

Virginia Interlocal Risk Sharing Association RE, LLC

Combined Financial Statements

June 30, 2025



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VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members
Virginia Interlocal Risk Sharing Association RE, LLC
Glen Allen, Virginia

Opinion

We have audited the accompanying combined financial statements of Virginia Interlocal Risk Sharing Association RE, LLC and its affiliated protected cell (collectively, the "Association"), which comprise the combined balance sheet as of June 30, 2025, and the related combined statements of operations, changes in members' equity, and cash flows for the year then ended, and the related notes to the combined financial statements.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Virginia Interlocal Risk Sharing Association RE, LLC and its affiliated protected cell as of June 30, 2025, and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Association and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern within one year after the date that the combined financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Combined Financial Statements

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Association's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.



December 19, 2025
Glen Allen, Virginia

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Combined Balance Sheet
June 30, 2025

<u>Assets</u>	
General assets:	
Cash and cash equivalents	\$ 9,786
Prepaid expenses	5,000
Total general assets	<u>14,786</u>
Assets held for cell:	
Cash and cash equivalents	5,856,725
Investments	14,376,418
Prepaid expenses	5,000
Accrued interest	108,155
Total assets held for cell	<u>20,346,298</u>
 Total assets	 <u>\$ 20,361,084</u>
<u>Liabilities and Members' Equity</u>	
General liabilities:	
Accounts payable	\$ <u>100,179</u>
Liabilities held for cell:	
Accounts payable	260,434
Liability for unpaid losses	12,234,415
Total liabilities held for cell	<u>12,494,849</u>
 Total liabilities	 <u>12,595,028</u>
Members' equity:	
Core/sponsor contributed capital	10,000
Core/sponsor accumulated deficit	(95,393)
Capital held for cell	3,062,310
Accumulated earnings held for cell	<u>4,789,139</u>
 Total members' equity	 <u>7,766,056</u>
 Total liabilities and members' equity	 <u>\$ 20,361,084</u>

See accompanying notes to combined financial statements.

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Combined Statement of Operations
Year Ended June 30, 2025

Revenues:		
Premium revenue earned		<u>\$ 3,651,537</u>
Operating expenses:		
Provision for losses and loss adjustment expenses, net		2,395,000
General and administrative expenses		<u>243,705</u>
Total operating expenses		<u>2,638,705</u>
Operating income		1,012,832
Non-operating income:		
Gain on investments, net		<u>960,686</u>
Net income		<u>\$ 1,973,518</u>

See accompanying notes to combined financial statements.

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Combined Statement of Changes in Members' Equity
Year Ended June 30, 2025

	Core / Sponsor			Cell			Total Members' Equity
	Accumulated			Accumulated			
	Capital	Deficit	Total	Capital	Earnings	Total	
Balance, July 1, 2024	\$ 10,000	\$ (75,243)	\$ (65,243)	\$ 3,062,310	\$ 2,795,471	\$ 5,857,781	\$ 5,792,538
Net income (loss)	-	(20,150)	(20,150)	-	1,993,668	1,993,668	1,973,518
Balance, June 30, 2025	<u>\$ 10,000</u>	<u>\$ (95,393)</u>	<u>\$ (85,393)</u>	<u>\$ 3,062,310</u>	<u>\$ 4,789,139</u>	<u>\$ 7,851,449</u>	<u>\$ 7,766,056</u>

See accompanying notes to combined financial statements.

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Combined Statement of Cash Flows
Year Ended June 30, 2025

Cash flows from operating activities:	
Net income	\$ 1,973,518
Adjustments to reconcile net income to net cash from operating activities:	
Realized and unrealized gain on investments	(431,976)
Provision for losses	2,395,000
Changes in operating assets and liabilities:	
Prepaid expenses	(10,000)
Accrued interest	(15,708)
Accounts payable	<u>103,697</u>
Net cash provided by operating activities	<u>4,014,531</u>
Cash flows from investing activities:	
Proceeds from calls and maturities of investments	2,772,660
Purchases of investments	<u>(5,514,088)</u>
Net cash used in investing activities	<u>(2,741,428)</u>
Net change in cash and cash equivalents	1,273,103
Cash and cash equivalents, beginning of year	<u>4,593,408</u>
Cash and cash equivalents, end of year	<u>\$ 5,866,511</u>

See accompanying notes to combined financial statements.

