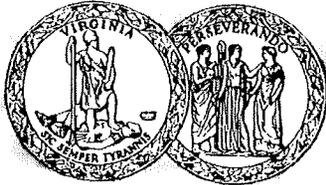


EXAMINATION REPORT
of
VIRGINIA COMMERCE
GROUP SELF-INSURANCE ASSOCIATION
RICHMOND, VIRGINIA
as of
DECEMBER 31, 2018

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



SCOTT A. WHITE
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

P.O. BOX 1157
RICHMOND, VIRGINIA 23218
1300 E. MAIN STREET
RICHMOND, VIRGINIA 23219
TELEPHONE: (804) 371-9741
www.scc.virginia.gov/boi

I, Scott A. White, 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, 2018, 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 13th day of February 2020

A handwritten signature in black ink, appearing to read 'Scott A. White', written over a horizontal line.

Scott A. White
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

SCOPE OF THE EXAMINATION1

DESCRIPTION1

HISTORY2

MANAGEMENT AND CONTROL2

TERRITORY AND PLAN OF OPERATION3

ADMINISTRATIVE AND OTHER SERVICES AGREEMENT3

DIVIDENDS TO MEMBERS5

SPECIAL RESERVES AND DEPOSITS5

EXCESS INSURANCE COVERAGE6

FINANCIAL STATEMENTS7

RECOMMENDATIONS FOR CORRECTIVE ACTION14

SUBSEQUENT EVENT16

ACKNOWLEDGEMENT17

Richmond, Virginia
November 1, 2019

Honorable Scott A. White
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

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.

SCOPE OF THE EXAMINATION

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 last examination of the Association was made by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2014. This examination covers the period from January 1, 2015 through December 31, 2018.

The Bureau planned and performed the examination to evaluate the Association's financial condition and operational activities. All accounts and activities of the Association were considered generally in accordance with the risk-focused examination process contained in the NAIC Financial Condition Examiners Handbook.

The examination report includes findings of fact and general information about the Association and its financial condition.

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").

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, 2018:

<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
Ryan Sodikoff	Steven Toyota Harrisonburg, Virginia

John Wesley Tatum

Leete Tire & Auto Center, Inc.
Petersburg, Virginia

Officers

Jonathan E. Phares
Robert E. Burgess, Jr.
Angelo F. Castanes

Chairman
Vice Chairman
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. Additionally, Landin retains 100% of the commission received for placement of excess insurance and other insurance coverages. Landin coordinates with Metis Services, Inc., ("Metis") 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. Metis shall receive \$7.50 per bill plus 22% of the savings from PPO or nurse audit. Payments are made directly to Metis from the Association. Total administrative and other service fees paid in 2018 relating to fiscal year 2018 were \$656,253.

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. Pursuant to the marketing provision, for first year commissions, the Association shall pay Landin commission which reflects a three percent (3%) override of the commission paid to the agent or firm based on the commission schedule and incentive program that is in effect for the applicable plan year.

The Association further agrees to pay Landin, as renewal commission, the same amount set forth in the preceding paragraph for all continuing business written with the Association at any time since its inception on January 1, 1982 and prior to the termination or extension of this agreement. The right of Landin to receive such renewal commission shall survive the termination of the agreement and shall continue so long as the business continues to be renewed with the Association. Total marketing costs paid in 2018 relating to fiscal year 2018 were \$781,417.

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>Approval Dates</u>			
	<u>Sept. 30, 2015</u>	<u>Sept. 12, 2016</u>	<u>Sept. 20, 2017</u>	<u>Oct. 2, 2018</u>
1996	\$5,380	\$0	\$0	\$0
1999	1,131	0	0	0
2001	5,281	5,668	5,620	2,929
2003	0	36,000	31,500	0
2004	100,000	62,000	53,000	42,000
2005	66,000	41,000	31,500	26,000
2006	105,000	72,000	49,000	36,000
2007	135,000	75,000	0	0
2008	130,000	105,000	64,000	40,000
2009	140,000	115,000	65,000	95,000
2010	230,000	177,000	80,000	119,343
2011	135,000	155,000	135,000	218,728
2012	125,000	170,000	200,000	138,000
2013	0	0	0	30,000
2014	0	0	0	20,000
Total	<u>\$1,177,792</u>	<u>\$1,013,668</u>	<u>\$714,620</u>	<u>\$768,000</u>

SPECIAL RESERVES AND DEPOSITS

At December 31, 2018, the Association had a United States Treasury obligation with a par value of \$295,000 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, 2018, 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	100% of total standard premium, subject to a minimum retention of \$6,560,137	\$5,000,000

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association at December 31, 2018, a statement of income for the year ended December 31, 2018, 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, 2018

