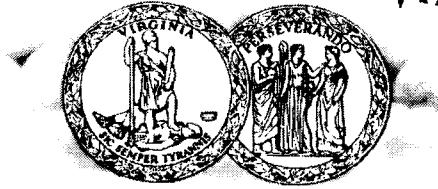


**EXAMINATION REPORT**  
**of**  
**MERCHANTS OF VIRGINIA**  
**GROUP SELF-INSURANCE ASSOCIATION**  
**Richmond, Virginia**  
**as of**  
**December 31, 2009**

**COMMONWEALTH OF VIRGINIA**  
**STATE CORPORATION COMMISSION**  
**BUREAU OF INSURANCE**

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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

I, Jacqueline K. Cunningham, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Merchants of Virginia Group Self-Insurance Association as of December 31, 2009, 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 19th day of January, 2011

---

Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
October 28, 2010

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

**MERCHANTS 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, 2006. This examination covers the period from January 1, 2007 through December 31, 2009.

**HISTORY**

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

## 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 with the Association. Board members serve until their successors are elected.

The Board and officers were as follows at December 31, 2009:

### Representative

### Members

Melvin H. Belcher

Progressive Manufacturing Corp.  
Chester, Virginia

William R. Brewer, Jr.

Dink, Inc.  
Virginia Beach, Virginia

David Y. Cooke

Northern Neck Chevrolet-Pontiac, Inc.  
Montross, Virginia

James L. Harrell, III

Harrell & Harrell, Inc.  
Norfolk, Virginia

Ronald K. Harrell

Ravensworth Sunoco  
Springfield, Virginia

A. Penn Staples

Woodfin Oil Company  
Mechanicsville, Virginia

David M. Traub

DMT, Inc.  
Midlothian, Virginia

### Officers

A. Penn Staples

Chairman

James L. Harrell, III

Vice-Chairman

David Y. Cooke

Secretary

Ronald K. Harrell

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 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 established and adopted by the Board. Claims are processed and paid by a service agent pursuant to a contractual agreement with the Association. The Association's operations are conducted on a fiscal year ending April 30.

## **ADMINISTRATIVE AGREEMENT**

Effective May 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 12 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 this 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 and with advisors and consultants, pay all items of expense to the extent funds are available, direct the solicitation and enrollment of new members, file necessary reports, and conduct other managerial duties.

As compensation for its services, SIS shall receive 7% 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 \$327,296 in fees relating to this agreement in calendar year 2009.

### **CLAIMS CONSULTING SERVICE AGREEMENT**

Effective May 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  $\frac{1}{2}$  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. The Association incurred \$22,494 in fees relating to this agreement in calendar year 2009.

### **CLAIMS SERVICE AGREEMENT**

Effective May 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 5.6% 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 \$261,176 in fees relating to this agreement in calendar year 2009.

### DIVIDENDS TO MEMBERS

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

<u>Fiscal Year</u>	<u>Approval Dates</u>		
	<u>March 29, 2007</u>	<u>April 9, 2008</u>	<u>March 31, 2009</u>
1993/1994	\$10,000	\$0	\$0
1994/1995	75,000	36,359	0
1995/1996	20,000	30,000	25,000
1996/1997	50,000	27,221	10,102
1997/1998	100,000	50,000	86,785
1998/1999	50,000	25,000	0
1999/2000	100,000	0	60,564
2000/2001	50,000	10,000	50,000
2001/2002	100,000	25,000	99,077
2002/2003	100,000	25,000	25,000
2003/2004	50,000	100,000	200,000
2004/2005	0	100,000	200,000
2005/2006	300,000	200,000	200,000
2006/2007	0	300,000	300,000
2007/2008	<u>0</u>	<u>0</u>	<u>300,000</u>
Total	<u>\$1,005,000</u>	<u>\$928,580</u>	<u>\$1,556,528</u>

### FIDELITY BOND COVERAGE

At December 31, 2009, the Association was listed as a named insured on a fidelity bond with a \$250,000 limit of liability, subject to a \$2,500 deductible, to insure against losses arising from dishonest acts of its administrator and employees.



