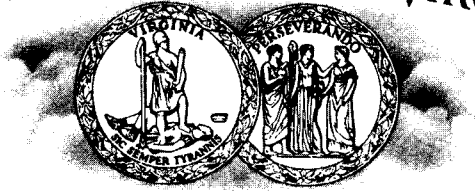


EXAMINATION REPORT
of
COMMONWEALTH CONTRACTORS
GROUP SELF-INSURANCE ASSOCIATION
MIDLOTHIAN, VIRGINIA
as of
DECEMBER 31, 2008

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 Commonwealth 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 13th day of January, 2010

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
October 2, 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:

**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.

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 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, 2008:

<u>Representative</u>	<u>Member</u>
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
Mathew J. Stofko	Stofko Masonry, Inc. Chantilly, Virginia
Henry J. Zirkle	Morris Industries, Inc. Midlothian, Virginia

Officers

Michael T. Boggs	Chairman
Henry J. Zirkle	Vice-Chairman
Todd H. Johnson	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, 2008, 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 it 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; 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 1st, which will reflect increases or decreases that have occurred during the first six months of the fiscal year. The final amount will be determined within 180 days of the close of the fiscal year and subsequent revisions to the annual premium will be ignored for purposes of the annual fee calculation. The total administrative fee for calendar year 2008 was \$1,492,008.

SERVICE AGREEMENT

Effective April 1, 2006, the Association entered into a service agreement with Landin, Inc., ("Landin"). The initial term of this agreement is for a period of seven years, after which it shall automatically renew for a three-year period followed by 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; serve as advisor to the Board, including attending and reporting at all Board meetings; and being responsible for payment for annual member payroll audits.

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 all premium above \$20,000,000

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 1st, 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 2008 was \$1,953,051.

Additionally, Landin is designated as the 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 10% 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 two percent. 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, 2008:

Approval Dates

<u>Fiscal Year</u>	<u>December 14, 2006</u>	<u>December 11, 2007</u>	<u>December 11, 2008</u>
1993/1994			\$ 50,000
1994/1995	\$ 150,000	\$ 125,000	50,000
1996/1997	150,000	175,000	50,000
1999/2000	120,000	200,000	50,000
2000/2001	200,000	250,000	75,000
2001/2002	130,000	300,000	100,000
2002/2003	200,000	500,000	200,000
2003/2004	400,000	650,000	400,000
2004/2005	650,000	800,000	500,000
2005/2006	500,000	700,000	300,000
2006/2007		1,000,000	700,000
2007/2008	<u> </u>	<u> </u>	<u>500,000</u>
Totals	<u>\$ 2,500,000</u>	<u>\$ 4,700,000</u>	<u>\$ 2,975,000</u>

FIDELITY BOND COVERAGE

At December 31, 2008, the Association was listed as a named insured on a fidelity bond, with a \$1,000,000 limit of liability, to insure against losses arising from dishonest acts of its administrator and employees.

SPECIAL RESERVES AND DEPOSITS

At December 31, 2008, the Association had securities with a par value of \$1,285,775 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 \$35,775 was voluntarily contributed by the Association.

EXCESS INSURANCE COVERAGE

The Association had an 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 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.

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
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	\$7,831,001
Bonds, long-term	63,749,006
Other invested assets	11,416,678
Cash on deposit	709,843
Deposit with service agent	1,763,298
Premiums receivable	1,786,936
Interest due and accrued	689,515
Amounts recoverable on paid losses	1,249,149
Income taxes receivable	426,031
Prepaid excess insurance premiums	430,204
Prepaid service agent's fees	224,633
Agent's commissions receivable	284,614
Prepaid administrative fees	4,616
	<hr/>
Total assets	<u><u>\$90,565,524</u></u>

LIABILITIES AND MEMBERS' EQUITY

Losses unpaid	\$42,195,943
Loss adjustment expenses unpaid	1,144,874
Contingency reserve	4,866,047
Unearned premiums	9,390,437
Premium refunds payable	4,395,769
Administrative fees payable	201,566
Service agent's fees payable	121
Taxes, licenses and fees payable	1,192,612
Dividends payable	3,349,771
Other expenses payable	230,212
Agent's commissions payable	0
Professional fees payable	35,500
Investment fees payable	6,500
	<hr/>
Total liabilities	\$67,009,352
Restricted members' equity	\$3,274,766
Unrestricted members' equity	20,281,406
	<hr/>
Total liabilities and members' equity	<u><u>\$90,565,524</u></u>

