

**EXAMINATION REPORT**  
**of**  
**VIRGINIA ASSOCIATION OF COUNTIES**  
**GROUP SELF-INSURANCE RISK POOL**  
**ROANOKE, VIRGINIA**  
**as of**  
**JUNE 30, 2011**

# COMMONWEALTH OF VIRGINIA

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



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I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of the Virginia Association of Counties Group Self-Insurance Risk Pool as of June 30, 2011, 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 3rd day of May, 2012

Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
February 24, 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

**VIRGINIA ASSOCIATION OF COUNTIES  
GROUP SELF-INSURANCE RISK POOL**

Roanoke, 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 et seq. (Rules Governing Local Government Group Self-Insurance Pools) promulgated by the State Corporation Commission (the "Commission").

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, 2011.

**HISTORY**

The Pool was licensed by the Bureau on July 1, 1993. According to its amended and restated bylaws, the Pool was formed:

... For the purpose of enabling Virginia governmental entities to pool retention of their risks by creating a Group fund to pay property, liability and workers' compensation claims to and on behalf of local governments and other local agencies, departments, boards, and authorities joining the Group ...

Effective July 1, 2010, the Members' Supervisory Boards of both the Pool and the Virginia Association of Counties Group Self-insurance Association (the "Association") approved a merger of the Pool and the Association, with the Pool being the surviving entity. The merger allowed for the combined pooling of liability claims, property losses and liabilities arising out of the Virginia Workers' Compensation 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. According to the bylaws, the Board shall be comprised of seven members, with a minimum of five members being a member of their local Board of Supervisors or a County Administrator. Each Board member shall serve until the members elect a successor. Such terms shall be staggered to provide that two Board members shall be elected each year with the exception of one year in which three Board members shall be elected. The Board shall elect a chairperson and a vice-chairperson from its members and designate a secretary to keep the minutes and records of the Board. The Secretary need not be a Board member. The Board may designate committees as needed.

The Board and officers were as follows at June 30, 2011:

<u>Representative</u>	<u>Affiliation</u>
David L. Ash	County Administrator Clarke County Berryville, Virginia
Richard C. Flora	Member, Board of Supervisors Roanoke County Roanoke, Virginia
Kathleen D. Guzi	County Administrator Bedford County Bedford, Virginia
John R. Riley, Jr.	County Administrator Frederick County Winchester, Virginia

David S. Whitlow

County Administrator  
Essex County  
Tappahannock, Virginia

Peggy R. Wiley

Member, Board of Supervisors  
Greensville County  
Emporia, Virginia

At June 30, 2011, there was one vacancy on the Board. At its August 12, 2011 meeting, the Board elected William J. Caudill, County Administrator, Buchanan County.

#### Officers

John R. Riley, Jr.

Chairman

David L. Ash

Vice-Chairman

Stephanie O. Heintzleman

Secretary

### **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, fidelity, workers' compensation and employers' liability. Membership in the Pool is available to counties, authorities, school systems and other political subdivisions of the Commonwealth of Virginia or agencies thereof, based upon the approval of the Board and the Bureau. All members are required to execute member agreements, which set forth the rights, privileges, and obligations of the members, and the terms, coverages, limits, and deductibles of the plan.

The Pool has a contractual agreement with an administrator who shall administer and manage the affairs of the Pool in accordance with policies adopted and established by the Board. The administrator also functions as the claims service agent. The Pool's operations are conducted on a fiscal year basis ending June 30.

### **ADMINISTRATIVE AND OTHER SERVICES AGREEMENT**

Effective July 1, 2010, the Pool entered into an administrative and other services agreement with VACo Risk Management Programs, Inc. ("VRMP"). The initial term of the agreement is one year beginning July 1, 2010, and if not canceled, shall be renewed automatically for successive three-year periods thereafter. The agreement may be canceled by either party with 60 days written notice. According to the agreement, VRMP is responsible for, but not limited to, the following:

Administration and Program Development:

- Administering the Pool's financial and administrative affairs;
- Supervising the filing of all necessary forms and reports required by any governmental agencies;
- Obtaining an annual audit of the financial affairs of the Pool by independent public accountants;
- Billing and collecting contributions from the members;
- Investing and reinvesting the Pool's funds;
- Compiling and summarizing all necessary data and preparing submissions for excess insurance or reinsurance on behalf of the Pool to reinsurers and/or excess carriers;
- Providing complete underwriting services as shall be reasonably required to insure the Pool's financial well being on a fund year basis;
- Performing other duties and powers as may be assigned by the Board.

