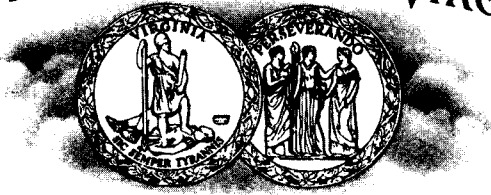


EXAMINATION REPORT
of
WOOD PRODUCTS OF VIRGINIA
GROUP SELF-INSURANCE ASSOCIATION
RICHMOND, VIRGINIA
as of
DECEMBER 31, 2007

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.scc.virginia.gov/division/boi>

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Wood Products of Virginia Group Self-Insurance Association as of December 31, 2007, 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 10th day of April, 2009

Alfred W. Gross
Commissioner of Insurance

(SEAL)

TABLE OF CONTENTS

DESCRIPTION..... 1

HISTORY 1

MANAGEMENT AND CONTROL 2

TERRITORY AND PLAN OF OPERATION 3

ADMINISTRATIVE AGREEMENT..... 3

CLAIMS CONSULTING SERVICE AGREEMENT..... 4

CLAIMS SERVICE AGREEMENT 4

DIVIDENDS TO MEMBERS 5

FIDELITY BOND COVERAGE..... 5

SPECIAL RESERVES AND DEPOSITS 5

EXCESS INSURANCE COVERAGE 6

SCOPE 7

FINANCIAL STATEMENTS 8

RECOMMENDATIONS FOR CORRECTIVE ACTION 15

SUBSEQUENT EVENT..... 17

CONCLUSION..... 18

Richmond, Virginia
December 16, 2008

Honorable Alfred W. Gross
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:

**WOOD PRODUCTS 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.

DESCRIPTION

The Association is a group self-insurance association licensed to provide workers' compensation coverage and employers' liability coverage to its members pursuant to Section 65.2-802 of the Code of Virginia and 14 VAC 5-370-10 et seq. (Rules Governing Group Self-Insurers of Liability Under the Virginia Workers' Compensation Act) promulgated by the State Corporation Commission (the "Commission").

The Association was last examined by representatives of the Commission's Bureau of Insurance (the "Bureau") as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007.

HISTORY

The Association was licensed by the Bureau effective March 1, 1982. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage.

According to its indemnity agreement, the Association was formed to allow members to self-insure and to pool their separate liabilities arising pursuant to the terms of the Virginia Workers' Compensation Act and for certain other types of employers' liabilities

MANAGEMENT AND CONTROL

Control of the Association is vested in a Members' Supervisory Board (the "Board") elected by the members of the Association. The by-laws provide for no less than three nor more than eleven board members of which three-fourths of whom must be members in good standing of the Association.

The Board and officers were as follows at December 31, 2007:

Board

<u>Representative</u>	<u>Member</u>
Robert P. Ball	Middleburg Millwork, Inc. Middleburg, Virginia
John J. Ferguson, Jr.	Ferguson Land and Lumber Company Rocky Mount, Virginia
Bobby J. Harris	Old Dominion Wood Products Lynchburg, Virginia
Keith L. Mileski	Padgett Manufacturing Company, Inc. Bridgewater, Virginia
John S. Purcell	J. S. Purcell Lumber Company Louisa, Virginia
Marijo E. Wood	Neff Lumber Mills, Inc. Broadway, VA

Officers

Bobby J. Harris	Chairman
John S. Purcell	Vice-Chairman
Marijo E. Wood	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 employers 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 calendar year basis.

ADMINISTRATIVE AGREEMENT

Effective January 1, 1996, the Association entered into an administrative agreement with Self-Insurance Services, LLC, ("SIS"). The original term of this agreement was for a period of 8 months and the agreement continued thereafter subject to termination by either party upon 90 days advance written notice.

According to the agreement, SIS shall administer the financial affairs of the Association as established and adopted by the Board; advise the board on policy matters; contract with a service agent, attorneys, accountants and other advisors and consultants; set up policies and maintain a set of books and records; collect all sums due the Association; pay all items of expense; direct the solicitation and enrollment of new members; file necessary reports; and conduct other managerial duties as may be mutually agreed upon.