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Notes to Combined Financial Statements

1. Summary of Significant Accounting Policies:

Nature of Business

Virginia Interlocal Risk Sharing Association RE, LLC (“VIRSA”) was formed on June 21, 2018, in the state of North Carolina as a limited liability company. VIRSA is a protected cell captive insurance company engaged in the business of providing direct written insurance coverages for each protected cell. A protected cell represents a separate account established by the Association under the North Carolina Captive Insurance Act, in which assets and liabilities are segregated and limited from the remainder of the Association’s assets and liabilities in accordance with the terms of each Participation Agreement. At June 30, 2025, the Association had one protected cell, VIRSA Protected Cell (the “VIRSA PC”), for the benefit of its related entity, Virginia Risk Sharing Association (“VRSA”).

Basis of Accounting

The accompanying combined financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States (“GAAP”) as determined by the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”).

Principles of Combination

The combined financial statements include the financial activity of VIRSA, the sponsor/core, and VIRSA PC, the protected cell that is under common control and management, collectively the “Association”.

Cash and Cash Equivalents

The Association defines cash and cash equivalents as all cash and highly liquid investments with original maturity of three months or less.

Receivables

The Company follows FASB Accounting Standards Update (“ASU”) 2016-13, Financial Instruments – Credit Losses (“Topic 326”), which uses the current expected credit loss (“CECL”) model to estimate credit losses for most financial assets held at amortized cost. These receivables are stated at the amount management expects to collect from outstanding balances. Management closely monitors outstanding balances and provides for uncollectible amounts through a charge to earnings and a credit to an allowance for credit losses. Balances that are still outstanding after management has used reasonable collection efforts are written off.

Management has determined there was no allowance for credit losses that was considered necessary for accounts receivable at June 30, 2025.

Investments

The Association invests in government, corporate and municipal bonds. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the risks in the near term could materially affect amounts reported on the combined financial statements.

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Notes to Combined Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Investments, Continued

Investments are reflected at fair market value as described in Note 6. Unrealized gains and losses and all gains and losses arising from the sale or other disposition of investments are reported in the accompanying combined statement of operations.

Liability for Unpaid Losses

The reserve for losses and loss adjustment expenses ("LAE") is based on the estimated ultimate cost of settling claims, including the effects of inflation and other societal and economic factors. The length of time for which such costs must be estimated varies depending on the coverage involved. In estimating the reserve for losses and LAE, management uses the findings of a consulting actuary. Management believes the reserve for losses and LAE represents its best estimate of the ultimate cost of settling claims. However, because of future events beyond the control of management, such as changes in approved benefit rates, changes in law, judicial interpretations of law or inflation, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such liability. Accordingly, the ultimate liability could be significantly in excess of or less than the amount indicated in the combined financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Concentration of Credit Risk

The Association places its cash on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation ("FDIC") covers \$250,000 for substantially all depository accounts. The Association, from time-to-time, may have amounts on deposit in excess of the insured limits.

Use of Estimates

The preparation of combined financial statements in conformity with GAAP requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed therein. Significant estimates included in these combined financial statements primarily relate to the assumptions and methods used to estimate the liability for unpaid losses.

Recognition of Revenues

VIRSA PC recognizes revenue over the period of the contract for the insurance protection. Premiums charged in 2025 were for the coverage period July 1, 2024 through June 30, 2025.

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Notes to Combined Financial Statements, Continued

1. Summary of Significant Accounting Policies, Continued:

Income Taxes

VIRSA is wholly owned by VRSA and is considered a disregarded entity for federal income tax purposes. Accordingly, no provision or liability for income taxes has been included in the accompanying combined financial statements.

The protected cell is treated as a partnership for federal income tax purposes, and its partners report their respective share of the protected cell's taxable income or loss on their income tax returns. VIRSA PC is wholly owned by VRSA and is considered a disregarded entity for federal income tax purposes. Accordingly, no provision or liability for income taxes has been included in the accompanying combined financial statements.

The Association is required to pay a gross premiums tax to North Carolina and is not further subject to state franchise or income taxes.

Income Tax Uncertainties

The Association follows FASB guidance for how uncertain tax positions should be recognized, measured, disclosed and presented in the combined financial statements. This requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Association's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax expense and liability in the current year. Management evaluated the Association's tax position and concluded that the Association had taken no uncertain tax positions that require adjustment to the combined financial statements to comply with the provisions of this guidance. The Association is not currently under audit by any tax jurisdiction.

