

**EXAMINATION REPORT**  
**of**  
**COMMONWEALTH CONTRACTORS**  
**GROUP SELF-INSURANCE ASSOCIATION**  
**MIDLOTHIAN, VIRGINIA**  
**as of**  
**DECEMBER 31, 2019**

# 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 Commonwealth Contractors Group Self-Insurance Association as of December 31, 2019, 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 23<sup>rd</sup> day of February 2021

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Scott A. White  
Commissioner of Insurance



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Richmond, Virginia  
December 18, 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:

**COMMONWEALTH CONTRACTORS  
GROUP SELF-INSURANCE ASSOCIATION**

Midlothian, 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, 2019.

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 April 23, 1981. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage.

According to its indemnity agreement and power of attorney, the Association was formed for the following purposes:

To provide for joint and cooperative action to self-insure and to pool their liabilities arising pursuant to the terms of the Virginia Workers' Compensation Act and for certain other types of employers' liabilities for the death or dismemberment of, or injury to, their employees.

### **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 four nor more than twelve board members, of which three-fourths must be members of the Association. Board members shall serve for a period of three years or until the members elect a successor. 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, 2019:

<u>Representative</u>	<u>Member</u>
Stanley V. Adams	Retired Midlothian, Virginia
Michael T. Boggs	Haley, Chisholm & Morris, Inc. Earlsville, Virginia
Wayne S. Boggs	Richmond Alarm Company Richmond, Virginia
Todd H. Johnson	Capitol City Roofing, Inc. Richmond, Virginia

Don M. Roberts

Shoreline Contractors, Inc.  
Virginia Beach, Virginia

Henry J. Zirkle

Richmond Steel, Inc.  
Midlothian, Virginia

#### Officers

Michael T. Boggs

Chairman

Henry J. Zirkle

Vice-Chairman

Wayne S. Boggs

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 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 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 March 31.

### **ADMINISTRATIVE AGREEMENT**

Effective April 1, 2017, the Association entered into an administrative agreement with Self-Insured Concepts, Inc. ("SIC"). The term of this agreement is for a period of seven years after which the agreement shall automatically renew for a three-year period followed by successive one-year periods. The agreement may be terminated prior to the termination date only upon written agreement by both parties or by the Association for cause as defined in the agreement. If the Association decides to terminate operations, SIC shall be paid a termination fee equal to the gross revenues of SIC for the 12 month period prior to the date of the decision to terminate. In exchange for such fee, SIC will actively manage the wind down of operations and continue to perform all customarily performed duties until advised otherwise by the Association.

According to the agreement, SIC shall advise the Board on policy matters and ensure that the provisions for the Association's contracts for services are met; maintain the books and records of the Association; collect, transfer, deposit and account for all Association funds in accordance with procedures established by the Board; maintain an office location for the Association; maintain a computer record system which shall contain up to date, complete and accurate records of the Association; provide billing and member maintenance services for the Association; invest the Association's fund surpluses as directed by the Board and provide other administrative services as required to operate the Association pursuant to the requirements of the Bureau.

As compensation for its services, SIC shall receive an annual fee equaling a percentage of earned premiums, as determined by member payroll audits for each fiscal year. The percentage of premium shall be as follows:

<u>Applicable Percentage</u>	<u>Amount of Audited Earned Premiums Per Fiscal Year</u>
7.5%	Up to \$10,000,000
4.0 %	On the next \$10,000,000
1.5 %	On all premiums above \$20,000,000

Until the final amount is established, SIC shall receive for the first six months of each fiscal year, one-twelfth of the estimated annual fee calculated on the initial estimated annual premium. For the last six months of each fiscal year, SIC shall receive one-twelfth of the estimated annual fee calculated on the estimated annual premium as of October 1<sup>st</sup>, which will reflect increases or decreases that have occurred during the first six months of the fiscal year. The total administrative fee for calendar year 2019 was \$1,260,883.

