

EXAMINATION REPORT
of
VIRGINIA CONTRACTORS
GROUP SELF-INSURANCE ASSOCIATION
ROANOKE, VIRGINIA
as of
DECEMBER 31, 2017

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 Virginia Contractors Group Self-Insurance Association as of December 31, 2017, 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 29th day of January 2019

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

DESCRIPTION.....1

HISTORY2

MANAGEMENT AND CONTROL2

TERRITORY AND PLAN OF OPERATION3

ADMINISTRATIVE AGREEMENT4

CLAIMS SERVICE AGREEMENT4

DIVIDENDS TO MEMBERS5

SPECIAL RESERVES AND DEPOSITS6

EXCESS INSURANCE COVERAGE6

FINANCIAL STATEMENTS7

RECOMMENDATIONS FOR CORRECTIVE ACTION14

ACKNOWLEDGEMENT17

Richmond, Virginia
October 26, 2018

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 CONTRACTORS
GROUP SELF-INSURANCE ASSOCIATION**

Roanoke, 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, 2017.

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 Association was licensed by the Bureau effective June 1, 1982. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage. According to the Articles of Association, the Association was formed for the following purposes:

- (a) To consider and deal by all lawful means with common problems involved in employee safety in the construction industry and to secure cooperative action in advancing common purposes of the members of the Association.
- (b) To qualify as a group self-insurance association with the goal of pooling the liabilities of its members which liabilities may arise under the Virginia Workers' Compensation Act. Such qualification shall be done in accordance with the applicable laws of the Commonwealth of Virginia as well as any rules or regulations adopted pursuant thereto.
- (c) To do anything necessary and proper for the accomplishment of any of the purposes set forth herein.

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 six nor more than nine board members of which three-fourths must be members of the Association. The Board shall elect a Chairman, a Vice-Chairman, a Secretary and any additional officers, as the Board deems necessary. The Board and officers were as follows at December 31, 2017:

<u>Representative</u>	<u>Member</u>
Michael R. Barr	SB Cox Demolition Richmond, Virginia
Charles G. Cary	Retired Richmond, Virginia
R. Dudley Harris	Bay Electric Company Newport News, Virginia
John M. Jordan, III	Hawkins-Graves, Inc. Lynchburg, Virginia

Alastair S. Macdonald	Bruce Corporation Yorktown, Virginia
Mark R. Pace	E.C. Pace Company, Inc. Roanoke, Virginia
Anthony D. Shultz	Nicholson Sprinkler Corporation Richmond, Virginia
Allen B. Whittle	Thor, Inc. Roanoke, Virginia
Wayne D. Witmer	Harman Construction, Inc. Harrisonburg, Virginia

Officers

Anthony D. Shultz	Chairman
Mark R. Pace	Vice-Chairman
John M. Jordon	Secretary

TERRITORY AND PLAN OF OPERATION

The operation of the Association is confined to Virginia where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Association is available to applicants engaged in a similar type of business upon the approval of the Board and the Bureau.

All members are required to enter into an indemnity agreement in which each member jointly and severally agrees to assume and discharge members' employers' liabilities and any and all members' liabilities covered under the Virginia Workers' Compensation Act. No formal insurance policy is issued to the members.

The Association has a contractual agreement with an administrator who shall administer and manage the affairs of the Association in accordance with the policies adopted and established by the Board. Claims are processed and paid by a service agent under a contractual agreement with the Association. The Association's operations are conducted on a fiscal year basis ending May 31.

ADMINISTRATIVE AGREEMENT

Effective June 1, 1984, the Association entered into an administrative agreement with Thomas Rutherford, Inc. ("Rutherford"). The initial term of this agreement was for a period of two years and shall be continued for additional two year periods thereafter unless written notice of intent to cancel is given no later than 60 days prior to the end of the contract period by either party.

