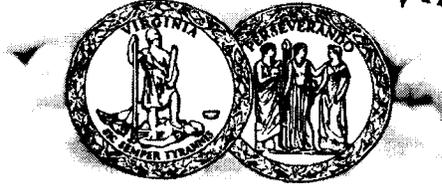


EXAMINATION REPORT
of
VIRGINIA FORESTRY SAFETY
GROUP SELF-INSURANCE ASSOCIATION
RICHMOND, VIRGINIA
as of
DECEMBER 31, 2013

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 Virginia Forestry Safety Group Self-Insurance Association as of December 31, 2013, 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 11th day of March, 2015

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 11, 2014

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 FORESTRY SAFETY
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, 2010. This examination covers the period from January 1, 2011 through December 31, 2013.

HISTORY

The Association was licensed by the Bureau effective January 1, 1995. According to its 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.

MANAGEMENT AND CONTROL

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

The Board and officers were as follows at December 31, 2013:

Representative

Member

Kerry L. Clary

Aubrey L. Clary, Inc.
Gasburg, Virginia

Sigmund R. Jones

S. R. Jones, Jr. and Sons, Inc.
Gasburg, Virginia

Franklin B. Myers

M. M. Wright, Inc.
Gasburg, Virginia

Jerry D. Rose

Jerry D. Rose, Inc.
Courtland, Virginia

Ronald E. Wright

Ronald E. Wright Logging, Inc.
Ebony, Virginia

Officers

Chairman

Jerry D. Rose

Vice Chairman

Franklin B. Myers

Secretary / Treasurer

Ronald E. Wright

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 calendar year basis.

ADMINISTRATIVE AGREEMENT

Effective January 1, 1996, the Association entered into an administrative agreement with Self-Insurance Services, LLC, ("SIS"). The original term of this agreement was for a period of 12 months and the agreement continued thereafter subject to termination by either party by 90 days advance written notice.

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

As compensation for its services, SIS shall receive the sum of 13% of all members' contributions paid to the Association, adjusted for final payroll audits. In addition, SIS retains 100% of the commission received for placement of excess insurance coverage. The Association incurred \$183,249 in fees relating to this agreement in calendar year 2013.

CLAIMS SERVICE AGREEMENT

Effective January 1, 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 12 months 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 an amendment dated January 1, 2013, PMA shall receive a claims handling service fee between \$22,525 and \$26,000, payable in quarterly installments, as compensation for its claims services and based on the number of members' lost time claims. For managed care services, PMA receives \$95 per hour for medical case management services and for disability management coordinators. For cost containment services, the Association pays \$8.25 per bill reviewed and PMA receives 23% of the savings generated. For risk control services at the Association's request, PMA receives \$125 per hour.

In addition, the Association pays PMA an annual administrative service fee of \$4,500 to cover the costs of basic administrative services and fees, which may include, but not limited to, account setup, account maintenance, incurred banking fees, monthly loss analysis and monthly claim reconciliation. Finally, the Association pays an annual fee of \$3,500 to access PMA's Internet-based claims information system. The Association incurred \$36,382 in fees relating to this agreement in calendar year 2013.

DIVIDENDS TO MEMBERS

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

<u>Fiscal Year</u>	<u>Approval Dates</u>		
	<u>November 4, 2011</u>	<u>November 5, 2012</u>	<u>October 4, 2013</u>
1995	\$ 41,202		
1996	39,706		
1997	30,448		\$ 14,252
1998			44,847
2000	7,951		
2001	50,989		
2002	11,576		
2003		\$ 15,000	25,000
2004	50,000	50,000	15,589
2005	100,000	100,000	13,899
2006	140,000	100,000	100,000
2007	50,000	50,000	100,000
2008	100,000	100,000	100,000
2009		100,000	200,000
2010		50,000	50,000
2012			50,000
Totals	<u>\$ 621,872</u>	<u>\$ 565,000</u>	<u>\$ 713,587</u>