### **SERVICE AGREEMENT**

Effective April 1, 2019, the Association entered into a service agreement with Landin, Inc., ("Landin"). The initial term of this agreement is for a period of five years, after which the agreement shall automatically renew for successive one-year periods. The Association shall give Landin at least one fiscal year notice of its intent not to renew the agreement. In the event that the Association does not renew this agreement or terminates operations, Landin shall receive a termination fee of three percent of earned premium of the concluding fiscal year; however, such fee shall not exceed \$500,000 or be less than \$300,000.

Under the terms of the agreement, Landin shall provide handling of all claims in accordance with the requirements of 14 VAC 5-370-10 et seq.; act as underwriter for the

Association in the selection of new members; provide advice, service and assistance to the Association and its members in all matters related to safety, including member visits, safety seminars and training programs; and serve as advisor to the Board, including attending and reporting at all Board meetings.

As compensation for its services, Landin shall receive an annual fee equaling a percentage of audited premiums as follows:

<u>Applicable Percentage</u>	<u>Amount of Audited Premiums Collected During Fiscal Year</u>
6.5 %	Up to \$10,000,000
5.75%	On the next \$5,000,000
5.0 %	On the next \$5,000,000
4.25%	On the next \$5,000,000
3.5%	On all premiums above \$25,000,000

Until the final amount is established, Landin shall receive for the first six months of each fiscal year, one-twelfth of the estimated annual fee calculated on the initial estimated annual premium. For the last six months of each fiscal year, Landin shall receive one-twelfth of the estimated annual fee calculated on the estimated annual premium as of October 1<sup>st</sup>, which will reflect increases or decreases that have occurred during the first six months of the fiscal year. The total claims service agent fee for calendar year 2019 was \$1,342,312.

Additionally, 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 for fee schedule adjustment and 22% of the savings generated by performing this service and such payments are made directly to Metis from the Association. Landin is also designated Agent of Record for brokering the procurement of bonds, professional liability, excess insurance and other coverages purchased by the Association. The cost of the above coverages purchased on behalf of the Association shall be paid by the Association, however, any commissions received by Landin shall be retained by Landin.

Further, Landin is granted the non-exclusive right to market membership in the Association to eligible employers. Such marketing activities include sales presentations to agents/producers; production of marketing materials; coordination and preparation of



advertising; newsletter production; and preparation for and conducting Board Marketing Committee meetings. As compensation for its services, Landin shall receive a monthly commission of 9.5% of all contributions collected during the preceding month from members generated by Landin or any Landin producer. At the end of each fiscal year and subsequent to completion of the member payroll audits, Landin's commission will be adjusted to maintain an effective override percentage of 1.5%. Advertising and marketing expenses associated with the above are the responsibility of Landin unless otherwise agreed.

### **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 which were paid or are payable to the Association's members at December 31, 2019:

<u>Fiscal Year</u>	<u>Dec. 30, 2015</u>	<u>Dec. 14, 2016</u>	<u>Dec. 18, 2017</u>	<u>Dec. 28, 2018</u>	<u>Dec. 31, 2019</u>
1987/1988	\$0	\$0	\$0	\$0	\$181,627
1989/1990	0	0	0	0	4,912
1990/1991	0	0	0	0	207,097
1991/1992	0	0	0	0	274,588
1994/1995	150,000	0	0	0	0
2001/2002	50,000	0	50,000	0	0
2002/2003	100,000	100,000	100,000	100,000	100,000
2003/2004	200,000	300,000	100,000	100,000	100,000
2004/2005	200,000	300,000	175,000	150,000	150,000
2005/2006	100,000	200,000	100,000	100,000	100,000
2006/2007	200,000	300,000	100,000	150,000	175,000
2007/2008	400,000	400,000	100,000	150,000	175,000
2008/2009	150,000	100,000	100,000	100,000	150,000
2009/2010	0	0	75,000	100,000	75,000
2010/2011	100,000	100,000	11,983	0	0
2012/2013	100,000	300,000	150,000	150,000	200,000
2015/2016	0	100,000	100,000	100,000	300,000
2017/2018	0	0	0	0	400,000
Total	<u>\$1,750,000</u>	<u>\$2,200,000</u>	<u>\$1,161,983</u>	<u>\$1,200,000</u>	<u>\$2,593,224</u>

### **SPECIAL RESERVES AND DEPOSITS**

At December 31, 2019, the Association had United States Treasury obligations with a total par value of \$1,262,555 on deposit with the Treasurer of Virginia and reported within the Association's investments and restricted members' equity. 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. An additional \$1,000,000 deposit was required in lieu of carrying aggregate excess insurance and the remaining \$12,555 was voluntarily contributed by the Association.

