as defined in D.C. Code § 31–701.

MANAGEMENT SERVICES AGREEMENT

The Facility's Plan of Operation authorizes the Facility to employ such persons, firms, or corporations to perform such administrative functions as are necessary for the Facility's performance of the duties and functions imposed on the Facility. The Facility has no employees and continues to engage JIA whereby JIA is designated as the administrator for the Facility, performing virtually all operational activities on behalf of the Facility. The administrating arrangement is covered under an agreement between the Facility and JIA as described below and remains in force.

In 1983, the Facility contracted with the Joint Insurance Association to provide the former with accounting services. On June 1, 1995, the contract was expanded and the Facility entered into a "Management and Services Sharing Agreement" (the "Agreement") with a retroactive effective date of February 1, 1993. Under this Agreement, JIA provides all necessary services and support operations for the Facility, including, but not limited to, accounting, underwriting, policy processing, filing, claims handling and adjustment, and management, as well as other IT, financial recording and reporting services. On January 11, 2013, the Facility and JIA agreed to reallocate the way that those expenses were shared. That Agreement was terminated and replaced by a new Management and Services Sharing Agreement with a retroactive effective date of October 1, 2012. Under this new Agreement, the Facility reimburses JIA for direct expenses attributable to the operation of the Facility, as well as overhead expenses which are determined using the percentage of the respective Facility applications processed relative to the total number of applications processed by JIA. It should be noted that a new agreement was executed by the Facility subsequent to the examination period, refer to page 3 under the caption "Subsequent Events."

Management fees incurred by the Facility during the years ended December 31, 2017 and 2016 pursuant to this contract were $179,213 and $143,861, respectively. These fees are recorded as a reduction of other underwriting expenses in the accompanying statutory statements of operations. The Facility had an amount due to JIA of $34,385 and $39,809 as of December 31, 2017 and 2016, respectively.

TERRITORY AND PLAN OF OPERATION

As previously noted in the "History" section of this Report, the Facility was established for the primary purpose of providing essential property insurance to property owners in the District of Columbia who cannot obtain insurance in the standard insurance marketplace. Any property owner eligible for basic property insurance, if unable to obtain such insurance in the normal insurance market, may apply to the Facility. All licensed companies who write property business in the District on a direct basis are required to participate as members of the Facility.

The Facility has no employees of its own. Virtually all necessary services and support operational activities of the Facility are provided and managed by the Joint Insurance Association ("JIA") under the direction of the Facility's Board of Directors and its appointed Manager through an annually renewed management services and sharing agreement.

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. Any broker or agent licensed in the District can submit applications on behalf of the applicant. The commission rate is twelve (12) percent on premiums collected for new and renewal business. All policies are issued for a term of one year.

The Facility offers residential and commercial fire coverage (including extended coverage covering losses caused by wind, hail, explosion, riot, and other named perils, 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 does not provide coverage for flood damage.

The Facility's Plan of Operation provides incentives for the placing of risks in the voluntary insurance market and to encourage the depopulation of the Facility's insureds by producers and insurers whenever possible. Moreover, there is no renewal plan available through the Facility. In this regard, all polices are written for term of one (1) year and will not be considered for continuation unless a valid continuation application request and deposit premium are received by the Facility.

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 Ellicott City, Maryland, at the home offices of the Facility's manager, the Joint Insurance Association.

The Facility is a member of Property Insurance Plans Service Office ("PIPSO), a not-for-profit corporation, reorganized and formed as a business league in January 1995. PIPSO's purpose according to its website is to promote the efficient and economical operation of the state residual property insurance plans by encouraging research and sharing of operating knowledge and technologies, by collecting and disseminating statistics related to the operation of the plans, and by providing education, training and other services to plans and to insurers to assist them in meeting their responsibilities in the residual market.

