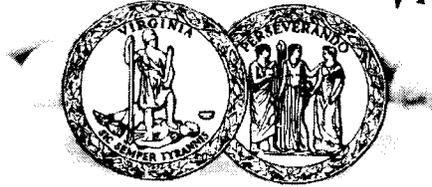


**EXAMINATION REPORT**  
**of**  
**VIRGINIA COMMERCE**  
**GROUP SELF-INSURANCE ASSOCIATION**  
**RICHMOND, VIRGINIA**  
**as of**  
**DECEMBER 31, 2014**

# COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
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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 Commerce Group Self-Insurance Association as of December 31, 2014, 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 14<sup>th</sup> day of October, 2015

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

Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
July 21, 2015

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 COMMERCE  
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, 2011. This examination covers the period from January 1, 2012 through December 31, 2014.

**HISTORY**

The Virginia Retail Merchants Group Self-Insurance Association was licensed by the Bureau on January 1, 1982. In 1989, the Virginia Retail Merchants Group Self-Insurance Association changed its name to the Virginia Commerce Group Self-Insurance Association. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage. According to the members indemnity agreement, the Association was formed to allow members to join together to provide for joint and cooperative action to self-insure and to pool their separate liabilities arising pursuant to the terms of the Virginia Workers' Compensation Act.

**MANAGEMENT AND CONTROL**

Control of the Association is vested in a Members' Supervisory Board (the "Board") elected by the members of the Association. The bylaws provide for no less than three nor more than nine Board members, all of whom shall be members of the Association in good standing. Each Board member shall serve a term of three years or until the members elect a successor.

The Board and officers were as follows at December 31, 2014:

<u>Representative</u>	<u>Member</u>
Robert E. Burgess, Jr.	Callao Supermarket Callao, Virginia
Angelo F. Castanes	Sonny Merryman, Inc. Rustburg, Virginia
Jane P. Cline	Central Tire Corporation Verona, Virginia
Jonathan E. Phares	The Commonwealth Club Richmond, Virginia
Steven G. Sodikoff	Steven Toyota Harrisonburg, Virginia
John Wesley Tatum	Leete Tire & Auto Center, Inc. Petersburg, Virginia
 <u>Officers</u>	
Jonathan E. Phares	Chairman
Robert E. Burgess, Jr.	Vice Chairman
Angelo F. Castanes	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 applicants engaged in a similar type of business upon the approval of the Board, the Bureau and the Safety National Casualty Corporation, the Association's excess insurance carrier.

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 and all members' liabilities covered 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. The administrator also functions as the claims service agent. The Association's operations are conducted on a calendar year basis.

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

Effective January 1, 2011, the Association entered into an administrative and other services agreement with Landin, Inc. ("Landin"). This agreement is effective for a period of ten years and will automatically renew for additional one-year terms. Either party may elect to non-renew or renegotiate any portion of this agreement with 60 days prior written notice. According to the agreement, Landin is responsible for, but not limited to, the following:

- Advising the Board on policy matters and insuring that the provisions of the Board's contracts for services are met;
- Establishing and maintaining a set of books;
- Billing and collecting all sums due the Association;
- Contracting for the annual member payroll audits;
- Paying all items of expense in accordance with the policies of the Board;
- Investing the Association's fund surpluses as directed by the Board and properly accounting for all funds of the Association to the Board;

- Providing complete loss control services, which shall include conducting loss control evaluations of members, preparing and monitoring computer loss runs and furnishing complete claims handling services and administration for all workers' compensation claims and employers' liability claims to their conclusion.

As compensation for its services, Landin shall receive 10% of the net audited premiums collected. Total administrative and other service fees incurred for fiscal year 2014 were \$559,212. Additionally, Landin retains 100% of the commission received for placement of excess insurance and other insurance coverages. Landin coordinates with Oak Risk Services, LLC, ("Oak Risk") an outside medical bill review company, for the review and completion of inpatient bill audits, the inpatient utilization review process and identifying any reductions from the application of any provider contracted allowances, fee schedules and negotiations generated from the cost containment program. Oak Risk shall receive 22% of the savings generated by performing this service and such payments are made directly to Oak Risk from the Association.