According to the agreement, Rutherford shall advise the Board on policy matters and ensure that the provisions of the Association's contracts for services are met. Additionally, Rutherford shall establish and maintain a resident address for the Association; maintain a set of books; bill and collect all sums due the Association; pay all items of expense; invest the Association's fund surpluses as directed by the Board; properly account for all funds so handled to the Board annually; and perform other duties as directed.

As compensation for its services, Rutherford shall receive 11% of the normal premium collected. Total administrative fees expense for the calendar year 2017 was \$842,036.

CLAIMS SERVICE AGREEMENT

Effective June 1, 2011, the Association entered into a claims service agreement with Assurance Services Corporation ("ASC"). The Association may terminate the Agreement upon 90 days written notice; however ASC must give 180 days written notice to the Association if it intends to terminate the Agreement.

According to the agreement, ASC shall provide full claims handling and adjusting for all claims incurred during the period of this agreement until their conclusion, unless otherwise transferred; furnish full and complete monthly reports to the Association and member employers on injuries, including occupational diseases, and of all payments made and reserves set up for anticipated compensation and expenses of these injuries and diseases; provide risk control services to the Association's members; and prepare, on behalf of the Association and member employers, for all scheduled hearings before the Virginia Workers' Compensation Commission. Other services include supervision of the member payroll audit process, attendance at the Association's annual members' meeting, quarterly Board meetings and marketing workshops. As compensation for its services, Assurance Services shall receive 7.5% of the collected premium. Total claims service agent fee expense for calendar year 2017 was \$574,711.

Effective May 1, 2013, ASC entered into a third party claims administrative services agreement with PMA Management Corp. ("PMA") to provide full claims handling services previously provided to the Association by ASC. ASC compensates PMA for all services provided under the agreement.

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>October 26, 2016</u>	<u>September 12, 2017</u>
1985/1986	\$0	\$4,024
1994/1995	0	6,826
1995/1996	0	1,593
1999/2000	0	27,810
2003/2004	0	74,287
2004/2005	0	100,000
2005/2006	200,000	215,128
2006/2007	150,000	0
2008/2009	200,000	250,000
2010/2011	200,000	200,000
2012/2013	100,000	200,000
2013/2014	100,000	300,000
2015/2016	<u>0</u>	<u>250,000</u>
Total	<u>\$ 950,000*</u>	<u>\$ 1,629,668**</u>

*The approval in 2016 was contingent upon dividend funds totaling \$760,000 being reallocated to the 2011/2012 fiscal year for deficit reduction.

**The approval in 2017 was contingent upon dividend funds of \$1,129,688 being reallocated for deficit reduction, with \$7,833, \$200,000, and \$921,855 applied to the 2001/2002, 2007/2008, and 2011/2012 fiscal years, respectively.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2017, the Association had United States Government Agency obligations with a par value of \$1,000,000 on deposit with the Treasurer of Virginia in lieu of carrying aggregate excess insurance. Pursuant to 14 VAC 5-370-60 A, each group self-insurance association licensed by the Bureau shall maintain a security deposit of \$250,000. This requirement was met by a separate surety bond on deposit with the Treasurer of Virginia.

EXCESS INSURANCE COVERAGE

The Association had a specific excess insurance agreement in force at December 31, 2017, with the following limits:

	Association's <u>Retention</u>	Excess Insurer's <u>Limits</u>
Specific Excess	\$1,000,000 for each Accident or Disease	Workers' Compensation Statutory Employers' Liability \$1,000,000

The Association does not carry aggregate excess insurance because it has satisfied the requirement set forth in 14 VAC 5-370-90, which states, in part, that the Commission may release the Association from the aggregate excess insurance requirement if the deposit with the Treasurer of Virginia, as outlined above, is in an amount determined by the Commission to be adequate.

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association at December 31, 2017, a statement of income for the year ended December 31, 2014, a reconciliation of members' equity for the period under review, a statement of members' account by fiscal year inception to date and a statement of Examiners' changes in members' equity.

