

EXAMINATION REPORT
of
VIRGINIA HOSPITALITY
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



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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 Hospitality 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 April, 2014

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

Jacqueline K. Cunningham
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
December 19, 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:

**VIRGINIA HOSPITALITY
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, 2007. This examination covers the period from January 1, 2008 through December 31, 2012.

HISTORY

The Association was licensed by the Bureau on February 1, 1992. 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 and for certain other types of employers' liabilities for the death or dismemberment of, or injury to, their employees.

Effective January 1, 2000, 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 entirely.

MANAGEMENT AND CONTROL

Control of the Association is vested in a Board of Directors (the "Board") elected by the members of the Association. The Board shall administer the operations and business of the Association and shall promulgate rules to effectuate the policies and purposes of the Association and do all things permitted or directed by law. According to the Association's amended and restated bylaws, the Board shall consist of not less than four nor more than six directors. Board members serve three-year terms or until their successors are elected. The terms are staggered to provide that one-third of the Board is elected each year. The Board and officers were as follows at December 31, 2012:

Representative

John G. Dankos, Jr.

A.V. Grantham

Judy G. Harr

David T. Morgan, III

Member

Dankos Enterprises
Richmond, Virginia

Grantham Enterprises
Richmond, Virginia

Extra Billy's
Richmond, Virginia

Great American Restaurant
Arlington, Virginia

Officers

John G. Dankos, Jr.

Judy G. Harr

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 shall consist exclusively of organizations or sole proprietorships engaged in business as restaurants or hotels or otherwise in the hospitality industry and any other organizations or sole proprietorships having a "common interest." Membership will be limited to those employers who are financially sound and meet any other requirements which may be promulgated by the Board.

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 November 1, 2010, the Association entered into an administrative and other services agreement with Landin, Inc. ("Landin"). This agreement was effective for a minimum period of one year and thereafter on a continuing basis as mutually agreed upon or until the closure of the Association. Either party may elect to non-renew or renegotiate any portion of this agreement with 90 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;
- Act as agent for procurement of bonds and other insurance coverages purchased by and for the Association.
- 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 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. Effective January 1, 2000, the Association ceased underwriting business. At that date, Landin was providing claims services, therefore, Landin remains obligated to handle and adjust to conclusion any claim or loss incurred by the Association and does not receive any additional compensation for its claims services. Currently, Landin is servicing one open workers' compensation claim.

As compensation for its administrative services, Landin shall receive \$16,000 per year with monthly payments due on or before the 10th of each month. Total administrative and other service fees incurred for calendar year 2012 were \$16,639. 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.

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 \$75,000 limit of liability, subject to a \$500 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 various U.S. Government Agency Bonds with a total 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 excess and aggregate excess insurance agreements in force for any claims incurred prior to January 1, 2000, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$250,000 maximum for each occurrence and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	90% of normal premium, subject to a minimum retention of \$2,331,908	\$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 January 1, 2008 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 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, 2012, a statement of income for the year ended December 31, 2012, a reconciliation of members' equity for the period under review and a statement of members' account by fiscal year inception to date.

BALANCE SHEET
DECEMBER 31, 2012

ASSETS

Bonds, long term	\$376,580
Other invested assets	598,477
Cash on deposit	51,053
Interest due and accrued	3,729
Prepaid insurance	<u>781</u>
 Total assets	 <u><u>\$1,030,620</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$166,394
Loss adjustment expenses unpaid	292
Contingency reserve	312,067
Other expenses payable	4,600
Dividends payable	<u>112,000</u>
 Total liabilities	 <u><u>\$595,353</u></u>
 Restricted members' equity	 \$255,888
Unrestricted members' equity	<u>179,379</u>
 Total liabilities and members' equity	 <u><u>\$1,030,620</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2012

UNDERWRITING INCOME

Premiums earned	<u>\$0</u>
Deductions:	
Losses incurred	\$1,140
Other underwriting expenses incurred	<u>28,752</u>
Total underwriting deductions	<u>\$29,892</u>
Net underwriting loss	<u>(\$29,892)</u>

INVESTMENT INCOME

Net investment income earned	\$32,786
Net realized capital gains or (losses)	<u>6,714</u>
Net investment gain	<u>\$39,500</u>
Net income before federal income taxes	\$9,608
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$9,608</u></u>

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

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Members' equity, previous year before undistributed dividends	\$562,128	\$583,710	\$581,293	\$598,886	\$556,584
Net income or (loss)	5,662	(10,400)	8,689	(34,040)	9,608
Net unrealized capital gains or (losses)	<u>15,920</u>	<u>7,983</u>	<u>8,904</u>	<u>(8,262)</u>	<u>(18,925)</u>
Restricted and unrestricted members' equity, end of year	\$583,710	\$581,293	\$598,886	\$556,584	\$547,267
Less: Restricted members' equity, end of year	<u>260,661</u>	<u>257,713</u>	<u>271,068</u>	<u>262,507</u>	<u>255,888</u>
Unrestricted members' equity, end of year before undistributed dividends	\$323,049	\$323,580	\$327,818	\$294,077	\$291,379
Less: Dividends declared but unpaid	<u>112,000</u>	<u>112,000</u>	<u>112,000</u>	<u>112,000</u>	<u>112,000</u>
Unrestricted members' equity, end of year	<u><u>\$211,049</u></u>	<u><u>\$211,580</u></u>	<u><u>\$215,818</u></u>	<u><u>\$182,077</u></u>	<u><u>\$179,379</u></u>