GROWTH OF THE FACILITY

The following represents the Facility's premium activity and related results from underwriting for the 8-year period of our examination:

	2017	2016	2015	2014	2013	2012	2011	2010
Premiums Written	$209,893	$263,181	$287,094	$349,232	$390,262	$384,425	$395,159	$451,663
Members' Equity (Deficit)	$630,321	$1,498,010	$1,542,217	$1,562,049	$1,539,721	$1,493,693	$1,573,241	$1,706,133

Our examination disclosed that the Facility's written premium decreased gradually during the examination period. In this regard, the number of policies in force decreased from 525 polices in 2010 to 222 polices in 2017, a decline of 58%. The decrease in policies written was a result of depopulation. Depopulation represents a substantial reduction in the population of substandard risk individuals, which reduction is attributable to individuals returning to the standard insurance market. This depopulation was brought on primarily by a lengthy soft market for property and homeowners insurance products. Other contributing factors include property foreclosures, producers placing business with excess and surplus line brokers, and underinsured properties. The fluctuations in member equity are primarily driven by net income or loss, and member assessments.

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 books and records. The Facility is not required to prepare financial information on a statutory basis that is in conformity with the NAIC *Accounting Practices and Procedures Manual*. Pursuant to D.C. Code § 31-5008, the Facility is required to furnish to the Commissioner a written report of its transactions, condition, operations and affairs of the preceding fiscal year ending December 31st annually on or before March 1st in such form and detail as the Commissioner may determine.

Our review did not disclose any significant deficiencies in these records. However, our review of the Facility's record keeping, and electronic data processing system disclosed areas in which internal controls, and electronic data processing controls could be improved. These items are discussed in our confidential management letter issued to the Facility's Management and Board of Directors.

Pursuant to the requirements of Title 26 DCMR 1304, the principal office of the Facility shall be in the District of Columbia or at a location approved by the Commissioner. In a letter dated June 7, 2000, permission was granted by the Commissioner for the Facility to maintain its books and records outside of the geographical boundaries of the District of Columba.

FINANCIAL STATEMENTS

The following financial statements are based on the audited financial statements filed by the Facility with the Department. The accompanying Balance Sheet presents the financial position of the Facility as of December 31, 2017, the accompanying Statement of Operations presents the results for the year then ended, and the accompanying Members' Equity account presents the results for each of the years covered by the examination. All financial statements were prepared by the Facility's management and are therefore the responsibility of the Facility's management. The Analysis of Examination Changes to Members' Equity schedule and the accompanying Notes to Financial Statements reflect any examination adjustments to the amounts reported in the statutory financial statements as filed and should be considered an integral part of the financial statements.

BALANCE SHEET
STATEMENT OF ASSETS, LIABILITIES AND MEMBERS' EQUITY

Admitted Assets		
Cash and cash equivalents	$	1,519,527
Installment premiums receivable		13,418
Total assets	$	1,532,945
Liabilities and Members' Equity		
Losses **(Note 2)**	$	663,366
Loss adjustment expenses **(Note 2)**		44,649
Commissions payable		1,011
Unearned premiums		108,573
Advance premiums		3,898
Accrued postretirement benefit cost		
Accrued expenses		20,934
Accrued benefit pension cost		25,808
Due to Joint Insurance Association		34,385
Total liabilities	$	902,624
Members' Equity	$	630,321
Total liabilities and members' equity	$	1,532,945

STATEMENT OF OPERATIONS

Premiums earned		$ 232,072
Underwriting deductions:		
Losses incurred	$ 822,846	
Loss expenses incurred	77,271	
Other underwriting expenses incurred	232,951	
Total underwriting deductions		1,133,068
Net underwriting gain (Loss)		$ (900,996)
Investment Income:		
Investment income		3,848
Aggregate write-ins for miscellaneous income		385
Net Loss		$ (896,763)

