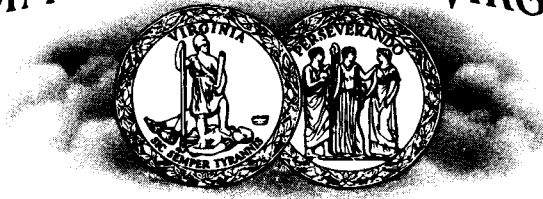


**EXAMINATION REPORT**  
**of**  
**VIRGINIA ASSOCIATION OF COUNTIES**  
**GROUP SELF-INSURANCE RISK POOL**  
**ROANOKE, VIRGINIA**  
**as of**  
**JUNE 30, 2009**

# COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS  
COMMISSIONER OF INSURANCE



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

## STATE CORPORATION COMMISSION BUREAU OF INSURANCE

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 Association of Counties Self-Insurance Risk 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 25<sup>th</sup> day of March, 2010

A handwritten signature in cursive script, reading 'Alfred W. Gross', written over a horizontal line.

Alfred W. Gross  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
December 11, 2009

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 ASSOCIATION OF COUNTIES  
GROUP SELF-INSURANCE RISK POOL**

Roanoke, 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 et seq. (Rules Governing Local Government Group Self-Insurance Pools) promulgated by the State Corporation Commission (the "Commission").

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, 1993. According to its bylaws, the Pool was formed:

... For the purpose of enabling Virginia governmental entities to pool retention of their risks by creating a group funding to pay liability claims and property losses of the local governments and other local agencies, departments, boards, and authorities joining the group ...

**MANAGEMENT AND CONTROL**

Control of the Pool is vested in a Members' Supervisory Board (the "Board") elected at the annual meeting of the Pool's members. According to the bylaws, the Board shall be comprised of seven members, each to serve until the members elect a successor. Such terms shall be staggered to provide that two Board members shall be elected each year with the exception of one year in which three Board members shall be elected. The Board shall elect a chairperson and a vice-chairperson from its members and designate a secretary to keep the minutes and records of the Board. The Secretary need not be a Board member. The Board may designate committees as needed.

The Board and officers were as follows at June 30, 2009:

<u>Representative</u>	<u>Affiliation</u>
David L. Ash	County Administrator Clarke County Berryville, Virginia
Richard C. Flora	Member, Board of Supervisors Roanoke County Roanoke, Virginia
James A. Gillespie	County Administrator Russell County Lebanon, Virginia
Kathleen D. Guzi	County Administrator Bedford County Bedford, Virginia
Frank A. Pleva	County Administrator King William County King William, Virginia
John R. Riley, Jr.	County Administrator Frederick County Winchester, Virginia
Peggy R. Wiley	Member, Board of Supervisors Greensville County Emporia, Virginia

Officers

John R. Riley, Jr.	Chairman
James A. Gillespie	Vice-Chairman
Christopher J. Carey	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 multi-peril, liability other than automobile, automobile liability, automobile physical damage, public official's liability and crime. Membership in the Pool is available to political subdivisions of the Commonwealth of Virginia or agencies thereof, based upon the approval of the Board and the Bureau. All members are required to execute member agreements, which set forth the rights, privileges, and obligations of the members, and 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 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, 2004, the Pool entered into an administrative and other services agreement with VACo Risk Management Programs, Inc. ("VRMP"). The initial term of the agreement is five years beginning July 1, 2004, and if not canceled, shall be renewed automatically for successive three-year periods thereafter. The agreement may be canceled by either party with 60 days written notice. According to the agreement, VRMP is responsible for, but not limited to, the following:

**Administration and Program Development:**

- Administering the Pool's financial and administrative affairs;
- Supervising the filing of all necessary forms and reports required by any governmental agencies;
- Obtaining an annual audit of the financial affairs of the Pool by independent public accountants;
- Billing and collecting contributions from the members;

- Investing and reinvesting the Pool's funds;
- 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;
- Providing complete underwriting services as shall be reasonably required to insure the Pool's financial well being on a fund year basis;
- Performing other duties and powers as may be assigned by the Board.