As compensation for its services, SIS shall receive 7.5% of all members' contributions calculated under provisions of 14 VAC 5-370-110 without reduction as a result of premium discounts, experience ratings, deviations or other adjustments.

CLAIMS CONSULTING SERVICE AGREEMENT

Effective January 1, 1994, the Association entered into a claims consulting service agreement with SIS. The agreement is subject to termination by either party upon 60 days advance written notice. According to this 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 the settlement of claims.

As compensation, the Association shall pay SIS $\frac{1}{2}$ 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.

CLAIMS SERVICE AGREEMENT

Effective January 1, 1998, the Association entered into a claims service agreement with Trigon Administrators, Inc., currently known as Sedgwick CMS ("Sedgwick"). The original term of the agreement was for a period of 12 months and the agreement shall automatically renew for additional one-year terms unless either party provides 60 days advance written notice of its intent to non-renew or renegotiate any portion of the agreement.

Under the terms of the agreement, Sedgwick will handle all aspects of the management of claims for the life of the claim including the following: claims counseling; loss control services; furnishing monthly reports; medical cost containment services; and other miscellaneous claims-related services.

As compensation for its services, Sedgwick shall receive 6% of manual premiums. Additionally, Sedgwick will be compensated 25% of the savings generated by inpatient bill audits, the inpatient utilization review process and any reductions from the application of any fee schedules and negotiations generated from the cost containment program.

DIVIDENDS TO MEMBERS

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

<u>Plan Year</u>	<u>Approval Date</u>
	<u>October 24, 2007</u>
1991	\$ 6,891
1993	25,435
1995	10,000
1996	50,000
1997	10,000
1998	50,000
2000	100,000
2001	200,000
2006	<u>69,173</u>
Total	\$ <u>521,499*</u>

*The dividend was subject to the condition that \$409,332 of the approved amount be used for deficit reduction and \$112,167 be disbursed to the membership.

FIDELITY BOND COVERAGE

At December 31, 2007, the Association was listed as a named insured on a fidelity bond with a \$100,000 limit of liability to insure against losses arising from dishonest acts of its administrator and employees.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2007, the Association had a United States Treasury Note with a par value of \$300,000 on deposit with the Treasurer of Virginia as required by 14 VAC 5-370-60 A.

EXCESS INSURANCE COVERAGE

The Association had both specific excess and aggregate excess insurance agreements in force at December 31, 2007, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limit</u>
Specific Excess	\$600,000 maximum for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$600,000
Aggregate Excess	142.69% of normal premium subject to a minimum retention of \$3,927,090 Aggregate loss limitation \$500,000 for each accident and each employee for disease	\$1,000,000

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period January 1, 2005 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet had a medium or low risk assessment as determined from the principles of the risk-based examination approach contained in the NAIC Financial Condition Examiners Handbook. Analytical review procedures were applied to non-material items.

In addition, the following matters were reviewed, several of which are discussed separately under their respective captions in the report:

History
Management and Control
Territory and Plan of Operation
Administrative Agreement
Claims Consulting Service Agreement
Claims Service Agreement
Dividends to Members
Fidelity Bond Coverage
Special Reserves and Deposits
Excess Insurance Coverage
Financial Statements

FINANCIAL STATEMENTS

There follows a statement reflecting the financial condition of the Association at December 31, 2007, a statement of income for the year ended December 31, 2007, 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, 2007

ASSETS

Bonds, long term	\$4,440,644
Other invested assets	191,055
Cash on deposit	225,496
Premiums receivable	123,191
Interest due and accrued	58,748
Amounts recoverable on paid losses	27,310
Other receivables	5,193
Prepaid administrative fees	14,114
Prepaid excess insurance	31,285
Prepaid service agent's fees	10,515
	<hr/>
Total assets	<u><u>\$5,127,551</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$3,018,579
Loss adjustment expenses unpaid	115,987
Contingency reserve	740,593
Unearned premiums	568,536
Premium refunds payable	183,199
Taxes, licenses and fees payable	47,827
Dividends payable	182,730
Payroll audit fees payable	10,200
Professional fees payable	13,125
Investment fees payable	1,300
	<hr/>
Total liabilities	<u>\$4,882,076</u>
Restricted members' equity	\$309,585
Unrestricted members' equity	(64,110)
	<hr/>
Total liabilities and members' equity	<u><u>\$5,127,551</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2007