BALANCE SHEET
DECEMBER 31, 2017

ASSETS

Bonds, long term	\$11,150,808
Other invested assets	623,602
Cash on deposit	2,190,873
Deposit with service agent	707,943
Premiums receivable	466,446
Interest due and accrued	116,354
Amounts recoverable on paid losses	33,229
Income tax special deposit	605,686
Prepaid insurance	141,478
Prepaid service fees	58,719
Prepaid administrative fees	86,119
	<hr/>
Total assets	<u><u>\$16,181,257</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$10,318,552
Loss adjustment expenses unpaid	638,907
Contingency reserve	1,789,035
Unearned premiums	1,792,367
Excess insurance premiums payable	35,907
Premium refunds payable	279,556
Administrative fees payable	3,878
Service agent's fees payable	2,644
Taxes, licenses and fees payable	299,515
Federal income taxes payable	428,989
Dividends payable	6,468
	<hr/>
Total liabilities	\$15,595,818
Restricted members' equity	991,410
Unrestricted members' equity	(405,971)
	<hr/>
Total liabilities and members' equity	<u><u>\$16,181,257</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2017

UNDERWRITING INCOME

Premiums earned	<u>\$6,944,931</u>
Deductions:	
Losses incurred	\$3,544,236
Loss expenses incurred	986,275
Other underwriting expenses incurred	1,193,142
Contingency reserve	<u>71,916</u>
Total underwriting deductions	<u>\$5,795,569</u>
Net underwriting gain	<u>\$1,149,362</u>

INVESTMENT INCOME

Net investment income earned	\$403,316
Net realized capital losses	<u>(310,039)</u>
Net investment gain	<u>\$93,277</u>

OTHER INCOME

Bad debt recovery	\$4,444
Other income	<u>(1,800)</u>
Total other income	<u>\$2,644</u>
Net income before federal income taxes	\$1,245,283
Federal income taxes incurred	<u>444,500</u>
Net income	<u><u>\$800,783</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Members' equity, previous year before undistributed dividends	* (\$947,174)	\$672,334	\$152,698
Adjustment for previous examination changes	780,454		
Net income (loss)	995,457	(220,136)	800,783
Net unrealized capital gains (losses)	(156,403)	(110,105)	135,184
Dividends paid to members	<u>0</u>	<u>(189,395)</u>	<u>(496,758)</u>
Restricted and unrestricted members' equity, end of year	\$672,334	\$152,698	\$591,907
Less: Restricted members' equity, end of year	<u>992,316</u>	<u>992,910</u>	<u>991,410</u>
Unrestricted members equity, end of year before undistributed dividends	(\$319,982)	(\$840,212)	(\$399,503)
Less: Dividends declared but unpaid	<u>3,919</u>	<u>4,507</u>	<u>6,468</u>
Unrestricted members' equity, end of year	<u><u>(\$323,901)</u></u>	<u><u>(\$844,719)</u></u>	<u><u>(\$405,971)</u></u>

* Adjusted members' equity from previous examination.