MEMBERS' EQUITY ACCOUNT

Members' equity (deficit), December 31, 2010	$	1,706,133
Net income (loss), fiscal year ended December 31, 2011		(98,144)
Change in additional minimum pension liability		(34,748)
Members' equity (deficit), December 31, 2011	$	1,573,241
Net income (loss), fiscal year ended December 31, 2012		(76,217)
Change in additional minimum liability		(3,378)
Change in non-admitted assets		47
Members' equity (deficit), December 31, 2012	$	1,493,693
Net income (loss), fiscal year ended December 31, 2013		(14,154)
Change in additional minimum pension liability		239,301
Pension and postretirement plans funded status adjustment		15,487
Change in non-admitted assets		(7,291)
Cumulative effect of change in accounting principles		(187,315)
Members' equity (deficit), December 31, 2013	$	1,539,721
Net income (loss), fiscal year ended December 31, 2014		105,618
Change in non-admitted assets		(29,619)
Pension and postretirement plans funded status adjustment		6,456
Net distributions		(60,127)
Members' equity (deficit), December 31, 2014	$	1,562,049
Net income (loss), fiscal year ended December 31, 2015		(3,424)
Change in non-admitted assets		31,188
Pension and postretirement plans funded status adjustment		(47,596)
Members' equity (deficit), December 31, 2015	$	1,542,217
Net income (loss), fiscal year ended December 31, 2016		(43,486)
Change in non-admitted assets		737
Pension and postretirement plans funded status adjustment		(3,973)
Member assessment		2,515
Members' equity (deficit), December 31, 2016	$	1,498,010
Net income (loss), fiscal year ended December 31, 2017		(896,763)
Change in non-admitted assets		1,800
Pension and postretirement plan funded status adjustment		27,274
Members' equity (deficit), December 31, 2017	$	630,321

ANALYSIS OF EXAMINATION CHANGES TO MEMBERS' EQUITY

There have been no changes made to the financial statements as a result of the examination.

COMPARATIVE FINANCIAL POSITION AND RESULTS OF THE FACILITY

Selected financial information for the Facility for the eight-years period ended December 31, 2017 was as follows:

	2017	2016	2015	2014	2013	2012	2011	2010
Assets	1,532,945	1,837,349	1,846,987	1,859,620	1,959,243	1,930,111	2,100,976	2,157,165
Liabilities	902,624	339,339	304,761	297,571	419,522	436,418	527,735	451,032
Members' equity	630,321	1,498,010	1,542,217	1,562,049	1,539,721	1,493,693	1,573,241	1,706,133
Premium earned	232,072	278,030	321,014	364,908	396,429	390,110	418,214	495,058
Net underwriting (loss) gain	(900,996)	(46,078)	(4,121)	104,733	(15,268)	(77,195)	(99,294)	33,879
Other income	385	482	697	885	1,114	978	1,150	1,615
Net income (loss)	(896,763)	(43,486)	(3,424)	105,618	(14,154)	(76,217)	(98,144)	35,494

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, 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 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. **Loss and Loss Adjustment Reserves**:

As of December 31, 2017, the Facility reported "Losses" and "Loss adjustment expenses" reserves (collectively referred to as "loss reserves"), totaling $663,366 and $44,649, 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, 2017.

It should be noted that the Facility does not engage an actuary to determine its reserve liabilities. Amounts for claims and claims adjustment expenses are established by the Facility's Manager and Claims Consultant. The absence of an actuary to opine on reserve balances does have a cost-saving effect for the Facility; however, the lack of actuarial opinion removes the "second look" quality control check that a certified actuary could provide over and above the case-by-case familiarity which the Claims Department provides. The Facility was encouraged to retain the services of a qualified property and casualty actuary that can advise and opine on the Facility's Loss and Loss Adjustment Expense Reserves.

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, 2017, were reviewed as part of our examination. As part of the review, we relied on the Facility's independent auditor, who concluded that the methodologies and reserves appeared to be sufficient. The analysis of claims payments subsequent to the reserve valuation date demonstrated the adequacy of the reserves as of December 31, 2017. The assumptions and methods utilized by the Facility to compute its reserves as of December 31, 2017, as well as the reserve adequacy, were reviewed as part of our examination and were determined to be adequate.

COMMENTS AND RECOMMENDATIONS

1. Change of CPA firm:

During the period of our examination, on August 1, 2014, the Facility changed its independent certified public accountant (CPA) firm from Stout, Causey & Horning, PA to Buffamante, Whipple, Buttafaro, P.C.