UNDERWRITING INCOME

Premiums earned	<u>\$1,867,334</u>
Deductions:	
Losses incurred	\$1,427,555
Loss expenses incurred	85,345
Other underwriting expenses incurred	450,878
Contingency reserve	<u>63,488</u>
Total underwriting deductions	<u>\$2,027,266</u>
Net underwriting loss	<u>(\$159,932)</u>

INVESTMENT INCOME

Net investment income earned	\$216,662
Net realized capital losses	<u>(5,830)</u>
Net investment gain	<u>\$210,832</u>

OTHER INCOME

Dividends paid applied to deficit fund years	<u>\$824,379</u>
Total other income	<u>\$824,379</u>
Net income before federal income taxes	\$875,279
Federal income taxes incurred	<u>0</u>
Net income	<u><u>\$875,279</u></u>

RECONCILIATION OF MEMBERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Members' equity, previous year before undistributed dividends	* (\$898,905)	(\$452,179)	\$385,013
Adjustment for previous examination changes	20,782		
Net income	540,163	832,944	875,279
Net unrealized capital gain or (loss)	(44,021)	4,248	99,883
Dividends paid to members	<u>(70,198)</u>	<u>0</u>	<u>(931,970)</u>
Restricted and unrestricted members' equity, end of year	(\$452,179)	\$385,013	\$428,205
Less: Restricted members' equity, end of year	<u>298,431</u>	<u>295,359</u>	<u>309,585</u>
Unrestricted members' equity, end of year before undistributed dividends	(\$750,610)	\$89,654	\$118,620
Less: Dividends declared but unpaid	<u>593,201</u>	<u>593,201</u>	<u>182,730</u>
Unrestricted members' equity, end of year	<u><u>(\$1,343,811)</u></u>	<u><u>(\$503,547)</u></u>	<u><u>(\$64,110)</u></u>

* Adjusted members' equity from previous examination.

Members' Account By Fiscal Year Inception to Date December 31, 2007

	All Other Fiscal Years Preceding 1982-2003	Third Fiscal Year Preceding 2004	Second Fiscal Year Preceding 2005	First Fiscal Year Preceding 2006	Current Calendar Year 2007	Total Inception to Date (1982-2007)
<u>Income Received</u>						
Premiums written	\$36,296,705	\$2,416,501	\$2,512,435	\$2,315,898	\$2,850,814	\$46,392,353
Less: Excess insurance	5,033,900	345,076	345,688	310,332	312,850	6,347,846
Net premiums written	\$31,262,805	\$2,071,425	\$2,166,747	\$2,005,566	\$2,537,964	\$40,044,507
Investment income	4,046,798	48,420	69,539	29,793	206,346	4,400,896
Allocation between years	78,308	0	31,931	62,596	(172,835)	0
Other	695,454	800,000	0	0	47,021	1,542,475
Total income collected	\$36,083,365	\$2,919,845	\$2,268,217	\$2,097,955	\$2,618,496	\$45,987,878
<u>Less: Expenses Paid</u>						
Losses paid	\$18,787,427	\$2,382,094	\$1,022,551	\$471,371	\$539,347	\$23,202,790
Allocated loss adjustment expenses paid	674,606	83,355	29,799	6,195	835	794,790
Administrative fees	3,125,485	214,364	222,812	209,606	227,343	3,999,610
Service agent's fees	2,412,982	160,773	167,109	157,204	170,508	3,068,576
Taxes, licenses, and fees	527,095	62,084	40,030	49,651	0	678,860
Federal income tax	188,240	0	0	0	0	188,240
Other expenses	1,067,156	48,453	39,967	44,676	24,224	1,224,476
Total expenses	\$26,782,991	\$2,951,123	\$1,522,268	\$938,703	\$962,257	\$33,157,342
Net cash income	\$9,300,374	(\$31,278)	\$745,949	\$1,159,252	\$1,656,239	\$12,830,536
<u>Add: Receivables</u>						
Premiums receivable	\$0	\$0	\$0	\$0	\$123,191	\$123,191
Interest due and accrued	22,035	0	9,156	17,949	9,608	58,748
Recoverable on paid losses	27,310	0	0	0	0	27,310
Other	0	0	0	0	61,107	61,107
Total	\$49,345	\$0	\$9,156	\$17,949	\$193,906	\$270,356
<u>Deduct: Liabilities</u>						
Losses unpaid	\$616,613	\$230,041	\$471,801	\$534,073	\$1,166,051	\$3,018,579
Loss adjustment expenses	14,660	27,665	2,468	15,115	56,079	115,987
Contingency reserve	456,580	72,495	75,373	69,477	66,668	740,593
Unearned premiums	0	0	0	0	568,536	568,536
Premium refunds payable	0	0	0	0	183,199	183,199
Taxes, licenses and fees payable	0	0	0	0	47,827	47,827
Other expenses payable	0	0	0	0	24,625	24,625
Total	\$1,087,853	\$330,201	\$549,642	\$618,665	\$2,112,985	\$4,699,346