Claims Administration and Risk Control Services:

- Providing complete loss control services, which shall include conducting loss control evaluations of members, providing comprehensive risk control workshops for members, preparing and monitoring computer loss runs and furnishing complete claims handling services and administration for all claims to their conclusion.

As compensation for its services, VRMP shall receive the following fees:

1. For all coverages other than workers' compensation:
  - 13% of the annual manual contributions for auto, general liability and property coverages, payable on a quarterly basis. VRMP shall maintain these funds in a separate account to be used exclusively for the direct operational expenses of VRMP. At the end of the fiscal year, any remaining funds, including investment income, not used for the Pool's operations shall be returned to the Pool.
  - An additional 3.5% of the annual contributions for auto, general liability and property coverages which shall be paid to the Virginia Association of Counties ("VACo") for licensing of the VACo name.

2. For workers' compensation:

- 7.5% of the standard contributions for workers' compensation coverages, payable on a quarterly basis. VRMP shall maintain these funds in a separate account to be used exclusively for the direct operational expenses of VRMP. At the end of the fiscal year, any remaining funds, including investment income, not used for the Pool's operations shall be returned to the Pool.
- An additional 1.0% of the annual manual contributions for workers' compensation coverage which shall be paid to VACo for licensing of the VACo name.

3. For self-insured members and ancillary brokerage services:

- 50% of the net revenue after all costs have been paid. VRMP shall maintain these funds in a separate account to be used exclusively for the direct operational expenses of VRMP. At the end of the fiscal year, any remaining funds, including investment income, not used for the Pool's operations shall be returned to the Pool.

Total administrative and other services fees expense for the 2010/2011 fiscal year was \$4,733,255. For financial reporting purposes, these expenses are allocated between administrative and service agent's fees on the Statement of Revenues, Expenses and Changes in Members' Equity.

### DIVIDENDS TO MEMBERS

The Board may declare any surplus assets accumulated within a fiscal year refundable. Payment of this surplus in the form of dividends, however, may not be made until certified by an actuary and the Pool has received acknowledgement from the Bureau. During the examination period, the Bureau acknowledged the following dividends:

<u>Fiscal Year</u>	<u>June 9, 2010</u>	<u>March 23, 2011</u>
1993/1994	\$7,000	\$10,000
1994/1995	25,000	22,000
1995/1996	25,000	25,000
1996/1997	50,000	60,000
1997/1998	50,000	50,000
1998/1999	100,000	100,000
2000/2001	50,000	60,000
2001/2002	50,000	
2002/2003	50,000	70,000
2003/2004	50,000	
2004/2005	150,000	150,000
2005/2006	150,000	175,000
2006/2007	150,000	130,000
2007/2008	100,000	130,000
2008/2009	<u>100,000</u>	<u>130,000</u>
Total	<u>\$1,107,000</u>	<u>\$1,112,000</u>

### FIDELITY BOND COVERAGE

At June 30, 2011, the Pool was listed as a named insured on a fidelity bond with a \$2,000,000 limit of liability, subject to a \$20,000 deductible, to insure against losses arising from dishonest acts of its administrator and employees.

### SPECIAL RESERVES AND DEPOSITS

At June 30, 2011, the Pool had securities in the amount of \$257,600 on deposit with the Treasurer of Virginia as required by 14 VAC 5-360-45.

## REINSURANCE COVERAGE

The Pool had specific and aggregate reinsurance agreements in force at June 30, 2011, as set forth in the following schedule:

<u>Type of Agreement</u>	<u>Pool's Retention</u>	<u>Limits of Liability of the Reinsurer</u>
<u>Automobile and General Liability</u>		
<u>Public Officials Liability</u>		
<u>Educators Legal Liability</u>		
Specific Excess	\$500,000 each occurrence or accident	\$9,500,000 each occurrence or accident
<u>Commercial Crime</u>		
Specific Excess	\$250,000 each occurrence	\$500,000 each 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 \$2,000,000 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.

For automobile and general liability business, Roanoke County, Stafford County, Loudoun County and James City County have selected a high-deductible option of \$250,000, \$100,000 \$100,000 and \$100,000, respectively. Therefore, members' claims which are paid by the Pool within the member's deductible are fully reimbursed to the Pool.

The Boiler and Machinery, Environmental Impairment Liability, Equipment Maintenance and Excess Crime coverage offered by the Pool is 100% reinsured, subject to various limits and sub-limits.

