

EXAMINATION REPORT
of
SCHOOL SYSTEMS OF VIRGINIA
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

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I, Scott A. White, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of School Systems of Virginia 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 17th day of April 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)

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Richmond, Virginia
January 29, 2020

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

**SCHOOL SYSTEMS OF VIRGINIA
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 Pool was made by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2016. This examination covers the period from January 1, 2017 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 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 Association was licensed by the Bureau effective August 1, 1982. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage.

Effective December 1, 2018, the Association ceased underwriting business and is currently operating to pay existing claims incurred prior to such date. Once these claims are closed, the Association will cease operations. On December 1, 2018, the Association implemented a \$1,100,000 member assessment to address deficits in the 2013/2014, 2014/2015, 2015/2016 and 2016/2017 fiscal years. Each member had the option to pay the assessment in full or in installments or, for those applicable groups, to apply their 2017/2018 premium refunds to the assessment. The first payment was due to the Association no later than July 1, 2019. As of January 29, 2020, \$887,114 has been collected. Effective December 1, 2018, members workers' compensation coverage was transferred to a commercial carrier.

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 nine 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, 2018:

Representative

Sharon Barksdale

Anthony E. Beckles

Member

Danville City School Board
Danville, Virginia

Lynchburg City School Board
Lynchburg, Virginia

Teresa C. Crouch	Amherst County Public Schools Amherst, Virginia
Shannon T. Irvin	Nelson County Public Schools Lovingston, Virginia
Michelle S. McClanahan	Campbell County Schools Rustburg, Virginia
Donna Seay	Charlottesville City Schools Charlottesville, Virginia
Tracey R. Worley	Pittsylvania County School Board Chatham, Virginia
D. Jackson Zimmermann	Albemarle County Public Schools Charlottesville, Virginia

Officers

Chairman	D. Jackson Zimmermann
Secretary/ Treasurer	Donna Seay

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 having a common interest 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.

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 ending June 30.

ADMINISTRATIVE AGREEMENT

Effective December 1, 2018, the Association entered into an administrative agreement with Self-Insurance Services, LLC, ("SIS"). This agreement replaces the previous agreement which had been in effect since August 1, 1995. The term of this agreement is for a period of 19 months and the agreement remains in effect thereafter, subject to termination by either party by written notice at least 90 days in advance of the effective date of termination.

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, with advisors and consultants, pay all items of expense to the extent funds are available, file necessary reports, and conduct other managerial duties as may be mutually agreed upon.

As compensation for its services, SIS shall receive \$3,500 a month, with payment due on the 25th of each month beginning in December 2018. The Association incurred \$319,777 in fees relating to the previous agreement in calendar year 2018.

CLAIMS CONSULTING SERVICE AGREEMENT

Effective August 1, 1994, the Association entered into a claims consulting service agreement with SIS. The original term of the agreement was for a period of 12 months and the agreement remains in effect thereafter, subject to termination by either party upon 90 days advance written notice. According to the agreement, SIS shall provide claims consulting services including the review of monthly loss reports, approval of all medical and compensation payments over \$2,000, monthly review of all open claim files, evaluation of members' claim experience and assistance to the service agent in settlement of claims.

As compensation, the Association shall pay SIS ½ of 1% of all members' contributions calculated under the provisions of 14 VAC 5-370-110, without reduction as a result of premium discounts, experience ratings, deviations, or other adjustments. The Association incurred \$22,841 in fees relating to this agreement in calendar year 2018.

CLAIMS SERVICE AGREEMENT

Effective August 1, 1998, the Association entered into a claims service agreement with Trigon Administrators, Inc. ("Trigon") currently known as Sedgwick CMS ("Sedgwick"). Sedgwick serves as the Association's claims service agent pursuant to the same claims service agreement originally entered into with Trigon. The original term of the agreement was for a one-year period and the agreement remains in effect thereafter, subject to termination by either party by written notice 60 days in advance of the effective date of termination.

Pursuant to the terms of the agreement, Sedgwick shall provide full claims handling and adjusting for all claims incurred during the period of the agreement until their conclusion, unless otherwise transferred, claims counseling, loss control consulting, monthly reports, preparation for all scheduled hearings before regulatory bodies and other claims related duties. As compensation for its services, Sedgwick shall receive 5% of the Association's manual premiums. Additionally, Sedgwick will be compensated 25% of the savings generated by inpatient bills, the inpatient utilization review process and any reductions from the application of any fee schedules and negotiations generated from the cost containment program. The Association incurred \$228,412 in fees relating to this agreement in calendar year 2018.