Subsequent Events

Management has evaluated subsequent events through December 19, 2025, the date the combined financial statements were available for issuance and has determined that no additional disclosures are necessary.

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Notes to Combined Financial Statements, Continued

2. Loss and Loss Adjustment Expense Reserves:

During 2025, workers' compensation coverage was subject to a limit of \$1,250,000 per occurrence with an annual aggregate limit of \$2,000,000. Liability coverage was subject to a limit up to \$1,000,000 per occurrence with an annual aggregate limit of \$1,250,000. Cyber liability was subject to a limit up to \$750,000 per occurrence with an annual aggregate limit of \$2,000,000.

VIRSA PC assumes a layer of workers' compensation reinsurance between the related party VRSA's \$750,000 primary layer and \$2,000,000. VRSA PC assumes a layer of excess liability reinsurance between the related party VRSA's \$1,000,000 primary layer and \$2,000,000. VIRSA PC assumes a layer of cyber liability reinsurance between the related party VRSA's \$250,000 layer and \$1,000,000.

VIRSA PC establishes an estimated liability for unpaid losses for both reported and unreported insured events occurring as of the balance sheet date, which include estimates of both future payments of losses and related claim adjustment expenses. This liability for unpaid losses is estimated by an independent actuary based on claims information as of June 30. VIRSA PC does not discount its loss reserves.

The following represents changes in the liability for unpaid losses during the year ended June 30, 2025:

Liability for unpaid losses at beginning of year	\$	9,839,415
Incurred (adjusted) related to:		
Current year		3,050,000
Prior years		(655,000)
Total incurred, net		2,395,000
Paid related to:		
Current year		-
Prior years		-
Total payments		-
Liability for unpaid losses at end of year	\$	12,234,415

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Notes to Combined Financial Statements, Continued

2. Loss and Loss Adjustment Expense Reserves, Continued:

Incurred losses and loss adjustment expenses by accident year was \$1,500,000 for workers' compensation coverage and \$1,100,000 for liability coverage (including cyber liability coverage) for accident year 2025.

Incurred losses and loss adjustment expenses by accident year are as follows for the years ended June 30:

Workers' compensation coverage:

Accident year	2019 unaudited	2020 unaudited	2021 unaudited	2022 unaudited	2023 unaudited	2024 unaudited	2025	Total incurred but not reported liabilities plus expected development on reported claims	Cumulative number of reported claims
2019	\$ 1,700,000	\$ 1,700,000	\$ 1,700,000	\$ 1,583,752	\$ 1,300,000	\$ 1,250,000	\$ 1,135,000	\$ 230,205	2
2020		-	673,137	934,959	750,000	700,000	550,000	113,000	1
2021			1,521,672	1,700,000	1,700,000	1,700,000	1,675,000	406,065	2
2022				1,512,651	1,425,000	1,275,000	1,150,000	402,192	2
2023					1,150,000	1,650,000	1,600,000	455,950	3
2024						1,450,000	1,000,000	1,000,000	0
2025							<u>1,500,000</u>	1,117,811	1
						Total	<u>\$ 8,610,000</u>		

Liability coverage (including cyber liability coverage):

Accident year	2019 unaudited	2020 unaudited	2021 unaudited	2022 unaudited	2023 unaudited	2024 unaudited	2025	Total incurred but not reported liabilities plus expected development on reported claims	Cumulative number of reported claims
2019	\$ 320,585	\$ 450,756	\$ 775,701	\$ 1,013,032	\$ 1,020,000	\$ 950,000	\$ 900,000	\$ 99,627	2
2020		-	328,972	384,760	300,000	400,000	350,000	59,882	2
2021			421,545	327,317	200,000	130,000	100,000	100,000	0
2022				841,313	600,000	410,000	325,000	325,000	0
2023					1,150,000	875,000	1,200,000	200,000	1
2024						1,150,000	1,300,000	519,660	1
2025							<u>1,550,000</u>	1,450,000	1
						Total	<u>\$ 5,725,000</u>		

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Notes to Combined Financial Statements, Continued

2. Loss and Loss Adjustment Expense Reserves, Continued:

Cumulative paid losses and loss adjustment expenses, net of reinsurance, by accident year are as follows for the years ended June 30:

Workers' compensation coverage:

