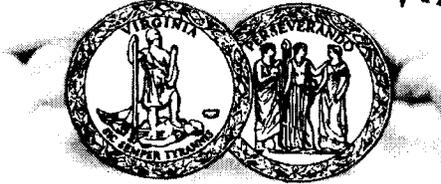


EXAMINATION REPORT
of
WCAMC CONTRACTORS
GROUP SELF-INSURANCE ASSOCIATION
RICHMOND, VIRGINIA
as of
DECEMBER 31, 2012

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 WCAMC Contractors 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 7th day of March, 2014

A handwritten signature in cursive script that reads "Jacqueline K. Cunningham". The signature is written in black ink and is positioned above a horizontal line.

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
December 4, 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

**WCAMC CONTRACTORS 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 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").

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 February 15, 1985. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage.

According to its original indemnity agreement, the Association was formed to allow members to self-insure and to pool their separate liabilities arising pursuant to the terms of the Virginia Workers' Compensation Act and for certain other types of employers' liabilities.

Effective February 15, 2010, the Association ceased underwriting business and is currently operating in order to pay existing claims. Once existing claims are closed the Association will cease operations. On July 15, 2011, the Association implemented a member assessment after 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 the members of the Association. The by-laws provide for no less than four nor more than seven board members, each serving a three-year term. The Board is responsible for holding and managing the assets and directing the affairs of the Association in accordance with the Association's by-laws and the Bureau's regulations.

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

Board

<u>Representative</u>	<u>Member</u>
Richard E. Collier	R.E. Collier, Inc. Richmond, Virginia
Patrick T. McAndrews	McAndrews Restoration Springfield, Virginia
Stephen T. Murphy	Add-A-Deck, Inc. Richmond, Virginia
Eleanor W. Newell	E. Granville Wade, Jr., Inc. Mechanicsville, Virginia
Charles E. Yonce	Conquest, Moncure & Dunn, Inc. Richmond, Virginia

Officers

Richard E. Collier	Vice Chairman
Stephen T. Murphy	Secretary/Treasurer

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 engaged in a similar type of business, 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.

An administrator is responsible for assisting the board in managing the affairs of the Association. 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 basis ending February 14.

ADMINISTRATIVE AGREEMENT

Effective February 5, 2010, the Association entered into an administrative agreement with Self-Insurance Services, LLC, ("SIS"). The original term of this agreement was for a period of eleven months and subject to termination by either party with 90 days advance notice.

According to the agreement, SIS shall administer and manage 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, pay all items of expense to the extent funds are available, prepare and file tax returns and annual statements, invest Association funds, and conduct other managerial duties. As compensation for its services, SIS shall receive \$7,500 per month.

There was no provision for continuation of this agreement beyond the original eleven month term and no subsequent agreement was executed between the parties. Therefore, it appears the Administrator was functioning without the benefit of an executed agreement at December 31, 2012 or as of December 4, 2013, the last date of examination fieldwork. After the termination of the agreement, the Administrator's compensation was reduced to \$5,000 per month. Total administrative fee expense for calendar year 2012 was \$60,000.

CLAIMS SERVICE AGREEMENT

Effective February 15, 2000, the Association entered into a claims service agreement with PMA Management Corporation ("PMA"). The original term of this agreement was for a period of three years and the agreement shall remain in full force and effect unless otherwise amended or terminated.

Under the terms of the agreement, the services provided by PMA include full claims handling and adjusting for all claims incurred during the period of the agreement until their conclusion, unless otherwise transferred; assisting the Association in the selection of outside vendors when necessary to professionally defend a claim; and notifying excess insurers of all qualified claims which may exceed the Association's retention.

Effective with the agreement's final amendment for the one-year period, February 15, 2009 to February 14, 2010, PMA shall receive, as compensation for its claims services, 4.5% of billable premium, subject to a minimum annual fee of \$90,000. For managed care services, PMA receives \$95 per hour for medical case management services and \$95 per hour for disability management coordinators. For cost containment services, the Association pays \$8 per bill reviewed and PMA receives 35% of the savings generated. Effective February 15, 2010, the Association ceased underwriting business. The claims service agreement requires that PMA handle and adjust to conclusion any claim or loss incurred during the agreement period. Therefore, PMA does not receive any additional compensation for its services. Currently, PMA is servicing 32 open workers' compensation claims for the Association.

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, no dividends were approved by the Bureau.