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 did not approve any dividends to be released to members.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2018, the Association had a United States Treasury Note with a par value of \$254,000 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A.

EXCESS INSURANCE COVERAGE

The Association had both specific and aggregate excess insurance agreements in force at December 31, 2018, for claims incurred December 1, 2018 and prior with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$600,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000
Aggregate Excess	111% of normal premium subject to a minimum retention of \$9,461,066	\$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	\$6,137,556
Other invested assets	104,275
Cash on deposit	610,717
Interest due and accrued	35,268
Amounts recoverable on paid losses	120,619
Administrative fees receivable	29,623
Service agent's fees receivable	50,646
	<hr/>
Total assets	<u><u>\$7,088,704</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$5,985,084
Loss adjustment expenses unpaid	1,006,356
Contingency reserve	1,325,736
Taxes, licenses and fees payable	132,918
Dividends payable	988,082
Professional fees payable	18,500
Investment fees payable	4,000
Payroll audit fees payable	2,000
Funds held for others	767,293
	<hr/>
Total liabilities	\$10,229,969
Restricted members' equity	254,001
Unrestricted members' equity	(3,395,266)
	<hr/>
Total liabilities and members' equity	<u><u>\$7,088,704</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2018

UNDERWRITING INCOME

Premiums earned	<u>\$3,359,193</u>
Deductions:	
Losses incurred	\$1,695,149
Loss expenses incurred	837,430
Other underwriting expenses incurred	851,480
Contingency reserve	<u>100,378</u>
Total underwriting deductions	<u>\$3,484,437</u>
Net underwriting loss	<u>(\$125,244)</u>

INVESTMENT INCOME

Net investment income earned	\$155,907
Net realized capital losses	<u>(11,964)</u>
Net investment gain	<u>\$143,943</u>

OTHER INCOME

Dividends applied to deficit fund years	<u>\$1,381,000</u>
Net income before federal income taxes	\$1,399,699
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$1,399,699</u></u>

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

	<u>2017</u>	<u>2018</u>
Members' equity, previous year before undistributed dividends	* (\$658,050)	(\$2,091,222)
Adjustment for previous examination changes	223,131	
Net income (loss)	(434,833)	1,399,699
Net unrealized capital gains (losses)	2,137	(60,660)
Dividends paid to members	<u>(1,223,607)</u>	<u>(1,401,000)</u>
Restricted and unrestricted members' equity, end of year	(\$2,091,222)	(\$2,153,183)
Less: Restricted members' equity, end of year	<u>249,913</u>	<u>254,001</u>
Unrestricted members equity, end of year before undistributed dividends	(\$2,341,135)	(\$2,407,184)
Less: Dividends declared but unpaid	<u>2,389,082</u>	<u>988,082</u>
Unrestricted members' equity, end of year	<u><u>(\$4,730,217)</u></u>	<u><u>(\$3,395,266)</u></u>

* Adjusted members' equity from previous examination.

