



ALABAMA **RETAIL**  
COMP

**Alabama Retail Association  
Workers' Compensation Self-Insurance  
Fund d/b/a Alabama Retail Comp**

**FINANCIAL STATEMENTS**


**December 31, 2014 and 2013**



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**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Table of Contents  
December 31, 2014 and 2013**

**TAB: REPORT**

Independent Auditors' Report 1

**TAB: FINANCIAL STATEMENTS**

Balance Sheets 3

Statements of Income and Comprehensive Income 4

Statements of Changes in Members' Equity 5

Statements of Cash Flows 6

Notes to Financial Statements 7



# REPORT



## **INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Alabama Retail Association Workers'  
Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Alabama Retail Association Workers' Compensation Self-Insurance Fund, d/b/a Alabama Retail Comp, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income and comprehensive income, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alabama Retail Association Workers' Compensation Self-Insurance Fund, d/b/a Alabama Retail Comp, as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Disclaimer of Opinion on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of revenues and expenses by fund year, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

*Carly Riggs & Ingram, L.L.C.*

Montgomery, Alabama  
June 19, 2015



# **FINANCIAL STATEMENTS**

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Balance Sheets**

<i>December 31,</i>	<b>2014</b>	<b>2013</b>
<b>Assets</b>		
Investments in marketable securities	<b>\$ 68,158,067</b>	\$ 65,848,200
Cash and cash equivalents	<b>5,067,027</b>	3,999,609
Accrued interest receivable	<b>363,464</b>	376,433
Member contributions receivable	<b>1,997,826</b>	2,034,117
Excess insurance receivable	<b>55,035</b>	13,379
Excess insurance recoverable on unpaid losses	<b>3,946,874</b>	3,603,404
Deposit - Department of Industrial Relations	<b>200,000</b>	200,000
Federal income tax deposit	<b>636,696</b>	738,553
Prepaid expenses	<b>448,656</b>	112,697
Property and equipment, net	<b>1,053,539</b>	1,321,723
<b>Total assets</b>	<b>\$ 81,927,184</b>	<b>\$ 78,248,115</b>
<b>Liabilities and members' equity</b>		
<b>Liabilities</b>		
Unpaid losses and loss adjustment expenses	<b>\$ 29,563,085</b>	\$ 27,922,043
Accrued liabilities	<b>257,063</b>	431,206
Member contribution overpayments	<b>1,170,221</b>	1,311,244
Unearned contributions	<b>2,839,706</b>	2,833,174
Reserves for retrospective refunds	<b>27,341,191</b>	26,127,321
Deferred tax liability	<b>1,959,104</b>	2,068,269
<b>Total liabilities</b>	<b>63,130,370</b>	60,693,257
<b>Members' equity</b>		
Equity	<b>15,990,036</b>	14,916,875
Accumulated other comprehensive income	<b>2,806,778</b>	2,637,983
<b>Total members' equity</b>	<b>18,796,814</b>	17,554,858
<b>Total liabilities and members' equity</b>	<b>\$ 81,927,184</b>	<b>\$ 78,248,115</b>

*The accompanying notes are an integral part of these financial statements.*

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Statements of Income and Comprehensive Income**

<i>For the years ended December 31,</i>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Member contributions	\$ 19,686,118	\$ 17,703,720
Investment income	1,689,858	1,574,619
Other income	-	20,829
Gain on sale of investments	512,411	529,199
<b>Total revenues</b>	<b>21,888,387</b>	<b>19,828,367</b>
<b>Expenses</b>		
Administrative expenses	3,399,144	2,951,595
Brokers' commissions	1,622,921	1,351,056
Depreciation expense	355,646	324,393
Excess insurance premium	959,279	940,357
Losses and loss adjustment expenses	6,949,366	5,047,724
<b>Total expenses</b>	<b>13,286,356</b>	<b>10,615,125</b>
Net income before increase in reserves for retrospective refunds and provision (benefit) for income taxes	<b>8,602,031</b>	9,213,242
Increase in reserves for retrospective refunds	<b>7,564,001</b>	7,030,146
Net income before provision (benefit) for income taxes	<b>1,038,030</b>	2,183,096
Provision (benefit) for income taxes		
Current	168,800	718,566
Deferred	<b>(203,931)</b>	17,655
<b>Net income</b>	<b>1,073,161</b>	<b>1,446,875</b>
<b>Other comprehensive income:</b>		
Unrealized gains on marketable securities arising during the period (net of federal income tax of \$296,586 and \$198,444 for 2014 and 2013)	<b>575,728</b>	385,216
Reclassification adjustment for gains included in net income during the period (net of federal income tax of \$209,632 and \$409,552 for 2014 and 2013)	<b>(406,933)</b>	(795,013)
<b>Other comprehensive income (loss)</b>	<b>168,795</b>	(409,797)
<b>Comprehensive income</b>	<b>\$ 1,241,956</b>	<b>\$ 1,037,078</b>