**SPECIAL RESERVES AND DEPOSITS**

At December 31, 2009, the Association had a United States Treasury Note with a par value of \$250,000 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, 2009, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$750,000 for each accident and each employee for disease	Workers' Compensation Statutory  Employers' Liability \$1,000,000
Aggregate Excess	95% of normal premium, subject to a minimum retention of \$4,093,245	\$5,000,000

**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 from January 1, 2007 through December 31, 2009. Assets were verified and liabilities were established at December 31, 2009. A review of income and disbursements for the period was made to the extent deemed necessary.

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, 2009, a statement of income for the year ended December 31, 2009, 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, 2009**

**ASSETS**

Bonds, long term	\$11,656,301
Other invested assets	182,372
Cash on deposit	120,601
Premiums receivable	192,482
Interest due and accrued	136,882
Amounts recoverable on paid losses	15,888
Income taxes receivable	882,131
Prepaid excess insurance premiums	84,296
Prepaid administrative fees	52,794
Prepaid service agent's fees	39,419
	<hr/>
Total assets	<u><u>\$13,363,166</u></u>

**LIABILITIES AND MEMBERS' EQUITY**

Losses unpaid	\$6,366,271
Loss adjustment expenses unpaid	230,135
Contingency reserve	1,620,003
Unearned premiums	1,039,916
Premium refunds payable	174,500
Taxes, licenses and fees payable	174,867
Dividends payable	2,482,165
Payroll audit fees payable	24,720
Professional fees payable	17,000
Investment fees payable	3,200
	<hr/>
Total liabilities	<u>\$12,132,777</u>
Restricted members' equity	\$256,035
Unrestricted members' equity	974,354
	<hr/>
Total liabilities and members' equity	<u><u>\$13,363,166</u></u>

**STATEMENT OF INCOME**  
**FOR YEAR ENDED DECEMBER 31, 2009**

**UNDERWRITING INCOME**

Premiums earned	<u>\$3,952,590</u>
Deductions:	
Losses incurred	\$1,406,702
Loss expenses incurred	377,705
Other underwriting expenses incurred	854,521
Contingency reserve	<u>125,962</u>
Total underwriting deductions	<u>\$2,764,890</u>
Net underwriting gain	<u>\$1,187,700</u>

**INVESTMENT INCOME**

Net investment income earned	\$527,061
Net realized capital losses	<u>(201,082)</u>
Net investment gain	<u>\$325,979</u>
Net income before federal income taxes	\$1,513,679
Federal income taxes incurred	<u>33,923</u>
Net income	<u><u>\$1,479,756</u></u>

**RECONCILIATION OF MEMBERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2009**

	<u>2007</u>	<u>2008</u>	<u>2009</u>
Members' equity, previous year before undistributed dividends	* \$2,033,005	\$2,908,970	\$3,093,041
Adjustment for previous examination changes	6,701		
Net income	1,356,432	1,107,848	1,479,756
Net unrealized capital gains or (losses)	274,188	(143,681)	364,904
Dividends paid to members	<u>(761,356)</u>	<u>(780,096)</u>	<u>(1,225,147)</u>
Restricted and unrestricted members' equity, end of year	\$2,908,970	\$3,093,041	\$3,712,554
Less: Restricted members' equity, end of year	<u>303,141</u>	<u>304,065</u>	<u>256,035</u>
Unrestricted members equity, end of year before undistributed dividends	\$2,605,829	\$2,788,976	\$3,456,519
Less: Dividends declared but unpaid	<u>2,002,300</u>	<u>2,150,784</u>	<u>2,482,165</u>
Unrestricted members' equity, end of year	<u><u>\$603,529</u></u>	<u><u>\$638,192</u></u>	<u><u>\$974,354</u></u>

\* Adjusted members' equity from previous examination.

