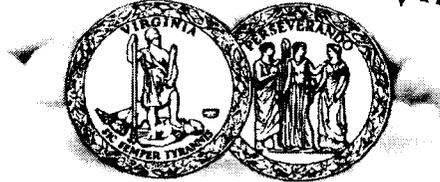


**EXAMINATION REPORT**  
**of**  
**VSBA PROPERTY AND CASUALTY POOL**  
**CHARLOTTESVILLE, VIRGINIA**  
**as of**  
**JUNE 30, 2012**

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

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
TDD/VOICE: (804) 371-9206  
<http://www.scc.virginia.gov/division/boi>

I, Jacqueline K. Cunningham, 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, 2012, 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 13th day of March, 2013

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham".

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Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

	<u>Page</u>
DESCRIPTION.....	1
HISTORY .....	1
MANAGEMENT AND CONTROL .....	2
TERRITORY AND PLAN OF OPERATION .....	3
ADMINISTRATIVE AGREEMENT.....	3
CLAIM SERVICE AGREEMENT .....	4
SAFETY SERVICES AGREEMENT .....	4
FIDELITY BOND COVERAGE.....	5
REINSURANCE COVERAGE.....	5
SCOPE .....	7
FINANCIAL STATEMENTS .....	8
RECOMMENDATIONS FOR CORRECTIVE ACTION.....	14
CONCLUSION.....	15

Richmond, Virginia  
December 18, 2012

Honorable Jacqueline K. Cunningham  
Commissioner of Insurance  
Richmond, Virginia

Dear Madam:

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, 2009. This examination covers the period from July 1, 2009 through June 30, 2012.

**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 by members of the Pool. The by-laws provide for no less than three nor more than twelve 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 and such terms shall be staggered to provide that one-third of the Board shall be elected each year. The Virginia School Boards Association ("VSBA") President or his or her designee shall serve as an ex-officio Board member with voting power and shall be counted in the determination of a quorum per the revised by-laws.

The Board and officers were as follows at June 30, 2012:

<u>Representative</u>	<u>Affiliation</u>
Scott M. Albrecht, Ex-officio	VSBA Representative Charlottesville, Virginia
Julie M. Bennington	Bedford County Schools Bedford, Virginia
Billy W. Brooks	Washington County Schools Bristol, Virginia
Barry W. Deuel	Winchester City Schools Winchester, Virginia
Lloyd A. Hamlin	Surry County Schools Surry, Virginia
Elizabeth W. Hubbard	King William County Schools King William, Virginia
John T. Reynolds	Rockbridge County Schools Lexington, Virginia
James R. Ruhland	(Retired) Botetourt County Schools Troutville, Virginia

William A. Seay, Jr.

Louisa County Schools  
Louisa, Virginia

David F. Sulzen

Floyd County Schools  
Floyd, Virginia

### Officers

David F. Sulzen  
Julie M. Bennington

Chairman  
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 agreement has an initial term of ten years and 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 2011/2012 fiscal year, the Pool incurred \$672,208 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 agreement had an initial term of one year and was to renew automatically for additional one-year periods. The agreement was subsequently amended to renew for two-year periods through June 30, 2014. 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 2011/2012 fiscal year, the Pool incurred \$241,568 in claims service fees related to this agreement.

### **SAFETY SERVICES AGREEMENT**

Effective July 1, 2011, the Pool entered into a safety consulting agreement with Brooks Safety Consulting Group, LLC ("Brooks"). The initial term of the agreement is for a two-year period. This agreement may be terminated by either party upon 60 days written notice prior to the anniversary or 90 days written notice at any time.

Under the terms of the agreement, Brooks shall review, update and provide guidance on member school systems' employee safety programs, develop and implement a secure online safety training program for all members, provide supporting data for underwriting and management reports, provide follow-up reports regarding member site visits and training and attend quarterly Board meetings. For the above services, Brooks

shall be compensated 2.5% of the Pool's gross written premium. For the 2011/2012 fiscal year, the Pool incurred \$153,452 in safety service fees related to this agreement.

### **FIDELITY BOND COVERAGE**

At June 30, 2012, the Pool was listed as a named insured on a fidelity bond with a \$500,000 limit of liability, subject to a \$2,500 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, 2012, as set forth in the following schedule:

<b><u>Type of Agreement</u></b>	<b><u>Pool's Retention</u></b>	<b><u>Limits of Liability of the Reinsurer</u></b>
<b><u>Automobile Liability and Liability other than Automobile; Automobile Physical Damage</u></b>		
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
<b><u>Property</u></b>		
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

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.

## **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, 2009 through June 30, 2012. Assets were verified and liabilities were established at June 30, 2012. 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 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  
Claim Service Agreement  
Safety Services Agreement  
Fidelity Bond Coverage  
Reinsurance Coverage  
Financial Statements

**FINANCIAL STATEMENTS**

There follows a statement of financial condition as of June 30, 2012, a statement of revenue, expenses and changes in members' equity for the fiscal year ended June 30, 2012, a statement of changes in members' equity for the period under review, a statement of cash flow and a statement of Examiners' changes in members' equity for the fiscal year ended June 30, 2012.

