

EXAMINATION REPORT
of
VIRGINIA ASSOCIATION OF COUNTIES
GROUP SELF-INSURANCE RISK POOL
ROANOKE, VIRGINIA
as of
JUNE 30, 2016

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

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 Virginia Association of Counties Group Self-Insurance Risk Pool as of June 30, 2016, 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 16th day of June, 2017

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

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
April 3, 2017

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.

SCOPE OF THE EXAMINATION

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 last examination of the Pool was made by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of June 30, 2011. This examination covers the period from July 1, 2011 through June 30, 2016.

The Bureau planned and performed the examination to evaluate the Association's financial condition and operational activities. All accounts and activities of the Association were considered generally in accordance with the risk-focused examination process contained in the NAIC Financial Condition Examiners Handbook.

The examination report includes findings of fact and general information about the Association and its financial condition.

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 "VSBA Association") approved a merger of the Pool and the VSBA 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 at least 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, 2016:

<u>Representative</u>	<u>Affiliation</u>
David L. Ash	County Administrator Clarke County
W.J. Caudill	County Administrator Buchanan County
Cellell Dalton	County Administrator Wythe County
Richard C. Flora	Member, Board of Supervisors Roanoke County

Kathleen D. Guzi	County Administrator Bedford County
Dave Jeck	Superintendent Fauquier County Schools
Frank Pleva	County Administrator Lancaster County
Brian Ratliff	Superintendent Washington County Schools
John R. Riley, Jr.	County Administrator Frederick County
David S. Winslow	County Administrator Essex County
Peggy R. Wiley	Member, Board of Supervisors Greensville 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, employers' liability, and accident and sickness. 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 Risk Management Programs, Inc. ("RMP"), formerly VACo Risk Management Programs, Inc. The initial term of the agreement was one year beginning July 1, 2010, and since not canceled, 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, RMP 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, RMP 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. RMP shall maintain these funds in a separate account to be used exclusively for the direct operational expenses of RMP. 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 2.25% of the annual contributions for auto, general liability and property coverages which shall be paid to VACo for licensing of the VACo name.

2. For workers' compensation:
 - 7.0% of the standard contributions for workers' compensation coverages, payable on a quarterly basis. RMP shall maintain these funds in a separate account to be used exclusively for the direct operational expenses of RMP. 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 0.75% 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. RMP shall maintain these funds in a separate account to be used exclusively for the direct operational expenses of RMP. 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 2015/2016 fiscal year was \$10,160,080. 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>May 4, 2012</u>	<u>May 22, 2013</u>	<u>July 24, 2014</u>	<u>June 24, 2015</u>
1993/1994	\$7,000	\$9,000	\$12,000	\$10,000
1994/1995	17,000	17,000	25,000	25,000
1995/1996	20,000	20,000	25,000	25,000
1996/1997	50,000	40,000	40,000	40,000
1997/1998	50,000	40,000	25,000	30,000
1998/1999	100,000	100,000	75,000	60,000
1999/2000		10,000	20,000	20,000
2000/2001	60,000	60,000	50,000	35,000
2002/2003	90,000	90,000	100,000	70,000
2004/2005	150,000	100,000	100,000	100,000
2005/2006	175,000	175,000	150,000	150,000
2006/2007	150,000	125,000	90,000	75,000
2007/2008	125,000	100,000	50,000	50,000
2008/2009	150,000	175,000	100,000	100,000
2009/2010		75,000	50,000	50,000
Total	\$1,144,000	\$1,136,000	\$912,000	\$840,000

FIDELITY BOND COVERAGE

At June 30, 2016, the Pool was listed as a named insured on a fidelity bond with a \$1,000,000 limit of liability, subject to a \$25,000 deductible, to insure against losses arising from dishonest acts of its administrator and employees.

SPECIAL RESERVES AND DEPOSITS

At June 30, 2016, 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, 2016, 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	\$750,000 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, James City County, Roanoke County, Loudon County, and Richmond City Schools, have selected a high-deductible option of \$100,000, \$250,000, \$250,000 and \$50,000, respectively. Henrico County has a \$1,000,000 deductible for property and a \$2,000,000 deductible for liability. Therefore, members' claims which are paid by the Pool within the member's deductible are fully reimbursed to the Pool.

<u>Type of Agreement</u>	<u>Pool's Retention</u>	<u>Limits of Liability of the Reinsurer</u>
<u>Property</u>		
Specific Excess	\$350,000 per occurrence	\$500,250,000 per occurrence for all covered losses except flood and earthquake \$50,000,000 annual aggregate for flood and earthquake

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

The Pool obtained a layer of aggregate excess coverage for all lines of Property/Liability, Workers' Compensation, and Line of Duty Act business through its related-party off-shore captive insurer, Mountain Reinsurance Company Limited. The attachment point is defined as 100% of Pool's combined ratio with a \$1,000,000 limit. The limit applies separately to each class of business up to a total of \$3,000,000.

Workers' Compensation

Specific Excess	\$1,000,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
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For workers' compensation business, Roanoke County, Roanoke Schools, City of Lynchburg, Newport News Schools, York County, York County Schools, and City of Petersburg have selected a high-deductible option of \$200,000, \$200,000, \$400,000, \$1,000,000, \$400,000, \$500,000, and \$300,000, respectively. Therefore, members' claims which are paid by the Pool within the member's deductible are fully reimbursed to the Pool.