FIDELITY BOND COVERAGE

At December 31, 2012, the Association was listed as a named insured on a fidelity bond with a \$250,000 limit of liability, subject to a \$2,500 retention 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 U.S. Treasury Note with a market value of \$259,220 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A.

EXCESS INSURANCE COVERAGE

The Association had both specific excess and aggregate excess insurance agreements in force for any claims incurred prior to February 15, 2010, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$500,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$2,000,000
Aggregate Excess	114.77% of normal premium subject to a minimum retention of \$2,231,194	\$3,000,000

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 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	\$545,953
Other invested assets	208,088
Cash on deposit	368,583
Deposit with service agent	439,704
Interest due and accrued	2,142
Amounts recoverable on paid losses	119,444
Income tax receivable	<u>14,670</u>
 Total assets	 <u><u>\$1,698,584</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$2,165,695
Loss adjustment expenses unpaid	207,224
Contingency reserve	2,490,421
Premium refunds payable	97,301
Professional fees payable	12,000
Investment fees payable	<u>200</u>
 Total liabilities	 <u><u>\$4,972,841</u></u>
 Restricted members' equity	 \$259,220
Unrestricted members' equity	<u>(3,533,477)</u>
 Total liabilities and members' equity	 <u><u>\$1,698,584</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2012

UNDERWRITING INCOME

Premiums earned	<u>\$863</u>
Deductions:	
Losses incurred	(\$128,232)
Loss expenses incurred	8,561
Other underwriting expenses incurred	<u>(32,417)</u>
Total underwriting deductions	<u>(\$152,088)</u>
Net underwriting gain	<u>\$152,951</u>

INVESTMENT INCOME

Net investment income earned	\$40,524
Net realized capital gain	<u>44,416</u>
Net investment gain	<u>\$84,940</u>
Net income before federal income taxes	\$237,891
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$237,891</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	* (\$5,787,287)	(\$4,551,190)	(\$3,482,125)
Adjustment for previous exam changes	733,672		
Net income	446,448	1,100,502	237,891
Net unrealized capital gains or (losses)	<u>55,977</u>	<u>(31,437)</u>	<u>(30,023)</u>
Restricted and unrestricted members' equity, end of year	(\$4,551,190)	(\$3,482,125)	(\$3,274,257)
Less: Restricted members' equity, end of year	<u>291,667</u>	<u>258,458</u>	<u>259,220</u>
Unrestricted members' equity, end of year before undistributed dividends	(\$4,842,857)	(\$3,740,583)	(\$3,533,477)
Less: Dividends declared but unpaid	<u>0</u>	<u>0</u>	<u>0</u>
Unrestricted members' equity, end of year	<u><u>(\$4,842,857)</u></u>	<u><u>(\$3,740,583)</u></u>	<u><u>(\$3,533,477)</u></u>

