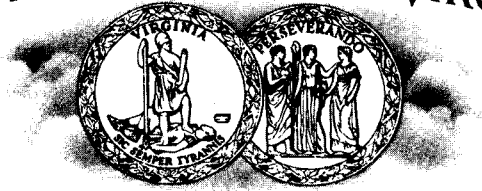


EXAMINATION REPORT
of
VSBA PROPERTY AND CASUALTY POOL
CHARLOTTESVILLE, VIRGINIA
as of
JUNE 30, 2009

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

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



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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of VSBA Property and Casualty 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 10th day of February, 2010

A handwritten signature in cursive script that reads "Alfred W. Gross".

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
November 10, 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

VSBA PROPERTY AND CASUALTY POOL

Charlottesville, 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 though June 30, 2009.

HISTORY

The Pool was licensed by the Bureau effective July 1, 1997. According to its Constitution and By-laws, the Pool was formed:

... to join together to provide for joint and cooperative action to form a group self-insurance pool pursuant to the terms of the Virginia Code Section 15.2-2700, et seq. (the "Act").

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. The by-laws provide for no less than three nor more than seven Board members, of which three-fourths must be currently elected or appointed to a member's governing body. Former elected or appointed officials of a member's governing body may be a Board member and one Board member may be a Division Superintendent of Schools. Each Board member shall serve a term of three years or until the members elect a successor. The President, President-Elect, and the Executive Director of the Virginia School Boards Association ("VSBA"), or the Executive Director's designee, shall serve as ex-officio Board members with voting power and shall be included in the determination of a quorum per the revised by-laws.

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

<u>Representative</u>	<u>Affiliation</u>
Scott T. Albrecht	Manassas City Schools Manassas, Virginia
Warren Jeff Bain, Ex-officio Member	President-Elect VSBA Pulaski, Virginia
Frank E. Barham, Ex-officio Member	Executive Director VSBA Charlottesville, Virginia
Billy W. Brooks	Washington County Schools Bristol, Virginia
Russell W. Dove	Prince Edward County Schools Rice, Virginia
Lloyd D. Hamlin	Surry County Schools Surry, Virginia
Stuart F. Gibson, Ex-officio Member	President VSBA Portsmouth, Virginia

Richard W. Layman	King & Queen County Schools King & Queen, Virginia
James R. Ruhland	(Retired) Botetourt County Schools Troutville, Virginia
Jean H. Shackelford	Portsmouth City Schools Portsmouth, Virginia
David F. Sulzen	Floyd County Schools Floyd, Virginia

Officers

Billy W. Brooks	Chairman
Jean H. Shackelford	Vice-Chairman

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 local public school boards, counties, cities, towns and local political subdivisions of the Commonwealth of Virginia, subject to the approval of the Board and the Bureau. Members are required to enter into member agreements, which set forth the rights, privileges, and obligations of the members, and the terms, coverages, limits, and deductibles of the Pool.

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. Claims are processed and paid by a service agent under a contractual agreement with the Pool. The Pool conducts operations on a fiscal year basis ending June 30.

ADMINISTRATIVE AGREEMENT

Effective February 7, 2006, the Pool entered into an administrative agreement with VSBA. The initial term of the contract is ten years and the agreement shall automatically renew thereafter on a yearly basis until terminated by either party upon six months written notice.

According to this agreement, VSBA shall administer and manage the affairs of the Pool in accordance with the policies adopted and established from time to time by the Board. Additionally, VSBA shall advise the Board on policy matters, ensure that all provisions of the Board's contracts for services are met, establish and maintain a resident address for the Pool, set up policies and maintain a set of books, bill and collect all sums due the Pool and pay all items of expense. Further, VSBA shall assist in securing specific and aggregate excess insurance, contracts for claims handling and loss control services, and coordinate annual contribution audits.

For the above services, VSBA shall receive 11% of all members' contributions to the Pool. For the 2008/2009 fiscal year, the Pool incurred \$603,429 in administrative fees related to this agreement. Additionally, VSBA may retain any commission received for placement of reinsurance coverage from the reinsurance carrier for all years covered under this agreement.

CLAIM SERVICE AGREEMENT

Effective July 1, 2005, the Pool entered into a claims service agreement with PMA Management Corp. ("PMA"). The term of the agreement is for one year and shall renew automatically for additional one-year periods. The agreement was amended on June 17, 2008 for a two-year extension period July 1, 2008 to June 30, 2010. This amendment also modified certain compensation provisions, however, all other provisions remained unchanged. This agreement may be terminated by either party upon 90 days written notice.