The agreement also contains a marketing provision giving Landin the exclusive right to solicit participation and membership in the Association, including the right to subcontract with other licensed insurance agents and/or firms. Landin shall receive a commission based on the following schedule:

<u>Total Agency Premium Volume</u>	<u>Commission</u>
\$0 to \$100,000	11% of all net audited premium
\$100,001 to \$250,000	12% of all net audited premium
\$250,001 and above	13% of all net audited premium

As a production incentive, the Association shall also pay Landin a 2% commission for new business of \$50,000 or more for the year that the new business is produced. The production incentive will be based on audited annualized premium and paid on net audited premium for that year.

Total marketing costs incurred for fiscal year 2014 were \$646,085.

### **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>October 1, 2012</u>	<u>September 12, 2013</u>	<u>September 24, 2014</u>
1988	\$2,483		
1994	21,500	\$14,350	
1996	22,000	14,089	
1997	6,000		
1998	11,500	5,496	
1999	13,500	29,847	
2001	71,000	38,500	\$38,158
2003	35,000		
2004	275,000	180,000	135,000
2005	285,000	215,000	115,000
2006	235,000	93,000	152,000
2007		100,000	60,000
2008	205,000	230,000	190,000
2009	125,000	160,000	160,000
2010	110,000	160,000	270,000
2011	<u>                    </u>	<u>128,000</u>	<u>85,000</u>
Totals	<u>\$1,417,983</u>	<u>\$1,368,282</u>	<u>\$1,205,158</u>

### **FIDELITY BOND COVERAGE**

At December 31, 2014, the Association was listed as a named insured on a fidelity bond with a \$250,000 limit of liability, to insure against losses arising from dishonest acts of its administrator and employees.

**SPECIAL RESERVES AND DEPOSITS**

At December 31, 2014, the Association had a United States Treasury obligation with a par value of \$283,360 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A and was reported within the Association's investments and restricted members' equity.

Additionally, the Association had a United States Treasury obligation with a par value of \$400,000 on deposit with the Federal Reserve Bank of St. Louis as required by the United States Department of Labor – Office of Workers' Compensation Programs / Division of Longshore and Harbor Worker's Compensation and was reported within the Association's investments and unrestricted members' equity.

**EXCESS INSURANCE COVERAGE**

The Association had both specific excess and aggregate excess insurance agreements in force at December 31, 2014, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$600,000	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	105% of total standard premium, subject to a minimum retention of \$5,523,413	\$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. It covers the period January 1, 2012 through December 31, 2014. Assets were verified and liabilities were established at December 31, 2014. 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 and Other Services 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, 2014, a statement of income for the year ended December 31, 2014, 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, 2014**

**ASSETS**

Bonds, long-term	\$10,743,814
Other invested assets	2,176,585
Cash on deposit	260,773
Premiums receivable	447,367
Interest due and accrued	59,818
Amounts recoverable on paid losses	130,746
Income taxes receivable	637,735
Prepaid other expenses	85,980
Prepaid service agent's fees	32,738
Prepaid administrative fees	26,786
Prepaid excess insurance premiums	<u>2,393</u>
 Total assets	 <u><u>\$14,604,735</u></u>

**LIABILITIES AND MEMBERS' EQUITY**

Losses unpaid	\$5,379,452
Loss adjustment expenses unpaid	318,046
Contingency reserve	993,828
Unearned premiums	973,960
Excess insurance premiums payable	31,846
Premium refunds payable	226,102
Taxes, licenses and fees payable	247,366
Other expenses payable	245
Professional fees payable	66,500
Payroll audit fees payable	56,112
Investment fees payable	<u>1,500</u>
 Total liabilities	 \$8,294,957
 Restricted members' equity	 4,394,940
Unrestricted members' equity	<u>1,914,838</u>
 Total liabilities and members' equity	 <u><u>\$14,604,735</u></u>

**STATEMENT OF INCOME**  
**FOR YEAR ENDED DECEMBER 31, 2014**

**UNDERWRITING INCOME**

Premiums earned	<u>\$5,166,171</u>
Deductions:	
Losses incurred	\$2,891,166
Loss expenses incurred	227,132
Other underwriting expenses incurred	1,643,773
Contingency reserve	<u>(66,965)</u>
Total underwriting deductions	<u>\$4,695,106</u>
Net underwriting gain	<u>\$471,065</u>

**INVESTMENT INCOME**

Net investment income earned	\$234,113
Net realized capital gains	<u>23,144</u>
Net investment gain	<u>\$257,257</u>