*The accompanying notes are an integral part of these financial statements.*



**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Statements of Changes in Members' Equity**

	Equity	Accumulated Other Comprehensive Income	Total Members' Equity
<b>Balance, December 31, 2012</b>	<b>\$ 13,470,000</b>	<b>\$ 3,047,780</b>	<b>\$ 16,517,780</b>
Net change in unrealized gains on marketable securities (net of federal income tax benefit of \$211,108)	-	(409,797)	(409,797)
Net income	1,446,875	-	1,446,875
<b>Balance, December 31, 2013</b>	<b>14,916,875</b>	<b>2,637,983</b>	<b>17,554,858</b>
Net change in unrealized gains on marketable securities (net of federal income tax of \$86,954)	-	168,795	168,795
Net income	1,073,161	-	1,073,161
<b>Balance, December 31, 2014</b>	<b>\$ 15,990,036</b>	<b>\$ 2,806,778</b>	<b>\$ 18,796,814</b>

*The accompanying notes are an integral part of these financial statements.*

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Statements of Cash Flows**

<i>For the years ended December 31,</i>	<b>2014</b>	<b>2013</b>
<b>Operating activities</b>		
Net income	\$ 1,073,161	\$ 1,446,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	400,476	411,553
Deferred income tax benefit	(203,931)	17,655
Gain on sale of investments	(512,411)	(529,199)
Change in operating assets and liabilities:		
Accrued interest receivable	12,969	16,293
Member contributions receivable	36,291	13,217
Excess insurance receivable	(41,656)	62,705
Excess insurance recoverable on unpaid losses	(343,470)	1,402,767
Federal income tax deposit	101,857	(26,394)
Prepaid expenses	(335,959)	260,421
Unpaid losses and loss adjustment expenses	1,641,042	2,685,331
Accrued liabilities	(174,143)	275,877
Member contribution overpayments	(141,023)	63,051
Unearned contributions	6,532	(48,930)
Reserves for retrospective refunds	1,213,870	1,730,334
<b>Net cash provided by operating activities</b>	<b>2,733,605</b>	<b>7,781,556</b>
<b>Investing activities</b>		
Purchase of fixed assets	(88,210)	(69,237)
Purchase of securities	(12,506,446)	(21,871,475)
Proceeds from sales and maturities of securities	10,928,469	15,592,515
<b>Net cash used in investing activities</b>	<b>(1,666,187)</b>	<b>(6,348,197)</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,067,418</b>	<b>1,433,359</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>3,999,609</b>	<b>2,566,250</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,067,027</b>	<b>\$ 3,999,609</b>
<b>Supplemental disclosures:</b>		
Cash paid for income taxes	\$ 170,000	\$ 150,000

*The accompanying notes are an integral part of these financial statements.*

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 1: NATURE OF BUSINESS**

The Alabama Retail Association Workers' Compensation Self-Insurance Fund d/b/a Alabama Retail Comp (the Fund) was established in 1984 to provide a program of self-insurance for participating members of Alabama Retail Association under the requirements of the Alabama Workmen's Compensation Law. All transactions involving the Fund are accounted for by fund year. Members' equity is comprised of the claims fund and trustees fund. The claims fund accounts for a percentage as determined by the Department of Labor of the contributions less losses and loss adjustment expenses. The trustees fund accounts for investment income, a percentage as determined by the Department of Labor of contributions, and other income less administrative expenses. Each fund year receives member contributions from participants. These monies and the interest earned thereon are used to pay claims and administrative expenses, to purchase excess insurance to protect the Fund against exceptionally large losses, and to make distributions to members as the Trustees deem appropriate. Return of any excess monies to the participants of each year may be made only from the fund balance of that fund year subject to the approval of the State of Alabama, Department of Labor, Workmen's Compensation Division. In the event of a deficiency in a plan year, additional assessments could be made against participants of that plan year. Under State of Alabama law, the members of a workers' compensation fund are jointly and severally liable.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

