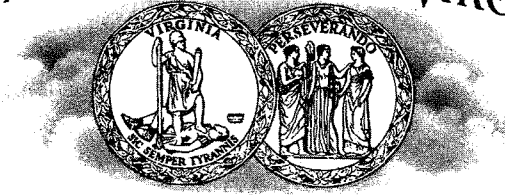


EXAMINATION REPORT
of
VIRGINIA HOSPITALITY
GROUP SELF-INSURANCE ASSOCIATION
RICHMOND, VIRGINIA
as of
DECEMBER 31, 2007

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 Virginia Hospitality Group Self-Insurance Association as of December 31, 2007, 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 15th day of September, 2008

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

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
June 5, 2008

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 HOSPITALITY
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, 2002. This examination covers the period from January 1, 2003 through December 31, 2007.

HISTORY

The Association was licensed by the Bureau on February 1, 1992. According to the members' indemnity agreement, the Association was formed to allow members to join together to provide for joint and cooperative action to self-insure and to pool their separate liabilities arising pursuant to the terms of the Virginia Workers' Compensation Act and for certain other types of employers' liabilities for the death or dismemberment of, or injury to, their employees.

Effective January 1, 2000, the Association ceased underwriting business and is currently operating in order to pay existing claims. Once existing claims are closed the Association will cease operations entirely.

MANAGEMENT AND CONTROL

Control of the Association is vested in a Board of Directors (the "Board") elected by the members of the Association. The Board shall administer the operations and business of the Association and shall promulgate rules to effectuate the policies and purposes of the Association and do all things permitted or directed by law. According to the Association's amended and restated bylaws, the Board shall consist of not less than five nor more than seven directors. Board members serve three-year terms or until their successors are elected. The terms are staggered to provide that one-third of the Board is elected each year. The Board and officers were as follows at December 31, 2007:

Representative

John G. Dankos, Jr.

James Farley

A.V. Grantham

Judy Harr

E.C. Warren

Member

Dankos Enterprises
Richmond, Virginia

Great American Restaurant
Arlington, Virginia

Grantham Enterprises
Richmond, Virginia

Extra Billy's
Richmond, Virginia

Roanoker Restaurant
Roanoke, Virginia

Officers

John G. Dankos, Jr.

James Farley

Judy Harr

Herbert J. Clegg

Chairman

Vice Chairman

Secretary

Assistant Secretary

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 shall consist exclusively of organizations or sole proprietorships engaged in business as restaurants or hotels or otherwise in the hospitality industry and any other organizations or sole proprietorships having a "common interest." Membership will be limited to those employers who are financially sound and meet any other requirements which may be promulgated by the Board.

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. Claims are processed and paid by a service agent under a contractual agreement with the Association. The Association's operations are conducted on a calendar year basis.

ADMINISTRATIVE AGREEMENT

Effective January 1, 1995, the Association entered into an administrative agreement with Herbert J. Clegg, an individual, to serve as Administrator for the Association. The agreement may be canceled at anytime by either party upon 90 days written notice to the other party.

According to the agreement, the Administrator shall provide for the day to day management of the Association, carrying out the policies of the Board and to act as a liaison between the Board and the claims service agent. For services rendered, the Administrator receives compensation as determined by the Board. During 2007, the Association incurred \$6,000 in administrative fees related to this agreement.

CLAIMS SERVICE AGREEMENT

Effective January 1, 1996, the Association entered into a claims service agreement with Landin, Inc. ("Landin"). The agreement shall be automatically renewed for successive periods of one year, unless terminated by mutual written consent or by either party giving at least 90 days written notice.

According to the agreement, Landin shall provide complete claims administration and processing for all claims arising during the term of the agreement until their conclusion; provide management information services; provide loss prevention services; develop and implement marketing plans; obtain and evaluate quotes and proposals for excess insurance; consult with and advise the Association and its member employers as to medical and legal services; prepare for and manage all scheduled hearings regarding member employers before the Industrial Commission of Virginia; meet with and serve as an advisor to the Association's Board; provide all services in connection with billing and collecting of premium payments; and undertake all member employer payroll audits.

As compensation for its services, Landin shall receive 8.5% of the Association's billed premiums. However, effective January 1, 2000, the Association ceased underwriting business. The claims service agreement requires that Landin handle and adjust to conclusion any claim or loss incurred during the agreement period. Therefore, Landin does not receive any additional compensation for its services. Currently, Landin is servicing two open claims for the Association.

FIDELITY BOND COVERAGE

At December 31, 2007, the Association was listed as a named insured on a fidelity bond, with a \$75,000 limit of liability, to insure against losses arising from dishonest acts of its administrator and employees.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2007, the Association had an U.S. Treasury Bill with a par value of \$255,000 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A.

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. The examination covers the period January 1, 2003 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. 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
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, 2007, a statement of income for the year ended December 31, 2007, a reconciliation of members' equity for the period under review and a statement of members' account by fiscal year inception to date.