Members' Account By Fiscal Year Inception to Date December 31, 2017

	All Other Fiscal Years Preceding 1982-2014	Third Fiscal Year Preceding 2014/2015	Second Fiscal Year Preceding 2015/2016	First Fiscal Year Preceding 2016/2017	Partial Current Fiscal Year 6/1/17-12/31/17	Total Inception to Date (1982-2017)
Income Received						
Premiums written	\$170,046,811	\$7,951,112	\$8,135,341	\$7,883,101	\$5,868,208	\$199,884,573
Less: Excess insurance	16,009,208	807,866	850,206	771,924	572,706	19,011,910
Net premiums written	\$154,037,603	\$7,143,246	\$7,285,135	\$7,111,177	\$5,295,502	\$180,872,663
Investment income	14,436,338	280,880	367,807	238,518	78,122	15,401,665
Allocation between years	616,141	(121,822)	(234,678)	(191,380)	(68,261)	0
Other	73,175	(4,117)	3,606	6,948	(498,070)	(418,458)
Total income collected	\$169,163,257	\$7,298,187	\$7,421,870	\$7,165,263	\$4,807,293	\$195,855,870
Less: Expenses Paid						
Losses paid	\$100,248,515	\$3,590,051	\$2,812,841	\$2,437,070	\$461,431	\$109,549,908
Allocated loss adjustment expenses paid	6,230,959	465,801	359,192	311,245	33,707	7,400,904
Administrative fees	18,104,314	861,822	892,406	866,339	569,852	21,294,733
Service agent's fees	12,405,442	587,421	608,675	590,655	388,536	14,580,729
Taxes, licenses, and fees	4,985,718	376,675	357,833	344,949	25,661	6,090,836
Federal income tax	330,477	133,305	186,628	6,463	9,048	665,921
Other expenses	752,315	15,295	48,298	15,516	15,516	846,940
Total expenses	\$143,057,740	\$6,030,370	\$5,265,873	\$4,572,237	\$1,503,751	\$160,429,971
Net cash income	\$26,105,517	\$1,267,817	\$2,155,997	\$2,593,026	\$3,303,542	\$35,425,899
Add: Receivables						
Premiums receivable	\$0	\$0	\$0	\$0	\$466,446	\$466,446
Interest due and accrued	49,683	11,333	18,442	22,212	14,684	116,354
Amounts recoverable on paid losses	33,229	0	0	0	0	33,229
Other	0	0	0	0	286,316	286,316
Total	\$82,912	\$11,333	\$18,442	\$22,212	\$767,446	\$902,345
Deduct: Liabilities						
Losses unpaid	\$3,456,499	\$1,340,975	\$1,143,420	\$2,577,497	\$1,800,161	\$10,318,552
Loss adjustment expenses	318,055	34,354	34,823	96,312	155,363	638,907
Contingency reserve	1,177,100	0	244,060	236,493	131,382	1,789,035
Unearned premiums	0	0	0	0	1,792,367	1,792,367
Excess insurance premiums payable	0	0	0	35,907	0	35,907
Premium refunds payable	0	0	0	0	279,556	279,556
Administrative fees payable	0	593	2,484	801	0	3,878
Service agent's fees payable	0	590	1,476	578	0	2,644
Taxes, licenses and fees payable	0	0	0	0	299,515	299,515
Federal income tax payable	0	0	0	178,745	250,244	428,989
Total	\$4,951,654	\$1,376,512	\$1,426,263	\$3,126,333	\$4,708,588	\$15,589,350

Members' Account By Fiscal Year Inception to Date December 31, 2017

	All Other Fiscal Years Preceding 1982-2014	Third Fiscal Year Preceding 2014/2015	Second Fiscal Year Preceding 2015/2016	First Fiscal Year Preceding 2016/2017	Partial Current Fiscal Year 6/1/17-12/31/17	Total Inception to Date (1982-2017)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$21,236,775	(\$97,362)	\$748,176	(\$511,095)	(\$637,600)	\$20,738,894
Less: Dividends paid inception to date by fiscal year	20,016,987	0	130,000	0	0	20,146,987
Dividend reallocations	120,000	0	(120,000)	0	0	0
Less: Restricted Members' Equity by fiscal year	<u>727,034</u>	<u>66,094</u>	<u>66,094</u>	<u>66,094</u>	<u>66,094</u>	<u>991,410</u>
Unrestricted Members' Equity undistributed by fiscal year	\$612,754	(\$163,456)	\$432,082	(\$577,189)	(\$703,694)	(\$399,503)
Less: Dividends declared but unpaid	<u>6,468</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,468</u>
Unrestricted Members' Equity 12/31/17	<u>\$606,286</u> *	<u>(\$163,456)</u>	<u>\$432,082</u>	<u>(\$577,189)</u>	<u>(\$703,694)</u>	<u>(\$405,971)</u>