Additionally, the Association had a United States Treasury obligation with a par value of \$600,000 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 an excess insurance agreement in force at December 31, 2019, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$2,000,000 for each accident and each employee for 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 excess insurance requirement if the contingency reserve established by the Association 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, 2019, a statement of income for the year ended December 31, 2019, 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, 2019**

**ASSETS**

Bonds, short-term	\$965,457
Bonds, long-term	61,782,837
Other invested assets	12,602,056
Cash on deposit	223,470
Deposit with service agent	1,110,837
Premiums receivable	2,294,229
Interest due and accrued	429,188
Amounts recoverable on paid losses	711,315
Prepaid excess insurance premiums	345,563
Prepaid agent commissions	297,944
Income tax receivable	515,636
	<hr/>
Total assets	<u><u>\$81,278,532</u></u>

**LIABILITIES AND MEMBERS' EQUITY**

Losses unpaid	\$39,765,646
Loss adjustment expenses unpaid	1,934,363
Contingency reserve	4,821,457
Unearned premiums	3,454,388
Excess insurance premiums payable	0
Premium refunds payable	1,249,666
Administrative fees payable	240,513
Service agent's fees payable	129,845
Taxes, licenses and fees payable	700,000
Dividends payable	2,382,623
Professional fees payable	50,000
Payroll audit fees payable	140,000
Investment fees payable	31,260
	<hr/>
Total liabilities	\$54,899,761
Restricted members' equity	7,096,527
Unrestricted members' equity	19,282,244
	<hr/>
Total liabilities and members' equity	<u><u>\$81,278,532</u></u>

**STATEMENT OF INCOME**  
**FOR YEAR ENDED DECEMBER 31, 2019**

**UNDERWRITING INCOME**

Premiums earned	<u>\$26,663,739</u>
Deductions:	
Losses incurred	\$16,990,611
Loss expenses incurred	1,474,654
Other underwriting expenses incurred	5,996,144
Contingency reserve	<u>79,674</u>
Total underwriting deductions	<u>\$24,541,083</u>
Net underwriting gain	<u>\$2,122,656</u>

**INVESTMENT INCOME**

Net investment income earned	\$1,920,607
Net realized capital losses	<u>(473,429)</u>
Net investment gain	<u>\$1,447,178</u>

**OTHER INCOME**

Late fees/other	\$21,795
Dividends applied to deficit fund years	<u>210,601</u>
Total other income	<u>\$232,396</u>
Net income before federal income taxes incurred	\$3,802,230
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$3,802,230</u></u>

**RECONCILIATION OF MEMBERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Member's equity, previous year before undistributed dividends	* \$21,010,057	\$20,424,374	\$20,445,947	\$21,543,168	\$23,674,375
Adjustment for previous examination changes	(1,398,354)				
Net income	2,555,385	2,305,857	2,945,078	4,125,454	3,802,230
Net unrealized capital gains or (losses)	(142,714)	(534,284)	352,143	(832,264)	2,695,390
Dividends paid to members	<u>(1,600,000)</u>	<u>(1,750,000)</u>	<u>(2,200,000)</u>	<u>(1,161,983)</u>	<u>(1,410,601)</u>
Restricted and unrestricted members' equity, end of year	\$20,424,374	\$20,445,947	\$21,543,168	\$23,674,375	\$28,761,394
Less: Restricted members' equity, end of year	<u>7,193,899</u>	<u>7,136,621</u>	<u>7,112,322</u>	<u>8,158,966</u>	<u>7,096,527</u>
Unrestricted members' equity, end of year before undistributed dividends	\$13,230,475	\$13,309,326	\$14,430,846	\$15,515,409	\$21,664,867
Less: Dividends declared but unpaid	<u>1,750,000</u>	<u>2,200,000</u>	<u>1,161,983</u>	<u>1,200,000</u>	<u>2,382,623</u>
Unrestricted members' equity, end of year	<u>\$11,480,475</u>	<u>\$11,109,326</u>	<u>\$13,268,863</u>	<u>\$14,315,409</u>	<u>\$19,282,244</u>

