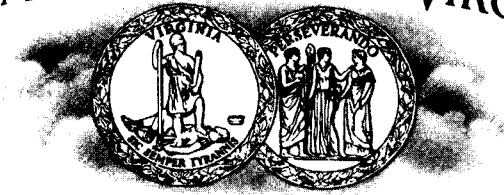


EXAMINATION REPORT
of
VIRGINIA MUNICIPAL SELF-INSURANCE ASSOCIATION,
VIRGINIA MUNICIPAL LIABILITY POOL
GLEN ALLEN, VIRGINIA
as of
JUNE 30, 2009

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.state.va.us/scc>

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of the Virginia Municipal Self-Insurance Association, Virginia Municipal Liability Pool as of June 30, 2009, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 22nd day of November, 2010

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
August 20, 2010

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, an examination of the records and affairs of

**VIRGINIA MUNICIPAL SELF-INSURANCE ASSOCIATION,
VIRGINIA MUNICIPAL LIABILITY POOL**

Glen Allen, Virginia

hereinafter referred to as the Pool, has been completed. The report is hereby submitted for your consideration.

DESCRIPTION

The Pool is a local government group self-insurance pool licensed to provide risk management and liability insurance coverage to its members pursuant to Section 15.2-2706 of the Code of Virginia and 14 VAC 5-360-10 et seq. (Rules Governing Local Government Group Self-Insurance Pools) promulgated by the State Corporation Commission (the "Commission"). The Pool's members are political subdivisions of the Commonwealth of Virginia or agencies thereof.

The Pool was last examined by representatives of the Commission's Bureau of Insurance (the "Bureau") as of June 30, 2006. This examination covers the period from July 1, 2006 through June 30, 2009.

HISTORY

The Pool was licensed by the Bureau on July 1, 1986. According to its bylaws, the Pool was formed:

"... to provide for cooperative action in providing risk management and liability insurance coverage for pool members for acts or omissions arising out of the scope of their employment..."

MANAGEMENT AND CONTROL

Control of the Pool is vested in a Members' Supervisory Board (the "Board") elected by the members of the Pool. The by-laws provide for no less than four nor more than nine Board members, of which all shall be elected or appointed officials of members of the Pool. The Board members serve three year terms or until their successors are elected. In addition to the elected Board members, the Executive Director of the Virginia Municipal League ("VML") shall serve as an ex-officio board member with the full power to vote on all matters which come before the board and whose presence shall be counted in the determination of a quorum at any meeting. The Board and officers were as follows at June 30, 2009:

<u>Representative</u>	<u>Affiliation</u>
Samuel W. Adams, III	Mayor City of Emporia Emporia, Virginia
R. Michael Amyx	Executive Director VML Richmond, Virginia
John W. McCarthy, III	County Administrator Rappahannock County Washington, Virginia
Charles A. Moore	Town Manager Town of Mount Jackson Mount Jackson, Virginia
Melinda Moran	Town Manager Town of Clarksville Clarksville, Virginia
Karen Pallansch	General Manager Alexandria Sanitation Authority Alexandria, Virginia
Thomas E. West	Board of Supervisors Halifax County Nathalie, VA

Officers

Samuel W. Adams III
 Charles A. Moore
 R. Michael Amyx

Chairperson
 Vice-Chairperson
 Secretary

TERRITORY AND PLAN OF OPERATION

The operation of the Pool is confined to Virginia where it is licensed to transact the business of commercial multiple peril, inland marine, liability other than auto, automobile liability, automobile physical damage, fidelity, surety and boiler and machinery. Membership in the Pool is available to political subdivisions of the Commonwealth of Virginia, or agencies thereof. Members are required to enter into member agreements which set forth the rights, privileges and obligations of the members, as well as the terms, coverages, limits, and deductibles of the Plan.

The Pool has a contractual agreement with an administrator who shall administer and manage the affairs of the Pool in accordance with the policies adopted and established by the Board. The administrator also functions as the claims service agent. The Pool's operations are conducted on a fiscal year basis ending June 30.