* Adjusted members' equity from previous exam

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

	<u>Fiscal Years 1985-2006</u>	<u>Fiscal Year 2006/2007</u>	<u>Fiscal Year 2007/2008</u>	<u>Fiscal Year 2008/2009</u>	<u>Fiscal Year 2009/2010</u>	<u>Total Inception to Date</u>
<u>Income Received</u>						
Premiums written	\$85,490,367	\$8,039,308	\$7,898,000	\$4,560,934	\$1,787,089	\$107,775,698
Less: excess insurance	<u>10,027,381</u>	<u>2,077,017</u>	<u>1,757,002</u>	<u>1,055,356</u>	<u>370,221</u>	<u>15,286,977</u>
Net premiums written	\$75,462,986	\$5,962,291	\$6,140,998	\$3,505,578	\$1,416,868	\$92,488,721
Investment income	6,436,493	204,001	117,290	51,263	103,093	6,912,140
Allocation between years	72,842	8,649	7,511	5,249	(94,251)	0
Other	<u>2,872,460</u>	<u>0</u>	<u>23,110</u>	<u>235</u>	<u>344,019</u>	<u>3,239,824</u>
Total income collected	<u>\$84,844,781</u>	<u>\$6,174,941</u>	<u>\$6,288,909</u>	<u>\$3,562,325</u>	<u>\$1,769,729</u>	<u>\$102,640,685</u>
<u>Less: Expenses Paid</u>						
Losses paid	\$56,584,847	\$3,572,231	\$3,619,763	\$1,858,271	\$1,180,535	\$66,815,647
Allocated loss adjustment expenses paid	4,574,320	430,898	336,488	188,359	150,473	5,680,538
Administrative fees	11,128,680	922,002	1,038,106	631,671	157,287	13,877,746
Service agent's fees	4,851,764	343,336	448,782	205,389	86,430	5,935,701
Taxes, licenses, and fees	1,654,336	219,957	216,360	146,137	68,972	2,305,762
Federal income tax	130,805	0	21,178	0	14,670	166,653
Other expenses	<u>1,956,613</u>	<u>153,970</u>	<u>187,506</u>	<u>217,511</u>	<u>221,017</u>	<u>2,736,617</u>
Total expenses	<u>\$80,881,365</u>	<u>\$5,642,394</u>	<u>\$5,868,183</u>	<u>\$3,247,338</u>	<u>\$1,879,384</u>	<u>\$97,518,664</u>
Net cash income	<u>\$3,963,416</u>	<u>\$532,547</u>	<u>\$420,726</u>	<u>\$314,987</u>	<u>(\$109,655)</u>	<u>\$5,122,021</u>
<u>Add: Receivables</u>						
Interest due and accrued	\$1,656	\$197	\$171	\$118	\$0	\$2,142
Recoverable on paid losses	119,444	0	0	0	0	119,444
Other	0	0	0	0	14,670	14,670
Total	<u>\$121,100</u>	<u>\$197</u>	<u>\$171</u>	<u>\$118</u>	<u>\$14,670</u>	<u>\$136,256</u>
<u>Deduct: Liabilities</u>						
Losses unpaid	\$730,307	\$319,854	\$308,981	\$598,341	\$208,212	\$2,165,695
Loss adjustment expenses	102,477	77,291	4,310	17,679	5,467	207,224
Contingency reserve	1,815,302	249,776	238,995	134,105	52,243	2,490,421
Premium refunds payable	0	0	0	0	97,301	97,301
Other expenses payable	<u>9,427</u>	<u>1,120</u>	<u>973</u>	<u>680</u>	<u>0</u>	<u>12,200</u>
Total	<u>\$2,657,513</u>	<u>\$648,041</u>	<u>\$553,259</u>	<u>\$750,805</u>	<u>\$363,223</u>	<u>\$4,972,841</u>

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

	<u>Fiscal Years 1985-2006</u>	<u>Fiscal Year 2006/2007</u>	<u>Fiscal Year 2007/2008</u>	<u>Fiscal Year 2008/2009</u>	<u>Fiscal Year 2009/2010</u>	<u>Total Inception to Date</u>
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$1,427,003	(\$115,297)	(\$132,362)	(\$435,700)	(\$458,208)	\$285,436
Less: Dividends paid inception to date by fiscal year	3,559,693	0	0	0	0	3,559,693
Less: Restricted Members' Equity by fiscal year	<u>51,844</u>	<u>51,844</u>	<u>51,844</u>	<u>51,844</u>	<u>51,844</u>	<u>259,220</u>
Unrestricted Members' Equity undistributed by fiscal year	(\$2,184,534)	(\$167,141)	(\$184,206)	(\$487,544)	(\$510,052)	(\$3,533,477)
Less: Dividends declared but unpaid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unrestricted Members' Equity 12/31/12	<u>(\$2,184,534)</u>	<u>(\$167,141)</u>	<u>(\$184,206)</u>	<u>(\$487,544)</u>	<u>(\$510,052)</u>	<u>(\$3,533,477)</u>

* The Association ceased writing business on February 15, 2010.

Fiscal years 1985 - 2010 include allocations of expenses incurred from 2010 through 2012.

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

	<u>Amount Per Association</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Members' Equity</u>
<u>Liabilities:</u>			
Losses unpaid	\$2,116,497	\$2,165,695	(\$49,198)
Loss adjustment expenses unpaid	196,560	207,224	(10,664)
Premium refunds payable	45,432	97,301	<u>(51,869)</u>
Examiners changes in members' equity			<u><u>(\$111,731)</u></u>
Restricted and unrestricted members' equity per Association			(\$3,162,526)
Restricted and unrestricted members' equity per Examiners			<u>(3,274,257)</u>
Decrease in unrestricted and undistributed members' equity			<u><u>(\$111,731)</u></u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect members' equity deficits for the 1991/1992, 1997/1998, 2000/2001, 2002/2003, 2003/2004, 2004/2005, 2005/2006, 2006/2007, 2007/2008, 2008/2009 and 2009/2010 fiscal years of \$6,039, \$32,975, \$434,097, \$1,251,566, \$964,934, \$2,125,002, \$715,350, \$167,141, \$184,206, \$487,544 and \$510,052, respectively as well as an overall deficit of \$3,274,257.