**OTHER INCOME**

Late fees	\$4,550
Other income	72,891
Dividends applied to board discretionary fund and other	<u>532,784</u>
Total other income	<u>\$610,225</u>
Net income before federal income taxes incurred	\$1,338,547
Federal income taxes incurred	<u>35,615</u>
Net income	<u><u>\$1,302,932</u></u>

**RECONCILIATION OF MEMBERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Members' equity, previous year before undistributed dividends	* \$5,968,209	\$6,533,418	\$6,305,753
Adjustment for previous examination changes	(132,189)		
Net income	2,370,169	1,293,983	1,302,932
Net unrealized capital gains or (losses)	105,039	(153,366)	(93,749)
Dividends paid to members	<u>(1,777,810)</u>	<u>(1,368,282)</u>	<u>(1,205,158)</u>
Restricted and unrestricted members' equity, end of year	\$6,533,418	\$6,305,753	\$6,309,778
Less: Restricted members' equity, end of year	<u>2,907,436</u>	<u>3,629,956</u>	<u>4,394,940</u>
Unrestricted members' equity , end of year before undistributed dividends	\$3,625,982	\$2,675,797	\$1,914,838
Less: Dividends declared but unpaid	<u>0</u>	<u>0</u>	<u>0</u>
Unrestricted members' equity, end of year	<u><u>\$3,625,982</u></u>	<u><u>\$2,675,797</u></u>	<u><u>\$1,914,838</u></u>

\* Adjusted members' equity from previous examination.

**Members' Account By Fiscal Year Inception to Date December 31, 2014**

	All Other Fiscal Years Preceding 1982-2010	Third Fiscal Year Preceding 2011	Second Fiscal Year Preceding 2012	First Fiscal Year Preceding 2013	Current Fiscal Year 2014	Total Inception to Date (1982-2014)
<b><u>Income Received</u></b>						
Premiums written	\$115,578,972	\$5,157,139	\$4,844,889	\$5,470,011	\$6,344,817	\$137,395,828
Less: excess insurance	\$8,727,110	386,785	436,040	525,121	507,391	\$10,582,447
Net premiums written	\$106,851,862	\$4,770,354	\$4,408,849	\$4,944,890	\$5,837,426	\$126,813,381
Investment income	9,683,388	84,310	(34,063)	(63,745)	265,226	9,935,116
(Allocation between years)	136,195	16,664	22,050	53,504	(228,413)	0
Other	4,074,127	37,504	4,300	4,800	283,216	4,403,947
Total income collected	\$120,745,572	\$4,908,832	\$4,401,136	\$4,939,449	\$6,157,455	\$141,152,444
<b><u>Less: Expenses Paid</u></b>						
Losses paid (less recoveries)	\$57,520,181	\$1,678,613	\$1,627,594	\$1,949,235	\$1,120,575	\$63,896,198
Allocated loss adjustment expenses paid	2,649,787	111,184	153,152	84,363	57,519	3,056,005
Administrative fees	4,850,116	232,072	218,020	246,150	278,432	5,824,790
Service agent's fees	6,678,411	283,643	266,469	300,853	340,305	7,869,681
Taxes, licenses, and fees	2,123,300	202,040	183,523	217,837	901	2,727,601
Federal income tax	2,781,780	631,009	763,804	0	0	4,176,593
Other expenses	15,244,157	751,575	716,542	799,392	775,292	18,286,958
Total expenses	\$91,847,732	\$3,890,136	\$3,929,104	\$3,597,830	\$2,573,024	\$105,837,826
Net cash income	\$28,897,840	\$1,018,696	\$472,032	\$1,341,619	\$3,584,431	\$35,314,618
<b><u>Add: Receivables</u></b>						
Premiums receivable	\$0	\$0	\$0	\$0	\$447,367	\$447,367
Interest due and accrued	30,714	3,759	4,973	12,068	8,304	59,818
Amounts recoverable on paid losses	130,746	0	0	0	0	130,746
Other	0	0	637,735	0	147,897	785,632
Total	\$161,460	\$3,759	\$642,708	\$12,068	\$603,568	\$1,423,563
<b><u>Deduct: Liabilities</u></b>						
Losses unpaid	\$289,221	\$0	\$385,822	\$1,303,262	\$3,401,147	\$5,379,452
Loss adjustment expenses unpaid	23,377	0	19,252	74,404	201,013	318,046
Contingency reserve	361,903	154,714	145,347	164,100	167,764	993,828
Unearned premiums	0	0	0	0	973,960	973,960
Excess insurance premiums payable	0	0	0	0	31,846	31,846
Premium refunds payable	0	0	0	0	226,102	226,102
Taxes, licenses and fees payable	0	0	0	0	247,366	247,366
Other expenses payable	0	0	0	0	124,357	124,357
Total	\$674,501	\$154,714	\$550,421	\$1,541,766	\$5,373,555	\$8,294,957