Claims Administration and Risk Control Services:

- Providing complete loss control services, which shall include conducting loss control evaluations of members, providing comprehensive risk control workshops for members, preparing and monitoring computer loss runs and furnishing complete claims handling services and administration for all claims to their conclusion.

As compensation for its services, VRMP shall receive 13% of the annual manual contribution payable on a quarterly basis. VRMP shall maintain these funds in a separate account to be used exclusively for the direct operational expenses of the Roanoke, Virginia administrative office. At the end of each fiscal year, any remaining funds including investment income, not used for the Pool's operations shall be returned to the Pool. Further, VRMP shall receive an additional 2.25% of the annual contributions for auto, general liability and property coverages which shall in turn be paid in full to VACo. Total administrative and other services fees expense for the 2008/2009 fiscal year was \$2,700,026. For financial reporting purposes, these expenses are allocated between administrative and service agent's fees on the Statement of Revenues, Expenses and Changes in Members' Equity.

**DIVIDENDS TO MEMBERS**

The Board may declare any surplus assets accumulated within a fiscal year refundable. 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, the Bureau acknowledged the following dividend:

<u>Fiscal Year</u>	<u>March 23, 2009</u>
1993/1994	\$ 10,000
1994/1995	25,000
1995/1996	25,000
1996/1997	50,000
1997/1998	50,000
1998/1999	100,000
2000/2001	50,000
2001/2002	50,000
2002/2003	75,000
2003/2004	75,000
2004/2005	150,000
2005/2006	150,000
2006/2007	<u>150,000</u>
Total	<u>\$ 960,000</u>

**FIDELITY BOND COVERAGE**

At June 30, 2009, the Pool was listed as a named insured on a fidelity bond with a \$2,000,000 limit of liability, subject to a \$20,000 deductible, to insure against losses arising from dishonest acts of its administrator and employees.



## REINSURANCE COVERAGE

The Pool had specific and aggregate reinsurance agreements in force at June 30, 2009, as set forth in the following schedule:

<u>Type of Agreement</u>	<u>Pool's Retention</u>	<u>Limits of Liability of the Reinsurer</u>
<u>Automobile and General Liability</u>		
<u>Public Officials Liability</u>		
<u>School Board Legal Liability</u>		
Specific Excess	\$500,000 each occurrence or accident	\$9,500,000 each occurrence or accident
 <u>Commercial Crime</u>		
Specific Excess	\$50,000 each occurrence	\$200,000 each occurrence

Each Pool member has the option of increasing its automobile, general liability and public official's liability coverage to a higher limit than the basic \$2,000,000 limit offered by the Pool. Additional excess limits of up to \$10,000,000 are placed entirely through the reinsurer and are subject to its approval. The Pool has no additional retention for members selecting the higher limits.

For automobile and general liability business, Roanoke County, Stafford County, Loudoun County and James City County have selected a high-deductible option of \$250,000, \$100,000 \$100,000 and \$100,000, respectively. Therefore, members' claims which are paid by the Pool within the member's deductible are fully reimbursed to the Pool.

The Boiler and Machinery, Environmental Impairment Liability, Equipment Maintenance and Excess Crime coverage offered by the Pool is 100% reinsured, subject to various limits and sub-limits.

**Limits of Liability**

<u>Type of Agreement</u>	<u>Pool's Retention</u>	<u>of the Reinsurer</u>
<u>Property</u>		
Specific Excess	\$250,000 per occurrence (except in high hazard wind counties, up to \$750,000 per occurrence)	\$500,250,000 per occurrence for all covered losses except flood and earthquake \$50,000,000 annual aggregate for flood and earthquake
Aggregate Excess	.07 per \$100 of total insured real and personal property (estimated at \$12,297,372,631 or approximately \$8,608,160)	\$500,250,000, subject to a \$10,000 per occurrence maintenance deductible.

For Property and Automobile Physical Damage business, pool members select deductibles between \$250 and \$25,000.

