

**EXAMINATION REPORT  
of  
VIRGINIA CONTRACTORS  
GROUP SELF-INSURANCE ASSOCIATION  
ROANOKE, VIRGINIA  
as of  
DECEMBER 31, 2008**

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

# COMMONWEALTH OF VIRGINIA

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



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I, Alfred W. Gross, 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, 2008, 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 13<sup>th</sup> day of January, 2010

A handwritten signature in cursive script that reads "Alfred W. Gross".

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Alfred W. Gross  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
September 28, 2009

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:

**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.

**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, 2005. This examination covers the period from January 1, 2006 through December 31, 2008.

**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:

COMMONWEALTH OF VIRGINIA  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE

- (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, 2008:

<u>Representative</u>	<u>Member</u>
Charles W. Cary	Retired Richmond, Virginia
Alastair S. Macdonald	Bruce Corporation Yorktown, Virginia
James J. Malloy	Retired Charlottesville, Virginia
John W. Morsch	Nielsen Construction Company, Inc. Harrisonburg, Virginia
Mark E. Pace	E.C. Pace Company, Inc. Roanoke, Virginia

Anthony D. Shultz	Nicholson Sprinkler Corporation Richmond, Virginia
Joseph C. Thomas, Jr.	Thomas Brothers, L.C. Roanoke, Virginia
John P. Whittle	Thor, Inc. Roanoke, Virginia
Blair K. Williamson	S.L. Williamson Co., Inc. Charlottesville, Virginia

#### Officers

Joseph C. Thomas, Jr.	Chairman
Anthony D. Shultz	Vice-Chairman
John P. Whittle	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 2008 was \$996,818.

### **CLAIMS SERVICE AGREEMENT**

Effective June 1, 1988, the Association entered into a claims service agreement with H. L. Duke & Company, Inc., currently known as Assurance Services Corporation ("Assurance Services"). The original agreement was amended on May 9, 1989 and June 2, 1998 to modify certain compensation provisions. However, all other terms and covenants remain in full force and effect, including the provision that either party may terminate the Agreement upon 60 days written notice.

According to the agreement, Assurance Services 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 safety inspections of member companies; and prepare, on behalf of the Association and member employers, for all scheduled hearings before the Virginia Workers' Compensation Commission. Other services include conducting annual payroll audits and assisting the Association in securing excess insurance.

As compensation for its services, Assurance Services shall receive 7.5% of the collected premium. Total claims service agent fee expense for calendar year 2008 was \$679,648.

Additionally, Sedgwick CMS (formally known as CompManagement, Inc.) served as the Association's claims service agent for the 1982/1983 through 1987/1988 fiscal years and is responsible for providing full claims handling services. At December 31, 2008, Sedgwick CMS was servicing one open claim for the aforementioned fiscal years.

### 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>Approval Dates</u>		
	<u>May 12, 2006</u>	<u>June 25, 2007</u>	<u>July 30, 2008</u>
1985/1986	\$ 3,984		
1988/1989	2,562	\$ 7,546	
1989/1990			\$ 16,439
1990/1991			9,775
1991/1992			463
1992/1993	5,179	21,457	
1993/1994			103,931
1994/1995	27,691	33,903	
1995/1996	36,944	902	83,848
1997/1998	81,507	4,123	
1999/2000	59,474	23,511	18,626
2000/2001		146,289	
2001/2002	250,000	150,000	150,000
2002/2003	500,000	400,000	300,000
2005/2006	<u>                    </u>	<u>200,000</u>	<u>350,000</u>
Totals	<u>\$ 967,341</u>	<u>\$ 987,731*</u>	<u>\$ 1,033,082**</u>

\*The approval was subject to dividends of \$7,546 from the 1988/1989 be transferred to the 1998/1999 fiscal year to eliminate that fiscal years deficit and \$902 from the 1995/1996 fiscal year be transferred to the 2003/2004 fiscal year to partially eliminate



that fiscal years deficit. The remaining \$979,283 was available for disbursement to the membership.

\*\*The approval was subject to the condition that \$529,151 in approved dividends be applied to deficit fiscal years of the Association's choosing. The remaining \$503,931 was available for disbursement to the membership.