**BALANCE SHEET**  
**JUNE 30, 2012**

**Assets**

## Current Assets

Cash and cash equivalents	\$8,262,678
Receivable from reinsurer	1,343,478
Accounts receivable	7,100
Prepaid expenses	<u>18,162</u>

**Total Assets** \$9,631,418

**Liabilities and Members' Equity**

## Current Liabilities

Unearned income	\$2,495,716
Unpaid losses	1,100,000
Accounts payable and accrued liabilities	<u>708,690</u>

**Total Current liabilities** \$4,304,406

## Noncurrent Liabilities

Unpaid losses	<u>\$4,326,734</u>
---------------	--------------------

**Total Liabilities** \$8,631,140

**Members' Equity**

Unrestricted	<u>1,000,278</u>
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**Total Liabilities and Members' Equity** \$9,631,418

**STATEMENT OF REVENUE, EXPENSES AND CHANGES**  
**IN MEMBERS' EQUITY**  
**FOR THE YEAR ENDED JUNE 30, 2012**

<b>Operating Revenues</b>	
Premiums earned	<u>\$6,128,149</u>
<b>Operating Expenses</b>	
Reinsurance premiums	2,957,934
Losses incurred	3,372,492
Service fees	241,568
General and administrative	
Administrator fees	672,208
Other	<u>316,552</u>
<b>Total Operating Expenses</b>	<u>\$7,560,754</u>
<b>Operating Loss</b>	(\$1,432,605)
<b>Nonoperating Revenues</b>	
Investment income	<u>2,510</u>
<b>Net Change in Members' Equity</b>	(\$1,430,095)
<b>Members' equity at beginning of year</b>	<u>2,430,373</u>
<b>Members' Equity at End of Year</b>	<u><u>\$1,000,278</u></u>

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
**FOR PERIOD UNDER REVIEW**

	<u>2009/2010</u>	<u>2010/2011</u>	<u>2011/2012</u>
Members' Equity, beginning of fiscal year	\$2,206,255	\$2,656,649	\$2,430,373
Adjustment for previous examination changes	5,209		
Excess of revenue over expenses	<u>445,185</u>	<u>(226,276)</u>	<u>(1,430,095)</u>
Members' Equity, end of fiscal year	<u><u>\$2,656,649</u></u>	<u><u>\$2,430,373</u></u>	<u><u>\$1,000,278</u></u>

**STATEMENT OF CASH FLOW**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**Cash Flows from Operating Activities**

Cash received from members	\$7,878,165
Cash received from reinsurers for claim recoveries	12,017,715
Cash paid for claims	(13,145,933)
Cash paid for reinsurance premiums	(2,957,934)
Cash paid for other operating expenses	<u>(1,235,867)</u>

**Net Cash Provided by Operating Activities** \$2,556,146

**Cash Flows Provided by Investing Activities**

Investment income received	<u>2,510</u>
----------------------------	--------------

**Net Increase in Cash and Cash Equivalents** \$2,558,656

**Cash and cash equivalents at beginning of year** 5,704,022

**Cash and cash equivalents at end of year** \$8,262,678

**Reconciliation of Operating Income to Net Cash Provided by Operating Activities**

Operating loss	(\$1,432,605)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Change in operating assets and liabilities:	
Accounts receivable	(1,236)
Prepaid expenses	(5,539)
Receivable from reinsurer	(910,568)
Unpaid losses	3,154,842
Unearned income	1,078,667
Accrued expenses	<u>672,585</u>

**Net Cash Provided by Operating Activities** \$2,556,146

**STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY**  
**JUNE 30, 2012**

	<u>Amount Per Pool</u>	<u>Amount Per Examiners</u>	<u>Increase (Decrease) Members' Equity</u>
<u>Assets:</u>			
Accounts receivable	\$12,310	\$7,100	<u>(\$5,210)</u>
Examiners' changes in members' equity			<u><u>(\$5,210)</u></u>
Total members' equity per Pool			\$1,005,488
Total members' equity per Examiner			<u>1,000,278</u>
Decrease in members' equity			<u><u>(\$5,210)</u></u>

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

1. The results of this examination reflect a members' equity deficit for the 1998/1999, 2001/2002, 2002/2003, 2003/2004, 2004/2005, 2009/2010, 2010/2011 and 2011/2012 fiscal years of \$30,585, \$76,557, \$144,690, \$168,207, \$287,007, \$57,086, \$572,157 and \$622,179 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.

**Accounts and Records**

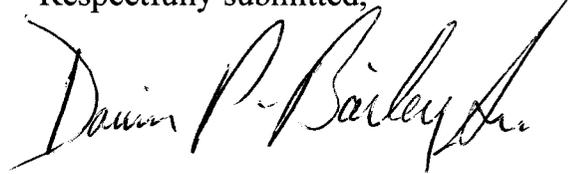
2. Accounts receivable \$7,100

The above asset is \$5,210 less than the amount reported by the Pool in its June 30, 2012 filing to the Bureau. The decrease is the result of the Examiner's review of a member's accounts receivable balance as reported for the fiscal year ended June 30, 2012. It was determined that the account balance was paid in full prior to this date. The Examiners recommend that the Pool accurately report accounts receivable 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 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." in a cursive script.

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



Rivanna Ridge Professional Building  
200 Hansen Road, Suite 2  
Charlottesville, VA 22911

STATE CORP. COMMISSION  
BUREAU OF INSURANCE  
13 MAR -8 AM 9:37

February 25, 2013

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, 2012

Dear Mr. Smith,

We have received and reviewed the above report.

We respond to the Recommendations for Corrective Action on page 14 as follows:

1. We acknowledge that there are deficits in members' equity for the 1998/1999, 2001/2002, 2002/2003, 2003/2004, 2004/2005, 2009/2010, 2010/2011 and 2011/2012 fiscal years. We are monitoring these deficits closely and will insure that the Pool is financially sound overall and able to fulfill its obligations according to its by-laws.
2. The Pool acknowledges this recommendation for corrective action.

Respectfully submitted,

David R. Sulzen  
Chair, Members' Supervisory Board  
VSBA Property and Casualty Pool