STATEMENT OF INCOME
FOR YEAR ENDED DECEMBER 31, 2008

UNDERWRITING INCOME

Premiums earned	<u>\$30,198,726</u>
Deductions:	
Losses incurred	\$19,597,028
Loss expenses incurred	771,256
Other underwriting expenses incurred	7,972,587
Contingency reserve	<u>(185,143)</u>
Total underwriting deductions	<u>\$28,155,728</u>
Net underwriting gain	<u>\$2,042,998</u>

INVESTMENT INCOME

Net investment income earned	<u>\$3,800,829</u>
Net investment gain	<u>\$3,800,829</u>

OTHER INCOME

Late fees	<u>\$73,826</u>
Total other income	<u>\$73,826</u>
Net income before federal income taxes incurred	\$5,917,653
Federal income taxes incurred	<u>2,237,987</u>
Net income	<u><u>\$3,679,666</u></u>

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Member's equity, previous year before undistributed dividends	* \$11,350,986	\$14,588,539	\$26,872,781
Adjustment for previous examination changes	(4,212,271)		
Net income	9,279,536	12,922,576	3,679,666
Net unrealized capital gains	103,808	1,780,536	978,061
Dividends paid to members	<u>(1,933,520)</u>	<u>(2,418,870)</u>	<u>(4,624,565)</u>
Restricted and unrestricted members' equity, end of year	\$14,588,539	\$26,872,781	\$26,905,943
Less: Restricted members' equity, end of year	<u>3,273,358</u>	<u>3,263,786</u>	<u>3,274,766</u>
Unrestricted members' equity, end of year before undistributed dividends	\$11,315,181	\$23,608,995	\$23,631,177
Less: Dividends declared but unpaid	<u>2,718,206</u>	<u>4,999,336</u>	<u>3,349,771</u>
Unrestricted members' equity, end of year	<u><u>\$8,596,975</u></u>	<u><u>\$18,609,659</u></u>	<u><u>\$20,281,406</u></u>

* - Adjusted members' equity from previous examination

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

	All Other Fiscal Years Preceding 1981-2005	Third Fiscal Year Preceding 2005/2006	Second Fiscal Year Preceding 2006/2007	First Fiscal Year Preceding 2007/2008	Partial Current Fiscal Year 4/1/08-12/31/08	Total Inception to Date 1981-2008
Income Received						
Premiums written	\$268,916,653	\$41,553,141	\$41,890,006	\$40,219,055	\$33,973,310	\$426,552,165
Less: Excess insurance	19,361,350	4,154,956	3,984,143	2,928,845	2,563,476	32,992,770
Net premiums written	\$249,555,303	\$37,398,185	\$37,905,863	\$37,290,210	\$31,409,834	\$393,559,395
Investment income	25,974,496	1,876,977	1,364,222	649,503	3,945,777	33,810,975
(Allocation between years)	1,246,258	479,423	596,563	1,030,666	(3,352,910)	0
Other	1,502,227	69,294	54,501	62,775	2,344,885	4,033,682
Total income collected	\$278,278,284	\$39,823,879	\$39,921,149	\$39,033,154	\$34,347,586	\$431,404,052
Less: Expenses Paid						
Losses paid	\$149,130,245	\$17,426,150	\$16,491,429	\$11,223,941	\$2,874,958	\$197,146,723
Allocated loss adjustment expenses paid	5,237,820	778,164	620,436	382,666	43,592	7,062,678
Administrative fees	9,005,592	1,032,794	1,030,683	1,014,187	1,017,260	13,100,516
Service agent's fees	16,662,200	2,264,977	2,117,705	2,059,889	1,595,789	24,700,560
Taxes, licenses and fees	3,961,109	611,892	926,228	966,711	14,759	6,480,699
Federal income tax	7,337,590	3,521,706	2,568,212	3,516,157	0	16,943,665
Other expenses	24,868,270	4,164,502	4,213,187	4,364,619	2,988,187	40,598,765
Total expenses	\$216,202,826	\$29,800,185	\$27,967,880	\$23,528,170	\$8,534,545	\$306,033,606
Net cash income	\$62,075,458	\$10,023,694	\$11,953,269	\$15,504,984	\$25,813,041	\$125,370,446
Add: Receivables						
Premiums receivable	\$0	\$0	\$0	\$0	\$1,786,936	\$1,786,936
Interest due and accrued	217,733	83,787	104,259	180,125	103,611	689,515
Recoverable on paid losses	1,249,149	0	0	0	0	1,249,149
Other	0	0	235,285	676,902	457,911	1,370,098
Total	\$1,466,882	\$83,787	\$339,544	\$857,027	\$2,348,458	\$5,095,698
Deduct: Liabilities						
Losses unpaid	\$5,584,774	\$4,241,499	\$6,041,007	\$9,945,204	\$16,383,459	\$42,195,943
Loss adjustment expenses	119,002	111,305	135,372	296,155	483,040	1,144,874
Contingency reserve	418,722	1,246,487	1,256,700	1,206,571	737,567	4,866,047
Unearned premiums	0	0	0	0	9,390,437	9,390,437
Premium refunds payable	11,366	3,582	0	26,912	4,353,909	4,395,769
Administrative fees payable	0	0	43	0	201,523	201,566
Service agent's fees payable	0	0	121	0	0	121
Taxes, licenses and fees payable	0	0	0	0	1,192,612	1,192,612
Other expenses payable	0	0	0	0	272,212	272,212
Total	\$6,133,864	\$5,602,873	\$7,433,243	\$11,474,842	\$33,014,759	\$63,659,581