### **FIDELITY BOND COVERAGE**

At December 31, 2008, the Administrator was listed as a named insured on a fidelity bond, with a \$2,500,000 limit of liability, to insure against losses arising from dishonest acts of its officers and employees. As the Association does not have employees all transactions are conducted by employees of the Administrator.

### **SPECIAL RESERVES AND DEPOSITS**

At December 31, 2008, the Association had securities with a par value of \$1,266,952 on deposit with the Treasurer of Virginia. 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 \$16,952 was voluntarily contributed by the Association.

### **EXCESS INSURANCE COVERAGE**

The Association had a specific excess insurance agreement in force at December 31, 2008, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's 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 established by the Association is in an amount determined by the Commission to be adequate.

**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. It covers the period January 1, 2006 through December 31, 2008. Assets were verified and liabilities were established at December 31, 2008. 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 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, 2008, a statement of income for the year ended December 31, 2008, 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, 2008**

**ASSETS**

Bonds, short-term	\$523,198
Bonds, long-term	12,502,449
Other invested assets	3,301,292
Cash on deposit	57,112
Deposit with service agent	(50,730)
Premiums receivable	236,090
Interest due and accrued	146,544
Amounts recoverable on paid losses	59,147
Refundable income taxes	214,870
Income tax special deposit	1,052,996
Prepaid insurance	190,448
Prepaid service fees	145,117
Prepaid administrative fees	<u>215,585</u>
 Total assets	 <u><u>\$18,594,118</u></u>

**LIABILITIES AND MEMBERS' EQUITY**

Losses unpaid	\$11,637,184
Loss adjustment expenses unpaid	786,339
Contingency reserve	1,795,185
Voluntary supplemental fund	300,000
Unearned premiums	3,116,619
Premium refunds payable	473,789
Administrative fees payable	15,140
Service agent's fees payable	17,595
Taxes, licenses and fees payable	310,915
Dividends payable	<u>474,654</u>
 Total liabilities	 \$18,927,420
 Restricted members' equity	 \$1,091,098
Unrestricted members' equity	<u>(1,424,400)</u>
 Total liabilities and members' equity	 <u><u>\$18,594,118</u></u>

**STATEMENT OF INCOME**  
**FOR YEAR ENDED DECEMBER 31, 2008**

**UNDERWRITING INCOME**

Premiums earned		<u>\$7,557,910</u>
Deductions:		
Losses incurred		\$6,224,127
Loss expenses incurred		1,512,674
Other underwriting expenses incurred		1,398,347
Contingency reserve		272,500
Voluntary supplemental fund		<u>300,000</u>
Total underwriting deductions		<u>\$9,707,648</u>
Net underwriting loss		<u>(\$2,149,738)</u>

**INVESTMENT INCOME**

Net investment income earned		\$600,875
Net realized capital gains		<u>276,545</u>
Net investment gain		<u>\$877,420</u>
Net income before federal income taxes incurred		(\$1,272,318)
Federal income taxes incurred		<u>(208,266)</u>
Net income		<u><u>(\$1,064,052)</u></u>

**RECONCILIATION OF MEMBERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2008**

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Members' equity, previous year before undistributed dividends *	\$985,826	\$425,481	\$1,631,028
Adjustment for previous examination changes	28,021		
Net income or (loss)	227,803	1,818,231	(1,064,052)
Net unrealized capital gains	125,743	368,873	78,307
Dividends paid to members	<u>(941,912)</u>	<u>(981,557)</u>	<u>(503,931)</u>
Restricted and unrestricted members' equity, end of year	\$425,481	\$1,631,028	\$141,352
Less: Restricted members' equity, end of year	<u>1,003,248</u>	<u>1,054,422</u>	<u>1,091,098</u>
Unrestricted members' equity, end of year before undistributed dividends	(\$577,767)	\$576,606	(\$949,746)
Less: Dividends declared but unpaid	<u>476,931</u>	<u>474,654</u>	<u>474,654</u>
Unrestricted members' equity, end of year	<u><u>(\$1,054,698)</u></u>	<u><u>\$101,952</u></u>	<u><u>(\$1,424,400)</u></u>

