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72-0115

REPORT TO THE CONGRESS



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Examination Of
Financial Statements Of
The National Flood
Insurance Program
Fiscal Year 1970 B-114860

Federal Insurance Administration
Department of Housing and
Urban Development

BY THE COMPTROLLER GENERAL
OF THE UNITED STATES

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JAN. 28, 1972



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-114860

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To the President of the Senate and the
Speaker of the House of Representatives

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This is our report on the examination of financial
statements of the National Flood Insurance Program, Fed-
eral Insurance Administration, Department of Housing and
Urban Development, for the fiscal year ended June 30, 1970.

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Our examination was made pursuant to the Government
Corporation Control Act (31 U.S.C. 841).

Copies of this report are being sent to the Director,
Office of Management and Budget; the Secretary of the Treas-
ury; the Secretary of Housing and Urban Development; and
the Administrator, Federal Insurance Administration.

A handwritten signature in cursive script that reads "James P. Stacks".

Comptroller General
of the United States

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1 INTRODUCTION	3
2 DESCRIPTION OF INSURANCE COVERAGE	6
General information	6
Regular program	7
Emergency program	7
3 AGREEMENT WITH NATIONAL FLOOD INSURERS AS- SOCIATION	9
4 COMMENT ON ADMINISTRATIVE EXPENSE CHARGED TO THE FLOOD INSURANCE PROGRAM	11
5 SCOPE OF EXAMINATION	13
6 OPINION ON THE FINANCIAL STATEMENTS	14
FINANCIAL STATEMENTS	
Schedule	
1 National Flood Insurance Program Combined balance sheet--June 30, 1970	15
2 Combined statement of income and expense and cumulative deficit for fiscal year ended June 30, 1970	16
3 Combined statement of source and application of funds for fiscal year ended June 30, 1970	17
Notes to combined balance sheet June 30, 1970	18

APPENDIX

Page

I	National Flood Insurers Association public accountant's opinion of the financial statements of the National Flood Insurers Association	19
II	Balance sheet at June 30, 1970	20
III	Statement of income and residual balance for the period from inception, June 6, 1969 to June 30, 1970	21
	Notes to financial statements	22
IV	Principal officials of the Department of Housing and Urban Development and Federal Insurance Administration concerned with the activities discussed in this report	24

ABBREVIATIONS

AOF	Administrative Operations Fund
FIA	Federal Insurance Administration
GAO	General Accounting Office
HUD	Department of Housing and Urban Development
NFIA	National Flood Insurers Association

D I G E S T

WHY THE EXAMINATION WAS MADE

The National Flood Insurance Act of 1968 requires the General Accounting Office (GAO) to examine the financial statements pertaining to the National Flood Insurance Program administered by the Federal Insurance Administration.

GAO examined the financial statements of the National Flood Insurers Association, an association of private insurance companies which participate in the flood insurance program under an agreement with the Secretary of Housing and Urban Development.

GAO's examination was made in accordance with generally accepted auditing standards and included tests of the accounting records and other procedures considered necessary.

OPINION ON FINANCIAL STATEMENTS

In GAO's opinion, the combined balance sheet (sch. 1), the combined statement of income and expense and cumulative deficit (sch. 2), and the combined statement of source and application of funds (sch. 3) present fairly the financial position of the National Flood Insurance Program at June 30, 1970, and the results of its operations and the source and application of its funds for the fiscal year then ended, in conformity with generally accepted accounting principles and with applicable Federal laws. (See p. 14.)

In GAO's opinion, the National Flood Insurers Association's balance sheet (app. II) and statement of income and residual balance (app. III) present fairly the financial position of the association at June 30, 1970, and the results of its operations for the period June 6, 1969, to June 30, 1970, in conformity with accounting principles prescribed for insurance companies by State regulatory authorities. (See p. 14.)

RECOMMENDATIONS OR SUGGESTIONS

This report contains no recommendations or suggestions.

JAN. 28, 1972

MATTERS FOR CONSIDERATION BY THE CONGRESS

This report is submitted to the Congress, as required by the Government Corporation Control Act, to show the results of GAO's examination of the financial statements pertaining to the National Flood Insurance Program and to make known to the Congress other information deemed necessary to keep it informed of the operations and financial condition of the program.

