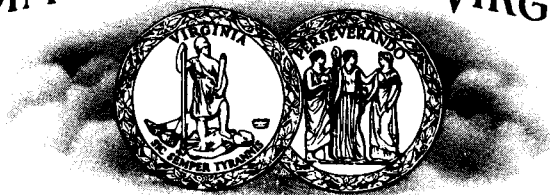


**EXAMINATION REPORT**  
**of**  
**VADA GROUP**  
**SELF-INSURANCE ASSOCIATION**  
**RICHMOND, VIRGINIA**  
**as of**  
**DECEMBER 31, 2008**

**COMMONWEALTH OF VIRGINIA**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

# COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS  
COMMISSIONER OF INSURANCE



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
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<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 VADA Group Self-Insurance Association as of December 31, 2008, 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 22<sup>nd</sup> day of April, 2010

---

Alfred W. Gross  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
January 27, 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:

**VADA GROUP  
SELF-INSURANCE ASSOCIATION**

Richmond, Virginia

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

**DESCRIPTION**

The Association is a group self-insurance association licensed to provide workers' compensation coverage and employers' liability coverage to its members pursuant to Section 65.2-802 of the Code of Virginia and 14 VAC 5-370-10 et seq. (Rules Governing Group Self-Insurers of Liability Under the Virginia Workers' Compensation Act) promulgated by the State Corporation Commission (the "Commission").

The Association was last examined by representatives of the Commission's Bureau of Insurance (the "Bureau") as of December 31, 2005. This examination covers the period from January 1, 2006 through December 31, 2008.

**HISTORY**

The Association was licensed by the Bureau effective April 1, 1981. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage.

According to its original indemnity agreement and power of attorney, the Association was formed for the following purpose: "To pool the respective liabilities of members under the Virginia Workers' Compensation Act..."

### MANAGEMENT AND CONTROL

Control of the Association is vested in a Members' Supervisory Board (the "Board") elected by the members of the Association. The by-laws provide for no less than nine nor more than twelve board members. The Board shall elect a Chairman, a Vice-Chairman, a Secretary, a Treasurer and any additional officers as the Board deems necessary.

The Board and officers were as follows at December 31, 2008:

<u>Representative</u>	<u>Member</u>
Richard G. Barkhouser	Barkhouser Ford Lincoln-Mercury Danville, Virginia
Gerald E. Duncan	Duncan Ford Mercury Rocky Mount, Virginia
Joan W. Goebel	Carter Myers Automotive Chester, Virginia
Jerry F. Halfant	Price Automotive Charlottesville, Virginia
George M. Harvey, Jr.	Harvey's Chevrolet Radford, Virginia
Donald J. Hopper	Cowels Parkway Ford Woodbridge, Virginia
Michael J. King	Southern Hospitality Group Chesapeake, Virginia
J. Theodore Linhart	Dominion Auto Group Richmond, Virginia
Ralph L. Mastantuono	American Service Center Fairfax, Virginia

Daniel A. Rosinski

Bowditch Ford  
Virginia Beach, Virginia

Charles S. Stringfellow, Jr.

Brown Automotive Group  
Fairfax, Virginia

Christopher A Strosnider

Strosnider Chevrolet  
Hopewell, Virginia

#### Officers

Charles S. Stringfellow, Jr.

Chairman

Michael J. King

Vice-Chairman

J. Theodore Linhart

Secretary

Joan W. Goebel

Treasurer

### **TERRITORY AND PLAN OF OPERATION**

The operation of the Association is confined to Virginia where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Association is available to applicants engaged in a similar type of business upon the approval of the Board and the Commission.

All members are required to enter into an indemnity agreement in which each member jointly and severally agrees to assume and discharge members' employers' liabilities and any and all members' liabilities covered under the Virginia Workers' Compensation Act. No formal insurance policy is issued to the members.

The Association has a contractual agreement with an administrator who shall administer and manage the affairs of the Association in accordance with the policies adopted and established by the Board. Marketing services, including new sales, renewal sales, and service calls are provided by a contractual agreement. Claims are processed and paid by a service agent under a contractual agreement with the Association. The Association's operations are conducted on a fiscal year basis ending June 30.