**Members' Account By Fiscal Year Inception to Date December 31, 2014**

	All Other Fiscal Years Preceding 1982-2010	Third Fiscal Year Preceding 2011	Second Fiscal Year Preceding 2012	First Fiscal Year Preceding 2013	Current Fiscal Year 2014	Total Inception to Date (1982-2014)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$28,384,799	\$867,741	\$564,319	(\$188,079)	(\$1,185,556)	\$28,443,224
Less: Dividends paid inception to date by fiscal year	21,920,446	213,000	0	0	0	22,133,446
Less: Restricted Members' Equity by fiscal year	59,341	59,341	59,342	59,343	59,342	296,709
Less: Board Discretionary Fund	<u>4,066,577</u>	<u>31,654</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,098,231</u>
Unrestricted Members' Equity undistributed by Fiscal Year	2,338,435	563,746	504,977	(247,422)	(1,244,898)	1,914,838
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 12/31/14	<u>\$2,338,435</u>	<u>\$563,746</u>	<u>\$504,977</u>	<u>(\$247,422)</u>	<u>(\$1,244,898)</u>	<u>\$1,914,838</u>

**STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY**  
**DECEMBER 31, 2014**

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
Assets:			
Premiums receivable	\$0	\$447,367	\$447,367
Prepaid other expenses	114,540	85,980	(28,560)
Prepaid service agent's fees	45,744	32,738	(13,006)
Prepaid administrative fees	37,427	26,786	(10,641)
Liabilities:			
Contingency reserve	\$986,733	\$993,828	(\$7,095)
Excess insurance premiums payable	9,145	31,846	(22,701)
Premium refunds payable	15,203	226,102	(210,899)
Payroll audit fees payable	45,048	56,112	(11,064)
Examiners' changes in members' equity			<u>\$143,401</u>
Restricted and unrestricted members' equity per Association			\$6,166,377
Restricted and unrestricted members' equity per Examiners			<u>6,309,778</u>
Increase in unrestricted members' equity			<u><u>\$143,401</u></u>

## RECOMMENDATIONS FOR CORRECTIVE ACTION

### Management and Control

1. The results of this examination reflect an unrestricted members' equity deficit for the 2013 and 2014 fiscal years of \$247,422 and \$1,244,898, 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. The Board must recognize the Association's financial condition and take necessary steps, which may include assessments, to eliminate all deficits.

### Accounts and Records

2. Payroll audit fees payable \$56,112

The above liability is \$11,064 more than the amount reported by the Association in its 2014 Annual Statement. The Examiners' amount is based on a review of invoices paid in 2015 for conducting member payroll audits pertaining to 2014.

### Payroll Audit Changes

The adjustments in the following recommendations were determined by utilizing each member's final 2014 fiscal year payrolls which were not fully completed until after the Association's 2014 Annual Statement filing to the Bureau.

3. Premiums receivable \$447,367  
Premium refunds payable \$226,102

The above amounts are \$447,367 and \$210,899 more, respectively, than the amounts reported by the Association in its 2014 Annual Statement. The Examiners' amounts are based on subsequent 2014 member payroll audits and reflect differences between audited contributions and contributions paid at December 31, 2014.

4. Prepaid other expenses \$85,980

The above asset is \$28,560 less than the amount reported by the Association in its 2014 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of subsequent 2014 member payroll audits, which is the basis for the calculation of agent marketing fees reported as a component of this account balance.

5. Prepaid service agent's fees \$32,738  
Prepaid administrative fees \$26,786

The above amounts are \$13,006 and \$10,641 less, respectively, than the amounts reported by the Association in its 2014 Annual Statement. The decreases are attributed to higher earned premiums developed from subsequent 2014 member payroll audits which are the basis for computing fees due to the Association's service agent/administrator.