CHAPTER 1

INTRODUCTION

The National Flood Insurance Program was established under authority of the National Flood Insurance Act of 1968 (42 U.S.C. 4011). The 1968 act authorized the Secretary of Housing and Urban Development to establish and carry out a national flood insurance program and to encourage and assist insurance companies and other insurers to associate, or otherwise join together, in a pool to provide flood insurance coverage to property owners in flood-prone areas. The Secretary delegated the administration of the program to the Administrator, Federal Insurance Administration (FIA), a Department of Housing and Urban Development (HUD) organizational component which also administers a program that provides re-insurance against abnormal loss resulting from riots and civil commotions.

The National Flood Insurance Program is a subsidized Government-sponsored program designed to enable property owners in areas designated by the Administrator, FIA, as being eligible for flood insurance to purchase such insurance. Under the program premium rates are established on an actuarial basis and, insofar as practicable, at a level sufficient to cover the estimated full cost of the insurance and to enable the accumulation of reserves to pay anticipated losses. To encourage the purchase of flood insurance, the Administrator can establish lower than full cost rates--"chargeable rates"--and the difference between the chargeable rates and the full-cost actuarial rates is subsidized by the Federal Government.

The Secretary entered into an agreement with the National Flood Insurers Association (NFIA)--a voluntary, non-profit, unincorporated association--to provide insurance coverage on a limited risk-sharing basis. At June 30, 1970, NFIA comprised 89 private insurers.

The 1968 act authorized the Secretary to borrow up to \$250 million from the U.S. Treasury on interest-bearing notes or other obligations and to use funds to establish a National Flood Insurance Fund (fund). The fund is available (1) for premium equalization payments to insurers (the difference

between the actuarially determined, full-cost premium rates and the chargeable premium rates established by the Administrator to encourage the purchase of flood insurance), (2) for payment of claims of insurers who purchased reinsurance coverage from FIA to cover excess flood insurance losses (in excess of an agreed-to amount), (3) for financing of the total flood insurance program in the event that the joint Government-industry operation becomes unfeasible, (4) for repayment to the Treasury for amounts borrowed together with interest, and (5) for payment of such administrative expenses as the Secretary may deem necessary to carry out the flood insurance program.

Credits to the fund in addition to borrowings from the Treasury consist of (1) reinsurance premiums, (2) advances from appropriations to maintain the fund in an operative condition adequate to meet its liabilities, (3) interest earned on investments of the fund, and (4) any other receipts accruing from the insurance operations.

The Housing and Urban Development Act of 1969 (12 U.S.C. 1701 et seq.) amended the 1968 act to provide for an emergency flood insurance program for a 2-year period, during which time the Secretary was authorized to provide flood insurance coverage without first determining actuarial premium rates for individual areas.

The 1968 act authorized the Secretary to carry out studies and investigations in flood-prone areas to obtain information regarding the adequacy of State and local measures relative to land management and use, flood control, flood zoning, and flood drainage prevention. The act directed the Secretary to use the information to develop comprehensive criteria designed to encourage, if necessary, the adoption of adequate State or local measures which, to the maximum extent feasible, would (1) lessen the exposure of property and facilities to flood losses, (2) improve the long-range land management and use of land in flood-prone areas, and (3) inhibit, to the maximum extent feasible, unplanned and economically unjustifiable future development of land in flood-prone areas.

NFIA began to sell regular program flood insurance on June 25, 1969, after the Secretary had designated the first two communities eligible for flood insurance coverage. In

regard to the future availability of flood insurance, the 1968 act, as amended, provided that after December 31, 1971, new flood insurance coverage would be available only in States or areas which had furnished the Secretary with satisfactory assurance that, by December 31, 1971, adequate land use and control measures consistent with the comprehensive criteria prescribed would be adopted. The 1968 act limited the amount of flood insurance that might be outstanding and in force at any given time to \$2.5 billion.

The 1968 act authorized the appropriation of funds for administrative expenses of the Federal Government in carrying out the flood insurance program, including costs incurred in studies and investigations to establish premium rates, and in determining the areas eligible for flood insurance.