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

	<u>All Other Fiscal Years Preceding 1981-2005</u>	<u>Third Fiscal Year Preceding 2005/2006</u>	<u>Second Fiscal Year Preceding 2006/2007</u>	<u>First Fiscal Year Preceding 2007/2008</u>	<u>Partial Current Fiscal Year 4/1/08-12/31/08</u>	<u>Total Inception to Date 1981-2008</u>
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$57,408,476	\$4,504,608	\$4,859,570	\$4,887,169	(\$4,853,260)	\$66,806,563
Less: Dividends paid inception to date by fiscal year	37,704,277	1,196,849	999,494	0	0	39,900,620
Less: Restricted Members' Equity by fiscal year	897,680	106,512	106,512	106,511	106,511	1,323,726
Less: Board Discretionary Fund	<u>1,801,082</u>	<u>37,489</u>	<u>37,489</u>	<u>37,490</u>	<u>37,490</u>	<u>1,951,040</u>
Unrestricted Members' Equity undistributed by fiscal year	\$17,005,437	\$3,163,758	\$3,716,075	\$4,743,168	(\$4,997,261)	\$23,631,177
Less: Dividends declared but unpaid	<u>1,846,114</u>	<u>303,151</u>	<u>700,506</u>	<u>500,000</u>	<u>0</u>	<u>3,349,771</u>
Unrestricted Members' Equity 12/31/08	<u>\$15,159,323</u> *	<u>\$2,860,607</u>	<u>\$3,015,569</u>	<u>\$4,243,168</u>	<u>(\$4,997,261)</u>	<u>\$20,281,406</u>

* Although the cumulative unrestricted members' equity for the fiscal years 1981-2005 at December 31, 2008 was \$15,159,323, the 1995/1996 fiscal year had members' equity deficit of \$14,266.

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

	Amount Per <u>Association</u>	Amount Per <u>Examiner</u>	Increase (Decrease) <u>Members' Equity</u>
Assets:			
Premiums receivable	\$5,958	\$1,786,936	\$1,780,978
Agent's commissions receivable	150,474	284,614	134,140
Prepaid service agent's fees	188,279	224,633	36,354
Liabilities:			
Contingency reserve	\$5,147,859	\$4,866,047	\$281,812
Unearned premiums	8,494,817	9,390,437	(895,620)
Premium refunds payable	14,948	4,395,769	(4,380,821)
Administrative fees payable	215,050	201,566	13,484
Taxes, licenses and fees payable	680,000	1,192,612	(512,612)
Agent's commissions payable	104,059	0	104,059
Professional fees payable	30,000	35,500	(5,500)
Examiners' changes in members' equity			<u>(\$3,443,726)</u>
Restricted and unrestricted members' equity per Association			\$26,999,898
Restricted and unrestricted members' equity per Examiners			<u>23,556,172</u>
Decrease in unrestricted members' equity			<u>(\$3,443,726)</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Management and Control

1. The results of this examination reflect an unrestricted members' equity deficit for the 1995/1996 and 2008/2009 fiscal years of \$14,266, and \$4,997,261 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 5-370-100 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 utilize a control report and has established procedures in place to monitor the member financial statements and to assure that the most current financial information is obtained; however, a review of the control report indicated 11 errors in data input that resulted in 9 active members not having a current financial statement on file. These 9 member financial statements were found to be dated between April 2007 and January 2008. The Association has since responded with final demand letters and cancellation letters to those members that have failed to submit an updated financial statement. It is recommended that the Association make every effort to ensure the data keyed into the control report is accurate and a supervisory review is performed periodically for effective monitoring of member financial statements ensuring a valid current financial statement is maintained.

