



**North Carolina
Insurance Underwriting Association**

Beach Plan

**North Carolina
Joint Underwriting Association**

FAIR Plan

December 11, 2009

RE: Accounting Treatment for Accumulated Surplus

Dear Member:

As you will recall, we mailed the attached letter to you on September 14, 2009 concerning the accounting treatment of accumulated surplus. Please accept this letter as an update on the surplus issue.

It was not our intention to dictate or prescribe any specific accounting treatment for our members. Our goal was to provide you with a Statutory Accounting Principle that could be used as guidance. However, the NCIUA does not have the authority to dictate any accounting treatments for our members. Therefore, our members must make their own decisions with respect to the appropriate accounting treatment for handling the transfer of ownership of all accumulated surpluses to the NCIUA.

Also, during our November 2009 Board of Directors meeting, our Board approved a motion that the NCIUA's accumulated surplus be segregated according to the surplus as it existed before and after House Bill 1305 on August 26, 2009. Our Board stipulated that the North Carolina Department of Insurance must approve this segregation before it could be reflected on our financial statements.

Please be advised that on December 7, 2009 the North Carolina Department of Insurance disapproved our filing on the segregation of the accumulated surplus. Therefore, based on the disapproval of our filing by the Department of Insurance, the NCIUA will not be permitted to segregate the accumulated surplus between Pre and Post House Bill 1305.

Please let me know if you have any questions.

Sincerely,

Alvin L. Ashworth, Jr.

Alvin L. Ashworth, Jr., AIS, AIAF
Accounting Manager



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Insurance Underwriting Association**

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September 14, 2009

NAIC Code:

RE: Accounting Treatment For Accumulated Surplus

Dear Member:

On August 26, 2009, Governor Perdue signed House Bill 1305 into law.

The bill contains the following:

G. S. 58-45-25 (b1) - The accumulated surplus of the Association shall be retained from year to year and used to pay losses, reinsurance costs, and other operating expenses as necessary. No member company shall be entitled to the distribution of any portion of the Association's surplus, except pursuant to judgments entered prior to the effective date of this subsection.

G. S. 58-45-25 (b2) – The premiums, surplus, assessments, investment income, and other revenue of the Association are funds received for the sole purpose of providing insurance coverage, paying claims for Association policyholders, purchasing reinsurance, securing and repaying debt obligations issued by the Association, and conducting all other activities of the Association, as required or permitted by this Article. Accumulated surplus shall not be removed from the Association or used for other purposes except pursuant to judgments entered prior to the effective date of this subsection.

G. S. 58-45-96 – In the event that a successor organization is created to perform the Association's general functions, the surplus, assets, and liabilities then held by the Association shall be transferred to such successor organization. The pledge or sale of, the lien upon, and the security interest in any rights, revenues, or other assets of the Association created pursuant to any financing arrangements entered into by the Association shall be and remain valid and enforceable on the successor organization,

notwithstanding the commencement of any rehabilitation, insolvency, liquidation, bankruptcy, conservatorship, reorganization, or similar proceeding against the Association. No such proceeding shall relieve the Association of its obligation to continue to collect assessment or other revenues pledged pursuant to any financing arrangements. In the event of dissolution, surplus then held shall not be distributed to member insurers.

According to this bill, ownership of all surpluses has transferred from the Member Companies to the North Carolina Insurance Underwriting Association (NCIUA).

Therefore, if it is probable that receivables from underwriting pools and associations are uncollectible, any uncollectible amounts shall be written off against operations in the period such determination is made. This accounting treatment is outlined in SSAP 63, paragraph 10.

So far, the North Carolina Department of Insurance has indicated that this would be the proper accounting treatment.

Please let me know if you have any questions.

Sincerely,

Alvin L. Ashworth, Jr.

Alvin L. Ashworth, Jr., AIS, AIAF
Accounting Manager