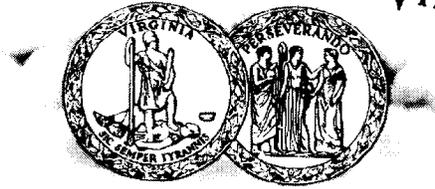


EXAMINATION REPORT
of
COMMONWEALTH CONTRACTORS
GROUP SELF-INSURANCE ASSOCIATION
MIDLOTHIAN, VIRGINIA
as of
DECEMBER 31, 2014

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 Commonwealth Contractors 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 10th day of December, 2015

A handwritten signature in cursive script, reading 'Jacqueline K. Cunningham', written over a horizontal line.

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
September 1, 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:

**COMMONWEALTH CONTRACTORS
GROUP SELF-INSURANCE ASSOCIATION**

Midlothian, 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 Association was licensed by the Bureau effective April 23, 1981. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage.

According to its indemnity agreement and power of attorney, the Association was formed for the following purposes:

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

To provide for joint and cooperative action to self-insure and to pool their liabilities arising pursuant to the terms of the Virginia Workers' Compensation Act and for certain other types of employers' liabilities for the death or dismemberment of, or injury to, their employees.

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 twelve board members, of which three-fourths must be members of the Association. Board members shall serve for a period of three years or until the members elect a successor. The Board shall elect a Chairman, a Vice-Chairman, a Secretary and any additional officers as the Board deems necessary.

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

<u>Representative</u>	<u>Member</u>
Stanley V. Adams	Adams Consulting Midlothian, Virginia
Michael T. Boggs	Haley, Chisholm & Morris, Inc. Earlysville, Virginia
Wayne S. Boggs	Richmond Alarm Company Richmond, Virginia
Todd H. Johnson	Capitol City Roofing, Inc. Richmond, Virginia
Howard E. Lallande	Lallande Asphalt Paving Company Annandale, Virginia
Don M. Roberts	Shoreline Contractors, Inc. Virginia Beach, Virginia
Henry J. Zirkle	Richmond Steel, Inc. Midlothian, Virginia

Officers

Michael T. Boggs
 Henry J. Zirkle
 Wayne S. Boggs

Chairman
 Vice-Chairman
 Secretary

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 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 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. 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 March 31.

ADMINISTRATIVE AGREEMENT

Effective April 1, 2008, the Association entered into an administrative agreement with Self-Insured Concepts, Inc. ("SIC"). The term of this agreement is for a period of seven years after which it shall automatically renew for a three-year period followed by successive one-year periods. The agreement may be terminated prior to the termination date only upon written agreement by both parties or by the Association for cause as defined in the agreement. If the Association decides to terminate operations, SIC shall be paid a termination fee equal to the gross revenues of SIC for the 12 month period prior to the date of the decision to terminate. In exchange for such fee, SIC will actively manage the wind down of operations and continue to perform all customarily performed duties until advised otherwise by the Association.

According to the agreement, SIC shall advise the Board on policy matters and ensure that the provisions for the Association's contracts for services are met; maintain the books and records of the Association; collect, transfer, deposit and account for all Association funds in accordance with procedures established by the Board; maintain an

office location for the Association; provide billing and member maintenance services for the Association; invest the Association's fund surpluses as directed by the Board and provide other administrative services as required to operate the Association pursuant to the requirements of the Bureau.

As compensation for its services, SIC shall receive an annual fee equaling a percentage of earned premiums, as determined by member payroll audits for each fiscal year. The percentage of premium shall be as follows:

<u>Applicable Percentage</u>	<u>Amount of Audited Earned Premiums Per Fiscal Year</u>
7.5%	Up to \$10,000,000
4.0 %	On the next \$10,000,000
1.5 %	On all premiums above \$20,000,000

Until the final amount is established, SIC shall receive for the first six months of each fiscal year, one-twelfth of the estimated annual fee calculated on the initial estimated annual premium. For the last six months of each fiscal year, SIC shall receive one-twelfth of the estimated annual fee calculated on the estimated annual premium as of October 1st, which will reflect increases or decreases that have occurred during the first six months of the fiscal year. The final amount will be determined within 180 days of the close of the fiscal year and subsequent revisions to the annual premium will be ignored for purposes of the annual fee calculation. The total administrative fee for calendar year 2014 was \$1,159,579.

