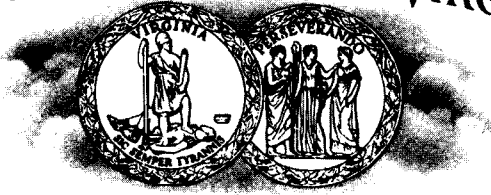


**EXAMINATION REPORT**  
**of**  
**WCAMC SERVICE**  
**GROUP SELF-INSURANCE ASSOCIATION**  
**GLEN ALLEN, VIRGINIA**  
**as of**  
**DECEMBER 31, 2007**

**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.scc.virginia.gov/division/boi>

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of WCAMC Service 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 19<sup>th</sup> day of February, 2009

---

Alfred W. Gross  
Commissioner of Insurance

(SEAL)

**TABLE OF CONTENTS**

DESCRIPTION..... 1

HISTORY ..... 1

MANAGEMENT AND CONTROL ..... 2

TERRITORY AND PLAN OF OPERATION ..... 3

ADMINISTRATIVE AGREEMENT..... 3

CLAIMS SERVICE AGREEMENT ..... 4

FIDELITY BOND COVERAGE..... 4

EXCESS INSURANCE COVERAGE ..... 4

SCOPE ..... 5

FINANCIAL STATEMENTS ..... 6

RECOMMENDATIONS FOR CORRECTIVE ACTION ..... 13

CONCLUSION..... 14

Richmond, Virginia  
October 10, 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:

**WCAMC SERVICE GROUP  
SELF-INSURANCE ASSOCIATION**

Glen Allen, 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").

This Association was last examined by representatives of the Commission's Bureau of Insurance (the "Bureau") as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007.

**HISTORY**

The Association was licensed by the Bureau on February 1, 1996. The Association's membership consists of companies affiliated with the service industry in the Commonwealth of Virginia. According to its by-laws, the Association was formed for the purpose of cooperatively satisfying their legal obligations under the Virginia Workers' Compensation Act.

Effective March 1, 1999, the Association ceased underwriting business in response to a Commission consent order and is currently managing assets for the purpose of providing funding for existing claims. Additionally, the Association implemented a member assessment on February 18, 2000, as it was determined that it would be unable to meet all of its obligations without additional contributions from its members.

### MANAGEMENT AND CONTROL

Control of the Association is vested in a Members' Supervisory Board (the "Board") elected by members of the Association. The by-laws provide for no less than three nor more than six board members, all of whom shall be members of the Association in good standing. Each board member shall serve a term of three years or until the members elect a successor.

The Board and officers were as follows at December 31, 2007:

#### Board

<u>Representative</u>	<u>Member</u>
Steven R. Bonday	Book'N Card Newport News, Virginia
Geraldine C. Myers	Coastal Atlantic Virginia Beach, Virginia
Robert M. Roberts, Jr.	Specialty Beverage, Inc. Richmond, Virginia

#### Officers

Steven R. Bonday	Chairman
Robert M. Roberts, Jr.	Vice-Chairman and Secretary/Treasurer

## **TERRITORY AND PLAN OF OPERATION**

The operation of the Association was confined to Virginia where it was licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Association was available to employers engaged in a similar type of business, subject to approval of the Association's Board, the Bureau, and the Association's excess insurance carrier.

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

The Association has a contractual agreement with an administrator who administers and manages the affairs of the Association in accordance with the policies adopted and established by the Board. Existing claims are processed and paid by two service agents under contractual agreements with the Association. The Association operated on a fiscal year basis ending January 31, however, their last fiscal year of underwriting business was thirteen months ending February 28, 1999.

## **ADMINISTRATIVE AGREEMENT**

Effective February 1, 1999, the Association entered into an administrative agreement with the Workers Compensation Accounts Management Corporation ("WCAMC"). The term of this agreement was for a period of twelve months. Renewal of this agreement will be as mutually agreed upon. Either party may cancel this agreement upon receipt of 30 day written notice by the parties.

According to this agreement, WCAMC will serve as the Association's administrator responsible for ensuring that the Association's obligations are satisfied and that funds are managed and dispersed as authorized by the Board.

As compensation for its services from the inception of the agreement, WCAMC shall receive \$12,000. This fee was paid in April 2008.

### **CLAIMS SERVICE AGREEMENT**

Effective February 1, 1998, the Association entered into a claims service agreement with Palmer & Cay. The term of the agreement was for a three year period. As a result of an asset purchase agreement, Palmer & Cay merged its claims administration division with Underwriter's Safety and Claims (USC) effective June 1, 2000. USC and the Association executed an agreement, with the same effective date, to assign the responsibility of claims administration to USC. Currently, USC is servicing no open claims for the Association.