This is our first report on the flood insurance program. The report covers our examination of the financial statements for fiscal year 1970 and the transactions for the period from October 1968 through June 1969--the initial period of operations prior to the establishment of the National Flood Insurance Fund--during which time studies and investigations to obtain information necessary to establish premium rates and types of property to be insured were in progress.

CHAPTER 2

DESCRIPTION OF INSURANCE COVERAGE

GENERAL INFORMATION

The owner of real or personal property insured under the flood insurance program is indemnified for loss of, or damage to, his property as a result of naturally caused general floods but not for loss from water damage resulting from causes on his property or from conditions within his control.

Flood insurance policies are written for 1-year terms under the "regular program" and the "emergency program" insurance. Under the regular program, insurance coverage is provided at actuarially determined full-cost premium rates in areas for which such rates have been established by the Administrator. The Administrator, however, can establish lower than full cost rates--Government subsidized chargeable rates--to encourage the purchase of flood insurance. Under the emergency program, insurance coverage is provided at the Government-subsidized chargeable rates in flood-prone areas where actuarially determined full-cost premium rates have not been established.

When the Administrator designates an area as eligible for flood insurance, NFIA designates a member company office as the servicing office for the eligible area. The servicing office is paid a \$15 fee for processing each application for insurance and issuing the policy. The agent securing the business is paid a commission of 15 percent of the annual premium.

An insurance policy is effective as of the date of an application, if the application is submitted within 30 days after an area has been designated as eligible for insurance. Thereafter a policy becomes effective 15 days after submission of an application for insurance. The full annual premium is payable at the time an application is made for insurance. The policy is renewable on the anniversary date, upon payment of the annual premium. A clause included in each policy specifies a deductible of \$200 for loss on a structure and \$200 for loss on contents of a structure or 2 percent of the

amount of the insurance coverage applicable to each type of loss, whichever is greater.

REGULAR PROGRAM

At June 30, 1970, insurance coverage under the regular program was available for residential structures designed for occupancy of from one to four families. At that date insurance coverage was not available for structures occupied by small business concerns, because actuarially based premium rates for coverage on such structures had not been developed by the Administrator.

The limit on insurance coverage was \$35,000 for a single structure containing one dwelling unit, \$60,000 for a single structure containing more than one dwelling unit, and \$10,000 for the contents within each dwelling unit. When actuarially based premium rates are developed for small business properties, the limits of coverage will be \$60,000 for a single structure and \$10,000 for the contents for each small business located within the structure.

The annual premium for insurance under the regular program is the lower of the actuarial or chargeable rate for the first half of the insurance coverage plus the actuarial rate for the remaining half.

At June 30, 1970, regular program insurance in force amounted to \$149.7 million.

EMERGENCY PROGRAM

At June 30, 1970, insurance coverage under the emergency program was available for residential structures containing from one to four dwelling units and for structures occupied by small business organizations.

The limits on insurance coverage for residential structures were half of the coverage available under the regular program, or \$17,600 for a single structure containing one dwelling unit; \$30,000 for a single structure containing more than one dwelling unit; and \$5,000 for the contents within each dwelling unit. The limits on insurance coverage for a single structure occupied by small business concerns

were \$30,000 for the structure and \$5,000 for the contents for each business concern located within the structure.

The chargeable premium rates for insurance under the emergency program are based on the value of the insured property and range from \$0.40 per \$100 of insurance coverage for single-family dwellings valued at \$17,500 or under to \$0.50 per \$100 of insurance coverage for multifamily dwellings valued at \$60,000 or over. Chargeable rates for contents, which can be insured up to \$5,000, range from \$0.50 to \$0.60 per \$100 of insurance coverage. The chargeable rates for insurance coverage for small business properties range from \$0.50 per \$100 of insurance coverage for properties valued at \$30,000 or under to \$0.70 per \$100 of insurance coverage for properties valued at \$60,000 or over. The chargeable rate for contents, which can be insured up to \$5,000, is \$1 per \$100 of insurance coverage.

At June 30, 1970, emergency program insurance in force amounted to \$244.5 million.