ADMINISTRATIVE AND OTHER SERVICES AGREEMENT

Effective July 1, 2005, the Pool entered into an administrative and other services agreement with the VML. This agreement is effective for a period of five years unless prior to the end of such term, the parties mutually agree in writing to an extension. Either party may terminate this agreement with 90 days prior written notice. According to the agreement, VML is responsible for, but not limited to, the following:

- Accepting service of process on behalf of the Pool and binding the Pool and its members in transactions relating to or arising out of the operation of the Pool as designated by the Board.
- Administering the Pool's financial and administrative affairs.
- Representing the Pool before the Commission and the Bureau.
- Supervising the filing of all necessary forms and reports required by any governmental agencies.

- Filing financial statements with the Commission within 120 days of the Pool's fiscal year-end.
- Investing and reinvesting the Pool's funds.
- Billing and collecting contributions from members.
- Organizing and conducting a marketing program to encourage continuation of membership by all current Pool members and for solicitation of all other eligible potential Virginia political subdivisions for membership.
- Compiling and summarizing all necessary data and preparing submissions for excess insurance or reinsurance on behalf of the Pool to reinsurers and/or excess carriers as approved by the Pool.
- Providing complete underwriting services as shall be reasonably required to insure the Pool's financial well being on a fund year basis.
- Providing complete loss control services, which shall include conducting loss control evaluation of members, providing comprehensive formal loss control workshops for members, preparing and monitoring computer loss runs and furnishing complete claims handling services and administration for all liability and casualty claims to conclusion.
- Performing other duties and powers as may be assigned by the Board.

As compensation for its services, VML shall receive 1.25% of the aggregate annual gross contributions paid by all members. In addition to this fee, VML shall be reimbursed for its actual reasonable expenses incurred in connection with its duties noted above. For the 2008/2009 fiscal year, the Pool incurred \$2,938,917 in administrative fees related to this agreement representing 8.9% of the aggregate annual gross contribution paid by members.

CONFLICT OF INTEREST

The Pool has adopted a conflict of interest policy. The objective of this policy is to ensure that each director and officer faithfully serve the Pool and refrain from doing anything which is adverse or prejudicial to the Pool's interest. To ensure compliance with the policy, the Pool has established procedures which require directors and officers to sign a conflict of interest disclosure form annually. The disclosure forms are reviewed to determine if a potential or real conflict of interest exists.

DIVIDENDS TO MEMBERS

Any surplus assets accumulated within a fiscal year may be declared refundable by the Board. Payment of this surplus in the form of dividends, however, may not be made until certified by an actuary and the Pool has received acknowledgement from the Bureau. During the examination period, no dividends were acknowledged by the Bureau.

FIDELITY BOND COVERAGE

At June 30, 2009, the Pool was listed as a named insured on a fidelity bond with a \$1,000,000 limit of liability, subject to a \$300,000 deductible, to insure against losses arising from dishonest acts of its administrator and employees.

REINSURANCE COVERAGE

The Pool had reinsurance coverage in force at June 30, 2009 as set forth in the following schedules:

<u>Class of Business</u>	<u>Pool's Retention</u>	<u>Reinsurer's Limits</u>
Automobile Liability, General Liability, Public Officials Liability, Law Enforcement Liability, School Board Legal Liability, Employers Liability	\$1,000,000 each occurrence	\$10,000,000 per occurrence in excess of \$1,000,000 of the Pool's retention

Each Pool member has the option of increasing its liability coverages to a higher limit than the basic \$1,000,000 limit offered by the Pool. The additional umbrella limits of up to \$10,000,000 excess are placed through the reinsurer, subject to their approval, with the first \$1,000,000 of coverage retained by the Pool.