**Members' Account By Fiscal Year Inception to Date December 31, 2009**

	All Other Fiscal Years Preceding 1982-2006	Third Fiscal Year Preceding 2006/2007	Second Fiscal Year Preceding 2007/2008	First Fiscal Year Preceding 2008/2009	Partial Current Fiscal Year 5/1/09-12/31/09	Total Inception to Date (1982-2009)
<b>Income Received</b>						
Premiums written	\$68,851,239	\$5,152,621	\$4,283,166	\$4,343,309	\$3,945,750	\$86,576,085
Less: Excess insurance	6,430,963	402,734	312,722	276,210	249,042	7,671,671
Net premiums written	\$62,420,276	\$4,749,887	\$3,970,444	\$4,067,099	\$3,696,708	\$78,904,414
Investment income	8,336,322	235,691	130,514	46,633	359,323	9,108,483
Allocation between years	153,754	46,355	48,431	64,439	(312,979)	0
Other	201,283	0	0	0	262,987	464,270
Total income collected	\$71,111,635	\$5,031,933	\$4,149,389	\$4,178,171	\$4,006,039	\$88,477,167
<b>Less: Expenses Paid</b>						
Losses paid	\$34,860,505	\$1,906,198	\$1,210,931	\$1,219,469	\$358,494	\$39,555,597
Allocated loss adjustment expenses paid	1,200,709	86,198	69,570	170,330	40,558	1,567,365
Administrative fees	5,264,531	463,107	377,549	371,276	297,748	6,774,211
Service agent's fees	4,238,700	345,789	281,903	277,219	222,319	5,365,930
Taxes, licenses, and fees	938,920	118,891	120,198	140,652	0	1,318,661
Federal income tax	976,612	214,382	390,267	241,755	975,555	2,798,571
Other expenses	1,484,958	57,318	54,504	53,983	7,998	1,658,761
Total expenses	\$48,964,935	\$3,191,883	\$2,504,922	\$2,474,684	\$1,902,672	\$59,039,096
Net cash income	\$22,146,700	\$1,840,050	\$1,644,467	\$1,703,487	\$2,103,367	\$29,438,071
<b>Add: Receivables</b>						
Premium receivable	0	0	0	0	192,482	192,482
Interest due and accrued	58,572	17,659	18,449	24,548	17,654	136,882
Recoverable on paid losses	15,888	0	0	0	0	15,888
Other	0	0	0	0	1,058,640	1,058,640
Total	\$74,460	\$17,659	\$18,449	\$24,548	\$1,268,776	\$1,403,892
<b>Deduct: Liabilities</b>						
Losses unpaid	\$882,404	\$815,563	\$1,006,144	\$1,630,586	\$2,031,574	\$6,366,271
Loss adjustment expenses	50,295	28,280	16,469	60,955	74,136	230,135
Contingency reserve	1,119,237	154,579	128,494	130,300	87,393	1,620,003
Unearned premiums	0	0	0	0	1,039,916	1,039,916
Premium refunds payable	0	0	0	0	174,500	174,500
Taxes, licenses and fees payable	0	0	0	0	174,867	174,867
Other expenses payable	0	0	0	0	44,920	44,920
Total	\$2,051,936	\$998,422	\$1,151,107	\$1,821,841	\$3,627,306	\$9,650,612

**Members' Account By Fiscal Year Inception to Date December 31, 2009**

	All Other Fiscal Years Preceding 1982-2006	Third Fiscal Year Preceding 2006/2007	Second Fiscal Year Preceding 2007/2008	First Fiscal Year Preceding 2008/2009	Partial Current Fiscal Year 5/1/09-12/31/09	Total Inception to Date (1982-2009)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$20,169,224	\$859,287	\$511,809	(\$93,806)	(\$255,163)	\$21,191,351
Less: Dividends paid inception to date by fiscal year	16,742,611	480,809	255,377	0	0	17,478,797
Less: Restricted Members' Equity by fiscal year	<u>51,207</u>	<u>51,207</u>	<u>51,207</u>	<u>51,207</u>	<u>51,207</u>	<u>256,035</u>
Unrestricted Members' Equity undistributed by fiscal year	\$3,375,406	\$327,271	\$205,225	(\$145,013)	(\$306,370)	\$3,456,519
Less: Dividends declared but unpaid	<u>2,318,351</u>	<u>119,191</u>	<u>44,623</u>	<u>0</u>	<u>0</u>	<u>2,482,165</u>
Unrestricted Members' Equity 12/31/09	<u>\$1,057,055</u>	<u>\$208,080</u>	<u>\$160,602</u>	<u>(\$145,013)</u>	<u>(\$306,370)</u>	<u>\$974,354</u>



**STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY**  
**DECEMBER 31, 2009**

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$0	\$192,482	\$192,482
Income tax receivable	879,505	882,131	2,626
Prepaid excess insurance premiums	83,014	84,296	1,282
Prepaid administrative fees	56,446	52,794	(3,652)
Prepaid service agent's fees	42,147	39,419	(2,728)
<u>Liabilities:</u>			
Loss adjustment expenses unpaid	\$227,070	\$230,135	(\$3,065)
Contingency reserve	1,618,324	1,620,003	(1,679)
Unearned premiums	1,088,592	1,039,916	48,676
Premium refunds payable	0	174,500	(174,500)
Taxes, licenses and fees payable	140,000	174,867	(34,867)
Payroll audit fees payable	24,000	24,720	(720)
Professional fees payable	16,500	17,000	(500)
Examiners' changes in members' equity			<u>\$23,355</u>
Restricted and unrestricted members' equity per Association			\$1,207,034
Restricted and unrestricted members' equity per Examiners			<u>1,230,389</u>
Increase in restricted and unrestricted members' equity			<u>\$23,355</u>

## RECOMMENDATIONS FOR CORRECTIVE ACTION

### Management and Control

1. The results of this examination reflected members' equity deficits for the 2008/2009 fiscal year and the 2009/2010 partial current fiscal year of \$145,013 and \$306,370, 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. <u>Premiums receivable</u>  | <u>\$192,482</u> |
| <u>Premium refunds payable</u> | <u>\$174,500</u> |

Premiums receivable has been increased by \$192,482 and the liability for premium refunds payable established by the Examiners. The Examiners' amounts are based on subsequent 2009/2010 fiscal year member payroll audits and reflect differences between audited contributions and contributions paid prorated for the period May 1, 2009 through December 31, 2009. The net amount of premium receivable reported has also been decreased by \$12,369 for premiums that are aged over 90 days.

- |                                 |                  |
|---------------------------------|------------------|
| 3. <u>Income tax receivable</u> | <u>\$882,131</u> |
|---------------------------------|------------------|

The above asset is \$2,626 more than the amount reported by the Association in its 2009 Annual Statement. The Examiners' amount is based on a review of the 2009 Federal Income Tax return filed as compared to the receivable determined from the tax computation worksheet prepared at the time of the Annual Statement filing.

- |   |                 |
|---|-----------------|
| 4. <u>Prepaid excess insurance premiums</u> | <u>\$84,296</u> |
|---|-----------------|

The above asset is \$1,282 more than the amount reported by the Association in its 2009 Annual Statement. The Examiners' amount is based on subsequent 2009/2010 member payroll audits and compares the excess insurance premium paid at December 31, 2009 to the premiums owed, prorated for the period May 1, 2009 through December 31, 2009.

5. Prepaid administrative fees \$52,794

The above asset is \$3,652 less than the amount reported by the Association in its 2009 Annual Statement. The Examiners' amount reflects administrative fees paid at December 31, 2009, less the amount owed at December 31, 2009 based on the Examiners' analysis of subsequent 2009/2010 member payroll audits.

6. Prepaid service agent's fees \$39,419

The above asset is \$2,728 less than the amount reported by the Association in its 2009 Annual Statement. The Examiners' amount reflects claims service agent fees paid at December 31, 2009, less the amount owed at December 31, 2009 based on the Examiners' analysis of subsequent 2009/2010 member payroll audits.