CHAPTER 3

AGREEMENT WITH NATIONAL FLOOD INSURERS ASSOCIATION

The 1968 act authorized the Secretary to encourage and assist insurance companies to join together in a pool to (1) provide flood insurance coverage, (2) participate financially in underwriting the risks assumed, and (3) adjust and pay claims for flood losses. Pursuant to this authorization, the Secretary entered into an agreement with NFIA, a voluntary, nonprofit, unincorporated association of private insurers. The agreement was effective for the accounting period June 6, 1969, through June 30, 1970, and is renewable annually unless otherwise agreed to or terminated. Some of the more significant terms of the agreement follow.

1. NFIA will provide a continuous program of flood insurance, and changes in membership of the association shall not affect the continuity of the program.
2. Flood insurance in force at any one time shall not exceed \$2.5 billion face amount, and NFIA shall provide a minimum of \$40 million in risk capital subscribed to by its member companies at inception of the first accounting period.
3. NFIA shall arrange for the issuance of policies as well as for investigation, adjustment, and settlement of all claims presented under the policies.
4. NFIA is to purchase excess loss insurance coverage from the National Flood Insurance Program. Premium payments are to be made quarterly at a provisional rate of 6 percent of the policyholders premiums applicable to the quarter. The total premiums paid at the provisional rate are to be adjusted at the conclusion of the accounting period to an amount computed by the application of agreed-to inland and coastal rates to the policyholders' premiums emanating from insurance in force in the inland and coastal areas. Claims for excess-loss insurance coverage will be paid by the National Flood Insurance Program when the total of insured losses and operating costs, after deducting premium equalization payments in any

accounting period, exceed 125 percent of policyholder premiums.

5. NFIA may retain or may distribute to the members of NFIA as an operating allowance a part of operating profit earned in an accounting period in an amount not to exceed 5 percent of policyholder premiums applicable to the period. Amounts in excess of 5 percent of the operating profit are to be held in trust by NFIA and are to be used for payment of future losses, operating costs, and operating allowances. Pending expenditure, the funds are to be invested in fully guaranteed obligations of the United States.
6. If, in any accounting period, NFIA does not earn sufficient operating profit to enable it to pay an operating allowance to its members, NFIA is entitled to use the funds held in trust to make the payment.
7. National Flood Insurance Program, using a formula set forth in the agreement to compute the amount, will make periodic premium equalization payments to NFIA for the Government's share of flood insurance claims paid and for equalization operating costs.

CHAPTER 4

COMMENT ON ADMINISTRATIVE EXPENSE CHARGED TO THE FLOOD INSURANCE PROGRAM

HUD pays the administrative expenses of various HUD organizational units or functions from its Administrative Operations Fund (AOF). To finance AOF, after enactment of the HUD appropriation act for each fiscal year, the part of the appropriation allotted for administrative expenses to each organizational unit or function is transferred to the AOF, and the amount transferred is recorded as the organizational unit's or function's administrative expense for the fiscal year. Consolidation of funds made available for administrative expenses into a single administrative expense fund is authorized by 12 U.S.C. 1701c(b)(3). The amount transferred and charged as expense may be adjusted during a fiscal year, if the HUD Office of Budget determines that such an adjustment is necessary.

The cumulative deficit of the flood insurance program at June 30, 1969, of \$935,300 included \$520,000 transferred from the flood insurance program appropriation to AOF to cover administrative expenses for the period from October 1968 through June 1969.

HUD did not furnish us with a calculation or other documentation in support of the charge of \$520,000 to the flood insurance program. In commenting on a draft of this report, the Assistant Secretary for Administration, HUD, in a letter dated September 20, 1971, stated, relevant to the \$520,000 charge, that:

"The amount transferred to the AOF for the fiscal year was simply a rough guess of what it might take to establish an organization, and to get the program going. In retrospect, it appears that the amount was probably too high because staffing did not proceed as rapidly as was expected."

The transfer to AOF from the flood insurance program's fiscal year 1970 appropriation amounted to \$628,500, and, in conformity with HUD procedures, the amount was recorded as the program's administrative expense for fiscal year 1970.

During the fiscal year the charge was reduced to \$398,500, and \$230,00 was returned to the U.S. Treasury. To support the reasonableness of the \$398,500, HUD prepared a calculation which the Assistant Secretary for Administration stated in his letter of September 20, 1970, was prepared in the following manner:

"*** we ascertained from the Flood Insurance Program officials the names of individuals who worked on the program during FY 1970 and the percentages of time they devoted thereto. We extracted each employee's salary and related costs from our payroll records, added travel costs, and made the appropriate proration, on a salary dollar basis, of support staff costs."