\* - Adjusted members' equity from previous examination

**Members' Account By Fiscal Year Inception to Date December 31, 2019**

	All Other Fiscal Years Preceding 1981-2014	Fifth Fiscal Year Preceding 2014/2015	Fourth Fiscal Year Preceding 2015/2016	Third Fiscal Year Preceding 2016/2017	Second Fiscal Year Preceding 2017/2018	First Fiscal Year Preceding 2018/2019	Partial Current Fiscal Year 4/1/19-12/31/19	Total Inception to Date (1981-2019)
<b>Income Received</b>								
Premiums written	\$540,849,343	\$24,807,260	\$26,844,698	\$28,706,829	\$28,862,563	\$27,930,563	\$23,042,765	\$701,044,021
Less: Excess insurance	41,085,170	1,691,855	1,742,911	1,898,732	1,939,475	1,788,505	1,696,005	51,842,653
Net premiums written	\$499,764,173	\$23,115,405	\$25,101,787	\$26,808,097	\$26,923,088	\$26,142,058	\$21,346,760	\$649,201,368
Investment income	50,355,179	504,199	554,458	425,977	309,463	113,354	1,579,000	53,841,630
(Allocation between years)	717,490	48,509	96,058	91,622	205,572	232,902	(1,392,153)	0
Other	7,396,038	39,212	61,586	39,189	23,759	24,563	1,509,152	9,093,499
Total income collected	\$558,232,880	\$23,707,325	\$25,813,889	\$27,364,885	\$27,461,882	\$26,512,877	\$23,042,759	\$712,136,497
<b>Less: Expenses Paid</b>								
Losses paid (less recoveries)	\$314,529,753	\$14,265,099	\$14,484,818	\$15,793,046	\$11,002,392	\$11,551,079	\$1,694,406	\$383,320,593
Allocated loss adjustment expenses paid	13,492,540	1,025,966	702,888	716,278	609,397	508,470	53,753	17,109,292
Administrative fees	19,425,327	1,222,108	1,252,805	1,284,592	1,283,585	1,270,871	893,026	26,632,314
Service agent's fees	31,422,797	1,391,808	1,478,400	1,568,844	1,565,991	1,529,970	1,037,074	39,994,884
Taxes, licenses and fees	12,684,869	905,452	877,549	892,186	980,506	692,042	0	17,032,604
Federal income tax	16,340,788	0	0	0	0	325,000	515,636	17,181,424
Other expenses	52,672,152	2,661,589	2,790,035	3,145,528	3,048,626	3,046,595	2,293,229	69,657,754
Total expenses	\$460,568,226	\$21,472,022	\$21,586,495	\$23,400,474	\$18,490,497	\$18,924,027	\$6,487,124	\$570,928,865
Net cash income	\$97,664,654	\$2,235,303	\$4,227,394	\$3,964,411	\$8,971,385	\$7,588,850	\$16,555,635	\$141,207,632
<b>Add: Receivables</b>								
Premiums receivable	\$0	\$0	\$0	\$0	\$0	\$0	\$2,294,229	\$2,294,229
Interest due and accrued	191,509	13,383	26,501	25,277	56,715	64,255	51,548	429,188
Amounts recoverable on paid losses	276,341	0	434,974	0	0	0	0	711,315
Other	0	0	0	0	0	0	1,159,143	1,159,143
Total	\$467,850	\$13,383	\$461,475	\$25,277	\$56,715	\$64,255	\$3,504,920	\$4,593,875
<b>Deduct: Liabilities</b>								
Losses unpaid	\$6,540,374	\$1,460,695	\$1,164,766	\$3,986,574	\$3,600,077	\$8,681,467	\$14,331,693	\$39,765,646
Loss adjustment expenses	324,702	68,842	44,574	154,661	151,594	524,937	665,053	1,934,363
Contingency reserve	562,057	301,409	805,341	861,205	865,878	837,916	587,651	4,821,457
Unearned premiums	0	0	0	0	0	0	3,454,388	3,454,388
Premium refunds payable	0	0	0	0	0	0	1,249,666	1,249,666
Administrative fees payable	0	0	0	0	0	0	240,513	240,513
Service agent's fees payable	0	0	0	0	0	0	129,845	129,845
Taxes, licenses and fees payable	0	0	0	0	0	0	700,000	700,000
Other expenses payable	0	0	0	0	0	0	221,260	221,260
Total	\$7,427,133	\$1,830,946	\$2,014,681	\$5,002,440	\$4,617,549	\$10,044,320	\$21,580,069	\$52,517,138

