

EXAMINATION REPORT
of
SCHOOL SYSTEMS OF VIRGINIA
GROUP SELF-INSURANCE ASSOCIATION
Richmond, Virginia
as of
December 31, 2012

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM
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, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of School Systems of Virginia Group Self-Insurance Association as of December 31, 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 27th day of January, 2014

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

DESCRIPTION..... 1

HISTORY..... 1

MANAGEMENT AND CONTROL 2

TERRITORY AND PLAN OF OPERATIONS 3

ADMINISTRATIVE AGREEMENT 3

CLAIMS CONSULTING SERVICE AGREEMENT 4

CLAIMS SERVICE AGREEMENT 4

DIVIDENDS TO MEMBERS 5

FIDELITY BOND COVERAGE..... 5

SPECIAL RESERVES AND DEPOSITS 5

EXCESS INSURANCE COVERAGE 6

SCOPE 7

FINANCIAL STATEMENTS 8

RECOMMENDATIONS FOR CORRECTIVE ACTION 15

SUBSEQUENT EVENT..... 18

CONCLUSION 19

Richmond, Virginia
October 22, 2013

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

**SCHOOL SYSTEMS OF VIRGINIA
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 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, 2009. This examination covers the period from January 1, 2010 through December 31, 2012.

HISTORY

The Association was licensed by the Bureau effective August 1, 1982. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage.

MANAGEMENT AND CONTROL

Control of the Association is vested in a Members' Supervisory Board (the "Board") elected by the members of the Association. The by-laws provide for no less than three nor more than nine Board members, three-fourths of whom shall be officers of members in good standing of the Association. Board members serve until their successors are elected.

The Board and officers were as follows at December 31, 2012:

Representative

Member

Anthony E. Beckles

Lynchburg City School Board
Lynchburg, Virginia

Lori S. Cassada

Danville City School Board
Danville, Virginia

Lee E. Cheatham

Franklin County Public Schools
Rocky Mount, Virginia

Teresa C. Crouch

Amherst County Public Schools
Amherst, Virginia

Shannon T. Irvin

Nelson County Public Schools
Lovington, Virginia

Donna Seay

Charlottesville City Schools
Charlottesville, Virginia

Tracey R. Worley

Pittsylvania County School Board
Chatham, Virginia

D. Jackson Zimmermann

Albemarle County Public Schools
Charlottesville, Virginia

Officers

Chairman

Lee E. Cheatham

Vice Chairman

D. Jackson Zimmermann

Secretary/ Treasurer

Donna Seay

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 is available to employers having a common interest upon the approval of the Board and the Commission.

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 members' liabilities 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 fiscal year ending June 30.

ADMINISTRATIVE AGREEMENT

Effective August 1, 1995, the Association entered into an administrative agreement with Self-Insurance Services, LLC, ("SIS"). The original term of this agreement was for a period of 12 months and the agreement remains in effect thereafter, subject to termination by either party by written notice at least 90 days in advance of the effective date of termination.

According to the agreement, SIS shall administer the financial affairs of the Association as established and adopted by the Board, maintain necessary records of accounts, advise the Board on policy matters, contract for claims handling and with advisors and consultants, pay all items of expense to the extent funds are available, direct the solicitation and enrollment of new members, file necessary reports, and conduct other managerial duties.

As compensation for its services, SIS shall receive 7% of all members' contributions calculated under the provisions of 14 VAC 5-370-110, without reduction as a result of premium discounts, experience ratings, deviations, or other adjustments. The Association incurred \$364,852 in fees relating to this agreement in calendar year 2012. In addition, SIS retains 100% of the commission received for placement of excess insurance coverage.

CLAIMS CONSULTING SERVICE AGREEMENT

Effective August 1, 1994, the Association entered into a claims consulting service agreement with SIS. The original term of the agreement was for a period of 12 months and the agreement remains in effect thereafter, subject to termination by either party upon 90 days advance written notice. According to the agreement, SIS shall provide claims consulting services including the review of monthly loss reports, approval of all medical and compensation payments over \$2,000, monthly review of all open claim files, evaluation of members' claim experience and assistance to the service agent in settlement of claims.