SERVICE AGREEMENT

Effective April 1, 2006, the Association entered into a service agreement with Landin, Inc., ("Landin"). The initial term of this agreement is for a period of seven years, after which it shall automatically renew for a three-year period followed by successive one-year periods. The Association shall give Landin at least one fiscal year notice of its intent not to renew the agreement. In the event that the Association does not renew this agreement or terminates operations, Landin shall receive a termination fee of three percent of earned premium of the concluding fiscal year; however, such fee shall not exceed \$500,000 or be less than \$300,000.

Under the terms of the agreement, Landin shall provide handling of all claims in accordance with the requirements of 14 VAC 5-370-10 et seq.; act as underwriter for the Association in the selection of new members; provide advice, service and assistance to the Association and its members in all matters related to safety, including member visits,

safety seminars and training programs; and serve as advisor to the Board, including attending and reporting at all Board meetings.

As compensation for its services, Landin shall receive an annual fee equaling a percentage of audited premiums as follows:

<u>Applicable Percentage</u>	<u>Amount of Audited Premiums Collected During Fiscal Year</u>
6.5 %	Up to \$10,000,000
5.75%	On the next \$5,000,000
5.0 %	On the next \$5,000,000
4.25%	On all premium above \$20,000,000

Until the final amount is established, Landin shall receive for the first six months of each fiscal year, one-twelfth of the estimated annual fee calculated on the initial estimated annual premium. For the last six months of each fiscal year, Landin shall receive one-twelfth of the estimated annual fee calculated on the estimated annual premium as of October 1st, which will reflect increases or decreases that have occurred during the first six months of the fiscal year. The total claims service agent fee for calendar year 2014 was \$1,298,869.

Additionally, 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. Landin is also designated Agent of Record for brokering the procurement of bonds, professional liability, excess insurance and other coverages purchased by the Association. The cost of the above coverages purchased on behalf of the Association shall be paid by the Association, however, any commissions received by Landin shall be retained by Landin.

Further, Landin is granted the non-exclusive right to market membership in the Association to eligible employers. Such marketing activities include sales presentations to agents/producers; production of marketing materials; coordination and preparation of advertising; newsletter production; and preparation for and conducting Board Marketing Committee meetings. As compensation for its services, Landin shall receive a monthly commission of 9.5% of all contributions collected during the preceding month from

members generated by Landin or any Landin producer. At the end of each fiscal year and subsequent to completion of the member payroll audits, Landin's commission will be adjusted to maintain an effective override percentage of 1.5%. Advertising and marketing expenses associated with the above are the responsibility of Landin unless otherwise agreed.

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 which were paid or are payable to the Association's members at December 31, 2014:

<u>Fiscal Year</u>	<u>Approval Dates</u>		
	<u>January 7, 2013</u>	<u>December 19, 2013</u>	<u>December 19, 2014</u>
1994/1995		\$ 50,000	\$ 50,000
1996/1997	\$ 50,000	50,000	
1999/2000	50,000		
2000/2001	50,000		
2001/2002	50,000	50,000	50,000
2002/2003	100,000	150,000	100,000
2003/2004	200,000	300,000	200,000
2004/2005	400,000	350,000	200,000
2005/2006	100,000	200,000	100,000
2006/2007	100,000	250,000	200,000
2007/2008	500,000	500,000	400,000
2008/2009	300,000	250,000	200,000
2010/2011		100,000	100,000
2012/2013	_____	_____	_____
Totals	<u>\$ 1,900,000</u>	<u>\$ 2,450,000</u>	<u>\$ 1,600,000</u>

FIDELITY BOND COVERAGE

At December 31, 2014, the Association was listed as a named insured on a fidelity bond, with a \$1,000,000 limit of liability, subject to a \$10,000 deductible, to insure against losses arising from dishonest acts of its officers and employees.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2014, the Association had United States Treasury obligations with a total par value of \$1,306,086 on deposit with the Treasurer of Virginia and reported within the Association's investments and restricted members' equity. Pursuant to 14 VAC 5-370-60 A, each group self-insurance association licensed by the Bureau shall maintain a security deposit of \$250,000. An additional \$1,000,000 deposit was required in lieu of carrying aggregate excess insurance and the remaining \$56,086 was voluntarily contributed by the Association.