**Members' Account By Fiscal Year Inception to Date December 31, 2019**

	All Other Fiscal Years Preceding 1981-2014	Fifth Fiscal Year Preceding 2014/2015	Fourth Fiscal Year Preceding 2015/2016	Third Fiscal Year Preceding 2016/2017	Second Fiscal Year Preceding 2017/2018	First Fiscal Year Preceding 2018/2019	Partial Current Fiscal Year 4/1/19-12/31/19	Total Inception to Date (1981-2019)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$90,705,371	\$417,740	\$2,674,188	(\$1,012,752)	\$4,410,551	(\$2,391,215)	(\$1,519,514)	\$93,284,369
Less: Dividends paid inception to date by fiscal year	64,222,975	0	300,000	0	0	0	0	64,522,975
Less: Restricted Members' Equity by fiscal year	166,610	37,144	79,368	150,567	141,107	273,572	414,187	1,262,555
Less: Board Discretionary Fund	5,806,442	27,530	0	0	0	0	0	5,833,972
Unrestricted Members' Equity undistributed by fiscal year	\$20,509,344	\$353,066	\$2,294,820	(\$1,163,319)	\$4,269,444	(\$2,664,787)	(\$1,933,701)	\$21,664,867
Less: Dividends declared but unpaid	1,682,623	0	300,000	0	400,000	0	0	2,382,623
Unrestricted Members' Equity 12/31/19	<u>\$18,826,721 *</u>	<u>\$353,066</u>	<u>\$1,994,820</u>	<u>(\$1,163,319)</u>	<u>\$3,869,444</u>	<u>(\$2,664,787)</u>	<u>(\$1,933,701)</u>	<u>\$19,282,244</u>

\*Although the cumulative unrestricted members' equity for the fiscal years 1981-2014 at December 31, 2019 was \$18,826,721, the 2011/2012 and 2013/2014 fiscal years had members' equity deficits of \$689,469 and \$746,165, respectively.



**STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY**  
**DECEMBER 31, 2019**

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
Assets:			
Premiums receivable	\$0	\$2,294,229	\$2,294,229
Prepaid excess insurance premiums	424,001	345,563	(78,438)
Prepaid agent commissions	325,000	297,944	(27,056)
Liabilities:			
Contingency reserve	4,785,056	4,821,457	(36,401)
Unearned premiums	4,667,765	3,454,388	1,213,377
Excess insurance premiums payable	98,330	0	98,330
Premium refunds payable	0	1,249,666	(1,249,666)
Administrative fees payable	191,975	240,513	(48,538)
Service agent's fees payable	69,176	129,845	(60,669)
Investment fees payable	25,000	31,260	(6,260)
Examiners' changes in members' equity			<u>\$2,098,908</u>
Restricted and unrestricted members' equity per Association			\$24,279,863
Restricted and unrestricted members' equity per Examiners			<u>26,378,771</u>
Increase in unrestricted members' equity			<u><u>\$2,098,908</u></u>

## RECOMMENDATIONS FOR CORRECTIVE ACTION

### Management and Control

1. The results of this examination reflect an Unrestricted members' equity deficit for the 2011/2012, 2013/2014, 2016/2017, 2018/2019 and 2019/2020 fiscal years of \$689,469, \$746,165, \$1,163,319, \$2,664,787 and \$1,933,701 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. Investment fees payable \$31,260

The above liability is \$6,260 more than the amount reported by the Association in its 2019 Annual Statement. The Examiner's amount is based on a review of invoices paid in 2020 for investment services pertaining to 2019.