As compensation, the Association shall pay SIS $\frac{1}{2}$ of 1% of all members' contributions calculated under the provisions of 14 VAC 5-370-110, without reduction as a result of premium discounts, experience ratings, deviations, or other adjustments. The Association incurred \$26,060 in fees relating to this agreement in calendar year 2012.

CLAIMS SERVICE AGREEMENT

Effective August 1, 1998, the Association entered into a claims service agreement with Trigon Administrators, Inc. ("Trigon") currently known as Sedgwick CMS ("Sedgwick"). Sedgwick serves as the Association's claims service agent pursuant to the same claims service agreement originally entered into with Trigon. The original term of the agreement was for a one-year period and the agreement remains in effect thereafter, subject to termination by either party by written notice 60 days in advance of the effective date of termination.

Pursuant to the terms of the agreement, Sedgwick shall provide full claims handling and adjusting for all claims incurred during the period of the agreement until their conclusion, unless otherwise transferred, claims counseling, loss control consulting, monthly reports, preparation for all scheduled hearings before regulatory bodies and other claims related duties. As compensation for its services, Sedgwick shall receive 5% of the Association's manual premiums. Additionally, Sedgwick will be compensated 25% of the savings generated by inpatient bills, the inpatient utilization review process and any reductions from the application of any fee schedules and negotiations generated from the cost containment program. The Association incurred \$260,609 in fees relating to this agreement in calendar year 2012.

DIVIDENDS TO MEMBERS

Any surplus assets accumulated within a fiscal year may be declared refundable by the Board. Payment of this surplus in the form of dividends, however, may not be made until the Association has received approval from the Bureau. During the examination period, the Bureau approved the following dividends:

<u>Fiscal Year</u>	<u>Approval Dates</u>		
	<u>May 27, 2010</u>	<u>May 31, 2011</u>	<u>June 1, 2012</u>
1985/1986	\$0	\$0	\$2,149
1991/1992	24,544	0	0
1992/1993	25,000	5,000	0
1993/1994	0	0	3,891
1995/1996	8,933	5,000	74,949
1996/1997	100,000	0	67,846
1997/1998	5,261	0	0
1998/1999	0	3,361	0
1999/2000	100,000	0	143,617
2000/2001	25,000	25,000	50,000
2001/2002	20,000	50,000	5,000
2002/2003	50,000	10,000	25,000
2004/2005	88,787	10,000	0
2006/2007	100,000	100,000	100,000
2009/2010	0	200,000	200,000
	<hr/>	<hr/>	<hr/>
Total	<u>\$547,525</u>	<u>\$408,361</u>	<u>\$672,452</u>

FIDELITY BOND COVERAGE

At December 31, 2012, the Association had a fidelity bond with a \$175,000 limit of liability, subject to a \$750 deductible, to insure against losses arising from dishonest acts of its administrator and employees.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2012, the Association had a United States Treasury Note with a par value of \$250,000 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A.

EXCESS INSURANCE COVERAGE

The Association had both specific and aggregate excess insurance agreements in force at December 31, 2012, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$525,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	111% of normal premium subject to a minimum retention of \$6,268,776	\$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. The examination covers the period from January 1, 2010 through December 31, 2012. Assets were verified and liabilities were established at December 31, 2012. 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 Consulting Service Agreement
Claims Service Agreement
Dividends to Members
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, 2012, a statement of income for the year ended December 31, 2012, 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, 2012

ASSETS

Bonds, long term	\$15,237,968
Other invested assets	105,997
Cash on deposit	332,564
Premiums receivable	32,496
Interest due and accrued	74,825
Amounts recoverable on paid losses	41,125
Prepaid excess insurance premiums	244,257
Prepaid administrative fees	80,190
Prepaid service agent's fees	53,460
	<hr/>
Total assets	<u><u>\$16,202,882</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$6,370,527
Loss adjustment expenses unpaid	578,314
Contingency reserve	1,105,359
Unearned premiums	1,523,684
Premium refunds payable	13,398
Taxes, licenses and fees payable	174,399
Dividends payable	3,426,645
Professional fees payable	16,000
Investment fees payable	5,000
Payroll audit fees payable	4,500
	<hr/>
Total liabilities	<u>\$13,217,826</u>
Restricted members' equity	\$255,303
Unrestricted members' equity	2,729,753
	<hr/>
Total liabilities and members' equity	<u><u>\$16,202,882</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2012