Under the terms of the agreement, PMA shall provide complete claims handling services, including but not limited to, the investigation of each qualified claim or loss, the adjustment, settlement or denial of all qualified claims, reporting of excess claims to the Pool's excess insurance carrier, and providing risk management information services including standard loss reports to the Pool.

For the above services, PMA shall receive an annual fee of 4.5% of all members' contributions to the Pool. In addition, the Pool shall pay an annual fee of \$3,500 for access to PMA's internet-based information system. For the 2008/2009 fiscal year, the Pool incurred \$220,371 in claims service fees related to this agreement.

FIDELITY BOND COVERAGE

At June 30, 2009, the Pool was listed as a named insured on a fidelity bond with a \$250,000 limit of liability, subject to a \$250 deductible, to insure against losses arising from dishonest acts of its administrator and employees.

REINSURANCE COVERAGE

The Pool had specific and aggregate excess reinsurance agreements in force at June 30, 2009 for automobile liability, liability other than automobile, and automobile physical damage as follows:

<u>Type of Agreement</u>	<u>Pool's Retention</u>	<u>Limits of Liability of the Reinsurer</u>
Specific Excess	\$100,000 each occurrence	\$900,000 each occurrence
Aggregate Excess	120% of fund written premium (subject to a minimum of \$3,000,000)	\$2,500,000 aggregate limit

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 \$1,000,000 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.

The City of Richmond School Board has a \$50,000 deductible per occurrence for general liability coverage and a \$25,000 deductible per occurrence for school board legal liability coverage.

The Pool had reinsurance in force at June 30, 2009 for property coverage as follows:

Excess of Loss	\$100,000 each occurrence	\$200,000,000 each occurrence for all covered losses except flood and earthquake \$50,000,000 annual aggregate for flood and earthquake
Boiler & Machinery	\$5,000 per occurrence	\$100,000,000 per occurrence

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.

The items comprising the Balance Sheet has a medium or low risk assessment as determined from the principals of the risk-based examination 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 Agreement
Claim Service Agreement
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, expenses and changes in members' equity for the fiscal year ended June 30, 2009, a statement of changes in members' equity for the period under review, a statement of cash flow for the fiscal year ended June 30, 2009 and a statement of Examiners' changes in members' equity for the fiscal year ended June 30, 2009.

BALANCE SHEET
JUNE 30, 2009

Assets

Cash and cash equivalents	\$1,988,672
Certificates of deposit	2,000,000
Accounts receivable	11,917
Interest receivable	16,895
Receivable from reinsurance	1,744,043
Prepaid expense	<u>12,021</u>

Total assets \$5,773,548

Liabilities and Members' Equity**Liabilities**

Accounts payable	\$14,227
Unearned income	1,214,404
Unpaid losses and loss adjustment expenses	2,337,999
Service fees payable	<u>663</u>

Total liabilities \$3,567,293

Members' Equity

Members' equity \$2,206,255

Total liabilities and members' equity \$5,773,548

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

Revenue	
Premiums earned	\$5,503,400
Excess reinsurance premiums	<u>2,529,615</u>
Net premiums earned	\$2,973,785
Investment income	<u>56,424</u>
Total revenue	<u>\$3,030,209</u>
Expenses	
Claims paid	\$2,755,630
Claims reserve	(1,244,501)
Service fees	220,371
Administrator fees	603,429
Other	<u>169,732</u>
Total expenses	<u>\$2,504,661</u>
Excess of revenue over expenses	\$525,548
Members' equity	
Beginning of year	<u>\$1,680,707</u>
End of year	<u><u>\$2,206,255</u></u>

STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR PERIOD UNDER REVIEW

	<u>2006/2007</u>	<u>2007/2008</u>	<u>2008/2009</u>
Members' Equity, beginning of fiscal year	\$182,723	\$383,162	\$1,680,707
Adjustment for previous examination changes	(1,118)		
Excess of revenue over expenses	<u>201,557</u>	<u>1,297,545</u>	<u>525,548</u>
Members' Equity, end of fiscal year	<u><u>\$383,162</u></u>	<u><u>\$1,680,707</u></u>	<u><u>\$2,206,255</u></u>