### Payroll Audit Changes

3. Premiums receivable \$2,294,229  
Premium refunds payable \$1,249,666

The above amounts have been increased by \$2,294,229 and \$1,249,666, respectively. The Examiner's amounts are based on subsequent 2019/2020 fiscal year member payroll audits and reflect differences in audited contributions and contributions paid prorated for the period of April 1, 2019 through December 31, 2019.

4. Prepaid excess insurance premiums \$345,563  
Excess insurance premiums payable \$0

The above amounts have been decreased by \$78,438 and \$98,330, respectively. The Examiner's amounts reflect the unused portion of the Association's excess insurance premiums paid in 2019, but applicable to the policy period ending March 31, 2020. Additionally, the Examiner's amount reflects the increase in earned premium based on a review of subsequent 2019/2020 fiscal year member payroll audits.

5. Prepaid agent commissions \$297,944

The above asset is \$27,056 less than the amount reported by the Association in its 2019 Annual Statement. The Examiners' amount is based on subsequent 2019/2020 fiscal year member payroll audits and reflects the differences between the fees owed for the period April 1 through December 31, 2019, and the amounts actually paid at December 31, 2019.

6. Contingency reserve \$4,821,457

The above liability is \$36,401 more than the amount reported by the Association in its 2019 Annual Statement. The Examiner's change is a result of an increase in earned premium based on a review of subsequent 2019/2020 fiscal year member payroll audits, which is the basis for the calculation of the contingency reserve.

7. Unearned premiums \$3,454,388

The above liability is \$1,213,377 less than the amount reported by the Association in its 2019 Annual Statement. The Examiner's amount reflects the estimated premiums received to date at December 31, 2019, less the amount earned at December 31, 2019 based on subsequent 2019/2020 fiscal year member payroll audits.

8. Administrative fees payable \$240,513

The above liability is \$48,538 more than the amount reported by the Association in its 2019 Annual Statement. The Examiners' amount is based on subsequent 2019/2020 fiscal year member payroll audits and reflects the differences between the fees owed for the period April 1 through December 31, 2019, and the amounts actually paid at December 31, 2019.

9. Service agent's fees payable \$129,845

The above liability is \$60,669 more than the amount reported by the Association in its 2019 Annual Statement. The Examiners' amount is based on subsequent 2019/2020 fiscal year member payroll audits and reflects the differences between the fees owed for the period April 1 through December 31, 2019, and the amounts actually paid at December 31, 2019.

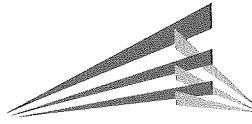
**ACKNOWLEDGMENT**

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, AFE, participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Benjamin B. MacKercher", written over a horizontal dashed line.

Benjamin B. MacKercher, CFE  
Insurance Examiner



COMMONWEALTH STATE CORP. COMMISSION  
CONTRACTORS 2021 FEB 22 AM 9:10

GSIA

BUREAU OF INSURANCE

February 15, 2021

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

Re: Commonwealth Contractors Group Self-Insurance Association  
Examination Report as of December 31, 2019

Dear Mr. Smith:

In reference to your letter of January 22, 2021, included below are the Association's responses to the Examiners "Recommendations for Corrective Action" found on pages 15 through 16 of the examination report.

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 that was not available at the time the financial statement was filed.

Payroll Audit Changes

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

I trust the above comments adequately address the Examiners' recommendations for corrective action, however, should you require additional information, we would be happy to provide it.

Please provide three (3) copies of the final Examination Report.

Sincerely,



Michael T. Boggs, Chairman  
Commonwealth Contractors GSIA

MTB/fej