<u>Class of Business</u>	<u>Pool's Retention</u>	<u>Reinsurer's Limits</u>
General Property	\$500,000 per occurrence before exhaustion of the annual aggregate pool deductible of \$4,000,000 after which a \$25,000 maintenance deductible applies. The windstorm occurrence limit is \$1,000,000.	\$1,000,000,000 per occurrence: all perils, coverages and members combined, subject to various sub-limits.
Auto Physical Damage	\$150,000 per vehicle- comprehensive/collision	Replacement cost basis per member's schedule of insured vehicles with purchase cost greater than \$50,000.

For Property and Auto Physical Damage business, pool members select deductibles between \$100 and \$100,000.

<u>Class of Business</u>	<u>Pool's Retention</u>	<u>Reinsurer's Limits</u>
Boiler & Machinery	\$25,000 per occurrence	\$100,000,000 each occurrence
Fidelity & Crime	\$300,000 per occurrence	\$1,000,000 each occurrence

For Boiler & Machinery business, the Pool's retention limit on insured equipment varies between \$25,000 and \$350,000 depending on the equipment size and output rating.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia and covers the period from July 1, 2006 through June 30, 2009. Assets were verified and liabilities were established at June 30, 2009. A review of income and disbursements for the period was made to the extent deemed necessary.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Management and Control
Territory and Plan of Operation
Administrative and Other Services Agreement
Dividends to Members
Fidelity Bond Coverage
Reinsurance Coverage
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of June 30, 2009, a statement of revenue and expenses for the fiscal year ended June 30, 2009, a statement of changes in members' equity for the period under review and a statement of cash flow for the fiscal year ended June 30, 2009. The financial statements are presented in conformity with generally accepted accounting principles. This presentation has been approved by the Bureau.

BALANCE SHEET
JUNE 30, 2009

ASSETS

Current assets:	
Cash and cash equivalents	\$14,623,245
Investments	6,259,441
Accounts and contributions receivable	208,202
Accrued interest receivable	576,786
Reinsurance recoverable on paid losses	3,347,755
Total current assets	<u>\$25,015,429</u>
Noncurrent assets:	
Investments	\$42,892,948
Building	2,353,667
Total noncurrent assets	<u>\$45,246,615</u>
Total assets	<u>\$70,262,044</u>

LIABILITIES AND EQUITY

Current liabilities:	
Liability for unpaid losses, net	\$12,231,665
Contributions collected in advance	815,084
Administrative fees payable	210,512
Reinsurance payable	22,249
Other liabilities	75,097
Total current liabilities	<u>\$13,354,607</u>
Noncurrent liabilities:	
Liability for unpaid losses, net	<u>\$28,540,553</u>
Total liabilities	<u>\$41,895,160</u>
Equity:	
Unrestricted	\$21,431,257
Restricted	6,935,627
Total equity	<u>\$28,366,884</u>
Total liabilities and equity	<u>\$70,262,044</u>

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN EQUITY
FOR THE YEAR ENDED JUNE 30, 2009

Operating revenues:	
Member contributions	\$32,892,933
Miscellaneous income	7,548
Total operating revenues	<u>\$32,900,481</u>
Operating expenses:	
Provision for losses and loss adjustment expenses	\$19,629,449
Program administration fees	2,938,917
Reinsurance premiums	6,968,231
Other operating expenses	302,568
Total operating expenses	<u>\$29,839,165</u>
Operating income	<u>\$3,061,316</u>
Nonoperating revenues:	
Investment income	\$2,967,703
Net decrease in fair value of investments	<u>(2,999,831)</u>
Net nonoperating (loss) revenues	(\$32,128)
Other nonoperating expenses	<u>188,187</u>
Nonoperating income, net	<u>(\$220,315)</u>
Change in equity	\$2,841,001
Equity at beginning of year	<u>25,525,883</u>
Equity at end of year	<u><u>\$28,366,884</u></u>