Additionally, the Association had a United States Treasury obligation with a par value of \$600,000 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 an excess insurance agreement in force at December 31, 2014, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$1,750,000 for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000

The Association does not carry aggregate excess insurance because it has satisfied the requirement set forth in 14 VAC 5-370-90, which states, in part, that the Commission may release the Association from the excess insurance requirement if the contingency reserve established by the Association is in an amount determined by the Commission to be adequate.

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 Agreement
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, 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	\$62,459,744
Other invested assets	2,414,399
Cash on deposit	301,754
Deposit with service agent	3,100,694
Premiums receivable	1,556,065
Interest due and accrued	409,515
Amounts recoverable on paid losses	511,077
Income taxes receivable	7,500
Prepaid service agent's fees	0
Prepaid excess insurance premiums	<u>296,045</u>
 Total assets	 <u><u>\$71,056,793</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$39,492,796
Loss adjustment expenses unpaid	1,340,775
Contingency reserve	4,014,493
Unearned premiums	3,330,231
Premium refunds payable	678,955
Administrative fees payable	106,351
Service agent's fees payable	20,093
Taxes, licenses and fees payable	887,254
Dividends payable	1,600,000
Professional fees payable	44,400
Investment fees payable	30,000
Payroll audit fees payable	<u>101,388</u>
 Total liabilities	 \$51,646,736
 Restricted members' equity	 6,532,217
Unrestricted members' equity	<u>12,877,840</u>
 Total liabilities and members' equity	 <u><u>\$71,056,793</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2014

UNDERWRITING INCOME

Premiums earned	<u>\$24,924,905</u>
Deductions:	
Losses incurred	\$18,261,395
Loss expenses incurred	1,067,415
Other underwriting expenses incurred	6,040,682
Contingency reserve	<u>741,451</u>
Total underwriting deductions	<u>\$26,110,943</u>
Net underwriting gain or (loss)	<u>(\$1,186,038)</u>

INVESTMENT INCOME

Net investment income earned	<u>\$1,306,131</u>
Net investment gain or (loss)	<u>\$1,306,131</u>

OTHER INCOME

Late fees/other	<u>\$37,679</u>
Total other income	<u>\$37,679</u>
Net income before federal income taxes incurred	\$157,772
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$157,772</u></u>

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

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Member's equity, previous year before undistributed dividends	* \$30,521,138	\$23,254,759	\$22,705,185
Adjustment for previous examination changes	(1,299,096)		
Net income	(2,801,863)	3,420,817	157,772
Net unrealized capital gains or (losses)	(223,691)	(2,070,391)	597,100
Dividends paid to members	<u>(2,941,729)</u>	<u>(1,900,000)</u>	<u>(2,450,000)</u>
Restricted and unrestricted members' equity, end of year	\$23,254,759	\$22,705,185	\$21,010,057
Less: Restricted members' equity, end of year	<u>5,366,346</u>	<u>6,604,172</u>	<u>6,532,217</u>
Unrestricted members' equity, end of year before undistributed dividends	\$17,888,413	\$16,101,013	\$14,477,840
Less: Dividends declared but unpaid	<u>2,000,000</u>	<u>2,450,000</u>	<u>1,600,000</u>
Unrestricted members' equity, end of year	<u>\$15,888,413</u>	<u>\$13,651,013</u>	<u>\$12,877,840</u>