Accident year	2019 unaudited	2020 unaudited	2021 unaudited	2022 unaudited	2023 unaudited	2024 unaudited	2025
2019	\$ 588,427	\$ 588,427	\$ 588,427	\$ 588,427	\$ 737,229	\$ 737,229	\$ 737,229
2020		-	-	-	-	-	-
2021			-	638,741	750,000	750,000	750,000
2022				-	-	-	-
2023					-	78,980	78,980
2024						-	-
2025							-
						Total	<u>\$ 1,566,209</u>

Liability coverage (including cyber liability coverage):

Accident year	2019 unaudited	2020 unaudited	2021 unaudited	2022 unaudited	2023 unaudited	2024 unaudited	2025
2019	\$ -	\$ 102,150	\$ 233,625	\$ 620,000	\$ 808,489	\$ 832,471	\$ 832,471
2020		-	-	-	165,747	274,562	274,562
2021			-	-	-	-	-
2022				-	-	-	-
2023					-	-	-
2024						-	-
2025							-
						Total	<u>\$ 1,107,033</u>

The following table presents supplemental information about the average historical annual percentage payout of incurred losses by age, net of reinsurance. The amounts reflected below represent the average length of time between the occurrence of a loss and its payment. These percentages are averages of the years present and therefore may not equal 100%.

Workers' compensation coverage:

Unaudited						
Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
26.6%	61.7%	4.9%	0.0%	6.7%	0.0%	0.0%

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Notes to Combined Financial Statements, Continued

2. Loss and Loss Adjustment Expense Reserves, Continued:

Liability coverage (including cyber liability coverage):

Unaudited						
Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
0.0%	6.1%	7.9%	53.4%	31.1%	1.4%	0.0%

3. Capital and Surplus:

The Association must maintain certain minimum capital and surplus requirements in accordance with the North Carolina Department of Insurance (NCDI). VIRSA is required to maintain capital and surplus of at least \$10,000 in cash, investments, or other instruments acceptable to NCDI. VIRSA PC is required to maintain surplus of at least \$1,500,000 in cash, investments, or other instruments acceptable to NCDI. The Association's ability to pay policyholder dividends is restricted and subject to regulatory approval by NCDI. At June 30, 2025, the NCDI is treating VIRSA and VIRSA PC as a single entity for minimum capital and surplus requirements as there is only one cell in operation. As such, the Association's reported capital and surplus meets these minimum regulatory requirements.

4. Related Party Transactions:

Per the terms of the administrative services agreement between VIRSA PC and VRSA, VIRSA PC paid fees for claim management and loss control services to VRSA. The claim management fee is the equivalent of 3 percent of premium and the loss control fee is the equivalent of 1 percent of premium. For 2025 these fees totaled \$146,062.

5. Investments:

The costs basis and fair values of debt securities at June 30, 2025 were as follows:

	Cost	Fair Value	Cumulative Unrealized Gain (Loss)
Obligations of U.S.			
government agencies	\$ 6,816,419	\$ 6,744,647	\$ (71,772)
Corporate bonds	7,115,202	7,211,291	96,089
Municipal bonds	415,897	420,480	4,583
	\$ 14,347,518	\$ 14,376,418	\$ 28,900

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Notes to Combined Financial Statements, Continued

5. Investments, Continued:

The following schedule summarizes the gain on investments for the year ended June 30, 2025:

Interest and dividends	\$ 528,710
Realized gain on investments	28,705
Unrealized gain on investments	<u>403,271</u>
	<u>\$ 960,686</u>

6. Fair Value Measurements:

The Association follows FASB guidance on fair value measurements. The provisions of the guidance provides a framework for measuring fair value under generally accepted accounting principles and defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. This guidance also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels.

Based on the underlying inputs, each fair value measurement in its entirety is reported in one of three levels:

Level 1	Quoted prices in active markets
Level 2	Directly or indirectly observable valuations in the marketplace at the measurement date other than Level 1 inputs
Level 3	Valuations unobservable in the marketplace at the measurement date

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Government obligations and municipal bonds: Valued using pricing models maximizing the use of observable inputs for similar securities.

Corporate bonds: Valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

VIRGINIA INTERLOCAL RISK SHARING ASSOCIATION RE, LLC

Notes to Combined Financial Statements, Continued

6. Fair Value Measurements, Continued:

The following table set forth by level, within the fair value hierarchy, the Association's assets measured at fair value as of June 30, 2025:

	<u>Level 2</u>
Obligations of U.S. government agencies	\$ 6,744,647
Corporate bonds	7,211,291
Municipal bonds	<u>420,480</u>
	<u>\$ 14,376,418</u>