This summary of significant accounting policies of the Fund is presented to assist in understanding the Fund's financial statements. The financial statements and notes are representations of the Fund's management, who is responsible for their integrity and objectivity. These accounting policies conform to U.S. generally accepted accounting principles and have been consistently applied in the preparation of the financial statements. The significant accounting policies followed by the Fund are summarized as follows:

***Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include member contributions that are estimated based on a historical ratio of year-end cash receipts to final member contributions and unpaid losses and loss adjustment expenses. Each of these estimates may differ from amounts ultimately realized.

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Basis of Presentation***

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles.

***Securities Held-to-Maturity***

Bonds, notes, and redeemable and non-redeemable preferred stock for which the Fund has the intent and ability to hold to maturity are reported at amortized cost, adjusted for amortization of premiums or discounts and other than temporary declines in fair value.

***Securities Available-for-Sale***

Bonds, notes, common stock, and redeemable preferred stock not classified as held-to-maturity are reported at fair value, adjusted for other than temporary declines in fair value, with the change in unrealized gains and losses reported as other comprehensive income, with accumulated other comprehensive income as a separate component of members' equity. Realized gains and losses are determined on the specific identification method.

***Cash Equivalents***

For the purpose of presentation in the Fund's statements of cash flows, cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near to maturity that they present insignificant risk of changes in value due to changing interest rates.

***Member Contributions Receivable***

The Fund considers member contributions receivable to be fully collectible; accordingly, no allowance for doubtful accounts is required. The direct write-off method used by the Fund yields approximately the same results as the allowance method. If amounts become uncollectible, they will be charged to operations when that determination is made.

***Excess Insurance***

In the normal course of business, the Fund seeks to reduce the loss that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Amounts recoverable from reinsurers are estimated in a manner consistent with the reinsured policy.

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Property and Equipment***

Expenditures for major renewals or betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Property and equipment are recorded at cost and depreciated using straight-line depreciation methods over the estimated useful lives of the respective assets.

***Insurance Liabilities***

The liability for unpaid losses and loss adjustment expenses includes an amount determined from loss reports and individual cases and an amount, based on past experience, for losses incurred but not reported. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in earnings currently. The reserve for unpaid losses and loss adjustment expenses is reported discounted and net of receivables for salvage and subrogation.

***Income Taxes***

Income tax provisions are based on the asset and liability method. Deferred federal income taxes have been provided for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Such differences are related principally to depreciation, capital losses, unearned contributions, present value discount of unpaid losses and loss adjustment reserves, unrealized gains and losses on available-for-sale securities and differences in financial statement and tax retrospective refunds.

The Fund has adopted the provisions of Financial Accounting Standards Board Accounting Standards Codification (ASC) No. 740, Accounting for Uncertainty in Income Taxes. As a result of the implementation of ASC No. 740, the Fund has not recognized any respective liability for unrecognized tax benefits as it has no known tax positions that would subject the Fund to any material income tax exposure. A reconciliation of the beginning and ending amount of unrecognized tax benefits is not included, nor is there any interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses as there are no unrecognized tax benefits. The tax years that remain subject to examination are the years ended December 31, 2011 through 2014 for all major tax jurisdictions.

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

***Recognition of Member Contribution Revenues***

Workers' compensation contributions are generally recognized as revenue on a pro rata basis over the coverage term. The portion of contributions that will be earned in the future are deferred and reported as unearned contributions.