### **ADMINISTRATIVE AGREEMENT**

Effective January 1, 2003, the Association entered into an administrative agreement with Virginia Automobile Dealers Services, Inc. ("VADS"). The initial term of this agreement was for a period of one year and shall be automatically renewed for one year terms thereafter unless terminated by mutual written consent of the Association and VADS.

According to the agreement, VADS is responsible for managing the financial and administrative affairs of the Association, including collecting contributions and assessments, maintaining necessary records of account, managing investments, managing the underwriting of the Association and filing reports and forms as required.

As compensation for its services, VADS shall receive 4.5% of the annual billed audited premium, plus 10% of all income earned on investments, excluding capital gains and losses. Administrative fees for calendar year 2008 were \$571,013.

### **CLAIMS SERVICE AGREEMENT**

Effective January 1, 2005, the Association entered into a claims service agreement with PMA Management Corporation ("PMA"). This agreement, as amended July 15, 2008, extended the term for three additional years through June 30, 2011 and shall remain in force and effect unless otherwise amended or terminated.

According to the agreement, PMA shall provide all customary and appropriate workers' compensation claims handling functions. Such claims handling functions include: the investigating, adjusting, paying, settling or litigating of each qualified claim or loss. PMA's claims services also include: determining appropriate claims reserves, providing customary reporting and other administrative and clerical work. Further, PMA shall provide reporting to the excess insurance carrier, managed care services, risk control services, and risk management information services.

As compensation for its services, PMA shall receive 7.1% of the total annual billable premium. Until such a final amount is established, PMA shall receive monthly installments on the first of each month equaling one-twelfth of the estimated annual fee calculated on the initial estimated annual premium. Claims service agent fees for calendar year 2008 were \$537,931. Additionally, for cost containment services, PMA receives \$7.00 per bill reviewed plus 29% of the total savings resulting from the use of PMA's cost containment programs.

## MARKETING/MANAGEMENT AGREEMENT

Effective July 1, 2006, the Association entered into a marketing agreement with E. L. Creech & Co., Inc. ("Creech") to provide the Association with marketing services, including new sales, renewal sales, and service calls. This agreement is for a period of three years, unless terminated by either party by providing written notice at least 30 days prior to termination.

As compensation for its services, Creech shall receive 1% of the annual audited net premiums paid into the Association. Until such a final amount is established, Creech shall receive monthly installments of \$6,666. Marketing fees for calendar year 2008 were \$75,765.

## 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 the Association has received approval from the Bureau. During the examination period, the Bureau approved the following dividend:

<u>Fiscal Year</u>	<u>May 17, 2007</u>
1987	\$ 20,348
1988	15,000
1989	50,000
1990	75,000
1991	75,000
1992	75,000
1994	200,000
1995	25,000
1996	150,000
1997	340,000
1998	300,000
1999	35,000
2003	<u>600,000</u>
Total	<u>\$ 1,960,348</u>



**FIDELITY BOND COVERAGE**

At December 31, 2008, the Association was listed as a named insured on a fidelity bond, with a \$1,000,000 limit of liability, subject to a \$50,000 deductible, to insure against losses arising from dishonest acts of its administrator and employees.

**SPECIAL RESERVES AND DEPOSITS**

At December 31, 2008, the Association had securities with a market value of \$259,830 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A.

**EXCESS INSURANCE COVERAGE**

The Association had both specific and aggregate excess insurance agreements in force at December 31, 2008, with the following limits:

	<b><u>Association's Retention</u></b>	<b><u>Excess Insurer's Limits</u></b>
Specific Excess	\$500,000	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	110% of total standard premium, subject to a minimum retention of \$8,621,199	\$5,000,000

## **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 January 1, 2006 through December 31, 2008. Assets were verified and liabilities were established at December 31, 2008. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet had a medium or low risk assessment as determined from the principles 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  
Claims Service Agreement  
Marketing/Management Agreement  
Dividends to Members  
Fidelity Bond Coverage  
Special Reserves and Deposits  
Excess Insurance Coverage  
Financial Statements

**FINANCIAL STATEMENTS**

There follows a statement reflecting the financial condition of the Association at December 31, 2008, a statement of income for the year ended December 31, 2008, a reconciliation of members' equity for the period under review, a statement of members' account by fiscal year inception to date and a statement of Examiners' changes in members' equity.