FIDELITY BOND COVERAGE

At December 31, 2013, the Association was listed as a named insured on a fidelity bond with a \$150,000 limit of liability, subject to a \$10,000 deductible, to insure against losses arising from dishonest acts of its administrator and employees.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2013, the Association had United States Treasury Notes with a par value of \$260,000 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 at December 31, 2013, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$750,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	175% of billed premium subject to a minimum retention of \$2,471,457	\$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, 2011 through December 31, 2013. Assets were verified and liabilities were established at December 31, 2013. 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, 2013, a statement of income for the year ended December 31, 2013, 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, 2013

ASSETS

Bonds, long term	\$2,923,663
Other invested assets	308,509
Cash on deposit	37,459
Deposit with service agent	(30,415)
Premiums receivable	145,533
Interest due and accrued	15,301
Amounts recoverable on paid losses	338,170
Income taxes receivable	606,329
Prepaid other expenses	8,879
	<hr/>
Total assets	<u><u>\$4,353,428</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$2,954,202
Loss adjustment expenses unpaid	285,848
Contingency reserve	594,542
Unearned premiums	475,728
Premium refunds payable	31,331
Administrative fees payable	15,523
Taxes, licenses and fees payable	41,000
Dividends payable	1,212,025
Professional fees payable	18,700
Investment fees payable	1,318
Payroll audit fees payable	4,320
	<hr/>
Total liabilities	<u>\$5,634,537</u>
Restricted members' equity	\$257,665
Unrestricted members' equity	<u>(1,538,774)</u>
	<hr/>
Total liabilities and members' equity	<u><u>\$4,353,428</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2013

UNDERWRITING INCOME

Premiums earned	<u>\$1,175,002</u>
Deductions:	
Losses incurred	\$6,956
Loss expenses incurred	395,920
Other underwriting expenses incurred	283,520
Contingency reserve	<u>43,188</u>
Total underwriting deductions	<u>\$729,584</u>
Net underwriting gain	<u>\$445,418</u>

INVESTMENT INCOME

Net investment income earned	\$61,095
Net realized capital gains or (losses)	<u>(17,176)</u>
Net investment gain	<u>\$43,919</u>
Net loss before federal income taxes	\$489,337
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$489,337</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>2011</u>	<u>2012</u>	<u>2013</u>	
Members' equity, previous year before undistributed dividends	*	\$66,387	\$181,680	(\$13,404)
Adjustment for previous examination changes	(11,656)			
Net income or (loss)	614,553	233,522	489,337	
Net unrealized capital gain or (loss)	(49,475)	(21,916)	(44,105)	
Dividends paid to members	<u>(438,129)</u>	<u>(406,690)</u>	<u>(500,912)</u>	
Restricted and unrestricted members' equity, end of year	\$181,680	(\$13,404)	(\$69,084)	
Less: Restricted members' equity, end of year	<u>261,317</u>	<u>255,303</u>	<u>257,665</u>	
Unrestricted members' equity, end of year before undistributed dividends	(\$79,637)	(\$268,707)	(\$326,749)	
Less: Dividends declared but unpaid	<u>841,040</u>	<u>999,350</u>	<u>1,212,025</u>	
Unrestricted members' equity, end of year	<u><u>(\$920,677)</u></u>	<u><u>(\$1,268,057)</u></u>	<u><u>(\$1,538,774)</u></u>	

* Adjusted members' equity from previous examination.