BALANCE SHEET
DECEMBER 31, 2007

ASSETS

Bonds, short-term	\$305,512
Bonds, long-term	616,413
Other invested assets	134,072
Cash on deposit	21,799
Interest due and accrued	8,047
Prepaid insurance	<u>1,613</u>
 Total assets	 <u><u>\$1,087,456</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$209,405
Loss adjustment expenses unpaid	3,770
Contingency reserve	312,067
Other expenses payable	86
Dividends payable	<u>112,000</u>
 Total liabilities	 \$637,328
 Restricted members' equity	 255,905
Unrestricted members' equity	<u>194,223</u>
 Total liabilities and members' equity	 <u><u>\$1,087,456</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2007

UNDERWRITING INCOME

Premiums earned	<u>\$0</u>
Deductions:	
Losses incurred	\$5,644
Loss expenses incurred	(11)
Other underwriting expenses incurred	<u>24,562</u>
Total underwriting deductions	<u>\$30,195</u>
Net underwriting (loss)	<u>(\$30,195)</u>

INVESTMENT INCOME

Net investment income earned	\$44,959
Net realized capital (losses)	<u>(5,521)</u>
Net investment gain	<u>\$39,438</u>
Net income before federal income taxes incurred	\$9,243
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$9,243</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE PERIOD ENDED DECEMBER 31, 2007

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Members' equity, previous year before undistributed dividends	\$250,948	\$222,716	\$531,101	\$522,639	\$534,527
Net income or (loss)	(18,908)	312,333	4,290	(7,090)	9,243
Net unrealized capital gains or (losses)	<u>(9,324)</u>	<u>(3,948)</u>	<u>(12,752)</u>	<u>18,978</u>	<u>18,358</u>
Restricted and unrestricted members' equity, end of year	\$222,716	\$531,101	\$522,639	\$534,527	\$562,128
Less: Restricted members' equity, end of year	<u>253,700</u>	<u>251,966</u>	<u>249,193</u>	<u>259,856</u>	<u>255,905</u>
Unrestricted members' equity, end of year before undistributed dividends	(\$30,984)	\$279,135	\$273,446	\$274,671	\$306,223
Less: Dividends declared but unpaid	<u>112,000</u>	<u>112,000</u>	<u>112,000</u>	<u>112,000</u>	<u>112,000</u>
Unrestricted members' equity, end of year	<u><u>(\$142,984)</u></u>	<u><u>\$167,135</u></u>	<u><u>\$161,446</u></u>	<u><u>\$162,671</u></u>	<u><u>\$194,223</u></u>

Members' Account By Fiscal Year Inception to Date December 31, 2007*

	<u>Fiscal Years 1992-1995</u>	<u>Fiscal Year 1996</u>	<u>Fiscal Year 1997</u>	<u>Fiscal Year 1998</u>	<u>Fiscal Year 1999</u>	<u>Total Inception to Date</u>
<u>Income Received</u>						
Premiums written	\$5,064,345	\$1,656,804	\$1,460,807	\$1,216,300	\$1,029,723	\$10,427,979
Less: Excess insurance	605,431	145,128	115,847	113,495	116,595	1,096,496
Net premiums written	\$4,458,914	\$1,511,676	\$1,344,960	\$1,102,805	\$913,128	\$9,331,483
Investment income	503,404	97,352	71,070	96,482	165,624	933,932
Allocation between years	12,274	0	0	4,227	(16,501)	0
Other	247,562	244,742	(4,447)	13,614	19,825	521,296
Total income collected	<u>\$5,222,154</u>	<u>\$1,853,770</u>	<u>\$1,411,583</u>	<u>\$1,217,128</u>	<u>\$1,082,076</u>	<u>\$10,786,711</u>
<u>Less: Expenses Paid</u>						
Losses paid	\$3,029,346	\$1,685,231	\$1,140,798	\$680,258	\$330,202	\$6,865,835
Allocated loss adjustment expenses paid	82,283	51,736	45,363	21,720	22,744	223,846
Administrative fees	125,566	33,729	26,612	11,720	10,303	207,930
Service agent's fees	486,274	134,585	125,117	100,280	76,958	923,214
Taxes, licenses, and fees	51,974	17,492	21,840	59,356	18,241	168,903
Federal income tax	27,681	20,509	15,167	13,953	2,175	79,485
Other expenses	242,459	85,309	104,350	126,514	150,701	709,333
Total expenses	<u>\$4,045,583</u>	<u>\$2,028,591</u>	<u>\$1,479,247</u>	<u>\$1,013,801</u>	<u>\$611,324</u>	<u>\$9,178,546</u>
Net cash income	<u>\$1,176,571</u>	<u>(\$174,821)</u>	<u>(\$67,664)</u>	<u>\$203,327</u>	<u>\$470,752</u>	<u>\$1,608,165</u>
<u>Add: Receivables</u>						
Interest due and accrued	\$3,814	\$0	\$0	\$1,314	\$2,919	\$8,047
Other	765	0	0	263	585	1,613
Total	<u>\$4,579</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,577</u>	<u>\$3,504</u>	<u>\$9,660</u>
<u>Deduct: Liabilities</u>						
Losses unpaid	\$0	\$209,405	\$0	\$0	\$0	\$209,405
Loss adjustment expenses	0	3,770	0	0	0	3,770
Contingency reserve	151,133	49,729	43,824	36,489	30,892	312,067
Other expenses payable	41	0	0	14	31	86
Total	<u>\$151,174</u>	<u>\$262,904</u>	<u>\$43,824</u>	<u>\$36,503</u>	<u>\$30,923</u>	<u>\$525,328</u>