**BALANCE SHEET**  
**DECEMBER 31, 2008**

**ASSETS**

Bonds, long-term	\$21,306,972
Other invested assets	5,756,421
Cash on deposit	(48,501)
Premiums receivable	192,473
Interest due and accrued	302,040
Amounts recoverable on paid losses	147,032
Prepaid insurance	17,304
Prepaid service agent's fees	66,761
Prepaid marketing fees	2,901
Prepaid reinsurance premiums	194,172
	<hr/>
Total assets	<u><u>\$27,937,575</u></u>

**LIABILITIES AND MEMBERS' EQUITY**

Losses unpaid	\$19,447,681
Loss adjustment expenses unpaid	684,777
Contingency reserve	2,782,658
Unearned premiums	1,711,341
Excess insurance premiums payable	0
Premium refunds payable	408,708
Administrative fees payable	13,169
Service agent's fees payable	30,465
Taxes, licenses and fees payable	245,145
Dividends payable	926,144
Marketing fees payable	4,299
Actuary fees payable	3,500
Investment fees payable	30,600
Accounting fees payable	21,750
Payroll audit fees payable	30,000
	<hr/>
Total liabilities	\$26,340,237
Restricted members' equity	\$259,830
Unrestricted members' equity	1,337,508
	<hr/>
Total liabilities and members' equity	<u><u>\$27,937,575</u></u>

**STATEMENT OF INCOME**  
**FOR YEAR ENDED DECEMBER 31, 2008**

**UNDERWRITING INCOME**

Premiums earned	<u>\$6,418,418</u>
Deductions:	
Losses incurred	\$7,036,408
Loss expenses incurred	456,382
Other underwriting expenses incurred	1,609,804
Contingency reserve	<u>223,713</u>
Total underwriting deductions	<u>\$9,326,307</u>
Net underwriting gain or (loss)	<u>(\$2,907,889)</u>

**INVESTMENT INCOME**

Net investment income earned	\$1,354,668
Net realized capital gains or (losses)	<u>(219,337)</u>
Net investment gain	<u>\$1,135,331</u>

**OTHER INCOME**

Miscellaneous income	<u>\$8,272</u>
Total other income	<u>\$8,272</u>
Net income before federal income taxes incurred	(\$1,764,286)
Federal income taxes incurred	<u>45,977</u>
Net income	<u><u>(\$1,810,263)</u></u>

**RECONCILIATION OF MEMBERS' EQUITY**

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Members' equity, previous year before undistributed dividends	* \$3,384,162	\$4,323,006	\$5,349,324
Adjustment for previous examination changes	235,003		
Net income or (loss)	649,226	1,204,374	(1,810,263)
Net unrealized capital gains or (losses)	54,615	370,457	(529,543)
Dividends paid to members	<u>0</u>	<u>(548,513)</u>	<u>(486,036)</u>
Restricted and unrestricted members' equity, end of year, before undistributed dividends	\$4,323,006	\$5,349,324	\$2,523,482
Less: Restricted members' equity, end of year	<u>259,227</u>	<u>261,512</u>	<u>259,830</u>
Unrestricted members' equity, end of year before undistributed dividends	\$4,063,779	\$5,087,812	\$2,263,652
Less: Dividends declared but unpaid	<u>0</u>	<u>1,411,835</u>	<u>926,144</u>
Unrestricted members' equity, end of year	<u>\$4,063,779</u>	<u>\$3,675,977</u>	<u>\$1,337,508</u>

\* Adjusted members' equity before undistributed dividends from previous examination.