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

Cash flows from operating activities

Excess of revenues over expenses	\$525,548
Adjustment to reconcile excess of revenues over expenses to net cash provided by operating activities:	
(Increase) decrease in receivables	(420,121)
(Increase) decrease in prepaid	2,565
(Increase) decrease in accrued interest	(16,895)
Increase (decrease) in accounts payable	727
Increase (decrease) in service fees payable	(9,186)
Increase (decrease) in unearned income	(18,011)
Increase (decrease) in unpaid losses	<u>(737,891)</u>
Net cash provided by (used in) operations	<u>(\$673,264)</u>

Cash flows from investing activities

Sales (purchase) of investments	<u>(\$2,000,000)</u>
Net increase (decrease) in cash and cash equivalents	<u>(\$2,673,264)</u>

Cash and cash equivalents at beginning of year	<u>4,661,936</u>
Cash and cash equivalents at end of year	<u><u>\$1,988,672</u></u>

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
JUNE 30, 2009

	<u>Amount Per Pool</u>	<u>Amount Per Examiners</u>	<u>Increase (Decrease) Members' Equity</u>
<u>Assets:</u>			
Prepaid expense	\$17,021	\$12,021	(\$5,000)
<u>Liabilities:</u>			
Accounts payable	14,018	14,227	<u>(209)</u>
Examiners' changes in members' equity			<u><u>(\$5,209)</u></u>
Total members' equity per Pool			\$2,211,464
Total members' equity per Examiner			<u>2,206,255</u>
Decrease in members' equity			<u><u>(\$5,209)</u></u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect a members' equity deficit for the 2001/2002, 2002/2003, 2003/2004 and 2004/2005 fiscal years of \$76,724, \$146,804, \$158,805 and \$288,366 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.
2. The Pool's by-laws state that there shall be three to seven Board members. At June 30, 2009, the Pool had 11 representatives on the Board. It is recommended that the Association either elect the number of Board members authorized by the by-laws or amend the by-laws.

Accounts and Records

3. Prepaid expense \$12,021

The above asset is \$5,000 less than the amount reported by the Pool in its June 30, 2009 filing to the Bureau. The decrease is the result of the Examiner's review of an invoice reported as prepaid expense for the fiscal year ended June 30, 2009, but determined as paid in the subsequent fiscal year. The Examiners recommend that the Pool report only those prepaid expenses actually paid as of its fiscal year end in future filings to the Bureau.

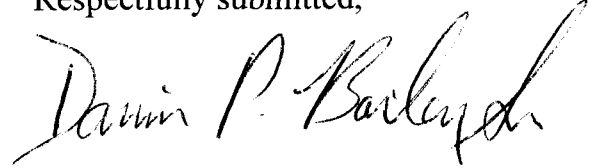
4. Accounts payable \$14,227

The above liability is \$209 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 for all expenses payable as of its fiscal year end in future filings to the Bureau.

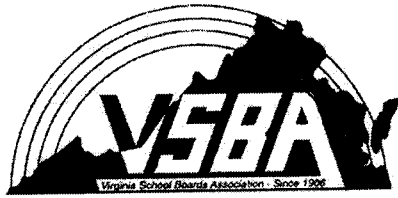
CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the Pool's administrator and service agent during the course of the examination. In addition to the undersigned, George E. Morgan, CFE participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, reading "Darrin P. Bailey, Sr.", written in a cursive style.

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



Virginia School Boards Association
"Children Are Our Common Wealth"

January 21, 2010

STATE OF VIRGINIA
DEPARTMENT OF INSURANCE
10 JAN 25 AM 9:45

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

RE: VSBA Property and Casualty Pool
Examination Report as of June 30, 2009

Dear Mr. Smith:

We have received and reviewed the above referenced report.

Regarding the Recommendations for Corrective Action on page 13, the following is offered:

1. We acknowledge that there are deficits in members' equity for the fiscal periods 2001/2002, 2002/2003, 2003/2004 and 2004/05. We will continue to monitor these fiscal periods and will consider a reallocation of funds in the future.
2. At the November 18, 2009 meeting, the Supervisory Board revised the by-laws to reflect twelve members.
3. In the future we will make every effort to ensure that prepaid expenses are reported in the appropriate fiscal year.
4. In the future we will make every effort to ensure that the Pool accrues for all expenses payable as of its fiscal year end.

Respectfully submitted,

Billy W. Brooks, Chairman
Members' Supervisory Board
VSBA Workers' Comp Group