*Although the cumulative unrestricted members' equity for the fiscal years 1982-2014 at December 31, 2017 was \$606,286, the 1990/1991, 1992/1993, 1993/1994, 1994/1995, 1996/1997, 1997/1998, 1998/1999, 2007/2008, 2009/2010, and 2011/2012 fiscal years had members' equity deficits of \$7,221, \$618, \$28, \$296, \$147,597, \$83,414, \$46,847, \$176,012, \$5,586, and \$498,642, respectively.

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2017

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$40,196	\$466,446	\$426,250
Prepaid insurance	134,350	141,478	7,128
Prepaid service fees	69,919	58,719	(11,200)
Prepaid administrative fees	102,547	86,119	(16,428)
<u>Liabilities:</u>			
Losses unpaid	9,940,229	10,318,552	(378,323)
Loss adjustment expenses unpaid	564,906	638,907	(74,001)
Contingency reserve	1,785,100	1,789,035	(3,935)
Unearned premiums	1,248,984	1,792,367	(543,383)
Premium refunds payable	409,319	279,556	129,763
Administrative fees payable	17,269	3,878	13,391
Service agent's fees payable	11,774	2,644	<u>9,130</u>
Examiners' changes in members' equity			<u><u>(\$441,608)</u></u>
Restricted and unrestricted members' equity per Association			\$1,027,047
Restricted and unrestricted members' equity per Examiners			<u>585,439</u>
Decrease in restricted and unrestricted members' equity			<u><u>(\$441,608)</u></u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

- The results of this examination reflect a members' equity deficit for the 1990/1991, 1992/1993, 1993/1994, 1994/1995, 1996/1997, 1997/1998, 1998/1999, 2007/2008, 2009/2010, 2011/2012, 2014/2015, 2016/2017 fiscal years and the 2017/2018 partial current fiscal year of \$7,221, \$618, \$28, \$296, \$147,597, \$83,414, \$46,847, \$176,012, \$5,586, \$498,642, \$163,456, \$577,189, and \$703,694, 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

- Prepaid insurance \$141,478

The above asset is \$7,128 more than the amount reported by the Association in its 2017 Annual Statement. The Examiners' amount reflects the unused portion of the Association's excess insurance and other insurance premiums paid in 2017, but applicable to policy periods ending in 2018.

- Losses unpaid \$10,318,552

The above liability is \$378,323 more than the amount reported by the Association in its 2017 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>
1990/1991	(\$7,240)	\$367	\$7,607
1996/1997	(77,969)	6,358	84,327
1998/1999	(5,423)	7,001	12,424
2004/2005	(1,478)	9,597	11,075
6/1/17 – 12/31/17	1,537,271	1,800,161	<u>262,890</u>
			<u>\$378,323</u>

The Examiners' increase results from a development of losses paid and reserve changes occurring during the period January 1, 2018 through September 30, 2018 on claims incurred December 31, 2017 and prior. The Association should review its methodologies to ensure sufficient loss reserves are established in future filings with the Bureau.

4. Loss adjustment expenses unpaid \$638,907

The above liability is \$74,001 more than the amount reported by the Association in its 2017 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>
2004/2005	1,483	8,132	6,649
6/1/17 – 12/31/17	88,011	155,363	<u>67,352</u>
			<u>\$74,001</u>

The Examiners' increase results from a development of loss adjustment expenses paid and reserve changes occurring during the period January 1, 2018 through September 30, 2018 on claims incurred December 31, 2017 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 2017/2018 fiscal year payrolls which were not fully completed until after the Association's 2017 Annual Statement filing to the Bureau.