UNDERWRITING INCOME

Premiums earned	<u>\$4,397,256</u>
Deductions:	
Losses incurred	\$1,288,604
Loss expenses incurred	408,591
Other underwriting expenses incurred	882,115
Contingency reserve	<u>(281,757)</u>
Total underwriting deductions	<u>\$2,297,553</u>
Net underwriting gain	<u>\$2,099,703</u>

INVESTMENT INCOME

Net investment income earned	\$352,757
Net realized capital losses	<u>(116,838)</u>
Net investment gain	<u>\$235,919</u>
Net income before federal income taxes	\$2,335,622
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$2,335,622</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>2010</u>	<u>2011</u>	<u>2012</u>
Members' equity, previous year before undistributed dividends	* \$2,670,203	\$4,533,810	\$4,305,965
Adjustment for previous examination changes	289,543		
Net income	1,865,937	409,666	2,335,622
Net unrealized capital gains or (losses)	15,471	(219,200)	(52,392)
Dividends paid to members	<u>(307,344)</u>	<u>(418,311)</u>	<u>(177,494)</u>
Restricted and unrestricted members' equity, end of year	\$4,533,810	\$4,305,965	\$6,411,701
Less: Restricted members' equity, end of year	<u>262,793</u>	<u>261,318</u>	<u>255,303</u>
Unrestricted members' equity, end of year before undistributed dividends	\$4,271,017	\$4,044,647	\$6,156,398
Less: Dividends declared but unpaid	<u>2,967,630</u>	<u>2,951,077</u>	<u>3,426,645</u>
Unrestricted members' equity, end of year	<u>\$1,303,387</u>	<u>\$1,093,570</u>	<u>\$2,729,753</u>

* Adjusted members' equity from previous examination.

Members' Account By Fiscal Year Inception to Date December 31, 2012

	All Other Fiscal Years Preceding 1982-2009	Third Fiscal Year Preceding 2009/2010	Second Fiscal Year Preceding 2010/2011	First Fiscal Year Preceding 2011/2012	Partial Current Fiscal Year 7/1/12-12/31/12	Total Inception to Date (1982-2012)
Income Received						
Premiums written	\$68,105,554	\$6,691,356	\$5,371,952	\$4,802,470	\$3,987,385	\$88,958,717
Less: Excess insurance	6,267,547	585,700	473,040	464,597	488,514	8,279,398
Net premiums written	\$61,838,007	\$6,105,656	\$4,898,912	\$4,337,873	\$3,498,871	\$80,679,319
Investment income	7,891,122	283,321	158,025	48,405	281,629	8,662,502
(Allocation between years)	118,334	47,264	36,522	49,873	(251,993)	0
Other	617,952	0	0	0	42,131	660,083
Total income collected	\$70,465,415	\$6,436,241	\$5,093,459	\$4,436,151	\$3,570,638	\$90,001,904
Less: Expenses Paid						
Losses paid	\$40,407,132	\$2,484,800	\$2,151,815	\$1,281,747	\$208,128	\$46,533,622
Allocated loss adjustment expenses paid	2,444,320	375,805	299,062	165,305	20,591	3,305,083
Administrative fees	5,763,484	489,205	425,591	373,595	286,527	7,338,402
Service agent's fees	4,039,062	326,137	283,727	249,064	191,019	5,089,009
Taxes, licenses, and fees	1,332,420	219,761	195,805	226,888	0	1,974,874
Other expenses	828,837	35,941	29,525	36,964	17,941	949,208
Total expenses	\$54,815,255	\$3,931,649	\$3,385,525	\$2,333,563	\$724,206	\$65,190,198
Net cash income	\$15,650,160	\$2,504,592	\$1,707,934	\$2,102,588	\$2,846,432	\$24,811,706
Add: Receivables						
Premiums receivable	\$0	\$0	\$0	\$0	\$32,496	\$32,496
Interest due and accrued	30,471	12,838	9,920	13,546	8,050	74,825
Amounts recoverable on paid losses	41,125	0	0	0	0	41,125
Other	0	0	0	0	377,907	377,907
Total receivables	\$71,596	\$12,838	\$9,920	\$13,546	\$418,453	\$526,353
Deduct: Liabilities						
Losses unpaid	\$1,519,642	\$684,976	\$924,347	\$1,215,481	\$2,026,081	\$6,370,527
Loss adjustment expenses unpaid	239,243	53,487	89,712	93,758	102,114	578,314
Contingency reserve	525,533	200,741	161,160	144,074	73,851	1,105,359
Unearned premiums	0	0	0	0	1,523,684	1,523,684
Premium refunds payable	0	0	0	0	13,398	13,398
Taxes, licenses and fees payable	0	0	0	0	174,399	174,399
Other expenses payable	0	0	0	0	25,500	25,500
Total liabilities	\$2,284,418	\$939,204	\$1,175,219	\$1,453,313	\$3,939,027	\$9,791,181