We reviewed the HUD calculation and determined that the \$398,500 charge for administrative expenses to the flood insurance program for fiscal year 1970 was reasonable.

CHAPTER 5

SCOPE OF EXAMINATION

Our examination of the financial statements of FIA pertaining to the National Flood Insurance Program for the fiscal year ended June 30, 1970, and the program transactions consummated from October 1968 through June 1969 were made in accordance with generally accepted auditing standards and included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The HUD internal auditors examined the accounting records pertaining to the flood insurance program. Their workpapers were not completed at the time of our examination. Therefore their audit work did not enable us to reduce our tests of the flood insurance program accounting records.

The activities of NFIA are an integral part of the flood insurance program and are subject to audit by us pursuant to the National Flood Insurance Act of 1968 which provides that the provisions of the Government Corporation Control Act apply to the flood insurance program. NFIA engaged a firm of public accountants to audit its financial statements. The firm's audit did not take the place of the audit required by our office under the National Flood Insurance Act of 1968. Therefore our audit included observations and tests of the firm's work.

CHAPTER 6

OPINION ON THE FINANCIAL STATEMENTS

The financial statements of the National Flood Insurance Program presented in the report as schedules 1 through 3 were prepared by FIA.

In our opinion, the combined balance sheet (sch. 1), the combined statement of income and expense and cumulative deficit (sch. 2), and the combined statement of source and application of funds (sch. 3) present fairly the financial position of the National Flood Insurance Program at June 30, 1970, and the results of its operations and the source and application of its funds for the fiscal year then ended, in conformity with generally accepted accounting principles and with applicable Federal laws.

The financial statements of NFIA are presented in this report as appendixes II and III. In our opinion, these financial statements present fairly the financial position of NFIA at June 30, 1970, and the results of its operations for the period from June 6, 1969, to June 30, 1970, in conformity with accounting principles prescribed for insurance companies by State regulatory authorities.

The public accounting firm's opinion on the financial statements of NFIA is presented as appendix I.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 FEDERAL INSURANCE ADMINISTRATION
 NATIONAL FLOOD INSURANCE PROGRAM
 COMBINED BALANCE SHEET
 JUNE 30, 1970

ASSETS			
	National Flood Insurance Fund	Appropriated Funds	Combined
CASH AND FUND BALANCES:			
On deposit with U.S. Treasury	\$ -	\$1,411,305.61	\$1,411,305.61
ACCOUNT RECEIVABLE	<u>125,361.89</u>	<u>-</u>	<u>125,361.89</u>
Total assets	<u>\$125,361.89</u>	<u>\$1,411,305.61</u>	<u>\$1,536,667.50</u>
LIABILITIES			
ACCOUNTS PAYABLE:			
Studies and surveys--Government	\$ -	\$ 518,255.62	\$ 518,255.62
Studies and surveys--Other	-	9,568.66	9,568.66
Premium equalization payments	178,711.14	-	178,711.14
ACCRUED INTEREST PAYABLE	<u>1,515.54</u>	<u>-</u>	<u>1,515.54</u>
Total liabilities	<u>180,226.68</u>	<u>527,824.28</u>	<u>708,050.96</u>
INVESTMENT OF THE U.S. GOVERNMENT			
NOTES PAYABLE TO THE U.S. TREASURY	51,945.01	-	51,945.01
APPROPRIATIONS (NET OF \$880,890.00 RETURNED TO THE U.S. TREASURY)	-	3,047,610.00	3,047,610.00
CUMULATIVE DEFICIT	<u>106,809.80</u>	<u>2,164,128.67</u>	<u>2,270,938.47</u>
Total investment of the U.S. Government	<u>-54,864.79</u>	<u>883,481.33</u>	<u>828,616.54</u>
Total liabilities and investment of the U.S. Government	<u>\$125,361.89</u>	<u>\$1,411,305.61</u>	<u>\$1,536,667.50</u>

The notes on page 18 are an integral part of this statement.