<u>Type of Agreement</u>	<u>Pool's Retention</u>	<u>Limits of Liability of the Reinsurer</u>
<u>Property</u>		
Specific Excess	\$250,000 per occurrence (except in high hazard wind counties, up to \$750,000 per occurrence)	\$500,250,000 per occurrence for all covered losses except flood and earthquake \$50,000,000 annual aggregate for flood and earthquake
Aggregate Excess	.07 per \$100 of total insured real and personal property (estimated at \$17,339,152,164 or approximately \$12,137,407)	\$500,250,000, subject to a \$10,000 per occurrence maintenance deductible.

For Property and Automobile Physical Damage business, pool members select deductibles between \$250 and \$25,000.

The Pool obtained an additional layer of aggregate excess coverage for all lines of business, except workers' compensation, through its related-party off-shore captive insurer, Mountain Reinsurance Company Limited. The attachment point is defined at 100% of Pool's combined ratio with a \$1,000,000 limit.

#### Workers' Compensation

Specific Excess	\$500,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	110% of fund premium, subject to a minimum retention of \$18,155,705	\$5,000,000

For workers' compensation business, York County and York County Schools have selected a high-deductible option of \$400,000 and \$500,000, respectively. Therefore, members' claims which are paid by the Pool within the member's deductible are fully reimbursed to the Pool.

**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 July 1, 2009 through June 30, 2011. Assets were verified and liabilities were established at June 30, 2011. 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 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 and Other Services Agreement  
Dividends to Members  
Fidelity Bond Coverage  
Special Reserves and Deposits  
Reinsurance Coverage  
Financial Statements

**FINANCIAL STATEMENTS**

There follows a statement of the financial condition of the Pool at June 30, 2011, a statement of operations for the fiscal year ended June 30, 2011, a statement of changes in members' equity for the period under review, a statement of cash flows for the fiscal year ended June 30, 2011 and a statement of Examiners' changes in members' equity at June 30, 2011.

**BALANCE SHEET**  
**JUNE 30, 2011**

**ASSETS**

Current Assets	
Cash and cash equivalents	\$7,774,599
Premiums receivable	362,664
Receivable from reinsurer	576,365
Service agent's fees receivable	2,266,951
Other receivables	283,605
Accrued interest receivable	237,919
Prepaid expenses and other assets	52,810
Total Current Assets	<u>\$11,554,913</u>
Noncurrent Assets	
Investments	\$52,065,573
Deposit with service agent	1,500,000
Property and equipment, net	1,398,046
Total Noncurrent Assets	<u>\$54,963,619</u>
Total Assets	<u><u>\$66,518,532</u></u>

**LIABILITIES AND MEMBERS' EQUITY**

Current Liabilities	
Claims reserve	\$7,500,000
Unearned income	3,137,665
Dividends payable	1,187,063
Premiums refundable	454,904
Accounts payable and accrued expenses	471,358
Other payables	185,056
Total Current Liabilities	<u>\$12,936,046</u>
Noncurrent Liabilities	
IBNR reserve	\$18,691,499
Claims reserve	5,134,012
Total Noncurrent Liabilities	<u>\$23,825,511</u>
Total Liabilities	<u>\$36,761,557</u>
Members' Equity	
Invested in capital assets	\$1,398,046
Contingency reserve	1,966,889
Restricted equity	250,000
Unrestricted equity	26,142,040
Total Members' Equity	<u>\$29,756,975</u>
Total Liabilities and Members' Equity	<u><u>\$66,518,532</u></u>

**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN  
MEMBERS' EQUITY FOR THE YEAR ENDED JUNE 30, 2011**

Operating Revenues	
Premiums earned	\$34,950,156
Brokered products	3,377,561
Total Operating Revenues	<u>\$38,327,717</u>
Operating Expenses	
Losses incurred	\$21,986,893
Reinsurance premiums	7,920,799
Service agent's fees	4,188,819
Brokered products	2,803,620
General and administrative	
Other	2,132,825
Administrative fees	544,436
Total Operating Expenses	<u>\$39,577,392</u>
Operating Income (Loss)	<u>(\$1,249,675)</u>
Nonoperating Revenues (Expenses)	
Investment income	
Interest and dividends	\$2,008,396
Net change in the unrealized gain (loss) from investments	(1,467,389)
Net realized gain from sales and maturities of investments	1,058,496
Net investment income	<u>\$1,599,503</u>
Other income	69,853
Rental income	83,967
Gain (loss) on disposal of assets	4,130
Total Nonoperating Revenues	<u>\$1,757,453</u>
Dividends declared	<u>(\$1,112,000)</u>
Net Change in Members' Equity	(\$604,222)
Members' equity at beginning of year	<u>30,361,197</u>
Members' Equity at End of Year	<u><u>\$29,756,975</u></u>