Members' Account By Fiscal Year Inception to Date December 31, 2012

	<u>All Other Fiscal Years Preceding 1982-2009</u>	<u>Third Fiscal Year Preceding 2009/2010</u>	<u>Second Fiscal Year Preceding 2010/2011</u>	<u>First Fiscal Year Preceding 2011/2012</u>	<u>Partial Current Fiscal Year 7/1/12-12/31/12</u>	<u>Total Inception to Date (1982-2012)</u>
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$13,437,338	\$1,578,226	\$542,635	\$662,821	(\$674,142)	\$15,546,878
Less: Dividends paid inception to date by fiscal year	9,048,441	86,736	0	0	0	9,135,177
Less: Restricted Members' Equity by fiscal year	<u>51,060</u>	<u>51,060</u>	<u>51,061</u>	<u>51,061</u>	<u>51,061</u>	<u>255,303</u>
Unrestricted Members' Equity undistributed by fiscal year	\$4,337,837	\$1,440,430	\$491,574	\$611,760	(\$725,203)	\$6,156,398
Less: Dividends declared but unpaid	<u>3,113,380</u>	<u>313,265</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>3,426,645</u>
Unrestricted Members' Equity 12/31/12	<u>\$1,224,457</u> *	<u>\$1,127,165</u>	<u>\$491,574</u>	<u>\$611,760</u>	<u>(\$725,203)</u>	<u>\$2,729,753</u>

*Although the cumulative unrestricted members' equity for the fiscal years 1982-2009 at December 31, 2012 was \$1,224,457, the 2003/2004 and 2005/2006 fiscal years had members' equity deficits of \$11,382 and \$46,096, respectively.

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2012

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$0	\$32,496	\$32,496
Prepaid administrative fees	81,827	80,190	(1,637)
Prepaid service agent's fees	54,552	53,460	(1,092)
<u>Liabilities:</u>			
Losses unpaid	\$6,269,036	\$6,370,527	(\$101,491)
Loss adjustment expenses unpaid	559,596	578,314	(18,718)
Contingency reserve	1,104,823	1,105,359	(536)
Unearned premiums	1,543,554	1,523,684	19,870
Premium refunds payable	0	13,398	(13,398)
Taxes, licenses and fees payable	230,000	174,399	<u>55,601</u>
Examiners changes in members' equity			<u><u>(\$28,905)</u></u>
Restricted and unrestricted members' equity per Association			\$3,013,961
Restricted and unrestricted members' equity per Examiners			<u>2,985,056</u>
Decrease in unrestricted and undistributed members' equity			<u><u>(\$28,905)</u></u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

- The results of this examination reflected members' equity deficits for the 2003/2004, 2005/2006 fiscal years and the 2012/2013 partial current fiscal year of \$11,382, \$46,096 and \$725,203, respectively. 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

- Losses unpaid \$6,370,527

The above liability is \$101,491 more than the amount reported by the Association in its 2012 Annual Statement. The increase in losses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
1998/1999	\$21,804	\$32,306	\$10,402
2001/2002	0	10,700	10,700
2003/2004	98,112	127,304	29,192
2006/2007	90,719	141,916	<u>51,197</u>
Total Change			<u>\$101,491</u>

The Examiners' increase results from a development of losses paid and reserve changes occurring during the period January 1, 2013 through September 30, 2013 on claims incurred December 31, 2012 and prior. The Association should review its methodologies to ensure sufficient loss reserves are established in future filings with the Bureau.