SCHEDULE 2

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 FEDERAL INSURANCE ADMINISTRATION
 NATIONAL FLOOD INSURANCE PROGRAM
 COMBINED STATEMENT OF INCOME AND EXPENSE AND CUMULATIVE DEFICIT
 FOR FISCAL YEAR ENDED JUNE 30, 1970

	National Flood Insurance Fund	Appropriated funds	Combined
Income:			
Reinsurance premiums	\$125,361.89	\$ -	\$ 125,361.89
Total income	<u>125,361.89</u>	<u>-</u>	<u>125,361.89</u>
Expense:			
Interest expense	1,515.54	-	1,515.54
Premium equalization payments- operating costs	230,656.15	-	230,656.15
Administrative expense	-	398,500.00	398,500.00
Studies and survey expenses	<u>-</u>	<u>830,328.43</u>	<u>830,328.43</u>
Total expense	<u>232,171.69</u>	<u>1,228,828.43</u>	<u>1,461,000.12</u>
Net loss for the fiscal year	106,809.80	1,228,828.43	1,335,638.23
Deficit at June 30, 1969	<u>-</u>	<u>935,300.24</u>	<u>935,300.24</u>
Cumulative deficit at June 30, 1970	<u>\$106,809.80</u>	<u>\$2,164,128.67</u>	<u>\$2,270,938.47</u>

BEST DOCUMENT AVAILABLE

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
 FEDERAL INSURANCE ADMINISTRATION
 NATIONAL FLOOD INSURANCE PROGRAM
 COMBINED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
 FOR FISCAL YEAR ENDED JUNE 30, 1970

	National Flood Insurance <u>Fund</u>	Appropriated <u>funds</u>	<u>Combined</u>
SOURCE OF FUNDS:			
Borrowing from U.S.			
Treasury	\$ 51,945.01	\$ -	\$ 51,945.01
Congressional appropri- ations	-	2,428,500.00	2,428,500.00
Reinsurance premiums	125,361.89	-	125,361.89
Decrease in working capital	<u>54,864.79</u>	<u>-</u>	<u>54,864.79</u>
Total	<u>\$232,171.69</u>	<u>\$2,428,500.00</u>	<u>\$2,660,671.69</u>
APPLICATION OF FUNDS:			
Appropriations returned to U.S. Treasury	\$ -	\$ 481,290.00	\$ 481,290.00
Interest expense	1,515.54	-	1,515.54
Premium equalization payments-operating costs	230,656.15	-	230,656.15
Administrative expense	-	398,500.00	398,500.00
Studies and surveys	-	830,328.43	830,328.43
Increase in working capital	<u>-</u>	<u>718,381.57</u>	<u>718,381.57</u>
Total	<u>\$232,171.69</u>	<u>\$2,428,500.00</u>	<u>\$2,660,671.69</u>

NOTES TO COMBINED BALANCE SHEET

June 30, 1970

As of June 30, 1970, the National Flood Insurance Program was contingently liable for (1) its share of flood insurance losses (equalization losses) that the National Flood Insurance Association may pay on the insurance in force at June 30, 1970, in the event of a flood and (2) its share of the costs that may be incurred by the National Flood Insurers Association to settle the flood insurance loss claims in connection with the insurance in force at June 30, 1970. The amount of the contingent liability is not readily ascertainable since flood losses, if any, will be contingent upon the occurrence, extent, and severity of floods in the areas covered by flood insurance.

The National Flood Insurers Association purchased excess loss insurance from the National Flood Insurance Program. As of June 30, 1970, the National Flood Insurance Program is contingently liable for excess losses that the National Flood Insurers Association may incur for the insurance in force at June 30, 1970. The amount of the contingent liability is not readily ascertainable since it is contingent upon the occurrence, extent, and severity of floods in the areas covered by flood insurance. The method for computing the amount of excess loss is provided in the agreement between National Flood Insurers Association and the Secretary of HUD.

JOSEPH FROGGATT & CO., INC.