**Members' Account By Fiscal Year Inception to Date December 31, 2008**

	All Other Fiscal Years Preceding 1981-2005	Third Fiscal Year Preceding 2006	Second Fiscal Year Preceding 2007	First Fiscal Year Preceding 2008	Partial Current Fiscal Year 7/1/08-12/31/08	Total Inception to Date 1981-2008
<b><u>Income Received</u></b>						
Premiums written	\$106,480,986	\$10,201,545	\$8,112,961	\$8,429,090	\$4,596,114	\$137,820,696
Less: Excess insurance	9,061,628	1,022,490	821,608	732,428	485,028	12,123,182
Net premiums written	\$97,419,358	\$9,179,055	\$7,291,353	\$7,696,662	\$4,111,086	\$125,697,514
Investment income	13,154,899	729,138	276,659	93,808	1,249,951	15,504,455
(Allocation between years)	574,676	253,333	170,971	183,574	(1,182,554)	0
Other	447,840	0	0	0	(529,543)	(81,703)
Total income collected	\$111,596,773	\$10,161,526	\$7,738,983	\$7,974,044	\$3,648,940	\$141,120,266
<b><u>Less: Expenses Paid</u></b>						
Losses paid	\$65,174,611	\$2,782,333	\$2,603,110	\$2,028,631	\$367,665	\$72,956,350
Allocated loss adjustment expenses paid	4,174,269	309,986	228,686	188,510	34,120	4,935,571
Administrative fees	5,648,919	566,123	567,390	445,040	232,603	7,460,075
Service agent's fees	9,446,331	665,143	599,246	568,000	323,050	11,601,770
Taxes, licenses, and fees	1,839,560	183,795	204,917	99,236	0	2,327,508
Federal income tax	253,500	66,291	0	45,977	0	365,768
Other expenses	3,116,455	303,759	227,839	357,164	90,120	4,095,337
Total expenses	\$89,653,645	\$4,877,430	\$4,431,188	\$3,732,558	\$1,047,558	\$103,742,379
Net cash income	\$21,943,128	\$5,284,096	\$3,307,795	\$4,241,486	\$2,601,382	\$37,377,887
<b><u>Add: Receivables</u></b>						
Premiums receivable	\$0	\$0	\$0	\$0	\$192,473	\$192,473
Interest due and accrued	138,868	61,216	41,314	44,359	16,283	302,040
Recoverable on paid losses	147,032	0	0	0	0	147,032
Other	0	0	0	0	281,138	281,138
Total	\$285,900	\$61,216	\$41,314	\$44,359	\$489,894	\$922,683
<b><u>Deduct: Liabilities</u></b>						
Losses unpaid	\$5,442,508	\$1,776,086	\$3,244,833	\$4,294,277	\$4,689,977	\$19,447,681
Loss adjustment expenses	196,623	58,104	39,404	195,132	195,514	684,777
Contingency reserve	1,862,650	306,046	252,951	252,873	108,138	2,782,658
Unearned premiums	0	0	0	0	1,711,341	1,711,341
Excess insurance payable	0	0	0	0	0	0
Premium refunds payable	0	0	0	0	408,708	408,708
Administrative fees payable	0	0	0	6,831	6,338	13,169
Service agent's fees payable	0	0	0	30,465	0	30,465
Taxes, licenses and fees	0	0	0	0	245,145	245,145
Other expenses payable	0	0	0	4,299	85,850	90,149
Total	\$7,501,781	\$2,140,236	\$3,537,188	\$4,783,877	\$7,451,011	\$25,414,093

**Members' Account By Fiscal Year Inception to Date December 31, 2008**

	<u>All Other Fiscal Years Preceding 1981-2005</u>	<u>Third Fiscal Year Preceding 2006</u>	<u>Second Fiscal Year Preceding 2007</u>	<u>First Fiscal Year Preceding 2008</u>	<u>Partial Current Fiscal Year 7/1/08-12/31/08</u>	<u>Total Inception to Date 1981-2008</u>
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$14,727,247	\$3,205,076	(\$188,079)	(\$498,032)	(\$4,359,735)	\$12,886,477
Less: Dividends paid inception to date by fiscal year	10,362,995	0	0	0	0	10,362,995
Less: Restricted Members' Equity by fiscal year	<u>51,966</u>	<u>51,966</u>	<u>51,966</u>	<u>51,966</u>	<u>51,966</u>	<u>259,830</u>
Unrestricted Members' Equity undistributed by fiscal year	\$4,312,286	\$3,153,110	(\$240,045)	(\$549,998)	(\$4,411,701)	\$2,263,652
Less: Dividends declared but unpaid	<u>926,144</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>926,144</u>
Unrestricted Members' Equity 12/31/08	<u>\$3,386,142</u> *	<u>\$3,153,110</u>	<u>(\$240,045)</u>	<u>(\$549,998)</u>	<u>(\$4,411,701)</u>	<u>\$1,337,508</u>

\* Although the cumulative unrestricted members' equity for the fiscal years 1981-2008 at December 31, 2008 was \$3,386,140, the 1995, 2000, 2001 and 2004 fiscal years had unrestricted members' equity deficits of \$48,956, \$122,683, \$640,642 and \$298,883.



**STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY**  
**DECEMBER 31, 2008**

	<u>Amount Per Association</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Members' Equity</u>
<b>Assets:</b>			
Premiums receivable	\$0	\$192,473	\$192,473
Prepaid reinsurance premiums	172,449	194,172	21,723
<b>Liabilities:</b>			
Loss adjustment expenses unpaid	\$435,178	\$684,777	(\$249,599)
Contingency reserve	2,793,392	2,782,658	10,734
Unearned premiums	1,095,880	1,711,341	(615,461)
Excess insurance premiums payable	41,332	0	41,332
Premium refunds payable	250,000	408,708	(158,708)
Administrative fees payable	62,235	13,169	49,066
Service agent's fees payable	37,985	30,465	7,520
Taxes, licenses and fees payable	105,000	245,145	(140,145)
Marketing fees payable	5,350	4,299	1,051
Examiners' changes in members' equity			<u>(\$840,014)</u>
Restricted and unrestricted members' equity per Association			\$2,437,352
Restricted and unrestricted members' equity per Examiners			<u>1,597,338</u>
Decrease in unrestricted members' equity			<u>(\$840,014)</u>

## RECOMMENDATIONS FOR CORRECTIVE ACTION

### Management and Control

- The results of this examination reflect a member' equity deficit for 1995, 2000, 2001, 2004 and the 2006/2007, 2007/2008, 2008/2009 fiscal years of \$48,956, \$122,683, \$640,642, \$298,883, \$240,045, \$549,998 and \$4,411,699, respectively. The Board is reminded of its responsibility to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.

### Accounts and Records

- |                                |                  |
|--------------------------------|------------------|
| 2. <u>Premiums receivable</u>  | <u>\$192,473</u> |
| <u>Premium refunds payable</u> | <u>\$408,708</u> |

The above amounts have been increased by \$192,473 and \$158,708, respectively. The Examiners' amounts are based on a review of the subsequent 2008/2009 fiscal year member payroll audits and reflect differences between audited contributions and contributions paid.

- |  |                  |
|--|------------------|
| 3. <u>Prepaid reinsurance premiums</u> | <u>\$194,172</u> |
|--|------------------|

The above asset is \$21,723 more than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount reflects the unused portion of the Association's excess insurance premiums paid in 2008, but applicable to the policy period ending June 30, 2009.

- |   |                  |
|---|------------------|
| 4. <u>Loss adjustment expenses unpaid</u> | <u>\$684,777</u> |
|---|------------------|

The above liability is \$249,599 more than the amount reported by the Association in its 2008 Annual Statement. The increase in loss adjustment expenses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
2007/2008	\$ 92,304	\$ 195,132	\$ 102,828
7/1/08-12/31/08	48,743	195,514	<u>146,771</u>
Total change			<u>\$ 249,599</u>

The Examiners' increase results from a development of loss adjustment expenses paid and reserve changes occurring during the period January 1, 2009 through December 31, 2009, on claims incurred December 31, 2008 and prior. The Association should review its methodologies to ensure sufficient loss adjustment expense reserves are established in all future filings.

5. Contingency reserve \$2,782,658

The above liability is \$10,734 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' change is attributed to a decrease in earned premium based on a review of subsequent 2008/2009 fiscal year member payroll audits, which is the basis for the calculation of the contingency reserve.

6. Unearned premiums \$1,711,341

The above liability is \$615,461 more than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount reflects the estimated premiums received to date at December 31, 2008, less the amount earned at December 31, 2008 based on subsequent 2008/2009 fiscal year member payroll audits.

7. Excess insurance premiums payable \$0

The above liability is \$41,332 less than the amount reported by the Association in its 2008 Annual Statement. This change is attributed to a decrease in the modified premium developed from the 2007/2008 fiscal year member payroll audits, which is the basis for computing excess insurance premiums.