5. Premiums receivable \$466,446
Premium refunds payable \$279,556

The above amounts have been increased and decreased \$426,250 and \$129,763, respectively. The Examiners' amounts are based on subsequent 2017/2018 fiscal year member payroll audits and reflect differences between audited contributions and contributions paid, prorated for the period June 1, 2017 through December 31, 2017.

6. Prepaid service fees \$58,719

The above asset is \$11,200 less than the amount reported by the Association in its 2017 Annual Statement. The Examiners' amount reflects claims service agent fees paid at December 31, 2017, less the amount owed at December 31, 2017 based on the Examiners' analysis of member payroll audits for the period under review and subsequent 2017/2018 fiscal year member payroll audits.

7. Prepaid administrative fees \$86,119

The above asset is \$16,428 less than the amount reported by the Association in its 2017 Annual Statement. The Examiners' amount reflects administrative fees paid at December 31, 2017, less the amount owed at December 31, 2017 based on the Examiners' analysis of member payroll audits for the period under review and subsequent 2017/2018 fiscal year member payroll audits.

8. Contingency reserve \$1,789,035

The above liability is \$3,935 more than the amount reported by the Association in its 2014 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of member payroll audits during the period under review and subsequent 2017/2018 fiscal year member payroll audits, which is the basis for the calculation of the contingency reserve.

9. Unearned premiums \$1,792,367

The above liability is \$543,383 more than the amount reported by the Association in its 2017 Annual Statement. The Examiners' amount reflects the estimated premiums received to date at December 31, 2017, less the amount earned at December 31, 2017 based on subsequent 2017/2012 fiscal year member payroll audits.

10. Administrative fees payable \$3,878

The above liability is \$13,391 less than the amount reported by the Association in its 2017 Annual Statement. The Examiners' amount reflects administrative fees paid at December 31, 2017, less the amount owed at December 31, 2017 based on the Examiners' analysis of member payroll audits for the period under review.

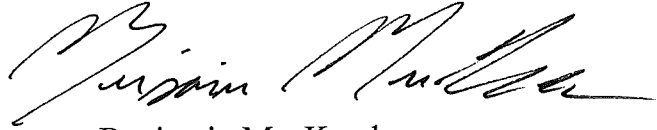
11. Service agent's fees payable \$2,644

The above liability is \$9,130 less than the amount reported by the Association in its 2017 Annual Statement. The Examiners' amount reflects service agent's fees paid at December 31, 2017, less the amount owed at December 31, 2017 based on the Examiners' analysis of member payroll audits for the period under review.

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 black ink, appearing to read "Benjamin MacKercher". The signature is fluid and cursive, with a long horizontal stroke at the end.

Benjamin MacKercher
Insurance Examiner



• *Building in Safety since 1982* •

STATE CORP COMMISSION
BUREAU OF INSURANCE
19 JAN 23 AM 8:56

January 17, 2019

Mr. David H. Smith
Chief Examiner
State Corporation Commission
Bureau of Insurance
P. O. Box 1157
Richmond, VA 23209

RE: Virginia Contractors Group Self-Insurance Association
Examination Report – December 31, 2017

Dear Mr. Smith,

Thank you for your letter of December 19, 2018 and the examination report as of December 31, 2017. Please provide ten copies of the report.

Below you will find our responses to the recommendations made. We will share this information with our CPAs, Brown, Edwards & Company. The responses are provided in the same numerical order as your recommendations.

- (1) We understand the requirement that the Board act responsibly to keep the Group financially sound.
- (2) The change on this item is a result of the examiner having the benefit of more complete information than was available at the time of the December 31, 2017 report filing.
- (3 & 4) The Administrator will review claims reserve methodologies with the claims manager.
- (5 – 11) The change on this item is a result of the examiner having the benefit of more complete information than was available at the time of the December 31, 2017 report filing.

Please advise if any additional information is necessary. Thank you.

Sincerely,

Robert D. Nave
Administrator

Enclosure

Cc: Mr. Anthony Shultz
Mr. Mark Wiseman, Brown, Edwards & Company