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

	All Other Fiscal Years Preceding 1982-2013	Forth Fiscal Year Preceding 2014/2015	Third Fiscal Year Preceding 2015/2016	Second Fiscal Year Preceding 2016/2017	First Fiscal Year Preceding 2017/2018	Partial Current Fiscal Year 7/1/18 -12/31/18	Total Inception to Date (1982-2018)
<u>Income Received</u>							
Premiums written	\$94,311,011	\$4,434,384	\$4,420,585	\$4,780,733	\$4,408,337	\$1,874,845	\$114,229,895
Less: Excess insurance	8,771,940	486,622	519,258	649,754	594,582	249,235	11,271,391
Net premiums written	\$85,539,071	\$3,947,762	\$3,901,327	\$4,130,979	\$3,813,755	\$1,625,610	\$102,958,504
Investment income	9,302,504	29,463	70,401	62,187	30,623	155,471	9,650,649
Allocation between years	78,962	684	2,999	8,523	52,164	(143,332)	0
Other	2,125,645	1,600,000	80,000	300,000	0	(57,069)	4,048,576
Total income collected	\$97,046,182	\$5,577,909	\$4,054,727	\$4,501,689	\$3,896,542	\$1,580,680	\$116,657,729
<u>Less: Expenses Paid</u>							
Losses paid	\$56,220,007	\$3,848,629	\$2,559,534	\$2,901,204	\$1,421,898	\$246,176	\$67,197,448
Allocated loss adjustment expenses paid	5,628,460	781,788	545,594	631,316	383,630	46,755	8,017,543
Administrative fees	7,848,964	402,119	431,284	441,223	443,586	150,329	9,717,505
Service agent's fees	5,429,382	268,790	287,523	294,148	295,723	128,782	6,704,348
Taxes, licenses, and fees	2,361,303	208,934	195,370	194,555	196,250	0	3,156,412
Other expenses	1,021,862	63,851	34,670	32,966	39,858	17,196	1,210,403
Total expenses	\$78,509,978	\$5,574,111	\$4,053,975	\$4,495,412	\$2,780,945	\$589,238	\$96,003,659
Net cash income	\$18,536,204	\$3,798	\$752	\$6,277	\$1,115,597	\$991,442	\$20,654,070
<u>Add: Receivables</u>							
Interest due and accrued Amounts recoverable on paid losses	17,913	155	680	1,933	11,833	2,754	35,268
Other	0	0	0	0	0	80,269	80,269
Total	\$138,532	\$155	\$680	\$1,933	\$11,833	\$83,023	\$236,156
<u>Deduct: Liabilities</u>							
Losses unpaid	\$948,042	\$633,593	\$496,742	\$861,658	\$1,033,310	\$2,011,739	\$5,985,084
Loss adjustment expenses	474,073	85,465	47,781	86,728	135,321	176,988	1,006,356
Contingency reserve	744,499	133,031	132,618	143,423	133,029	39,136	1,325,736
Taxes, licenses and fees payable	0	0	0	0	0	132,918	132,918
Other expenses payable	0	0	0	0	0	24,500	24,500
Total	\$2,166,614	\$852,089	\$677,141	\$1,091,809	\$1,301,660	\$2,385,281	\$8,474,594

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

	All Other Fiscal Years Preceding 1982-2013	Forth Fiscal Year Preceding 2014/2015	Third Fiscal Year Preceding 2015/2016	Second Fiscal Year Preceding 2016/2017	First Fiscal Year Preceding 2017/2018	Partial Current Fiscal Year 7/1/18 -12/31/18	Total Inception to Date (1982-2018)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$16,508,122	(\$848,136)	(\$675,709)	(\$1,083,599)	(\$174,230)	(\$1,310,816)	\$12,415,632
Less: Dividends paid inception to date by fiscal year	14,568,815	0	0	0	0	0	14,568,815
Less: Restricted Members' Equity by fiscal year	1	50,800	50,800	50,800	50,800	50,800	254,001
Unrestricted Members' Equity undistributed by fiscal year	\$1,939,306	(\$898,936)	(\$726,509)	(\$1,134,399)	(\$225,030)	(\$1,361,616)	(\$2,407,184)
Less: Dividends declared but unpaid	988,082	0	0	0	0	0	988,082
Unrestricted Members' Equity 12/31/18	<u>\$951,224 *</u>	<u>(\$898,936)</u>	<u>(\$726,509)</u>	<u>(\$1,134,399)</u>	<u>(\$225,030)</u>	<u>(\$1,361,616)</u>	<u>(\$3,395,266)</u>

* Although cumulative unrestricted members equity for the fiscal years 1982 - 2013 at December 31, 2018 was \$951,224, the 1983/1984, 1998/1999, 2007/2008, 2010/2011 2012/2013, 2013/2014, fiscal years had members' equity deficits of \$99, \$56,577, \$57,213, \$191,621, \$451,806, and \$434,746, respectively.

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

	<u>Amount Per Association</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Members' Equity</u>
<u>Assets:</u>			
Administrative fees receivable	\$0	\$29,623	\$29,623
Service agent's fees receivable	0	50,646	50,646
<u>Liabilities:</u>			
Losses unpaid	5,695,270	5,985,084	(289,814)
Loss adjustment expense unpaid	977,513	1,006,356	(28,843)
Contingency reserve	1,326,714	1,325,736	978
Taxes, licenses, and fees payable	200,000	132,918	67,082
Administrative fees payable	21,000	0	21,000
Professional fees payable	17,000	18,500	<u>(1,500)</u>
Examiners' changes in members' equity			<u><u>(\$150,828)</u></u>
Restricted and unrestricted members' equity per Association			(\$2,990,436)
Restricted and unrestricted members' equity per Examiners			<u>(3,141,264)</u>
Decrease in restricted and unrestricted members' equity			<u><u>(\$150,828)</u></u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflected members' equity deficits for the 1983/1984, 1998/1999, 2007/2008, 2010/2011, 2012/2013, 2013/2014, 2014/2015, 2015/2016, 2016/2017, 2017/2018, fiscal years and the 2018/2019 partial current fiscal year of \$99, \$56,577, \$57,213, \$191,621, \$451,806, \$434,746, \$898,936, \$726,508, \$1,134,399, \$225,029 and \$1,361,616, 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. Losses unpaid \$5,985,084