Members' Account By Fiscal Year Inception to Date December 31, 2013

	All Other Fiscal Years Preceding 1995-2009	Third Fiscal Year Preceding 2010	Second Fiscal Year Preceding 2011	First Fiscal Year Preceding 2012	Current Calendar Year 2013	Total Inception to Date (1995-2013)
Income Received						
Premiums written	\$22,023,693	\$1,350,161	\$1,404,286	\$1,306,285	\$1,771,131	\$27,855,556
Less: Excess insurance	2,682,627	178,628	162,898	195,745	257,032	3,476,930
Net premiums written	\$19,341,066	\$1,171,533	\$1,241,388	\$1,110,540	\$1,514,099	\$24,378,626
Investment income	2,158,647	54,581	18,200	8,630	51,396	2,291,454
Allocation between years	30,547	3,555	845	9,519	(44,466)	0
Other	154,716	0	0	0	(31,990)	122,726
Total income collected	\$21,684,976	\$1,229,669	\$1,260,433	\$1,128,689	\$1,489,039	\$26,792,806
Less: Expenses Paid						
Losses paid	\$8,483,876	\$545,757	\$1,155,538	\$396,514	\$176,079	\$10,757,764
Allocated loss adjustment expenses paid	557,723	49,119	92,254	42,562	22,045	763,703
Administrative fees	2,867,577	175,521	182,557	169,645	167,725	3,563,025
Service agent's fees	472,369	42,503	43,833	32,530	35,356	626,591
Taxes, licenses, and fees	597,682	53,760	49,252	41,314	0	742,008
Federal income tax	515,033	0	0	0	606,329	1,121,362
Other expenses	252,369	18,249	22,626	24,745	19,652	337,641
Total expenses	\$13,746,629	\$884,909	\$1,546,060	\$707,310	\$1,027,186	\$17,912,094
Net cash income	\$7,938,347	\$344,760	(\$285,627)	\$421,379	\$461,853	\$8,880,712
Add: Receivables						
Premiums receivable	\$0	\$0	\$0	\$0	\$145,533	\$145,533
Interest due and accrued	8,976	1,078	256	2,888	2,103	15,301
Recoverable on paid losses	19,175	0	318,995	0	0	338,170
Other	0	0	0	0	615,208	615,208
Total	\$28,151	\$1,078	\$319,251	\$2,888	\$762,844	\$1,114,212
Deduct: Liabilities						
Losses unpaid	\$415,000	\$500,000	\$213,469	\$795,409	\$1,030,324	\$2,954,202
Loss adjustment expenses	0	0	260,848	3,553	21,447	285,848
Contingency reserve	430,432	40,506	42,127	39,189	42,288	594,542
Unearned premiums	0	0	0	0	475,728	475,728
Premium refunds payable	0	0	0	0	31,331	31,331
Administrative fees payable	0	0	0	0	15,523	15,523
Taxes, licenses and fees payable	0	0	0	0	41,000	41,000
Other expenses payable	0	0	0	3,700	20,638	24,338
Total	\$845,432	\$540,506	\$516,444	\$841,851	\$1,678,279	\$4,422,512

Members' Account By Fiscal Year Inception to Date December 31, 2013

	All Other Fiscal Years Preceding 1995-2009	Third Fiscal Year Preceding 2010	Second Fiscal Year Preceding 2011	First Fiscal Year Preceding 2012	Current Calendar Year 2013	Total Inception to Date (1995-2013)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$7,121,066	(\$194,668)	(\$482,820)	(\$417,584)	(\$453,582)	\$5,572,412
Less: Dividends paid inception to date by fiscal year	5,512,482	86,771	0	42,243	0	5,641,496
Less: Restricted Members' Equity by fiscal year	<u>51,533</u>	<u>51,533</u>	<u>51,533</u>	<u>51,533</u>	<u>51,533</u>	<u>257,665</u>
Unrestricted Members' Equity undistributed by fiscal year	\$1,557,051	(\$332,972)	(\$534,353)	(\$511,360)	(\$505,115)	(\$326,749)
Less: Dividends declared but unpaid	<u>1,191,039</u>	<u>13,229</u>	<u>0</u>	<u>7,757</u>	<u>0</u>	<u>1,212,025</u>
Unrestricted Members' Equity 12/31/13	<u>\$366,012</u> *	<u>(\$346,201)</u>	<u>(\$534,353)</u>	<u>(\$519,117)</u>	<u>(\$505,115)</u>	<u>(\$1,538,774)</u>

* Although the cumulative unrestricted members' equity for the fiscal years 1995-2009 at December 31, 2013 was \$366,012, the 2009 fiscal year had a members' equity deficit of \$110,791.