- Loss adjustment expenses unpaid \$578,314

The above liability is \$18,718 more than the amount reported by the Association in its 2012 Annual Statement. The increase in loss adjustment expenses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
1998/1999	\$789	\$6,315	\$5,526
2001/2002	0	5,693	5,693
2006/2007	3,086	10,585	<u>7,499</u>
Total Change			<u>\$18,718</u>

The Examiners' increase results from a development of loss adjustment expenses paid and reserve changes occurring during the period January 1, 2013 through September 30, 2013 on claims incurred December 31, 2012 and prior. The Association should review its methodologies to ensure sufficient loss adjustment expense reserves are established in future filings with the Bureau.

4. Taxes, licenses and fees payable \$174,399

The above liability is \$55,601 less than the amount reported by the Association in its 2012 Annual Statement. The Examiners' amount was based on a review of invoices paid in 2013 for taxes pertaining to 2012.

Payroll Audit Changes

The adjustments in the following recommendations were determined by utilizing each member's final 2012/2013 fiscal year payrolls which were not fully completed until after the Association's 2012 Annual Statement filing to the Bureau.

5. Premiums receivable \$32,496
Premium refunds payable \$13,398

The above amounts have been established by the Examiners. The Examiners' amounts are based on subsequent 2012/2013 member payroll audits and reflect differences between audited contributions and contributions paid prorated for the period July 1, 2012 through December 31, 2012.

6. Prepaid administrative fees \$80,190

The above asset is \$1,637 less than the amount reported by the Association in its 2012 Annual Statement. The Examiners' amount reflects administrative fees paid at December 31, 2012, less the amount owed at December 31, 2012 based on the Examiners' analysis of subsequent 2012/2013 member payroll audits.

7. Prepaid service agent's fees \$53,460

The above asset is \$1,092 less than the amount reported by the Association in its 2012 Annual Statement. The Examiners' amount reflects service agent's fees paid at December 31, 2012, less the amount owed at December 31, 2012 based on the Examiners' analysis of subsequent 2012/2013 member payroll audits.

8. Contingency reserve \$1,105,359

The above liability is \$536 more than the amount reported by the Association in its 2012 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of subsequent 2012/2013 member payroll audits, which is the basis for the calculation of the contingency reserve.

9. Unearned premiums \$1,523,684

The above liability is \$19,870 less than the amount reported by the Association in its 2012 Annual Statement. The Examiners' amount reflects the estimated premiums received to date at December 31, 2012, less the amount earned at December 31, 2012 based on subsequent 2012/2013 member payroll audits.

SUBSEQUENT EVENT

On May 7, 2013, the Bureau approved dividends for the Association totaling \$1,210,789.

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, Darrin Bailey, CFE and Chris Collins, CFE participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "M. A. Parker, Jr.", written in a cursive style.

Milton Parker, Jr.
Insurance Examiner

SCHOOL SYSTEMS OF VIRGINIA GROUP SELF INSURANCE ASSOCIATION

Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE



January 10, 2014

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

Dear Mr. Smith:

Enclosed are the responses to your recommendations for corrective action for School Systems of Virginia Group Self Insurance Association during the examination period of January 1, 2010 to December 31, 2012.

Please let me know if you have any questions concerning our responses.

Sincerely,

Lee Cheatham
Chairman
Members' Supervisory Board
School Systems of Virginia
Group Self Insurance Association

Peggy DeBord, MBA, CPCU, CIC
Administrator
School Systems of Virginia
Group Self Insurance Association

Enclosures

School Systems of Virginia Group Self Insurance Association

Responses to Recommendations for Corrective Action

Management and Control

1. The Association is aware of and will make every effort to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.

Accounts and Records

2. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed. The IBNR number is unpredictable based on claims that change. The Association makes every effort to set reserves sufficiently, and again has reminded our service company to do so.
3. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed. The IBNR number is unpredictable based on claims that change. The Association makes every effort to set reserves sufficiently, and again has reminded our service company to do so.
4. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
5. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
6. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
7. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.

8. The Association establishes a 3% contingency reserve fund each year. We agree with the adjustment since it was prepared with the advantage of subsequent information.
9. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.