ASSETS

Bonds, long term	\$9,311,364
Other invested assets	3,212,531
Cash on deposit	275,700
Premiums receivable	643,033
Interest due and accrued	57,122
Amounts recoverable on paid losses	11,631
Income taxes receivable	400,000
Prepaid other expenses	85,638
Prepaid service agent's fees	45,108
Prepaid administrative fees	36,906
	<hr/>
Total assets	<u>\$14,079,033</u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$6,950,852
Loss adjustment expenses unpaid	481,127
Contingency reserve	1,091,314
Unearned premiums	1,255,947
Excess insurance premiums payable	37,865
Premium refunds payable	289,748
Taxes, licenses and fees payable	165,783
Other liabilities	3,134
Professional fees payable	76,000
Payroll audit fees payable	56,970
Investment fees payable	1,500
	<hr/>
Total liabilities	<u>\$10,410,240</u>
Restricted members' equity	\$5,290,868
Unrestricted members' equity	(1,622,075)
	<hr/>
Total liabilities and members' equity	<u>\$14,079,033</u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2018

UNDERWRITING INCOME

Premiums earned	<u>\$6,721,409</u>
Deductions:	
Losses incurred	\$3,619,496
Loss expenses incurred	275,931
Other underwriting expenses incurred	2,055,072
Contingency reserve	<u>26,640</u>
Total underwriting deductions	<u>\$5,977,139</u>
Net underwriting gain	<u>\$744,270</u>

INVESTMENT INCOME

Net investment income earned	\$278,854
Net realized capital gains	<u>50,515</u>
Net investment gain	<u>\$329,369</u>

OTHER INCOME

Late fees	<u>\$4,350</u>
Total other income	<u>\$4,350</u>
Net income before federal income taxes	\$1,077,989
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$1,077,989</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Members' equity, previous year before undistributed dividends	* \$6,309,778	\$5,525,226	\$5,172,713	\$3,670,904
Adjustment for previous examination changes	(143,401)			
Net income (loss)	635,020	795,021	(809,483)	1,077,989
Net unrealized capital gains (losses)	(98,379)	(133,866)	22,294	(312,100)
Dividends paid to members	<u>(1,177,792)</u>	<u>(1,013,668)</u>	<u>(714,620)</u>	<u>(768,000)</u>
Restricted and unrestricted members' equity, end of year	\$5,525,226	\$5,172,713	\$3,670,904	\$3,668,793
Less: Restricted members' equity, end of year	<u>5,034,690</u>	<u>5,399,530</u>	<u>5,314,864</u>	<u>5,290,868</u>
Unrestricted members equity, end of year before undistributed dividends	\$490,536	(\$226,817)	(\$1,643,960)	(\$1,622,075)
Less: Dividends declared but unpaid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Unrestricted members' equity, end of year	<u>\$490,536</u>	<u>(\$226,817)</u>	<u>(\$1,643,960)</u>	<u>(\$1,622,075)</u>

* Adjusted members' equity from previous examination.