Accounts and Records

- | | |
|--------------------------------|--------------------|
| 3. <u>Premiums receivable</u> | <u>\$1,786,936</u> |
| <u>Premium refunds payable</u> | <u>\$4,395,769</u> |

The above amounts have been increased \$1,780,978 and \$4,380,821, respectively. The Examiners' amounts are based on subsequent 2008/2009 fiscal year payroll audits and reflect differences in audited contributions and contributions paid prorated for the period April 1 through December 31, 2008. Additionally, premiums refunds payable for the 2007/2008 and prior fiscal years not paid until 2009, totaling \$41,860, have been included in the above account balance reported by the Examiners.

4. Prepaid service agent's fees \$224,633

The above asset is \$36,354 more than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount is based on the subsequent 2008/2009 fiscal year payroll audits and reflects the differences between the fees owed for the period April 1 through December 31, 2008, and the amounts actually paid at December 31, 2008.

5. Agent's commissions receivable \$284,614

The above asset is \$134,140 more than the amount reported by the Association in its 2008 Annual Statement. The Examiner's amount is based on a review of agent commission settlements for fiscal years 2006/2007 and 2007/2008 and verification of subsequent receipts. Additionally, no agent's commissions receivable is admitted for the 2008/2009 fiscal year as all of the member payroll audits are not finalized as of the date of this examination report, therefore, no settlement invoicing has commenced to establish a receivable balance.

6. Contingency reserve \$4,866,047

The above liability is \$281,812 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 subsequent 2008/2009 fiscal year payroll audits, which is the basis for the calculation of the contingency reserve.

7. Unearned premiums \$9,390,437

The above liability is \$895,620 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 fiscal year payroll audits.

8. Administrative fees payable \$201,566

The above liability is \$13,484 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount is based on subsequent 2008/2009 fiscal year payroll audits and reflects the differences between the fees owed for the period April 1 through December 31, 2008, and the amounts actually paid at December 31, 2008.

9. Taxes, licenses, and fees payable \$1,192,612

The above liability is \$512,612 more than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount is based on a review of invoices paid in 2009 for taxes pertaining to 2008.

10. Agent's commissions payable \$0

The above liability is \$104,059 less than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount is based on a review of agent commissions for the 2008/2009 fiscal year and reflects the differences between the agent commissions owed and the amounts actually paid at December 31, 2008.

11. Professional fees payable \$35,500

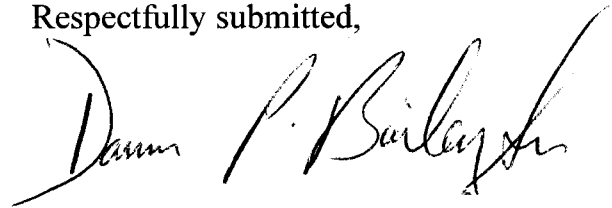
The above liability is \$5,500 more than the amount reported by the Association in its 2008 Annual Statement. The Examiners' amount is based on a review of invoices paid in 2009 for services pertaining to or provided in 2008.

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." with a stylized flourish at the end.

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



Commonwealth Contractors

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COMMONWEALTH CONTRACTORS
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December 23, 2009

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

Members' Supervisory Board

Michael T. Boggs, Chairman
Haley, Chisholm & Morris, Inc.

Henry Zirkle, Vice Chairman
Morris Industries, Inc.

Wayne Boggs, Secretary
Richmond Alarm Company

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Self-Insured Concepts, Inc.
Bradley D. Adams, President
100 Walton Park Lane
Midlothian, VA 23114
804-858-2000

Service Company

Landin, Inc.
David C. Landin, President
P.O. Box 17590
Richmond, VA 23226
804-359-9600

**Re: Commonwealth Contractors Group Self-Insurance Association
Examination Report as of December 31, 2008**

Dear Mr. Smith:

In reference to your letter of December 2, 2009, included below are the Association's responses to the Examiners "Recommendations for Corrective Action" found on pages 16 through 18 of the examination report.

Recommendation #1 concerning unrestricted members' equity deficits for the 1995/1996 and 2008/2009 plan years has been addressed and those deficits no longer exist.

Recommendation #2 concerning 11 data input errors resulting in nine member financial statements that were older than the requirement has been addressed. A new quarterly procedure is in place which includes a review of all financial statement dates.

All other comments or recommendations for corrective action relate to adjustments based upon subsequent payroll audits or information that became available after the Annual Statement was prepared. The Annual Statement was filed based upon estimated premiums.

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 ten (10) copies of the final Examination Report.

Sincerely,

A handwritten signature in black ink that reads "Michael T. Boggs". The signature is written in a cursive style with a large initial "M" and a stylized "B".

Michael T. Boggs, Chairman
Commonwealth Contractors GSIA

MTB/lrp