7. Loss adjustment expenses unpaid \$230,135

The above liability is \$3,065 more than the amount reported by the Association in its 2009 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>
1988/1989	\$ 0	\$ 900	\$ 900
1997/1998	0	2,165	<u>2,165</u>
Total change			<u>\$3,065</u>

The Examiners' increase results from a development of loss adjustment expenses paid and reserves changes occurring during the period January 1, 2010 through September 30, 2010, on claims incurred December 31, 2009 and prior. The Association should review its methodologies to ensure sufficient loss adjustment expense reserves are established in all future filings.

8. Contingency reserve \$1,620,003

The above liability is \$1,679 more than the amount reported by the Association in its 2009 Annual Statement. The Examiners' change is a result of an increase in earned premium based on a review of subsequent 2009/2010 member payroll audits, which is the basis for the calculation of the contingency reserve.

9. Unearned premiums \$1,039,916

The above liability is \$48,676 less than the amount reported by the Association in its 2009 Annual Statement. The Examiners' amount reflects the estimated premiums received to date at December 31, 2009, less the amount earned at December 31, 2009 based on subsequent 2009/2010 member payroll audits.

10. Taxes, licenses, and fees payable \$174,867

The above liability is \$34,867 more than the amount reported by the Association in its 2009 Annual Statement. The Examiners' amount was based on a review of invoices paid in 2010 for taxes and services pertaining to 2009.

11. Professional fees payable \$17,000

The above liability is \$500 more than the amount reported by the Association in its 2009 Annual Statement. The Examiners' amount was based on a review of invoices paid in 2010 for professional services pertaining to the 2009/2010 fiscal year.

12. Payroll audit fees payable \$24,720

The above liability is \$720 more than the amount reported by the Association in its 2009 Annual Statement. The Examiners' amount was based on a review of invoices paid in 2010 for member payroll audits pertaining to the 2009/2010 fiscal year.

**SUBSEQUENT EVENT**

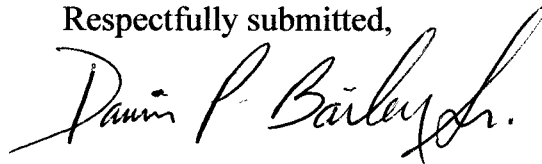
On April 2, 2010, the Bureau approved dividends for the Association totaling \$1,380,660.

**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 and Milton Parker, Jr. participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Darrin P. Bailey Sr." The signature is written in a cursive style with a large, sweeping initial 'D'.

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

**MERCHANTS OF VIRGINIA GROUP SELF INSURANCE ASSOCIATION**

*Administered By*

SELF INSURANCE SERVICES, LLC  
COST CONTROL THROUGH SERVICE

STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

11 JAN 10 AM 9:39

January 5, 2011

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:

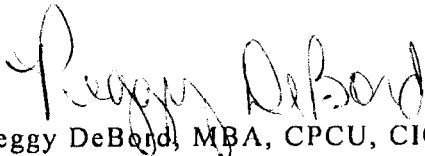
Enclosed are the responses to your recommendations for corrective action for Merchants of Virginia Group Self Insurance Association during the examination period of January 1, 2007 to December 31, 2009.

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

Sincerely,



Charles Reed  
Chairman  
Members' Supervisory Board  
Merchants of Virginia  
Group Self Insurance Association



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

Enclosures

# Merchants of Virginia Group Self Insurance Association

## Responses to Recommendations for Corrective Action

### Management and Control

1. The 2008/2009 and 2009/2010 fund years, these years have IBNR which will reduce the deficit as the claims close.

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 these adjustments since they were prepared with the benefit of subsequent payroll audits. This information was not available until audits were completed for the year ending April 30, 2010.
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 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 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. 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.



8. The Association establishes a 3% contingency reserve fund each year. We agree with the adjustment since it was prepared with the benefit of subsequent audit information.
9. 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.
10. The Association agrees with this adjustment. The amounts reported by the Association on the 2009 Annual Statement were estimates and subsequent information was not available at that time.
11. 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.
12. 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.