\* Adjusted members' equity from previous examination

**Members' Account By Fiscal Year Inception to Date December 31, 2008**

	All Other Fiscal Years Preceding 1982-2005	Third Fiscal Year Preceding 2005/2006	Second Fiscal Year Preceding 2006/2007	First Fiscal Year Preceding 2007/2008	Partial Current Fiscal Year 6/1/08-12/31/08	Total Inception to Date (1982-2008)
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$16,536,688	\$1,439,035	\$1,146,725	(\$140,035)	(\$1,314,573)	\$17,667,840
Less: Dividends paid inception to date by fiscal year	17,126,488	400,000	0	0	0	17,526,488
Dividend reallocations	150,000	(150,000)				
Less: Restricted Members' Equity by fiscal year	<u>363,700</u>	<u>181,850</u>	<u>181,850</u>	<u>181,849</u>	<u>181,849</u>	<u>1,091,098</u>
Unrestricted Members' Equity undistributed by fiscal year	(\$803,500)	\$707,185	\$964,875	(\$321,884)	(\$1,496,422)	(\$949,746)
Less: Dividends declared but unpaid	<u>474,654</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>474,654</u>
Unrestricted Members' Equity 12/31/08	<u>(\$1,278,154) *</u>	<u>\$707,185</u>	<u>\$964,875</u>	<u>(\$321,884)</u>	<u>(\$1,496,422)</u>	<u>(\$1,424,400)</u>

\* - Although the cumulative unrestricted members' equity for the fiscal years 1982-2005 at December 31, 2008 was (\$1,278,154); only the 1996/1997, 1997/1998, 2003/2004 and 2004/2005 fiscal years had members' equity deficits of \$138,983, \$12,177, \$410,158 and \$1,545,475, respectively.

**STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY**  
**DECEMBER 31, 2008**

	<u>Amount Per Association</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Members' Equity</u>
Assets:			
Deposit with service agent	\$25,097	(\$50,730)	(\$75,827)
Premiums receivable	293,106	236,090	(57,016)
Prepaid service fees	121,989	145,117	23,128
Prepaid administrative fees	181,208	215,585	34,377
Liabilities:			
Losses unpaid	11,450,014	11,637,184	(187,170)
Loss adjustment expenses unpaid	609,704	786,339	(176,635)
Contingency reserve	1,804,382	1,795,185	9,197
Unearned premiums	2,147,517	3,116,619	(969,102)
Premium refunds payable	433,296	473,789	(40,493)
Administrative fees payable	16,838	15,140	1,698
Service agent's fees payable	19,064	17,595	<u>1,469</u>
Examiners' changes in members' equity			<u><u>(\$1,436,374)</u></u>
Restricted and unrestricted members' equity per Association			\$1,103,072
Restricted and unrestricted members' equity per Examiners			<u>(333,302)</u>
Decrease in unrestricted members' equity			<u><u>(\$1,436,374)</u></u>



## **RECOMMENDATIONS FOR CORRECTIVE ACTION**

### **Management and Control**

1. The results of this examination reflect a members' equity deficit for the 1996/1997, 1997/1998, 2003/2004, 2004/2005, 2007/2008 fiscal years and the 2008/2009 partial current fiscal year of \$138,983, \$12,177, \$410,158, \$1,545,475, \$321,884, and \$1,496,422, 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.
2. 14 VAC 5-370-70 states that the Association's investments shall be authorized or approved by the Members' Supervisory Board in the manner contemplated by the provisions of Section 38.2-1408 of the Code of Virginia. Section 38.2-1408 requires that any investment, loan, or any sale or exchange of a loan or investment be authorized or approved. Such authorization or approval shall be made by the Board of Directors or other governing body. A review of the minutes of the Board meetings disclosed that no formal approval or authorization was obtained for investments. It is recommended that the Association implement procedures to ensure that its investments are approved in accordance with 14 VAC 5-370-70 and Section 38.2-1408 of the Code of Virginia.
3. 14 VAC 5-370-100 1 states that one of the responsibilities of the members' supervisory board is to monitor the financial condition of each member of the association to assure that the member can fulfill the obligations of membership. 14 VAC 5-370-50 requires that an Association have, in its possession and in a form acceptable to the Commission, a current financial statement for each member; and that any member who cannot demonstrate its solvency and its financial ability to meet its obligations as a member shall be removed from the membership.