STATEMENT OF CHANGES IN EQUITY

	<u>2006/2007</u>	<u>2007/2008</u>	<u>2008/2009</u>
Total Members' Equity, July 1	<u>\$15,347,396</u>	<u>\$20,958,106</u>	<u>\$25,525,883</u>
Excess of revenue over expenses	<u>\$5,610,710</u>	<u>\$4,567,777</u>	<u>\$2,841,001</u>
Change in Members' Equity	<u>\$5,610,710</u>	<u>\$4,567,777</u>	<u>\$2,841,001</u>
Total Members' Equity, June 30	<u><u>\$20,958,106</u></u>	<u><u>\$25,525,883</u></u>	<u><u>\$28,366,884</u></u>

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

Cash flows from operating activities:

Receipts from members	\$32,225,256
Payments for reinsurance premiums	(8,974,629)
Net payments for claims and claims adjustment expenses	(17,115,058)
Receipts from reinsurers for claims	0
Payments for administrative and general expenses	(3,572,921)
Net cash provided by operating activities	<u>\$2,562,648</u>

Cash flows from investing activities:

Proceeds from sales, calls and maturities of investments	\$26,454,110
Purchases of investments	(24,328,680)
Investment income	3,032,270
Building	(2,292,286)
Net cash provided by (used for) investing activities	<u>\$2,865,414</u>
Net increase in cash and cash equivalents	\$5,428,062

Cash and cash equivalents:

Beginning of year	<u>9,195,183</u>
End of year	<u><u>\$14,623,245</u></u>

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$3,061,316
Adjustments to reconcile operating income to net cash provided by operating activities:	
Provision for losses	19,629,449
Payments of claims and claims adjustment expenses	(17,115,058)
Payments for other operating expenses	(188,187)
Changes in assets and liabilities:	
Accounts and contributions receivable	(172,997)
Reinsurance receivable	(1,089,735)
Prepaid expenses	(810)
Contributions collected in advance	(502,228)
Administrative fees payable	(143,051)
Reinsurance payable	(916,663)
Other liabilities	612
Net cash provided by operating activities	<u><u>\$2,562,648</u></u>

Noncash investing activities:

The change in the fair value of investments is a noncash investing activity.

RECOMMENDATION FOR CORRECTIVE ACTION**Management and Control**


1. The results of this examination reflect a members' equity deficit for the 1999/2000, 2002/2003 and 2005/2006 fiscal years of \$320,177, \$189,824 and \$953,053, respectively. The Board is reminded of its responsibility to assure that the Pool is financially sound and able to fulfill its obligations according to its by-laws.

CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the Pool's administrator and staff during the course of the examination.

In addition to the undersigned, Milton Parker, Jr. participated in the work of the examination.

Respectfully submitted,


George E. Morgan, CFE
Insurance Examiner



STATE CORP COMMISSION
BUREAU OF INSURANCE
10 NOV -8 AM 9:50

November 2, 2010

Mr. David H. Smith, CFE, CPA, CPCU
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

RE: Virginia Municipal Liability Pool; Examination Report as June 30, 2009

Dear Mr. Smith,

We have received the examination report as of June 30, 2009 for Virginia Municipal Liability Pool.

In response to the recommendation for corrective action on page 14 of the report, we hereby acknowledge the deficit balances as of June 30, 2009 as shown. At this time we recommend taking no action on these years as they are subject to additional loss development and future investment income allocations. The ultimate deficit/surplus positions of these years may not be known for several years but when all claims are closed we will take any necessary actions to eliminate deficit balances at that time. As of June 30, 2010 the deficit balances are as follows: 1999/2000 - \$201,716; 2002/2003 - \$143,245; and 2005/2006 - \$309,380. If any of these years remain in a deficit balance after all claims are closed, we have adequate surplus and contingency reserves from other years to apply against those deficits.

Please advise if you have questions or concerns with this course of action.

We would appreciate 15 (fifteen) copies of the examination report. Thank you for your cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter M. Stephenson". The signature is fluid and cursive, written over a light blue horizontal line.

Peter M. Stephenson
Manager
Town of Smithfield