* - Adjusted members' equity from previous examination

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

	All Other Fiscal Years Preceding 1981-2011	Third Fiscal Year Preceding 2011/2012	Second Fiscal Year Preceding 2012/2013	First Fiscal Year Preceding 2013/2014	Partial Current Fiscal Year 4/1/14-12/31/14	Total Inception to Date (1981-2014)
<u>Income Received</u>						
Premiums written	\$474,544,707	\$21,525,660	\$22,401,313	\$22,377,663	\$21,642,969	\$562,492,312
Less: Excess insurance	36,012,483	1,629,008	1,599,759	1,843,920	1,565,153	42,650,323
Net premiums written	\$438,532,224	\$19,896,652	\$20,801,554	\$20,533,743	\$20,077,816	\$519,841,989
Investment income	45,327,615	538,915	243,857	1,457	1,371,895	47,483,739
(Allocation between years)	916,909	9,798	132,833	175,163	(1,234,703)	0
Other	3,718,530	149,278	43,042	39,029	(14,997)	3,934,882
Total income collected	\$488,495,278	\$20,594,643	\$21,221,286	\$20,749,392	\$20,200,011	\$571,260,610
<u>Less: Expenses Paid</u>						
Losses paid (less recoveries)	\$262,857,520	\$14,500,200	\$9,439,400	\$8,646,426	\$2,214,415	\$297,657,961
Allocated loss adjustment expenses paid	10,374,147	696,188	590,811	475,256	61,560	12,197,962
Administrative fees	15,880,757	1,172,885	1,186,020	1,185,665	979,132	20,404,459
Service agent's fees	27,592,350	1,252,341	1,289,555	1,288,551	1,045,987	32,468,784
Taxes, licenses, and fees	10,034,634	922,025	763,550	964,660	0	12,684,869
Federal income tax	16,340,788	0	0	0	7,500	16,348,288
Other expenses	45,646,304	2,282,936	2,336,623	2,425,659	2,129,783	54,821,305
Total expenses	\$388,726,500	\$20,826,575	\$15,605,959	\$14,986,217	\$6,438,377	\$446,583,628
Net cash income	\$99,768,778	(\$231,932)	\$5,615,327	\$5,763,175	\$13,761,634	\$124,676,982
<u>Add: Receivables</u>						
Premiums receivable	\$0	\$0	\$0	\$0	\$1,556,065	\$1,556,065
Interest due and accrued	272,726	2,946	39,935	52,661	41,247	409,515
Amounts recoverable on paid losses	511,077	0	0	0	0	511,077
Other	0	0	0	0	303,545	303,545
Total	\$783,803	\$2,946	\$39,935	\$52,661	\$1,900,857	\$2,780,202
<u>Deduct: Liabilities</u>						
Losses unpaid	\$11,536,554	\$3,255,573	\$3,556,905	\$9,233,063	\$11,910,701	\$39,492,796
Loss adjustment expenses	337,766	103,128	145,052	380,255	374,574	1,340,775
Contingency reserve	1,494,670	627,071	672,039	671,331	549,382	4,014,493
Unearned premiums	0	0	0	0	3,330,231	3,330,231
Premium refunds payable	0	0	0	0	678,955	678,955
Administrative fees payable	0	0	0	15,254	91,097	106,351
Service agent's fees payable	0	0	0	7,803	12,290	20,093
Taxes, licenses and fees payable	0	0	0	0	887,254	887,254
Other expenses payable	0	0	0	0	175,788	175,788
Total	\$13,368,990	\$3,985,772	\$4,373,996	\$10,307,706	\$18,010,272	\$50,046,736

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

	All Other Fiscal Years Preceding 1981-2011	Third Fiscal Year Preceding 2011/2012	Second Fiscal Year Preceding 2012/2013	First Fiscal Year Preceding 2013/2014	Partial Current Fiscal Year 4/1/14-12/31/14	Total Inception to Date (1981-2014)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$87,183,591	(\$4,214,758)	\$1,281,266	(\$4,491,870)	(\$2,347,781)	\$77,410,448
Less: Dividends paid inception to date by fiscal year	56,200,391	0	200,000	0	0	56,400,391
Less: Restricted Members' Equity by fiscal year	937,110	92,244	92,244	92,244	92,244	1,306,086
Less: Board Discretionary Fund	<u>5,116,014</u>	<u>27,529</u>	<u>27,529</u>	<u>27,529</u>	<u>27,530</u>	<u>5,226,131</u>
Unrestricted Members' Equity undistributed by fiscal year	\$24,930,076	(\$4,334,531)	\$961,493	(\$4,611,643)	(\$2,467,555)	\$14,477,840
Less: Dividends declared but unpaid	<u>1,600,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,600,000</u>
Unrestricted Members' Equity 12/31/14	<u>\$23,330,076</u> *	<u>(\$4,334,531)</u>	<u>\$961,493</u>	<u>(\$4,611,643)</u>	<u>(\$2,467,555)</u>	<u>\$12,877,840</u>