Members' Account By Fiscal Year Inception to Date December 31, 2018

	All Other Fiscal Years Preceding 1982-2014	Third Fiscal Year Preceding 2015	Second Fiscal Year Preceding 2016	First Fiscal Year Preceding 2017	Current Fiscal Year 2018	Total Inception to Date (1982-2018)
<u>Income Received</u>						
Premiums written	\$136,610,910	\$5,637,008	\$6,012,742	\$6,630,398	\$7,818,531	\$162,709,589
Less: Excess insurance	10,608,807	541,152	577,223	636,518	556,900	12,920,600
Net premiums written	\$126,002,103	\$5,095,856	\$5,435,519	\$5,993,880	\$7,261,631	\$149,788,989
Investment income	10,481,775	91,875	96,310	42,258	342,741	11,054,959
Allocation between years	187,273	6,180	30,145	65,428	(289,026)	0
Other	5,226,376	6,205	5,103	5,000	(239,035)	5,003,649
Total income collected	\$141,897,527	\$5,200,116	\$5,567,077	\$6,106,566	\$7,076,311	\$165,847,597
<u>Less: Expenses Paid</u>						
Losses paid	\$67,283,504	\$3,362,676	\$2,681,873	\$3,207,120	\$1,393,241	\$77,928,414
Allocated loss adjustment expenses paid	3,296,290	180,067	134,048	111,055	18,681	3,740,141
Administrative fees	5,796,554	253,666	270,573	298,368	348,121	6,967,282
Service agent's fees	7,835,170	310,036	330,701	364,672	425,480	9,266,059
Taxes, licenses, and fees	2,974,967	223,139	217,661	228,715	883	3,645,365
Federal income tax	3,443,759	(90,421)	(1,431)	(138,990)	400,000	3,612,917
Other expenses	18,328,509	830,192	943,687	985,520	992,390	22,080,298
Total expenses	\$108,958,753	\$5,069,355	\$4,577,112	\$5,056,460	\$3,578,796	\$127,240,476
Net cash income	\$32,938,774	\$130,761	\$989,965	\$1,050,106	\$3,497,515	\$38,607,121
<u>Add: Receivables</u>						
Premiums receivable	\$0	\$0	\$0	\$0	\$643,033	\$643,033
Interest due and accrued	31,210	1,030	5,024	10,904	8,954	57,122
Amounts recoverable on paid losses	11,631	0	0	0	0	11,631
Other	0	0	0	0	567,652	567,652
Total	\$42,841	\$1,030	\$5,024	\$10,904	\$1,219,639	\$1,279,438
<u>Deduct: Liabilities</u>						
Losses unpaid	\$582,991	\$372,286	\$782,603	\$1,417,904	\$3,795,068	\$6,950,852
Loss adjustment expenses	43,205	15,176	39,044	97,783	285,919	481,127
Contingency reserve	335,434	169,110	180,382	198,912	207,476	1,091,314
Unearned premiums	0	0	0	0	1,255,947	1,255,947
Excess insurance premiums payable	0	0	0	0	37,865	37,865
Premium refunds payable	0	0	0	0	289,748	289,748
Taxes, licenses and fees payable	0	0	0	0	165,783	165,783
Other expenses payable	0	0	0	0	137,604	137,604
Total	\$961,630	\$556,572	\$1,002,029	\$1,714,599	\$6,175,410	\$10,410,240

Members' Account By Fiscal Year Inception to Date December 31, 2018

	All Other Fiscal Years Preceding 1982-2014	Third Fiscal Year Preceding 2015	Second Fiscal Year Preceding 2016	First Fiscal Year Preceding 2017	Current Fiscal Year 2018	Total Inception to Date (1982-2018)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$32,019,985	(\$424,781)	(\$7,040)	(\$653,589)	(\$1,458,256)	\$29,476,319
Less: Dividends paid inception to date by fiscal year	25,807,526	0	0	0	0	25,807,526
Less: Restricted Members' Equity undistributed by fiscal year	59,736	59,735	59,735	59,735	59,735	298,676
Less: Board discretionary funds	<u>4,992,192</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>4,992,192</u>
Unrestricted Members' Equity undistributed by fiscal year	\$1,160,531	(\$484,516)	(\$66,775)	(\$713,324)	(\$1,517,991)	(\$1,622,075)
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 12/31/18	<u>\$1,160,531</u>	<u>(\$484,516)</u>	<u>(\$66,775)</u>	<u>(\$713,324)</u>	<u>(\$1,517,991)</u>	<u>(\$1,622,075)</u>

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2018

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$0	\$643,033	\$643,033
Prepaid other expenses	164,172	85,638	(78,534)
Prepaid service agent's fees	65,359	45,108	(20,251)
Prepaid administrative fees	53,477	36,906	(16,571)
<u>Liabilities:</u>			
Contingency reserve	1,080,267	1,091,314	(11,047)
Excess insurance premiums payable	6,197	37,865	(31,668)
Premium refunds payable	14,940	289,748	(274,808)
Professional fees payable	73,900	76,000	(2,100)
Payroll audit fees payable	52,718	56,970	(4,252)
Examiners' changes in members' equity			<u>\$203,802</u>
Restricted and unrestricted members' equity per Association			\$3,464,991
Restricted and unrestricted members' equity per Examiners			<u>3,668,793</u>
Increase in restricted and unrestricted members' equity			<u>\$203,802</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect an unrestricted members' equity deficit for the 2015, 2016, 2017, and 2018 fiscal years of \$484,516, \$66,775, \$713,324, and \$1,517,991, 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 \$56,970

The above liability is \$4,252 more than the amount reported by the Association in its 2018 Annual Statement. The Examiners' amount is based on a review of invoices paid in 2019 for conducting member payroll audits pertaining to 2018.

3. Professional fees payable \$76,000

The above liability is \$2,100 more than the amount reported by the Association in its 2018 Annual Statement. The Examiners' amount is based on a review of invoices paid in 2019 for accounting, auditing, and actuarial services pertaining to 2018.

Payroll Audit Changes

The adjustments in the following recommendations were determined by utilizing each member's final 2018 fiscal year payrolls which were not fully completed until after the Association's 2018 Annual Statement filing to the Bureau.