The above liability is \$289,814 more than the amount reported by the Association in its 2018 Annual Statement. The increase in losses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
2006/2007	\$31,817	\$102,003	\$70,186
2013/2014	288,625	357,688	69,063
2014/2015	633,593	784,158	<u>150,565</u>
Total Change			<u>\$289,814</u>

The Examiners' increase results from a development of losses paid and reserve changes occurring during the period January 1, 2019 through December 31, 2019 on claims incurred December 31, 2018 and prior. The Association should review its methodologies to ensure sufficient loss reserves are established in future filings with the Bureau.

3. Loss adjustment expenses unpaid \$1,006,356

The above liability is \$28,843 more than the amount reported by the Association in its 2018 Annual Statement. The increase in loss adjustment expenses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
2013/2014	\$34,789	\$63,632	<u>\$28,843</u>
Total Change			<u>\$28,843</u>

The Examiners' increase results from a development of loss adjustment expenses paid and reserve changes occurring during the period January 1, 2019 through December 31, 2019 on claims incurred December 31, 2018 and prior. The Association should review its methodologies to ensure sufficient loss adjustment expense reserves are established in future filings with the Bureau.

Payroll Audit Changes

The adjustments in the following recommendations were determined by utilizing each member's final 2018/2019 fiscal year payrolls which were not fully completed until after the Association's 2018 Annual Statement filing to the Bureau.

4. Administrative fees receivable \$29,623
Administrative fees payable \$0

The above asset and liability are \$29,623 more and \$21,000 less than the amounts reported by the Association in its 2018 Annual Statement. The Examiners' amount reflects administrative fees paid at December 31, 2018, less the amount owed at December 31, 2018 based on the Examiners' analysis of subsequent 2018/2019 member payroll audits.

5. Service agent's fees receivable \$50,646

The above asset is \$50,646 more than the amount reported by the Association in its 2018 Annual Statement. The Examiner's amount reflects service agent's fees paid at December 31, 2018, less the amount owed at December 31, 2018 based on the Examiner's analysis of subsequent 2018/2019 member payroll audits.

6. Contingency reserve \$1,325,736

The above liability is \$978 less than the amount reported by the Association in its 2018 Annual Statement. The Examiner's change is a result of a decrease in earned

premium based on a review of subsequent 2018/2019 member payroll audits, which is the basis for the calculation of contingency reserve.

7. Taxes, licenses, and fees payable \$132,918

The above liability is \$67,082 less 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 taxes pertaining to 2018.

8. Professional fees payable \$18,500

The above liability is \$1,500 more than the amount reported by the Association in its 2018 Annual Statement. The Examiner's amount is based on a review of invoices paid in 2019 for accounting and actuarial services pertaining to 2018.

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, Benjamin MacKercher, AFE, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Gerald Tyrone Hicks II". The signature is fluid and cursive, with a prominent initial "G" and a long, sweeping underline.

Gerald Tyrone Hicks II
Insurance Examiner

SCHOOL SYSTEMS OF VIRGINIA GROUP SELF INSURANCE ASSOCIATION
Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE

March 12, 2020

Mr. David H. Smith, CFE, CPCU
Chief Examiner
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23218

Dear Mr. Smith:


Enclosed are the responses to your recommendations for corrective action for School Systems of Virginia Group Self Insurance Association during the examination period of January 1, 2017 to December 31, 2018.

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

Sincerely,



D. Jackson Zimmermann
Chairman
Members' Supervisory Board
School Systems of Virginia
Group Self Insurance Association



Peggy DeBord, MBA, CPCU, CIC
Administrator
School Systems of Virginia
Group Self Insurance Association

Enclosures

Koger Building Suite 217 8001 Franklin Farms Drive
Richmond, Virginia 23229
(804) 285-8100 FAX (804) 285-3248

School Systems of Virginia 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. The IBNR number is unpredictable based on claims that change. The Association makes every effort to set reserves sufficiently, and has reminded our service company to do so.
3. 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. The IBNR number is unpredictable based on claims that change. The Association makes every effort to set reserves sufficiently.
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 audit information not available at the time the financial statement was filed.
7. 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.

8. 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.