* Although the cumulative Unrestricted members' equity for the fiscal years 1981-2011 at December 31, 2014 was \$23,330,076, the result of Examination changes indicates the 1988/1989 fiscal year had members' equity deficit of \$12,985.

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	\$1,556,065	\$1,556,065
Amounts recoverable on paid losses	813,072	511,077	(\$301,995)
Prepaid service agent's fees	3,126	0	(\$3,126)
Prepaid excess insurance premiums	398,440	296,045	(\$102,395)
Liabilities:			
Contingency reserve	\$3,978,328	\$4,014,493	(\$36,165)
Unearned premiums	4,535,735	3,330,231	\$1,205,504
Premium refunds payable	0	678,955	(\$678,955)
Administrative fees payable	55,157	106,351	(\$51,194)
Service agent's fees payable	0	20,093	(\$20,093)
Taxes, licenses and fees payable	723,750	887,254	(\$163,504)
Professional fees payable	40,000	44,400	(\$4,400)
Payroll audit fees payable	100,000	101,388	(\$1,388)
Examiners' changes in members' equity			<u>\$1,398,354</u>
Restricted and unrestricted members' equity per Association			\$18,011,703
Restricted and unrestricted members' equity per Examiners			<u>19,410,057</u>
Increase in unrestricted members' equity			<u>\$1,398,354</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect an Unrestricted members' equity deficit for the 1988/1989, 2011/2012, 2013/2014 and 2014/2015 fiscal years of \$12,895, \$4,334,531, \$4,611,643 and \$2,467,555 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

2. Amounts recoverable on paid losses \$511,077

The above asset is \$301,995 less than the amount reported by the Association in its 2014 Annual Statement. The decrease is a result of the Examiners' review of excess claims, net of recoverable payments, received from the Association's excess insurers at December 31, 2014. It was determined that the Association miscalculated various excess claim amounts indicated on Schedule F-Part 1 of the Annual Statement as recoverable. It is recommended that the Association, with its service agent, fully review and properly report the amounts recoverable on paid losses in future Annual Statement filings with the Bureau. This is the second consecutive examination that the Association has encountered difficulty in properly reporting the recoverable balance.

3. Prepaid excess insurance premiums \$296,045

The above asset is \$102,395 less than the amount reported by the Association in its 2014 Annual Statement. The Examiners' amount reflects the unused portion of the Association's excess insurance premiums paid in 2014, but applicable to the policy period ending March 31, 2015. Additionally, the Examiners' amount reflects the adjustment for additional excess insurance premiums refunded by the excess insurer for the 2013/2014 fiscal year due to additional audited premium revisions.

4. Taxes, licenses, and fees payable \$887,254

The above liability is \$163,504 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 taxes pertaining to 2014.

5. Professional fees payable \$44,400

The above liability is \$4,400 more than the amount reported by the Association in its 2014 Annual Statement. The Examiners' amount was based on a review of invoices paid in 2015 for accounting and auditing services pertaining to 2014.

6. Payroll audit fees payable \$101,388

The above liability is \$1,388 more than the amount reported by the Association in its 2014 Annual Statement. The Examiners' amount was based on a review of invoices paid in 2015 for member payroll audits pertaining to the 2014/2015 fiscal year.

Payroll Audit Changes

The adjustments in the following recommendations were determined by utilizing each member's final 2014/2015 fiscal year payrolls which were not fully completed until after the Association's 2014 Annual Statement filing to the Bureau.