Members' Account By Fiscal Year Inception to Date December 31, 2007

	All Other Fiscal Years Preceding 1982-2003	Third Fiscal Year Preceding 2004	Second Fiscal Year Preceding 2005	First Fiscal Year Preceding 2006	Current Calendar Year 2007	Total Inception to Date (1982-2007)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$8,261,866	(\$361,479)	\$205,463	\$558,536	(\$262,840)	\$8,401,546
Less: Dividends paid inception to date by fiscal year	7,906,183	0	0	67,158	0	7,973,341
Less: Restricted Members' Equity by fiscal year	<u>61,917</u>	<u>61,917</u>	<u>61,917</u>	<u>61,917</u>	<u>61,917</u>	<u>309,585</u>
Unrestricted Members' Equity undistributed by fiscal year	\$293,766	(\$423,396)	\$143,546	\$429,461	(\$324,757)	\$118,620
Less: Dividends declared but unpaid	<u>180,715</u>	<u>0</u>	<u>0</u>	<u>2,015</u>	<u>0</u>	<u>182,730</u>
Unrestricted Members' Equity 12/31/07	<u>\$113,051</u>	<u>(\$423,396)</u>	<u>\$143,546</u>	<u>\$427,446</u>	<u>(\$324,757)</u>	<u>(\$64,110)</u>

STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY
DECEMBER 31, 2007

	<u>Amount Per Association</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$8,939	\$123,191	\$114,252
Prepaid administrative fees	7,509	14,114	6,605
Prepaid excess insurance	0	31,285	31,285
Prepaid service agent's fees	5,632	10,515	4,883
<u>Liabilities:</u>			
Loss adjustment expenses unpaid	\$56,865	\$115,987	(\$59,122)
Contingency reserve	742,662	740,593	2,069
Premium refunds payable	0	183,199	(183,199)
Taxes, licenses and fees payable	50,000	47,827	<u>2,173</u>
Examiners changes in members' equity			<u><u>(\$81,054)</u></u>
Restricted and unrestricted members' equity per Association			\$326,529
Restricted and unrestricted members' equity per Examiners			<u>245,475</u>
Decrease in restricted and unrestricted members' equity			<u><u>(\$81,054)</u></u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect an unrestricted members' equity deficit for the 1994, 1999, 2002, 2004 and 2007 fiscal years of \$50,863, \$5,000, \$385,768, \$423,396 and \$324,757, 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. <u>Premiums receivable</u> | <u>\$123,191</u> |
| <u>Premium refunds payable</u> | <u>\$183,199</u> |

The above amounts have been increased \$114,252 and \$183,199, respectively. The Examiners' amounts are based on a review of subsequent 2007 payroll audits and reflect differences in audited contributions and contributions paid at December 31, 2007.