The Association does have established procedures and computerized software in place to monitor the member financial statements, however, it does not utilize a control report to assure that the most current financial information is obtained. A review of member financial statements indicated 8 active members did not have a current financial statement on file. These 8 member financial statements were found to be dated between December 31, 2005 and February 29, 2008. The Association has since responded with final demand letters and two members provided updated member financial statements. It is recommended that a periodic review be performed of member financial statements to ensure that a valid current financial statement is maintained at all times. Any members who do not provide current financial statements should be cancelled by the Association.

Accounts and Records

4. Pursuant to the Virginia Schedule Rating Plan ("VSRP"), the Association can increase or decrease a member's premium up to 15% if a member meets certain qualitative safety criteria. The Association is required to demonstrate that loss control reports are completed within 90 days of the beginning of the fiscal year to adequately support or justify the premium adjustments for qualifying members. The Association was unable to provide the Examiners with loss control reports within the required timeframe to support the premium adjustments made under the VSRP.

It is recommended that the Association immediately implement procedures to ensure that detailed loss control reports are prepared within 90 days of the beginning of the fiscal year in order to justify the adjustment of member premiums.

5. 14 VAC 5-370-110 A.2 states that a member's payment schedule shall provide an advance payment of at least 15% of the estimated annual contribution with the balance payable not later than the end of the tenth month. The Examiners review of 10 member's premium payment records from the 2008/2009 fiscal year found the Association failed to collect the 15% advance payment prior to the effective coverage date for 9 of the 10 members tested. Further, it was noted the first dollar of member premiums was not actually received for six of these nine members until 32 days to 70 days after coverage began. The total estimated annual premium was collected by the end of the tenth month of the fiscal year for all except one member tested and that member's final installment was received by the end of the eleventh month of the fiscal year.

It is recommended that the Association review its billing process and implement procedures to ensure timely billing to its members, enforcement of the 15% advance premium payment and enhanced collection efforts to include member cancellation if the advance installment and/or balance payments are not received by the specified due dates.

6. Deposit with service agent (\$50,730)

The above asset is \$75,827 less than the amount reported by the Association in its 2008 Annual Statement. The Association reported the deposits with the service agents at the unreconciled balance. The Examiners' amount reflects the reconciled balance of these deposits with the service agents at December 31, 2008. It is recommended that the Association report the service agent deposit accounts at reconciled balances in accordance with the Annual Statement Instructions in all future filings with the Bureau.

7. <u>Premiums receivable</u>	<u>\$236,090</u>
<u>Premium refunds payable</u>	<u>\$473,789</u>

The above amounts have been decreased \$57,016 and increased \$40,493, respectively. The Examiners' amounts are based on subsequent 2008/2009 member payroll audits and reflect differences between audited contributions and contributions paid, prorated for the period June 1, 2008 through December 31, 2008.

8. <u>Prepaid service fees</u>	<u>\$145,117</u>
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The above asset is \$23,128 more than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount reflects claims service agent fees paid at December 31, 2008, less the amount owed at December 31, 2008 based on the Examiners' analysis of member payroll audits for the period under review and subsequent 2008/2009 member payroll audits.

9. <u>Prepaid administrative fees</u>	<u>\$215,585</u>
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The above asset is \$34,377 more than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount reflects administrative fees paid at December 31, 2008, less the amount owed at December 31, 2008 based on the Examiners' analysis of member payroll audits for the period under review and subsequent 2008/2009 member payroll audits.

10. <u>Losses unpaid</u>	<u>\$11,637,184</u>
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The above liability is \$187,170 more than reported by the Association in its 2008 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>
1996/1997	\$ (26,921)	\$ 112,062	\$ 138,983
1997/1998	86,047	134,234	<u>48,187</u>
Total change			<u>\$ 187,170</u>

The Examiners' increase results from a development of losses paid and reserves changes occurring during the period January 1, 2009 through August 31, 2009 on claims incurred December 31, 2008 and prior. The Association should review its methodologies to ensure sufficient loss reserves are established in all future filings.