7. Premiums receivable \$1,556,065
Premium refunds payable \$678,955

The above amounts have been increased \$1,556,065 and \$678,955, respectively. The Examiners' amounts are based on subsequent 2014/2015 fiscal year member payroll audits and reflect differences in audited contributions and contributions paid prorated for the period April 1 through December 31, 2014.

8. Prepaid service agent's fees \$0
Service agent's fees payable \$20,093

The above amounts have been decreased \$3,126 and increased \$20,093, respectively. The Examiners' amounts are based on an analysis of the fiscal year member payroll audits for the period under review and reports both the claims service fee and the marketing service fee components as stipulated in the service agreement with Landin. This review confirmed the Association's settlements by fiscal year and properly reports these balances as of the balance sheet date. For the 2014/2015 fiscal year, both fee components reflect the differences between the fees owed for the period April 1 through December 31, 2014, and the amounts actually paid at December 31, 2014. It is recommended that the Association review the payment terms of the service agreement and properly report all component balances in future Annual Statement filings with the Bureau. This is the second consecutive examination that the Association's filing omitted inclusion of the marketing fee component in this account total.

9. Contingency reserve \$4,014,493

The above liability is \$36,165 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 2014/2015 fiscal year member payroll audits, which is the basis for the calculation of the contingency reserve.

10. Unearned premiums \$3,330,231

The above liability is \$1,205,504 less than the amount reported by the Association in its 2014 Annual Statement. The Examiners' amount reflects the estimated premiums received to date at December 31, 2014, less the amount earned at December 31, 2014 based on subsequent 2014/2015 fiscal year member payroll audits.

11. Administrative fees payable \$106,351

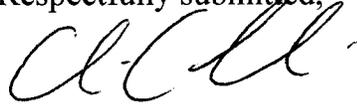
The above liability is \$51,194 more than the amount reported by the Association in its 2014 Annual Statement. The Examiners' amount is based on subsequent 2014/2015 fiscal year member payroll audits and reflects the differences between the fees owed for the period April 1 through December 31, 2014, and the amounts actually paid at December 31, 2014.

CONCLUSION

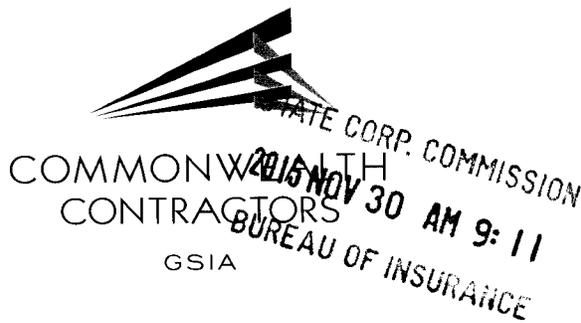
The courteous cooperation extended by the Association's administrator and service agent during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Ken Campbell, 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



November 24, 2015

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

Re: Commonwealth Contractors Group Self-Insurance Association
Examination Report as of December 31, 2014

Dear Mr. Smith:

In reference to your letter of October 30, 2015, included below are the Association's responses to the Examiners "Recommendations for Corrective Action" found on pages 16 through 18 of the examination report.

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 and will work with the Service Agent to fully review and properly report the amounts recoverable on paid losses.
3. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information that was not available at the time the financial statement was filed.
4. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information that was not available at the time the financial statement was filed.

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SELF-INSURED CONCEPTS, INC.
BRADLEY D. ADAMS, PRESIDENT
100 WALTON PARK LANE
MIDLOTHIAN, VA 23114
P 804.858.2000

SERVICE COMPANY

LANDIN, INC.
DAVID C. LANDIN, PRESIDENT
P.O. Box 17590
RICHMOND, VA 23226
P 804.359.9600

5. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information that was 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 audit information that was not available at the time the financial statement was filed.

Payroll Audit Changes

7. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information that was not available at the time the financial statement was filed.

I trust the above comments adequately address the Examiners' recommendations for corrective action, however, should you require additional information, we would be happy to provide it.

Sincerely,

A handwritten signature in black ink that reads "Michael T. Boggs". The signature is written in a cursive style with a large initial "M" and "B".

Michael T. Boggs, Chairman
Commonwealth Contractors GSIA

MTB/lrc