All Lines of Business

Aggregate Excess	100% of the Pool's combined ratio	\$1,000,000 aggregate per reinsurance period
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**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. It 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.

The items comprising the Balance Sheet has a medium or low risk assessment as determined from the principals of the risk based approach contained in the NAIC Financial Condition Examiners Handbook. Analytical review procedures were applied to non-material items.

In addition, the following matters were reviewed; several of which are discussed separately under their respective captions in the report:

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

**FINANCIAL STATEMENTS**

There follows a statement of the financial condition of the Pool at June 30, 2009, a statement of operations for the fiscal year ended June 30, 2009, a statement of changes in members' equity for the period under review, a statement of cash flows for the fiscal year ended June 30, 2009 and a statement of Examiners' changes in members' equity at June 30, 2009.

**BALANCE SHEET**  
**JUNE 30, 2009**

**ASSETS**

Current Assets	
Cash and cash equivalents	\$1,474,575
Service agent's fees receivable	725,260
Receivable from reinsurer	276,588
Accrued interest receivable	149,143
Prepaid expenses and other assets	143,686
Other receivables	103,968
Premiums receivable	7,803
Total Current Assets	<u>\$2,881,023</u>
Noncurrent Assets	
Investments	\$22,272,552
Deposit with service agent	750,000
Property and equipment, net	<u>1,597,337</u>
Total Noncurrent Assets	<u>\$24,619,889</u>
Total Assets	<u><u>\$27,500,912</u></u>

**LIABILITIES AND MEMBERS' EQUITY**

Current Liabilities	
Unpaid losses	\$1,682,000
Unearned income	2,479,264
Dividends payable	960,000
Accrued expenses	237,920
Total Current Liabilities	<u>\$5,359,184</u>
Noncurrent Liabilities	
Unpaid losses	<u>\$5,381,036</u>
Total Noncurrent Liabilities	<u>\$5,381,036</u>
Total Liabilities	<u>\$10,740,220</u>
Members' Equity	
Invested in capital assets, net of related debt	\$1,597,337
Unrestricted	15,163,355
Total Members' Equity	<u>\$16,760,692</u>
Total Liabilities and Members' Equity	<u><u>\$27,500,912</u></u>

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

Operating Revenues	
Premiums earned	\$18,220,231
Brokered products	912,623
Total Operating Revenues	<u>\$19,132,854</u>
Operating Expenses	
Claims paid	\$7,152,956
Reinsurance premiums	4,773,500
Service agent's fees	2,335,012
Claims reserve	2,120,608
Brokered products	773,422
General and administrative	
Other	583,332
Administrative fees	365,014
Total Operating Expenses	<u>\$18,103,844</u>
Operating Income	<u>\$1,029,010</u>
Nonoperating Revenues (Expenses)	
Investment income	
Interest and dividends	\$1,085,533
Net realized gain from sales and maturities of investments	736,774
Net unrealized gain (loss) from investments	253,269
Net investment income	<u>\$2,075,576</u>
Rental income	45,401
Loss on disposal of capital assets	(8,960)
Interest expense	<u>(10,661)</u>
Total Nonoperating Revenues	<u>\$2,101,356</u>
Dividends declared	<u>(\$960,000)</u>
Net Change in Members' Equity	\$2,170,366
Members' equity at beginning of year	<u>14,590,326</u>
Members' Equity at End of Year	<u><u>\$16,760,692</u></u>

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**

	<u>2006/2007</u>	<u>2007/2008</u>	<u>2008/2009</u>
Members' Equity, beginning of fiscal year *	<u>\$7,476,714</u>	<u>\$11,416,829</u>	<u>\$14,590,326</u>
Adjustment for previous examination changes	19,875		
Adjustment for restatement of prior year members' equity	(204,346)		
Excess of revenues over expenses	<u>4,124,586</u>	<u>3,173,497</u>	<u>2,170,366</u>
Members' Equity, end of fiscal year	<u><u>\$11,416,829</u></u>	<u><u>\$14,590,326</u></u>	<u><u>\$16,760,692</u></u>