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

	Fiscal Years 1992-1995	Fiscal Year 1996	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	Total Inception to Date
Income Received						
Premiums written	\$5,064,345	\$1,656,804	\$1,460,807	\$1,216,300	\$1,029,723	\$10,427,979
Less: Excess insurance	605,431	145,128	115,847	113,495	116,595	1,096,496
Net premiums written	\$4,458,914	\$1,511,676	\$1,344,960	\$1,102,805	\$913,128	\$9,331,483
Investment income	593,285	97,352	71,070	125,128	265,712	1,152,547
(Allocation between years)	23,730	0	0	7,465	(31,195)	0
Other	247,562	244,742	(4,447)	13,614	25,445	526,916
Total income collected	\$5,323,491	\$1,853,770	\$1,411,583	\$1,249,012	\$1,173,090	\$11,010,946
Less: Expenses Paid						
Losses paid	\$3,029,129	\$1,801,328	\$1,140,328	\$680,249	\$328,311	\$6,979,345
Allocated loss adjustment expenses paid	82,283	52,636	45,363	21,720	22,744	224,746
Administrative fees	125,566	33,729	26,612	11,720	26,303	223,930
Service agent's fees	486,274	134,585	125,117	100,280	76,958	923,214
Taxes, licenses, and fees	51,974	17,492	21,840	59,356	18,241	168,903
Federal income taxes	27,681	20,509	15,167	13,953	2,175	79,485
Other expenses	320,006	85,309	104,350	150,893	194,286	854,844
Total expenses	\$4,122,913	\$2,145,588	\$1,478,777	\$1,038,171	\$669,018	\$9,454,467
Net cash income	\$1,200,578	(\$291,818)	(\$67,194)	\$210,841	\$504,072	\$1,556,479
Add: Receivables						
Interest due and accrued	\$1,789	\$0	\$0	\$563	\$1,377	\$3,729
Other	375	0	0	118	288	781
Total	\$2,164	\$0	\$0	\$681	\$1,665	\$4,510
Deduct: Liabilities						
Losses unpaid	\$0	\$166,394	\$0	\$0	\$0	\$166,394
Loss adjustment expenses unpaid	0	292	0	0	0	292
Contingency reserve	151,133	49,729	43,824	36,489	30,892	312,067
Other expenses payable	2,207	0	0	694	1,699	4,600
Total	\$153,340	\$216,415	\$43,824	\$37,183	\$32,591	\$483,353

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

	<u>Fiscal Years 1992-1995</u>	<u>Fiscal Year 1996</u>	<u>Fiscal Year 1997</u>	<u>Fiscal Year 1998</u>	<u>Fiscal Year 1999</u>	<u>Total Inception to Date</u>
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$1,049,402	(\$508,233)	(\$111,018)	\$174,339	\$473,146	\$1,077,636
Less: Dividends paid inception to date by fiscal year	530,369	0	0	0	0	530,369
Less: Restricted Members' Equity by fiscal year	<u>51,178</u>	<u>51,178</u>	<u>51,178</u>	<u>51,177</u>	<u>51,177</u>	<u>255,888</u>
Unrestricted Members' Equity undistributed by fiscal year	\$467,855	(\$559,411)	(\$162,196)	\$123,162	\$421,969	\$291,379
Less: Dividends declared but unpaid	<u>112,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>112,000</u>
Unrestricted Members' Equity 12/31/12	<u>\$355,855</u>	<u>(\$559,411)</u>	<u>(\$162,196)</u>	<u>\$123,162</u>	<u>\$421,969</u>	<u>\$179,379</u>

*The Association ceased writing business on January 1, 2000.

Fiscal years 1992-1999 include allocation of expenses from 2000 through 2012.

RECOMMENDATION FOR CORRECTIVE ACTION**Management and Control**

1. The results of this examination reflect members' equity deficits for the 1996 and 1997 fiscal years of \$559,411 and \$162,669, respectively. As of December 19, 2013, the Association has \$112,000 remaining from previously approved dividends that is available for deficit elimination. The Bureau continues to monitor the Association's financial condition. 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.

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 P. Bailey, Sr., CFE participated in the work of the examination.

Respectfully submitted,

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

Milton Parker, Jr.
Insurance Examiner

**VIRGINIA HOSPITALITY GROUP SELF-INSURANCE ASSOCIATION
INCORPORATED**

STATE CORP. COMMISSION
2014 MAR 17 AM 8:39
BUREAU OF INSURANCE

March 7, 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:

This is in response to your February 19, 2014, letter regarding the Virginia Hospitality Group Self-Insurance Association's Examination Report as of December 31, 2012. We take no issue with any matter contained in the examination report. In regards to the recommendation for corrective action on page 13 of the report, our response is as follows.

As mentioned in your report, the examination reflects members' equity deficits for the 1996 and 1997 fiscal years of \$559,411 and \$162,669, respectively.

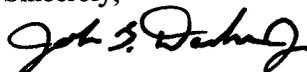
In regards to the 1996 fund year, this deficit includes IBNR of \$145,000. Since then, the IBNR has been reduced to \$24,029 and this year now reflects a deficit of \$437,522. Additionally, any excess contingency reserve, if available, could be utilized for further reduction of the deficit.

Based on the above and taking into consideration the surplus in other fund years, we believe the deficit is manageable and does not jeopardize the financial integrity of the VHGSIA. I hope our response is satisfactory, and if you have any questions or need any additional information, please do not hesitate in contacting us.

In addition, we would like to request 10 copies of the final report for our use.

In conclusion, we express our appreciation and thanks for the Examiner's work and their helpful comments and suggestions during the course of the examination.

Sincerely,



John G. Dankos, Jr.
President, VHGSIA

**P. O. Box 17590, Richmond, VA 23226
804.359.9600**