FINANCIAL STATEMENTS

There follows a statement of the financial condition of the Pool at June 30, 2016, a statement of operations for the fiscal year ended June 30, 2016, a statement of changes in members' equity for the period under review, a statement of cash flows for the fiscal year ended June 30, 2016.

BALANCE SHEET
JUNE 30, 2016

ASSETS

Current Assets	
Cash and cash equivalents	\$5,387,675
Investments	7,787,640
Receivable from reinsurer	3,995,351
Premiums and accounts receivable	1,698,619
Service agent's fees receivable	1,212,575
Other receivables	1,024,958
Accrued interest receivable	654,852
Prepaid expenses and other assets	30,962
Total Current Assets	<u>\$21,792,632</u>
Noncurrent Assets	
Investments	\$60,064,788
Property and equipment, net	3,295,975
Deposit with service agent	1,500,000
Total Noncurrent Assets	<u>\$64,860,763</u>
Total Assets	<u><u>\$86,653,395</u></u>

LIABILITIES AND MEMBERS' EQUITY

Current Liabilities	
Claims reserve	\$13,000,000
Unearned income	4,598,107
Accounts payable and other liabilities	1,729,419
Premiums refundable	426,472
Total Current Liabilities	<u>\$19,753,998</u>
Noncurrent Liabilities	
IBNR reserve	\$32,569,000
Claims reserve	2,535,423
Total Noncurrent Liabilities	<u>\$35,104,423</u>
Total Liabilities	<u>\$54,858,421</u>
Members' Equity	
Unrestricted equity	\$22,727,135
Contingency reserve	5,521,864
Invested in capital assets	3,295,975
Restricted equity	250,000
Total Members' Equity	<u>\$31,794,974</u>
Total Liabilities and Members' Equity	<u><u>\$86,653,395</u></u>

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 2016

Operating Revenues	
Premiums earned	\$63,683,536
Brokered products	3,866,322
Total Operating Revenues	<u>\$67,549,858</u>
Operating Expenses	
Losses incurred	\$38,401,730
Reinsurance premiums	15,082,106
Service agent's fees	8,989,803
Brokered products	3,667,864
General and administrative	
Other	2,895,327
Administrative fees	1,170,277
Total Operating Expenses	<u>\$70,207,107</u>
Operating (Loss)	<u>(\$2,657,249)</u>
Nonoperating Revenues	
Investment income	
Interest and dividends	\$2,284,784
Net change in the unrealized gain from investments	382,226
Net realized gain from sales and maturities of investments	110,899
Net investment income	<u>\$2,777,909</u>
Other income	615,680
Rental income	155,050
Total Nonoperating Revenues	<u>\$3,548,639</u>
Dividends declared	<u>\$0</u>
Net Change in Members' Equity	\$891,390
Members' equity at beginning of year	<u>30,903,584</u>
Members' Equity at End of Year	<u><u>\$31,794,974</u></u>

STATEMENT OF CHANGES IN MEMBERS' EQUITY

	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2014/2015</u>	<u>2015/2016</u>
Members' Equity, beginning of fiscal year	* 29,756,975	33,208,836	31,497,563	31,675,201	30,903,584
Adjustment for previous exam changes	93,187				
Auditors adjustment in subsequent year	1,362,212				
Excess of revenues over expenses	<u>1,996,462</u>	<u>(1,711,273)</u>	<u>177,638</u>	<u>(771,617)</u>	<u>891,390</u>
Members' Equity, end of fiscal year	<u>\$33,208,836</u>	<u>\$31,497,563</u>	<u>\$31,675,201</u>	<u>\$30,903,584</u>	<u>\$31,794,974</u>

*- Adjusted members' equity from previous examination

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

Cash Flows from Operating Activities	
Cash received from members	\$66,406,844
Cash paid for claims, net of recoveries	(28,171,826)
Cash paid for reinsurance premiums	(15,082,106)
Cash paid for other operating expenses	<u>(15,904,865)</u>
Net Cash Provided by Operating Activities	<u>\$7,248,047</u>
 Cash Flows from Investing Activities	
Proceeds from sale and maturities of investments	\$20,889,647
Purchases of investments	(27,296,371)
Investment income received	2,177,648
Rental and other income received	<u>155,050</u>
Net Cash Provided by Investing Activities	<u>(\$4,074,026)</u>
 Net Increase in Cash and Cash Equivalents	 \$3,174,021
 Cash and cash equivalents at beginning of year	 <u>2,213,654</u>
 Cash and Cash Equivalents at End of Year	 <u><u>\$5,387,675</u></u>

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, Jack Drean, CFE and Kevin Knight, CFE, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "C. Collins", written in a cursive style.

Chris Collins, CFE
Senior Insurance Examiner

STATE CORP. COMMISSION
2017 JUN 12 AM 9: 14
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June 9, 2017

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, 2016 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.

Since there are no recommendations for corrective action, this letter acknowledges receipt of the report. If I can be of further assistance, please let me know.

Sincerely,

A handwritten signature in cursive script, appearing to read "Chris J. Carey".

Chris J. Carey
Administrator

Cc: John R. Riley, Jr.
Chair, Members Supervisory Board