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2013

	<u>Amount Per Association</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$11,220	\$145,533	\$134,313
<u>Liabilities:</u>			
Contingency reserve	\$591,453	\$594,542	(\$3,089)
Premium refunds payable	0	31,331	(31,331)
Administrative fees payable	2,136	15,523	(13,387)
Payroll audit fees payable	0	4,320	(4,320)
Investment fees payable	900	1,318	(418)
Examiners changes in members' equity			<u>\$81,768</u>
Restricted and unrestricted members' equity per Association			(\$1,362,877)
Restricted and unrestricted members' equity per Examiners			<u>(1,281,109)</u>
Increase in restricted and unrestricted members' equity			<u>\$81,768</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect an unrestricted members' equity deficit for the 2009, 2010, 2011, 2012 and 2013 fiscal years of \$110,791, \$346,201, \$534,353, \$519,117, and \$505,115, 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. Investment fees payable \$1,318

The above liability is \$418 more than the amount reported by the Association in its 2013 Annual Statement. The Examiners' amount is based on a review of invoices paid in 2014 for investment management services pertaining to 2013.

3. Payroll audit fees payable \$4,320

The above liability has been established by the Examiners. The Examiners' amount is based on a review of invoices paid in 2014 for payroll auditing services pertaining to or provided in 2013.

Payroll Audit Changes

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

4. Premiums receivable \$145,533
Premium refunds payable \$31,331

The above amounts are \$134,313 and \$31,331 more, respectively, than the amounts reported by the Association in its 2013 Annual Statement. The Examiners' amounts are based on subsequent 2013 member payroll audits and reflect differences between audited contributions and contributions paid at December 31, 2013.

5. Contingency reserve \$594,542

The above liability is \$3,089 more than the amount reported by the Association in its 2013 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of subsequent 2013 member payroll audits, which is the basis for the calculation of the contingency reserve.

6. Administrative fees payable \$15,523

The above liability is \$13,387 more than the amount reported by the Association in its 2013 Annual Statement. The Examiners' amount is based on a review of the subsequent 2013 fiscal year member payroll audits and reflects the difference between the fees owed and the amounts actually paid for fiscal year 2013 at December 31, 2013.

SUBSEQUENT EVENTS

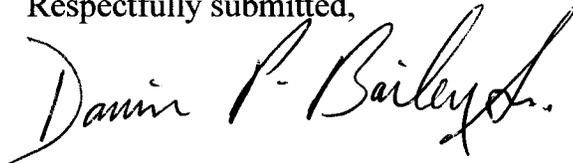
1. The Association will terminate its underwriting activities as of January 1, 2015. The Association will continue its operations to settle all reported claims as well as any unreported claims incurred prior to January 1, 2015. Upon settlement of all claims obligations, the Association will cease business. Any excess members' equity will be returned to members upon approval of the Bureau.
2. Effective January 1, 2015, the Association executed a new administrative agreement with SIS to serve as the administrator for the settlement of its claims. The original term of the agreement is for a period of 12 months and, as compensation for its services, SIS shall receive \$2,000 monthly.
3. On September 12, 2014, the Bureau approved dividends for the Association totaling \$523,113.

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, Chris Collins, CFE 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'.

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

VIRGINIA FORESTRY SAFETY GROUP SELF INSURANCE ASSOCIATION

Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE

STATE CORP. COMMISSION
2015 FEB 25 AM 8:16
BUREAU OF INSURANCE

February 23, 2015

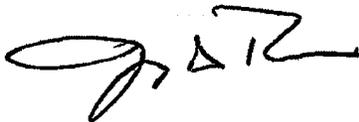
Mr. David H. Smith
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

Dear Mr. Smith:

Enclosed are the responses to your recommendations for corrective action for Virginia Forestry Safety Group Self Insurance Association during the examination period January 1, 2011 through December 31, 2013.

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

Sincerely,



Jerry D. Rose
Chairman
Members' Supervisory Board
Virginia Forestry Safety Group
Self Insurance Association



Peggy DeBord, MBA, CPCU, CIC
Administrator
Virginia Forestry Safety Group
Self Insurance Association

Enclosures

Virginia Forestry Safety Group Self Insurance Association

Responses to Recommendations for Corrective Action

Management and Control

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

Accounts and Records

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

Payroll Audit Changes

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