ACCOUNTANTS AND AUDITORS

74 TRINITY PLACE

NEW YORK, N. Y. 10006

PLS: DOCUMENT AVAILABLE

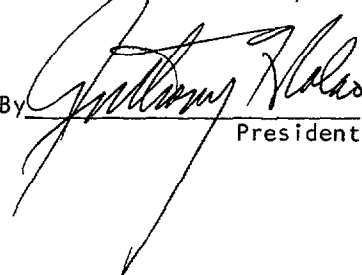
Mr. K. H. Parker, General Manager
National Flood Insurers Association
New York, New York

Dear Sir:

We have examined the accompanying Balance Sheet of National Flood Insurers Association at June 30, 1970 and the related Statement of Income and Residual Balance for the fiscal period from inception, June 6, 1969, to June 30, 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not receive confirmation of the total amount due from the United States Government, Department of Housing and Urban Development, as to which we satisfied ourselves by means of other auditing procedures.

In our opinion, the financial statements referred to above present fairly the financial position of National Flood Insurers Association at June 30, 1970 and the results of its operations for the fiscal period then ended, in conformity with accounting principles prescribed for insurance companies by state regulatory authorities. These accounting principles vary in certain respects from generally accepted accounting principles as explained in Note 1(b) to the financial statements.

JOSEPH FROGGATT & CO., INC.

BY 
President

New York, New York
October 16, 1970
(Except for Note (2), the date
of which is November 16, 1970)

APPENDIX II

NATIONAL FLOOD INSURERS ASSOCIATION

BALANCE SHEET

At June 30, 1970

ADMITTED ASSETS

Cash in bank	\$370,091.66
Premiums receivable (net of commissions thereon)	390,325.10
Equalization operating costs receivable and accrued - due from United States Government, Department of Housing and Urban Development (HUD) - Note 2	<u>178,711.14</u>
Total	<u>\$939,127.90</u>

LIABILITIES AND RESIDUAL BALANCE

Unearned premium reserve	\$631,136.00
Accounts and expenses payable and accrued:	
Service fees	\$166,320.00
Balance due Fire Insurance Research and Actuarial Association (FIRAA)	17,039.78
General expenses accrued	8,710.67
Reinsurance premiums due HUD - Note 4	<u>125,361.89</u>
	317,432.34
	948,568.34
Residual balance (deficit) - Notes 3 and 4(a)	<u>(9,440.44)</u>
Total	<u>\$939,127.90</u>

BEST DOCUMENT AVAILABLE

This statement should be read in conjunction with the Notes to Financial Statements which are made a part hereof.

NATIONAL FLOOD INSURERS ASSOCIATION

STATEMENT OF INCOME AND RESIDUAL BALANCE

For the Period from Inception, June 6, 1969,
to June 30, 1970

UNDERWRITING INCOME

Gross premiums written - Note 1(c)	\$832,480.55	
Less - Reinsurance premiums - Note 4(a)	<u>125,361.89</u>	
Net premiums written	707,118.66	
Change in unearned premium reserve	<u>631,136.00</u>	
Net premiums earned		\$ 75,982.66

UNDERWRITING EXPENSES

Commissions		124,870.12
Equalization operating costs:		
Service fees	\$172,920.00	
General expenses - Note 4(b)	<u>101,291.13</u>	
	274,211.13	
Less - Recovery from United States Government, Department of Housing and Urban Development - Note 2	<u>230,656.15</u>	<u>43,554.98</u>
Net underwriting expenses		<u>168,425.10</u>
Net underwriting gain (loss)		(92,442.44)

RESIDUAL BALANCE

Membership fees received		<u>83,002.00</u>
Residual balance (deficit) - June 30, 1970 - Notes 1(c) and 3		\$ (9,440.44)

This statement should be read in conjunction with the Notes
to Financial Statements which are made a part hereof.

APPENDIX III

STATEMENT

NATIONAL FLOOD INSURERS ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

June 30, 1970

NOTE 1 - BASIS OF PRESENTATION:

(a) National Flood Insurers Association (also referred to as the "Association" or "NFIA" in these notes), a voluntary, nonprofit, unincorporated association of insurers, began operations on June 6, 1969, pursuant to the National Flood Insurance Act of 1968.

(b) The accompanying financial statements have been prepared in accordance with the requirements of the Insurance Department of the State of New York which include, among others, the immediate charge to income of the cost of acquiring new business while the related premium income is deferred over the periods covered by the policies. The effect of this requirement on the accompanying financial statements has not been determined.