Additionally, the Association has operated in a run-off status on its terminated claims service agreement with PMA Management Corporation ("PMA"). The PMA agreement covered claims incurred from inception to January 31, 1998. The terminated service agreement requires that the service agent handle and adjust, to conclusion, any claim or loss incurred during the contract period. Currently, PMA is servicing no 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 \$250,000 limit of liability, subject to a \$2,500 deductible, to insure against losses arising from dishonest acts of its administrator and employees.

### **EXCESS INSURANCE COVERAGE**

The Association had both specific excess and aggregate excess insurance agreements in force at February 28, 1999, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$300,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	100% of normal premium subject to a minimum retention of \$1,119,900	\$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 from January 1, 2005 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 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 Agreement  
Claims Service Agreement  
Fidelity Bond Coverage  
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, a statement of members' account by fiscal year inception to date and a statement of Examiners' changes in members' equity.

**BALANCE SHEET**  
**DECEMBER 31, 2007**

**ASSETS**

Cash on deposit	\$139,587
Interest due and accrued	735
	<hr/>
Total assets	<u>\$140,322</u>

**LIABILITIES AND MEMBERS' EQUITY**

Contingency reserve	\$58,245
Administrative fees payable	12,000
Taxes, licenses and fees payable	300
Accounting fees	4,517
	<hr/>
Total liabilities	\$75,062
Restricted members' equity	0
Unrestricted members' equity	65,260
	<hr/>
Total liabilities and members' equity	<u>\$140,322</u>

**STATEMENT OF INCOME**  
**FOR YEAR ENDED DECEMBER 31, 2007**

**UNDERWRITING INCOME**

Premiums earned	<u>\$0</u>
Deductions:	
Losses incurred	(\$6,098)
Other underwriting expenses incurred	<u>20,317</u>
Total underwriting deductions	<u>\$14,219</u>
Net underwriting loss	<u>(\$14,219)</u>

**INVESTMENT INCOME**

Net investment income earned	<u>\$3,305</u>
Net investment gain	<u>\$3,305</u>
Net income before federal income taxes	(\$10,914)
Federal income taxes incurred	<u>0</u>
Net loss	<u><u>(\$10,914)</u></u>

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

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Members' equity, previous year before undistributed dividends	(\$6,080) *	\$6,156	\$76,174
Adjustment for previous examination changes	13,764		
Net income or (loss)	<u>(1,528)</u>	<u>70,018</u>	<u>(10,914)</u>
Restricted and unrestricted members' equity, end of year	\$6,156	\$76,174	\$65,260
Less: Restricted members' equity, end of year	<u>0</u>	<u>0</u>	<u>0</u>
Unrestricted members' equity, end of year	<u><u>\$6,156</u></u>	<u><u>\$76,174</u></u>	<u><u>\$65,260</u></u>

\* Adjusted members' equity from previous examination.

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

	<u>Fiscal Year 1996/1997</u>	<u>Fiscal Year 1997/1998</u>	<u>Fiscal Year 1998/1999</u>	<u>Total Inception to Date</u>
<b><u>Income Received</u></b>				
Premiums written	\$653,045	\$739,490	\$782,849	\$2,175,384
Less: Excess insurance	<u>86,043</u>	<u>91,208</u>	<u>73,996</u>	<u>251,247</u>
Net premiums written	\$567,002	\$648,282	\$708,853	\$1,924,137
Investment income	34,671	42,015	354	77,040
Other	<u>0</u>	<u>0</u>	<u>77,762</u>	<u>77,762</u>
Total income collected	<u>\$601,673</u>	<u>\$690,297</u>	<u>\$786,969</u>	<u>\$2,078,939</u>
<b><u>Less: Expenses Paid</u></b>				
Losses paid	\$274,734	\$256,565	\$742,583	\$1,273,882
Allocated loss adjustment expenses paid	30,429	33,793	95,853	160,075
Administrative fees	84,896	96,134	76,822	257,852
Service agent's fees	29,387	33,277	16,249	78,913
Taxes, licenses, and fees	6,321	9,834	15,296	31,451
Federal income tax	0	286	0	286
Other expenses	<u>35,933</u>	<u>42,245</u>	<u>58,715</u>	<u>136,893</u>
Total expenses	<u>\$461,700</u>	<u>\$472,134</u>	<u>\$1,005,518</u>	<u>\$1,939,352</u>
Net cash income	<u>\$139,973</u>	<u>\$218,163</u>	<u>(\$218,549)</u>	<u>\$139,587</u>
<b><u>Add: Receivables</u></b>				
Interest due and accrued	\$286	\$449	\$0	\$735
Total	<u>\$286</u>	<u>\$449</u>	<u>\$0</u>	<u>\$735</u>
<b><u>Deduct: Liabilities</u></b>				
Contingency reserve	\$19,591	\$22,185	\$16,469	\$58,245
Administrative fees payable	4,000	4,000	4,000	12,000
Other expenses payable	<u>1,445</u>	<u>1,638</u>	<u>1,734</u>	<u>4,817</u>
Total	<u>\$25,036</u>	<u>\$27,823</u>	<u>\$22,203</u>	<u>\$75,062</u>