8. Administrative fees payable \$13,169

The above asset is \$49,066 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount is based on the actual fees paid compared to the fees required by the administrative agreement for the 2007/2008 and 2008/2009 fiscal years as of December 31, 2008.

9. Service agent's fees payable \$30,465

The above liability is \$7,520 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount is based on a review of the final audit billing invoice from the claims service agent for the 2007/2008 fiscal year.

10. Taxes, licenses and fees payable \$245,145

The above liability is \$140,145 more than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount is based on a review of invoices paid in 2009 for taxes pertaining to 2008.

11. Marketing fees payable \$4,299

The above liability is \$1,051 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount is attributed to lower earned premiums developed from the 2007/2008 fiscal year member payroll audits, which is the basis for computing marketing fees payable.

**SUBSEQUENT EVENT**

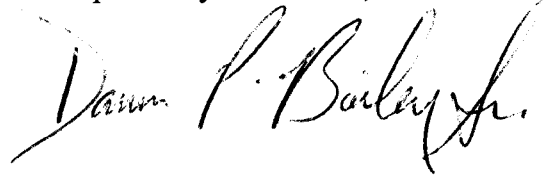
On June 1, 2009, the Bureau approved dividends for the Association totaling \$2,512,000.

**CONCLUSION**

The courteous cooperation extended by the Association's administrator and service agent during the course of the examination is gratefully acknowledged.

In addition to the undersigned, George E. Morgan, CFE and Milton Parker 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  
Senior Insurance Examiner



Group Self Insurance Association  
For Workers Compensation

April 16, 2010

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

FILED  
TO APR 19 AM 9:59

RE: Examination Report as of December 31, 2008

Dear Mr. Smith:

We would like to thank you and your staff for the recent examination of the VADA Group Self-Insurance Association. We value your recommendations for corrective action and accept them in total without issue.

We hope to receive the final report to review and be officially approved by the Members' Supervisory Board at its scheduled meeting on April 27, 2010, and incorporated into the minutes of that meeting.

#### Management and Control

1. **Member' Equity Deficits** - We acknowledge the fiscal responsibility of the Association to be financially sound and we will work with Janis Bunce at the Bureau of Insurance on an ongoing basis to monitor the deficits.

It should be noted with the use of equity from other years and/or board contingency reserves we have the ability to remove most of the deficit years at any time it is deemed necessary by the bureau. It is our position at this time to evaluate the deficit years over the next several years before making any transfers. At this time it is our position that deficits will decrease in the future due to better loss results.

Please note that the December 31, 2009 Annual Statement reflects transfers of \$135,000 to 2000; and \$200,000 to 2001.

#### Accounts and Records

2. **Premiums receivable/Premium refunds payable** – We agree the change was due to subsequent information received 12- months after year-end.
3. **Prepaid reinsurance premiums** – We agree the change was due to subsequent information received 12-months after year-end.
4. **Loss adjustment expenses unpaid** – Loss adjustment expenses unpaid are reviewed at year end and it is difficult to project the changes that will occur in future months. It is managements believe that IBNR will be sufficient to reflect any changes in loss adjustment expenses over the following year.
5. **Contingency reserve** – We agree the change was due to subsequent information received 12-months after year-end.

Chairman  
**Charles S. Stringfellow**  
Brown Automotive Group

Vice-Chairman  
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Southern Hospitality  
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Administrator  
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Mr. David H. Smith, CFE, CPA, CPCU  
SCC Bureau of Insurance  
April 16, 2010  
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Accounts and Records continued

6. Unearned premiums – We agree the change was due to subsequent information received 12-months after year-end.
7. Excess insurance premiums payable – We agree the change was due to subsequent information received 12-months after year-end.
8. Administrative fees payable – We agree and will review our methodologies on calculating the payable.
9. Service agent's fees payable – We agree and will review our methodologies on calculating the payable.
10. Taxes, licenses and fees payable – We agree and will review our methodologies on calculating the payable.
11. Marketing fees payable – We agree the change was due to subsequent information received 12-months after year-end.

Again, we would like to thank the Bureau for their recommendations. Should you have any questions, please do not hesitate to contact me.

Sincerely,

  
Donald L. Hall  
Administrator

cc: Mr. Charles Stringfellow  
Chairman  
VADA GSIA Members' Supervisory Board