- | | |
|---------------------------------------|-----------------|
| 3. <u>Prepaid administrative fees</u> | <u>\$14,114</u> |
| <u>Prepaid service agent's fees</u> | <u>\$10,515</u> |

The above amounts are \$6,605 and \$4,883 more, respectively, than the amounts reported by the Association in its 2007 Annual Statement. The Examiners' amounts are based on the actual fees paid compared to the fees required by the agreements at December 31, 2007.

- | | |
|------------------------------------|-----------------|
| 4. <u>Prepaid excess insurance</u> | <u>\$31,285</u> |
|------------------------------------|-----------------|

The above asset has been established by the Examiners. The Examiners' amount reflects a decrease in the modified normal premium, as defined by the excess insurer, and developed from subsequent 2007 payroll audits, which is the basis for computing excess insurance premiums.

5. Loss adjustment expenses unpaid \$115,987

The above liability is \$59,122 more than the amount reported by the Association in its 2007 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>
1995	\$ 4,446	\$ 6,672	\$ 2,226
2005	394	2,468	2,074
2006	7,606	15,115	7,509
2007	8,766	56,079	47,313
Total change			<u>\$ 59,122</u>

The Examiner's increase results from a development of loss adjustment expenses paid and reserve changes occurring during the period January 1, 2008 through November 30, 2008, on claims incurred December 31, 2007 and prior. The Association should review its methodologies to ensure sufficient loss reserves are established in all future filings with the Bureau.

6. Contingency reserve \$740,593

The above liability is \$2,069 less than the amount reported by the Association in its 2007 Annual Statement. The Examiner's change is a result of a decrease in earned premium based on a review of subsequent 2007 payroll audits, which is the basis for the calculation of the contingency reserve.

7. Taxes, licenses, and fees payable \$47,827

The above liability is \$2,173 less than the amount reported by the Association in its 2007 Annual Statement. The Examiner's amount was based on a review of invoices paid in 2008 for taxes pertaining to 2007.

SUBSEQUENT EVENT

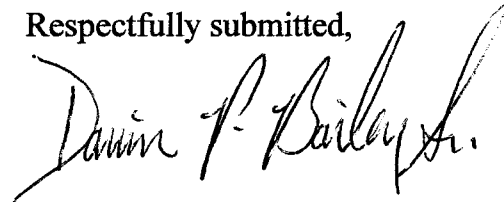
On October 17, 2008, the Bureau approved dividends for the Association totaling \$449,559. However, due to the deficits reported by the Association, the Bureau required \$349,559 escrowed for future deficit reduction and \$100,000 disbursed to the membership.

CONCLUSION

The courteous cooperation extended by the Association's administrator and service agent during the course of the examination is gratefully acknowledged.

In addition to the undersigned, George E. Morgan., CFE participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink, reading "Darrin P. Bailey, Sr." in a cursive script.

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

WOOD PRODUCTS OF VIRGINIA GROUP SELF INSURANCE ASSOCIATION

Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE

09 FEB 24 11:09:39

February 18, 2009

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

Dear Mr. Smith:

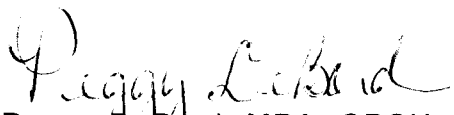
Enclosed are the responses to your recommendations for corrective action for Wood Products of Virginia Group Self Insurance Association during the examination period January 1, 2005 through December 31, 2007.

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

Sincerely,



George R. Harris
Chairman
Members' Supervisory Board
Wood Products of Virginia Group
Self Insurance Association



Peggy DeBord, MBA, CPCU, CIC
Administrator
Wood Products of Virginia Group
Self Insurance Association

Enclosures

Wood Products 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 payroll audit information not available at the time the financial statement was filed.
3. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information 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 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 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 again has reminded our service company to do so.
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 information not available at the time the financial statement was filed.

Subsequent Events

The administrator escrowed dividends in accordance with the deficit elimination plan approved by the Bureau of Insurance dated October 17, 2008.