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

	<u>Fiscal Year 1996/1997</u>	<u>Fiscal Year 1997/1998</u>	<u>Fiscal Year 1998/1999</u>	<u>Total Inception to Date</u>
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$115,223	\$190,789	(\$240,752)	\$65,260
Less: Dividends paid inception to date by fiscal year	0	0	0	0
Less: Restricted Members' Equity by fiscal year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unrestricted Members' Equity undistributed by fiscal year	\$115,223	\$190,789	(\$240,752)	\$65,260
Less: Dividends declared but unpaid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unrestricted Members' Equity 12/31/07	<u>\$115,223</u>	<u>\$190,789</u>	<u>(\$240,752)</u>	<u>\$65,260</u>

\* Association ceased writing business on March 1, 1999

Fiscal years 1996-1998 include allocations of expenses incurred from 1999 through 2007.

**STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY**  
**DECEMBER 31, 2007**

	<u>Amount Per Association</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Members' Equity</u>
<u>Liabilities:</u>			
Accounting fees	\$1,500	\$4,517	(\$3,017)
			<hr/>
Examiners changes in members' equity			<u>(\$3,017)</u>
Restricted and unrestricted members' equity per Association			\$68,277
Restricted and unrestricted members' equity per Examiners			<hr/> 65,260
Decrease in restricted and unrestricted members' equity			<hr/> <u>(\$3,017)</u>

**RECOMMENDATIONS FOR CORRECTIVE ACTION****Management and Control**

1. The results of this examination reflect an unrestricted members' equity deficit for the 1998/1999 fiscal year of \$240,752. 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. Accounting fees \$4,517

The above liability is \$3,017 more than the amount reported by the Association in its 2007 Annual Statement. The Examiners' amount is based on a review of invoices paid in 2008 for accounting and auditing services pertaining to 2007.

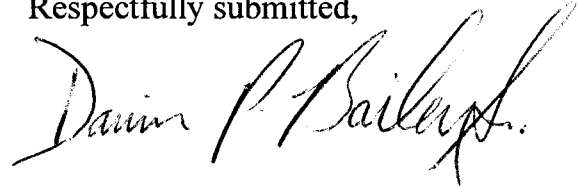


**CONCLUSION**

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 that reads "Darrin P. Bailey, Sr." in a cursive script.

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



**WORKERS COMPENSATION ACCOUNTS MANAGEMENT CORPORATION**  
4701 Cox Road, Suite 314, Glen Allen, VA 23060 Tel. (804) 747-4600 Fax (804) 747-4919

09 FEB -9 AM 9:53

February 4, 2009

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

**RE: WCAMC Service Group Self Insurance Association  
Examination Report as of December 31, 2007**

Dear Mr. Smith,

As the Administrator and on behalf of the Members' Supervisory Board, I am providing you with a response to your letter of December 11, 2008, concerning the recommendations contained in the captioned examination report.

Enclosed is our response to these recommendations for corrective action.

I very much appreciate your understanding and patience and express my gratitude to Darrin P. Bailey, Sr., and George E. Morgan for the professional and cooperative manner in which they conducted the examination.

Sincerely,

J. Garry Kirkendall  
President  
JGK/  
Encl.



**WCAMC SERVICE GROUP SELF INSURANCE ASSOCIATION**

Administered by

**WORKERS COMPENSATION ACCOUNTS MANAGEMENT CORPORATION**

4701 Cox Road, Suite 314, Glen Allen, VA 23060 Tel. (804) 747-4600 Fax (804) 747-4919

**RESPONSE TO  
RECOMMENDATION FOR CORRECTIVE ACTION  
EXAMINATION REPORT AS OF December 31, 2007**

**1. Management and Control**

We acknowledge the 1998/99 year deficit. However, since the Association has not been active since February 15, 1999, all claims are closed, and because the overall financial position of the Association reflects a surplus, we do not feel any action is required.

**2. Accounting fees**

We acknowledge the increase in the Association's accounting fees.