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**

	<u>2009/2010</u>	<u>2010/2011</u>
Members' Equity, beginning of fiscal year	* \$16,760,692	\$18,735,526
Adjustment for previous examination changes	7,035	
Adjustment for merger of Association's equity into Pool, effective July 1, 2010		11,625,671
Excess of revenues over expenses	<u>1,967,799</u>	<u>(604,222)</u>
Members' Equity, end of fiscal year	<u>\$18,735,526</u>	<u>\$29,756,975</u>

\*Adjusted members' equity from previous examination

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Cash Flows from Operating Activities	
Cash received from members	\$36,864,603
Cash paid for claims, net of recoveries	(18,635,308)
Cash paid for reinsurance premiums	(7,971,394)
Cash paid for other operating expenses	<u>(9,781,170)</u>
Net Cash Provided by Operating Activities	<u>\$476,731</u>
Cash Flows from Investing Activities	
Proceeds from sale and maturities of investments	\$63,805,781
Purchases of investments	(65,288,757)
Investment income received	2,045,267
Rental income received	83,967
Other income received	<u>69,853</u>
Net Cash Provided by Investing Activities	<u>\$716,111</u>
Net Increase in Cash and Cash Equivalents	\$1,192,842
Cash and cash equivalents at beginning of year	<u>6,581,757</u>
Cash and Cash Equivalents at End of Year	<u><u>\$7,774,599</u></u>

**STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY**  
**JUNE 30, 2011**

	Amount Per <u>Pool</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
<u>Assets:</u>			
Receivable from reinsurer	\$649,597	\$576,365	(\$73,232)
<u>Liabilities:</u>			
Accounts payable and accrued expenses	\$451,403	\$471,358	<u>(\$19,955)</u>
Examiners' decrease in members' equity			<u>(\$93,187)</u>
Total members' equity per Pool			\$29,850,162
Total members' equity per Examiner			<u>29,756,975</u>
Decrease in members' equity			<u>(\$93,187)</u>

**RECOMMENDATIONS FOR CORRECTIVE ACTION****Accounts and Records**1. **Receivable from reinsurer** **\$576,365**

The above asset is \$73,232 less than the amount reported by the Pool in its June 30, 2011 filing to the Bureau. During the Examiner's review of subsequent recoveries from the Pool's reinsurers, it was noted that the Pool had written-off certain receivables as uncollectible. These claims were submitted timely to the reinsurer, but were ultimately rejected for payment by the reinsurer due to various reasons unique to each claim. The Examiners recommend that the Pool review its reinsurance agreements to better determine those payments eligible for reimbursement and file accurate claims for reimbursement with its reinsurers.

2. **Accounts payable and accrued expenses** **\$471,358**

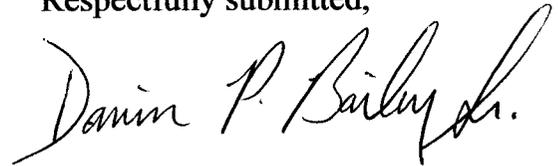
The above liability is \$19,955 more than the amount reported by the Pool in its June 30, 2011 filing to the Bureau. The increase is the result of the Examiner's review of invoices for various expenses incurred for the fiscal year ended June 30, 2011 which were paid in the subsequent fiscal year. The Examiners recommend that the Pool accrue a liability for all expenses payable at the end of its fiscal year in future filings to the Bureau.

**CONCLUSION**

The courteous cooperation extended by the Pool's administrator and staff during the course of the examination is gratefully acknowledged.

In addition to the undersigned, George E. Morgan, CFE and Milton Parker, Jr., participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "Darrin P. Bailey Sr." with a stylized flourish at the end.

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

STATE CORP. COMMISSION  
BUREAU OF INSURANCE

12 APR 26 AM 9:59



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April 18, 2012

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

Re: Virginia Association of Counties Group Self-Insurance Risk Pool  
Examination Report as of June 30, 2011

Dear Mr. Smith:

I am in receipt of the examination report as of June 30, 2011 for the Virginia Association of Counties Risk Pool. I would like to thank your staff for their performance of the audit. Their interactions with staff were professional in every respect.

With respect to the recommendations for corrective action, please review the following:

1. The recommendation regarding receivables from reinsurer are duly noted. Staff has implemented changes in reviewing reinsurance agreements which should mitigate this issue with future recoveries.
2. The recommendation regarding accounts payable and accrued expenses are duly noted.

I hope this addresses all of the issues associated with the examination. If I can be of further assistance, please let me know.

Sincerely,  
  
John R. Riley, Jr.  
Chairman, Supervisory Board