11. Loss adjustment expenses unpaid \$786,339

The above liability is \$176,635 more than reported by the Association in its 2008 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>
1997/1998	\$ 2,224	\$ 7,068	\$ 4,844
2003/2004	66,768	77,899	11,131
2004/2005	48,630	50,414	1,784
2006/2007	69,844	83,302	13,458
2007/2008	134,532	184,734	50,202
6/1/08-12/31/08	95,612	190,828	<u>95,216</u>
Total Change			<u>\$ 176,635</u>

The Examiners' increase results from a development of loss adjustment expenses paid and reserves changes occurring during the period January 1, 2009 through August 31, 2009 on claims incurred December 31, 2008 and prior. The Association should review its methodologies to ensure sufficient loss adjustment expense reserves are established in all future filings.

12. Contingency reserve \$1,795,185

The above liability is \$9,197 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' change is a result of a decrease in earned premium based on a review of member payroll audits during the period under review and subsequent 2008/2009 member payroll audits, which is the basis for the calculation of the contingency reserve.

13. Unearned premiums \$3,116,619

The above liability is \$969,102 more than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount reflects the estimated premiums received to date at December 31, 2008, less the amount earned at December 31, 2008 based on subsequent 2008/2009 member payroll audits.

14. Administrative fees payable \$15,140

The above liability is \$1,698 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount reflects administrative fees paid at December 31, 2008, less the amount owed at December 31, 2008 based on the Examiners' analysis of member payroll audits for the period under review.

15. Service agent's fees payable \$17,595

The above liability is \$1,469 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount reflects service agent's fees paid at December 31, 2008, less the amount owed at December 31, 2008 based on the Examiners' analysis of member payroll audits for the period under review.

**SUBSEQUENT EVENT**

On September 14, 2009, the Bureau approved dividends for the Association totaling \$1,578,094. The approval was contingent upon dividends of \$150,000 being used to partially eliminate the deficit in the 2003/2004 fiscal year and \$500,000 being used to partially eliminate the deficit in the 2004/2005 fiscal year.

**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 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  
Senior Insurance Examiner

# RUTHERFOORD

RISK MANAGEMENT AND INSURANCE PROFESSIONALS

STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE  
10 JAN 11 AM 9:30

December 22, 2009

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

RE: Virginia Contractors Group Self-Insurance Association  
Examination Report – December 31, 2008

Dear Mr. Smith:

Thank you for your letter of November 25, 2009 and the examination report as of December 31, 2008. 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. The Group addressed the plan years in question in its dividend request/deficit elimination letter to Ms. Janis Richardson Bunce on June 25, 2009.
2. The Board of Directors meets with the investment advisor in person at least once annually to direct investment strategy. We will ask the Board to formalize approval of all investment activity at that investment review meeting annually.
3. The Association has now received updated financial information for all members or issued cancellation on members not in compliance. We keep records of financial information received electronically, with a diary system triggered monthly based upon the fiscal year end of the member. We have also just amended our procedures and request letter to have a more aggressive timeframe to secure the financial information.
4. We will work more closely with our safety engineers to have a recent loss control report in file prior to renewal or obtain one within 90 days after the renewal.
5. We agree with the recommendation regarding timely payment of premiums billed.
6. We will report this balance in future filings at the reconciled balance.

**Thomas Rutherford, Inc. ♦ Corporate Office**

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Mr. David H. Smith  
December 22, 2009  
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7. The change on this item is a result of the examiners having the benefit of more complete information than was available at the time of the report filing.
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9. The change on this item is a result of the examiners having the benefit of more complete information than was available at the time of the report filing.
10. These adjustments are due to loss development occurring since the original report was filed.
11. These adjustments are due to loss development occurring since the original report was filed.
12. The change on this item is a result of the examiners having the benefit of more complete information than was available at the time of the report filing.
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15. The change on this item is a result of the examiners having the benefit of more complete information than was available at the time of the report filing.

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

Sincerely,



Robert D. Nave  
Administrator

cc: Mr. Joe Thomas, Jr.  
Mr. Mark Wiseman, Brown, Edwards & Co.

RUTHERFORD