(c) The statements herein differ from those previously submitted by the Association to its member companies. Premiums and the related acquisition costs are reported to NFIA by a number of servicing companies, and consequently a delay in recording the resulting transactions is inherent to the operations of the Association. In the accompanying statements effect has been given to transactions reported through September 30, 1970 and applicable to the fiscal period ended June 30, 1970, NFIA management believes that any other unreported transactions would not significantly alter the accompanying statements. Losses and loss expenses applicable to claims incurred subsequent to June 30, 1970 have been correctly excluded.

Following is a reconciliation between amounts previously reported to member companies and amounts reported herein:

	<u>Admitted Assets</u>	<u>Residual Balance</u>	<u>Net Underwriting Gain (Loss)</u>
Previously reported	\$468,261.40	\$ 53,760.15	\$(29,241.85)
Adjustments:			
Premiums	459,206.00	459,206.00	459,206.00
Commissions	(68,880.90)	(68,880.90)	(68,880.90)
Reinsurance premiums	-	(102,965.42)	(102,965.42)
Service fees	-	(90,255.00)	(90,255.00)
Expenses accrued	-	(8,710.67)	(8,710.67)
Unearned premiums	-	(332,136.00)	(332,136.00)
Equalization payments	88,574.30	88,574.30	88,574.30
Adjustment for amount due from HUD (see Note 2)	<u>(8,032.90)</u>	<u>(8,032.90)</u>	<u>(8,032.90)</u>
	<u>470,866.50</u>	<u>(63,200.59)</u>	<u>(63,200.59)</u>
Reported herein	<u>\$939,127.90</u>	<u>\$ (9,440.44)</u>	<u>\$(92,442.44)</u>

BEST DOCUMENT AVAILABLE

(Concluded)

NOTES TO FINANCIAL STATEMENTS

June 30, 1970

NOTE 2 - EQUALIZATION OPERATING COSTS
RECEIVABLE AND ACCRUED:

The amount due from HUD excludes \$8,032.90 of pre-contract costs incurred prior to June 6, 1969, which were determined to be uncollectible subsequent to June 30, 1970, and have accordingly been excluded from the accompanying statements (see Note 1(c)).

NOTE 3 - RESIDUAL BALANCE:

Pursuant to an agreement between the Association and the Secretary of Housing and Urban Development, restrictions are applicable to the disposition of positive operating balances (profits) resulting from NFIA's operations. Among others, such restrictions limit to 5% of each year's policyholder premiums the amount of profits which may be retained and used by the Association in accordance with the terms of its Constitution. Amounts in excess of the aforementioned limitation must be held in trust by the Association for the payment of future losses, operating and other costs.

NOTE 4 - COMMITMENTS:

(a) The Association is a party to an agreement with the Secretary of Housing and Urban Development. The agreement provides, among other matters, for reinsurance on an excess of loss basis of the business underwritten by NFIA, and places certain restrictions on the profits which inure to the benefit of the Association's member insurance companies (see Note 3). This agreement may be terminated by either party upon written notice to the other on or before January 31 of any accounting period, and termination, if it should eventuate, becomes effective at the end of the Association's accounting period (June 30).

(b) NFIA has also entered into a service agreement with Fire Insurance Research and Actuarial Association (FIRAA) whereby the latter performs the necessary administrative functions for the former, subject to the overall direction of the NFIA Executive Committee. The services under this agreement are billed to the Association at FIRAA's cost. The agreement may be cancelled by either party on sixty (60) days' written notice, or at any time by mutual consent.

NOTE 5 - FEDERAL INCOME TAXES:

NFIA has filed under the appropriate section of the Internal Revenue Code to be recognized as a non-taxable association.

APPENDIX IV

PRINCIPAL OFFICIALS OF
THE DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
AND FEDERAL INSURANCE ADMINISTRATION
CONCERNED WITH THE ACTIVITIES
DISCUSSED IN THIS REPORT

	<u>Tenure of office</u>	
	<u>From</u>	<u>To</u>
SECRETARY OF HOUSING AND URBAN DEVELOPMENT:		
George W. Romney	Jan. 1969	Present
ADMINISTRATOR, FEDERAL INSURANCE ADMINISTRATION:		
William B. Ross (acting)	Aug. 1968	May 1969
George K. Bernstein	May 1969	Present

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