Per D.C. Code § 31-304(c), if an accountant who was the accountant for the immediately preceding filed audited financial report is dismissed or resigns, the insurer shall:

1) Within five (5) business days notify the Department of this event;
2) Furnish the Department with a separate letter within 10 business days of the above notification stating whether in the 24 months preceding the event there were any disagreements with the former accountant on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of the former accountant, would have caused him to make reference to the subject matter of the disagreement in connection with his opinion;
3) In writing, request the former accountant to furnish a letter addressed to the insurer stating whether the accountant agrees with the statements contained in the insurer's letter and, if not, stating the reasons for which the accountant does not agree; and
4) Furnish the responsive letter from the former accountant to the Department together with its own letter.

However, the examination review disclosed that the Department was not notified of the change in accountant of the Facility and that there was no confirmation letter received from the former accountant. There was a similar management letter comment made in our preceding examination of the Facility as of 12/31/2009.

During our examination, we brought this condition to the attention of the Facility, and management of the Facility acknowledged the oversight and intends to provide the proper notification in the future regarding a change in the appointed independent accountant of the Facility.

Recommendations: It is recommended again that going forward, the Facility comply with all requirements of D.C. Code § 31-304 on future changes to its independent accountant.

2. Accounting Procedure Documentation:

Description: The Facility's general accounting records consisted of an automated general ledger and various subsidiary ledgers (e.g., cash receipts, cash disbursements). It was noted during the examination that the process and procedures performed by the Accounting Supervisor were not formally documented. Documentation of the Facility's accounting and control procedures related to the maintenance of its accounting records could help to ensure that these records are properly maintained consistently from period to period, particularly in the event of turnover of key personnel.

Additionally, examiners noted that the Facility did not maintain a record of reconciliation of the trial balance to the financial statements. According to the Facility's management, an informal reconciliation was performed; however, a record of the reconciliation was not maintained on file.

After the examination team brought this condition to the Facility's attention, management indicated its intent to the examiners that the Facility will develop Accounting Procedure documentation.

Recommendations: It is recommended that the Facility formally document its accounting processes and procedures, including related control activities. It is also recommended that the Facility maintain documentation of relevant reconciliations and reviews, such as reconciliation of the trial balance to the financial statements to assess the accuracy and reasonableness of reported balances. The Facility should also consider a documented second-level review of such reconciliations and make readily available for convenient inspection by examiners.

3. <u>Management Fee Calculation</u>:

Description: The State of Maryland's Joint Insurance Association ("JIA") and the Facility were parties to a Management and Services Sharing Agreement under which indirect management expenses were allocated to the Facility. During the examination review of the expenses allocation calculation that is performed on an excel spreadsheet, it was noted that group insurance expenses were allocated based on gross insurance expense, rather than insurance expense net of employee contributions. As a result, the management fee charged to the Facility was overstated. Subsequent to the examination date, the Facility corrected the allocation calculation and, as a result of the examination, investigated the extent of the error, which dated back to 2013. As a result of the investigation, an overcharge of $13,568.61 was noted and will be paid back to the Facility. The management of the Facility further agreed that special care needs to be given with formulas and expense amounts.

Recommendations: It is recommended that the Facility institute proper policies and procedures to ensure strict compliance with the expense allocation agreement that includes enhanced controls at a minimum, one individual prepares the expense allocation calculation and another individual reviews the calculation. The performer and reviewer should both sign and date the calculation and the related support documents when their work is complete. It's further recommended that the Facility exercise greater care reviewing expense amount line items and formulas included in the calculation spreadsheet.

CONCLUSION

Our examination disclosed that as of December 31, 2017, the Facility had:

Admitted Assets	$ 1,532,945
Liabilities and Reserves	$ 902,624
Members' Equity	$ 630,321
Total Liabilities and Members' Equity	$ 1,532,945

The accompanying financial statements were prepared by the Facility's management and are therefore management's responsibility.

SIGNATURES

In addition to the undersigned, David A. Christhilf, ACAS, MAAA, P&C Actuary of the Department, also participated in the actuarial portions of this examination. The courteous cooperation extended by the officers and employees of the Facility's program administrator during the course of the examination was sincerely appreciated.

Respectfully submitted,

Yohaness Negash, CFE, CFE (Fraud)
Financial Examiner

District of Columbia Department of
Insurance, Securities and Banking

Under the Supervision of,

Nathaniel Kevin Brown, CPA, CFE
Chief Examiner

District of Columbia Department of
Insurance, Securities and Banking