According to 14 VAC 5-370-20, the Board is charged with the responsibility of assuring that the Association is financially sound and able to fulfill its obligation under the Virginia Workers' Compensation Act. The Board must recognize the Association's financial condition and take the necessary steps, which may include additional member assessments, to eliminate deficits.

2. During the review of Board minutes for the period under examination, it was noted that the last Board meeting was held on July 7, 2011. In order for the Board to effectively manage and direct the affairs of the Association it must regularly meet and such meetings must be documented to demonstrate action taken by it. Specifically, the Board should immediately meet to address the election of a Board Chairman and the approval of an Administrative Agreement. Further, 14 VAC 5-370-70 states that the Association's investments shall be authorized or approved by the Members' Supervisory Board in the manner contemplated by the provisions of Section 38.2-1408 of the Code of Virginia. Section 38.2-1408 requires that any investment, loan or any sale or exchange of a loan or investment be authorized or approved. Such authorization or approval shall be made by the Board of Directors or other governing body, however, as no meetings have taken place since July 7, 2011, no formal approval or authorization was obtained for investments since that date. Subsequent to December 31, 2012, the change in the Association's investment custodian and investment advisor was likewise completed without Board approval. It is recommended that the Association's Board meet consistently throughout the year to ensure that the Association's affairs are managed in accordance with its bylaws and the Virginia Administrative Code.

Accounts and Records3. Losses unpaid \$2,165,695

The above liability is \$49,198 more than the amount reported by the Association in its 2012 Annual Statement. The Examiners' increase in losses unpaid came exclusively from the 1995/1996 fiscal year and 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.

4. Loss adjustment expenses unpaid \$207,224

The above liability is \$10,664 more than the amount reported by the Association in its 2012 Annual Statement. The Examiners' increase in loss adjustment expenses unpaid came exclusively from the 1995/1996 fiscal year and 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.

5. Premium refunds payable \$97,301

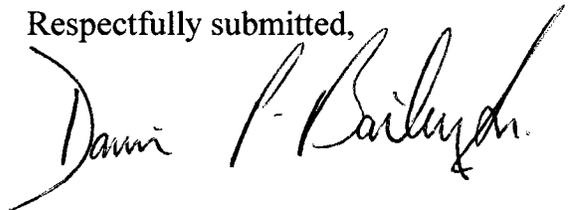
The above liability is \$51,869 more than the amount reported by the Association in its 2012 Annual Statement. The Examiners' amount is based on a review of the 2009/2010 fiscal year member payroll audits, net of 2010 refunds previously issued to members and refund balances applied to the 2011 member assessment for those members failing to pay their assessment balance due. The resulting balance for 43 members has not been released by the Administrator as of December 4, 2013, the last date of examination fieldwork, as the premium refunds are frozen until such time that all outstanding claims are settled. It is recommended that the Association not offset member assessment receivables against premium refunds payable given the uncertainty of collection in future filings with the Bureau.

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, Milton Parker, Jr. participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Darrin P. Bailey, Sr." The signature is written in a cursive style with a large initial "D" and a long, sweeping underline.

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

WCAMC CONTRACTORS GROUP SELF INSURANCE ASSOCIATION

Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE

STATE CORP. COMMISSION
2014 FEB 24 AM 8:35
BUREAU OF INSURANCE

February 14, 2014

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

Dear Mr. Smith:

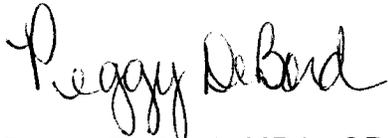
Enclosed are the responses to your recommendations for corrective action for WCAMC Contractors Group Self Insurance Association during the examination period January 1, 2010 through December 31, 2012.

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

Sincerely,



Richard E. Collier
Chairman
Members' Supervisory Board
WCAMC Contractors Group Self Insurance Association



Peggy DeBord, MBA, CPCU, CIC
Administrator
WCAMC Contractors Group Self Insurance Association

Enclosures

WCAMC Contractors 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.
2. The Association agrees to attempt to conduct regular board meetings in accordance with the self insurance regulation.

Accounts and Records

3. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent information not available at the time that the financial statement was filed.
4. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent information not available at the time the financial statement was filed.
5. The Administrator maintains accurate records of balances by members and will continue to do so.