\*- Adjusted members' equity from previous examination

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

Cash Flows from Operating Activities	
Cash received from members	\$19,589,629
Cash paid for claims	(6,810,636)
Cash paid for reinsurance premiums	(4,773,500)
Cash paid for other operating expenses	(3,854,326)
Net Cash Provided by Operating Activities	<u>\$4,151,167</u>
Cash Flows from Capital and Related Financing Activities	
Proceeds from disposal of capital assets	\$32,300
Principal and interest paid on capitalized lease obligation	(696,225)
Purchase of capital assets	(209,253)
Net Cash Used by Capital and Related Financing Activities	<u>(\$873,178)</u>
Cash Flows from Investing Activities	
Proceeds from sale and maturities of investments	\$24,452,088
Purchases of investments	(29,670,865)
Investment income received	1,042,426
Rental income received	45,401
Net Cash Used in Investing Activities	<u>(\$4,130,950)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(\$852,961)
Cash and cash equivalents at beginning of year	<u>2,327,536</u>
Cash and Cash Equivalents at End of Year	<u><u>\$1,474,575</u></u>



**STATEMENT OF EXAMINERS' CHANGES**  
**IN MEMBERS' EQUITY**

	<u>Amount Per Pool</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Pool Equity</u>
<u>Liabilities:</u>			
Accrued expenses	\$230,885	\$237,920	<u>(\$7,035)</u>
Examiners' changes in members' equity			<u><u>(\$7,035)</u></u>
Total members' equity per Pool			\$16,767,727
Total members' equity per Examiner			<u>\$16,760,692</u>
Decrease in members' equity			<u><u>(\$7,035)</u></u>

**RECOMMENDATION FOR CORRECTIVE ACTION****Accounts and Records**

1. **Accrued expenses** **\$237,920**

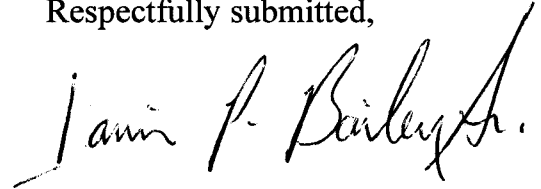
The above liability is \$7,035 more than the amount reported by the Pool in its June 30, 2009 filing to the Bureau. The increase is the result of the Examiner's review of invoices for various expenses incurred for the fiscal year ended June 30, 2009, but paid in the subsequent fiscal year. The Examiners recommend that the Pool accrue a liability for all expenses payable as of its fiscal year end in future filings to the Bureau.

**CONCLUSION**

The courteous cooperation extended by the Pool's administrator and staff during the course of the examination is gratefully acknowledged.

In addition to the undersigned, George E. Morgan, CFE participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Darrin P. Bailey Sr." with a stylized flourish at the end.

Darrin P. Bailey Sr., CFE, MHP  
Senior Insurance Examiner

STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE  
10 MAR 11 AM 9:46

March 8, 2010

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

RE: Virginia Association of Counties Group Self-Insurance Risk Pool  
Examination Report as of June 30, 2009

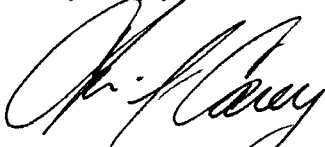
Dear Mr. Smith:

We are in receipt of the Commission's Examination Report of Virginia Association of Counties Group Self-Insurance Risk Pool, Roanoke, Virginia as of June 30, 2009. On behalf of the Supervisory Board of VACoRP, we accept the report in its entirety. The recommended corrective action is duly noted.

As for copies, optimally we would like an electronic copy. In lieu of the electronic copy, we would need eight (8) copies for distribution to the Board members.

Should you have any questions, comments or concerns, please feel free to contact us.

Very truly yours,



Christopher J. Carey, Administrator  
Virginia Association of Counties Group Self-Insurance Risk Pool

cc: John R. Riley, Jr., Chairman  
Members' Supervisory Board