4. Premiums receivable \$643,033
Premium refunds payable \$289,748

The above amounts are \$643,033 and \$274,808 more, respectively, than the amounts reported by the Association in its 2018 Annual Statement. The Examiners' amounts are based on subsequent 2018 member payroll audits and reflect differences between audited contributions and contributions paid at December 31, 2018.

5. Prepaid other expenses \$85,638

The above asset is \$78,534 less than the amount reported by the Association in its 2018 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of subsequent 2018 member payroll audits, which is the basis for the calculation of agent marketing fees reported as a component of this account balance.

6. Prepaid service agent's fees \$45,108
Prepaid administrative fees \$36,906

The above amounts are \$20,251 and \$16,571 less, respectively, than the amounts reported by the Association in its 2018 Annual Statement. The decreases are attributed to higher earned premiums developed from subsequent 2018 member payroll audits which are the basis for computing fees due to the Association's service agent/administrator.

7. Contingency reserve \$1,091,314

The above liability is \$11,047 more than the amount reported by the Association in its 2018 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of subsequent 2018 member payroll audits, which is the basis for the calculation of the contingency reserve.

8. Excess insurance premiums payable \$37,865

The above liability is \$31,668 more than the amount reported by the Association in its 2018 Annual Statement. The Examiners' amount reflects an increase in the modified normal premium, as defined by the excess insurer, and developed from subsequent 2018 member payroll audits, which is the basis for computing excess insurance premiums.

SUBSEQUENT EVENT

On September 18, 2019, the Bureau approved dividends for the Association totaling \$875,475.

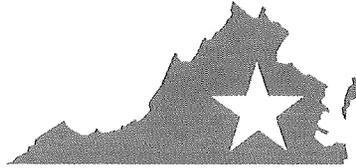
ACKNOWLEDGEMENT

Acknowledgment is hereby made of the courteous cooperation extended by the Association's administrator and service agent during the course of the examination. In addition to the undersigned, Gerald Hicks participated in the work of the examination.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Benjamin B. MacKercher", with a long horizontal flourish extending to the right.

Benjamin B. MacKercher, AFE
Insurance Examiner



VIRGINIA COMMERCE

STATE CORP COMMISSION
BUREAU OF INSURANCE
20 FEB -3 AM 10:38

January 29, 2020

Mr. David H. Smith, CFE, 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 January 6, 2020, letter regarding the Virginia Commerce Group Self-Insurance Association's Examination Report as of December 31, 2018. 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 regard to the 2015, 2016, 2017 and 2018 fund year deficits of \$484,516, \$66,775, \$713,324 and \$1,517,991 respectively, we request permission to continue to monitor due to the following:
 - The deficit in 2015 includes IBNR, contingency reserve and restricted equity of close to \$470,000. Additionally, there has been some improvement in the actuarial ultimate loss for this fund year during 2019. To date, the ultimate loss for this fund year has decreased approximately \$114,000. Together, these amounts would exceed the deficit in this year.
 - The deficit in 2016 includes IBNR, contingency reserve and restricted equity of close to \$473,000, 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 2019. To date, the ultimate loss for this fund year has decreased approximately \$211,000.
 - The deficit in 2017 includes IBNR, contingency reserve and restricted equity of close to \$1,070,000, 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 2019. To date, the ultimate loss for this fund year has decreased approximately \$742,000.

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: 804.359.9640
Administration and Service Company • The Landin Companies • info@landininc.com

Mr. David H. Smith, CFE, CPCU

January 29, 2020

Page Two

- The deficit in 2018 includes IBNR, contingency reserve and restricted equity of close to \$1,767,000, 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 2019. To date, the ultimate loss for this fund year has decreased approximately \$789,000.
- Investment earnings in future years will be allocated based on the allocation formula. Thus, these fund years earned investment income during 2019 and will continue to do so for future years.
- The Group maintains a Board Discretionary Fund with a current balance of \$5,242,192 which could be utilized to reduce deficits as needed.

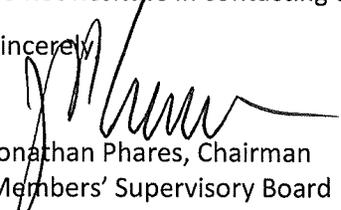
Based on the above, we believe the deficits are manageable and do not jeopardize the long-term financial integrity of the VCGSIA.

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 2019 for payroll audits pertaining to the 2018 fiscal year.
3. Professional fees payable – The difference is attributed to an increase in the liability for professional fees on payments made in 2019 for accounting/auditing services pertaining to the 2018 fiscal year.
4. 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, 2018.
5. 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.
6. Prepaid Service Agent's Fees and Administrative 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.
7. 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.
8. 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