6. Contingency reserve \$993,828

The above liability is \$7,095 more than the amount reported by the Association in its 2014 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of subsequent 2014 member payroll audits, which is the basis for the calculation of the contingency reserve.

7. Excess insurance premiums payable \$31,846

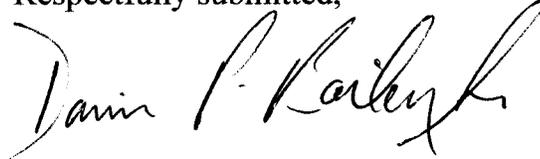
The above liability is \$22,701 more than the amount reported by the Association in its 2014 Annual Statement. The Examiners' amount reflects an increase in the modified normal premium, as defined by the excess insurer, and developed from subsequent 2014 member payroll audits, which is the basis for computing excess insurance premiums.

**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, Kenneth G. Campbell, CFE participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, reading "Darrin P. Bailey, Sr." with a stylized flourish at the end.

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



September 21, 2015

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:

This is in response to your September 11, 2015, letter regarding the Virginia Commerce Group Self-Insurance Association's Examination Report as of December 31, 2014. We take no issue with any matter contained in the examination report. Regarding the recommendations for corrective action, we respond as follows:

Management and Control

1. In regards to the 2013 and 2014 fund year deficits of \$247,422 and \$1,244,898 respectively, we request permission to continue to monitor due to the following:
  - The deficit in 2013 includes IBNR, contingency reserve and restricted equity of close to \$864,000, which taken together exceed the deficit in this year. Additionally, there has been some improvement in the actuarial ultimate loss for this fund year during 2015. To date, the ultimate loss for this fund year has decreased approximately \$178,000.
  - The deficit in 2014 includes IBNR, contingency reserve and restricted equity of over \$1,916,000, which taken together exceed the deficit in this year. Additionally, there has been some improvement in the actuarial ultimate loss for this fund year during 2015. To date, the ultimate loss for this fund year has decreased approximately \$335,000.
  - Investment earnings in 2015 and future years will be allocated based on the allocation formula. Thus, 2013 and 2014 fund years will continue to earn investment income during 2015 and beyond.
  - The Group maintains a Board Discretionary Fund with a current balance of \$4,098,231, which could be utilized to reduce deficits as needed.

Based on the above, we believe the deficits are manageable and do not jeopardize the long-term financial integrity of the VCGSIA.

Accounts and Records

2. Payroll Audit Fees Payable – The difference is attributed to an increase in the liability for payroll audit fees based on payments made in 2015 for payroll audits pertaining to the 2014 fiscal year.

Providing Self-Insured Workers' Compensation Since 1982

4912 Augusta Avenue, Richmond, VA 23230 · Post Office Box 17590, Richmond, VA 23226

Phone: 804.359.9600 · Fax 804.282.4640 or 804.359.9640

Administrator and Service Company · The Landin Companies · info@landininc.com

Mr. David H. Smith, CFE, CPA, CPCU

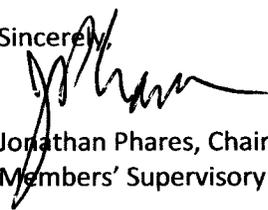
September 21, 2015

Page Two

3. Premiums Receivable and Premium Refunds Payable – The increase in premiums receivable and premium refunds payable are due to differences between audited premiums and premiums received as of December 31, 2014.
4. Prepaid Other Expenses – The difference is attributed to higher earned premiums developed from subsequent payroll audits, which is the basis for calculation of marketing fees.
5. Prepaid Administrative Fees and Prepaid Service Agent’s Fees – The differences are attributed to higher earned premiums developed from subsequent payroll audits, which are the basis for computing fees due to the Administrator and Service Agent.
6. Contingency Reserve – The difference is attributed to an increase in earned premiums developed from subsequent payroll audits, which is the basis for the calculation of the contingency reserve.
7. Excess Insurance Premiums Payable – The difference is attributed to an increase in the modified normal premium, as defined by the excess insurer, developed from subsequent payroll audits, which is the basis for computing excess insurance premiums.

I hope our responses are satisfactory. Should you have any questions or need any additional information, please do not hesitate in contacting us. Please provide 15 copies of the report. Thank you.

Sincerely,



Jonathan Phares, Chairman  
Members’ Supervisory Board