Members' Account By Fiscal Year Inception to Date December 31, 2007*

	<u>Fiscal Years 1992-1995</u>	<u>Fiscal Year 1996</u>	<u>Fiscal Year 1997</u>	<u>Fiscal Year 1998</u>	<u>Fiscal Year 1999</u>	<u>Total Inception to Date</u>
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$1,029,976	(\$437,725)	(\$111,488)	\$168,401	\$443,333	\$1,092,497
Less: Dividends paid inception to date by fiscal year	530,369	0	0	0	0	530,369
Less: Restricted Members' Equity by fiscal year	<u>51,181</u>	<u>51,181</u>	<u>51,181</u>	<u>51,181</u>	<u>51,181</u>	<u>255,905</u>
Unrestricted Members' Equity undistributed by fiscal year	\$448,426	(\$488,906)	(\$162,669)	\$117,220	\$392,152	\$306,223
Less: Dividends declared but unpaid	<u>112,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>112,000</u>
Unrestricted Members' Equity 12/31/07	<u><u>\$336,426</u></u>	<u><u>(\$488,906)</u></u>	<u><u>(\$162,669)</u></u>	<u><u>\$117,220</u></u>	<u><u>\$392,152</u></u>	<u><u>\$194,223</u></u>

*The Association ceased writing business on December 31, 1999.

Fiscal years 1992-1999 include allocations of expenses incurred from 2000 through 2007.

SUBSEQUENT EVENT

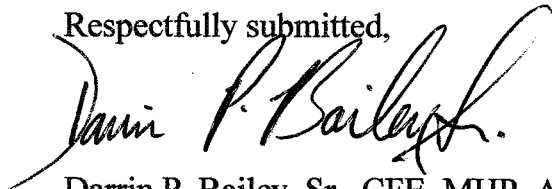
The results of this examination reflect members' equity deficits for the 1996 and 1997 fiscal years of \$488,906 and \$162,669, respectively. As of June 5, 2008, the Association has \$112,000 remaining from previously approved dividends that is available for deficit elimination. The Bureau continues to monitor the Association's financial condition. 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.

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 participated in the work of the examination.

Respectfully submitted,

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

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

Virginia Hospitality Group Self Insurance Association

Incorporated

STATE CORP COMMISSION
BUREAU OF INSURANCE

August 21, 2008

08 AUG 28 AM 9: 25

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

Dear Mr. Smith:

This is in response to your July 28, 2008, letter regarding the Virginia Hospitality Group Self-Insurance Association's Examination Report as of December 31, 2007. We take no issue with any matter contained in the examination report. In regards to anticipated actions regarding the Subsequent Event contained on page 13 of the report, our response is as follows.

As mentioned in your report, the examination reflects members' equity deficits for the 1996 and 1997 fiscal years of \$488,906 and \$162,669, respectively. The Board of Directors would like to request a calculation to determine if there is any excess contingency reserve which may be available for reduction of the deficits.

In regards to the 1996 fund year, this deficit includes IBNR of \$145,000. Excluding the IBNR, the deficit would be \$343,906. We would like to apply the \$112,000 remaining from previously approved dividends for reduction of this deficit. This would reduce the deficit to \$231,906. We would also like to use any excess contingency reserve, if available, for reduction of the deficit. Lastly, we request to allocate any future dividend distributions, to the extent necessary, to eliminate any remaining 1996 deficit and the 1997 deficit.

Based on the above and taking into consideration the surplus in other fund years, we believe the deficit is manageable and does not jeopardize the long-term financial integrity of the VHGSIA. I hope our response is satisfactory, and if you have any questions or need any additional information, please do not hesitate in contacting us.

In addition, we would like to request 10 copies of the final report for our use.

In conclusion, we express our appreciation and thanks for the Examiner's work and their helpful comments and suggestions during the course of the examination.

Sincerely,



John G. Dankos, Jr.
President, VHGSIA

cc: Ms. Janis Richardson Bunce, Bureau of Insurance
VHGSIA Board of Directors
Meda Lane, Lane & Associates, P.C.
Rick Puleo, Adams, Jenkins and Cheatham, P. C.

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