***Retrospective Refunds***

The Fund maintains a retrospective refund plan. The effect of the plan is to contractually bind the Fund to return to members of the Fund any and all excess revenues over expenses, exclusive of the present value discount on unpaid losses and loss adjustment expenses and the deferred income taxes associated with that present value discount. The present value discount and related deferred income taxes are excluded in order to preserve the Fund's financial reserves. The total reserves for retrospective refunds are \$27,341,191 and \$26,127,321 at December 31, 2014 and 2013, respectively.

Included in this total are \$7,676,962 and \$6,589,290 for 2014 and 2013, respectively, which represent current refunds due to members that are to be returned to members in the subsequent year. Also included in the total are \$19,664,835 and \$19,538,031 for 2014 and 2013, respectively, which represent refunds due to members that will be returned in future years.

***Evaluation of Subsequent Events***

Management has evaluated subsequent events through June 19, 2015, the date on which these financial statements were available to be issued.

***Reclassifications***

Certain reclassifications have been made to the prior year financials statement in order for them to be in conformity with the current year presentation. These reclassifications had no effect on net income.

**Alabama Retail Association**  
**Workers' Compensation Self-Insurance Fund**  
**d/b/a Alabama Retail Comp**  
**Notes to Financial Statements**

**NOTE 3: INVESTMENTS IN MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS**

Major categories of net investment income are summarized as follows:

<i>For the years ended December 31,</i>	<b>2014</b>	<b>2013</b>
Fixed maturities	\$ 1,482,894	\$ 1,396,577
Equity securities	206,071	177,201
Other interest	893	841
	<b>\$ 1,689,858</b>	<b>\$ 1,574,619</b>

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 3: INVESTMENTS IN MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS  
(CONTINUED)**

The aggregate fair value, gross unrealized gains, gross unrealized losses, and amortized cost for available-for-sale by major security type at December 31, 2014 and 2013 are as follows:

<i>December 31, 2014</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Available-for-sale securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 33,240,617	\$ 731,385	\$ (138,829)	\$ 33,833,173
Corporate debt securities	23,608,437	578,576	(85,272)	24,101,741
Equity securities	7,056,319	3,246,011	(79,177)	10,223,153
	<b>\$ 63,905,373</b>	<b>\$ 4,555,972</b>	<b>\$ (303,278)</b>	<b>\$ 68,158,067</b>

<i>December 31, 2013</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Available-for-sale securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 31,973,391	\$ 870,847	\$ (396,289)	\$ 32,447,949
Corporate debt securities	23,390,004	746,201	(310,879)	23,825,326
Equity securities	6,487,861	3,104,700	(17,636)	9,574,925
	<b>\$ 61,851,256</b>	<b>\$ 4,721,748</b>	<b>\$ (724,804)</b>	<b>\$ 65,848,200</b>



**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 3: INVESTMENTS IN MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS  
(CONTINUED)**

Gross realized gains on sales of available-for-sale securities were:

<i>For the years ended December 31,</i>	<b>2014</b>	<b>2013</b>
Gross realized gains:		
U.S. Treasury securities and obligations of U.S. government agencies	\$ 22,834	\$ 76,725
Corporate debt securities	63,207	15,419
Equity securities	463,794	444,447
	<b>\$ 549,835</b>	<b>\$ 536,591</b>

Gross realized losses on sales of available-for-sale securities were:

<i>For the years ended December 31,</i>	<b>2014</b>	<b>2013</b>
Gross realized losses:		
U.S. Treasury securities and obligations of U.S. government agencies	\$ 677	\$ 6,452
Corporate debt securities	1,189	735
Equity securities	35,558	205
	<b>\$ 37,424</b>	<b>\$ 7,392</b>

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 3: INVESTMENTS IN MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS  
(CONTINUED)**

The scheduled maturities of available-for-sale securities were as follows:

<i>December 31, 2014</i>	<b>Amortized Cost</b>	<b>Fair Value</b>
Available-for-sale securities:		
Due in one year or less	\$ 3,101,247	\$ 3,144,448
Due after one year through five years	38,231,302	39,269,508
Due after five years through ten years	15,516,505	15,520,958
	<b>56,849,054</b>	<b>57,934,914</b>
Equity securities	7,056,319	10,223,153
	<b>\$ 63,905,373</b>	<b>\$ 68,158,067</b>

Cash and cash equivalents consist of the following:

<i>December 31,</i>	<b>2014</b>	<b>2013</b>
Cash and cash equivalents:		
Checking accounts and money market mutual funds	\$ 4,594,465	\$ 3,575,271
Money market and brokerage accounts	472,562	424,338
	<b>\$ 5,067,027</b>	<b>\$ 3,999,609</b>

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 3: INVESTMENTS IN MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS  
(CONTINUED)**

Information pertaining to securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than twelve months		Over twelve months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<i>December 31, 2014</i>				
Debt securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 4,597	\$ 2,354,521	\$ 134,232	\$ 6,937,101
Corporate debt securities	26,768	3,408,549	58,504	5,012,743
Total debt securities	31,365	5,763,070	192,736	11,949,844
Equity securities	56,765	593,859	22,412	219,238
	\$ 88,130	\$ 6,356,929	\$ 215,148	\$ 12,169,082

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 3: INVESTMENTS IN MARKETABLE SECURITIES, CASH AND CASH EQUIVALENTS  
(CONTINUED)**

	Less than twelve months		Over twelve months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
<i>December 31, 2013</i>				
Debt securities:				
U.S. Treasury securities and obligations of U.S. government agencies	\$ 369,144	\$ 13,263,875	\$ 27,145	\$ 472,850
Corporate debt securities	252,420	7,669,766	58,459	2,203,193
Total debt securities	621,564	20,933,641	85,604	2,676,043
Equity securities	6,528	98,014	11,108	78,416
	\$ 628,092	\$ 21,031,655	\$ 96,712	\$ 2,754,459

Management evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Fund to retain its investments in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2014 and 2013, 114 and 50 securities in the Fund's portfolio were in a loss position, and all had aggregate depreciation of less than 1% from the Fund's amortized cost basis. In analyzing an issuer's financial condition, management considers the issuer of the securities (federal government or any government agency), whether downgrades by bond rating or other agencies have occurred, and industry analysts' reports.

Because management has the ability to hold debt and equity securities until maturity or for the foreseeable future if classified as available-for-sale, no declines in these securities are deemed to be other than temporary.

At December 31, 2014 and 2013, there were no securities in the Fund's portfolio that were determined to be permanently impaired (other than temporary decline in fair value).

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 4: FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board Accounting Standards Codification No. 820, *Fair Value Measurements and Disclosures (ASC No. 820)*, 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. The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC No. 820 describes three levels of inputs that may be used to measure fair value:

<b>Level 1</b>	Quoted market prices in active markets for identical assets or liabilities.
<b>Level 2</b>	Observable market based inputs or unobservable inputs that are corroborated by market data.
<b>Level 3</b>	Unobservable inputs that are not corroborated by market data.

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 4: FAIR VALUE MEASUREMENTS (CONTINUED)**

When securities are traded in secondary markets and quoted market prices are not available, the Fund generally relies on prices obtained from independent vendors. Vendors compile prices from various sources and often apply matrix pricing for similar securities when no price is observable. Securities measured with these valuation techniques are generally classified within Level 2 of the valuation hierarchy and often involve using quoted market prices for similar securities, pricing models or discounted cash flow analyses using inputs observable in the market where available. Examples include U.S. government agency securities, residential mortgage-backed securities and corporate debt securities. There have been no changes in the methodologies used at December 31, 2014 and 2013. The Fund's investments in marketable securities were measured at fair value on a recurring basis in the balance sheets as follows:

<i>December 31, 2014</i>	Based on:		
	Level 1	Level 2	Level 3
U.S. Treasury securities and obligations of U.S. government agencies	\$ -	\$ 33,833,173	\$ -
Corporate debt securities	-	24,101,741	-
Equity securities	10,223,153	-	-
	<b>\$ 10,223,153</b>	<b>\$ 57,934,914</b>	<b>\$ -</b>

<i>December 31, 2013</i>	Based on:		
	Level 1 inputs	Level 2 inputs	Level 3 inputs
U.S. Treasury securities and obligations of U.S. government agencies	\$ -	\$ 32,447,949	\$ -
Corporate debt securities	-	23,825,326	-
Equity securities	9,574,925	-	-
	<b>\$ 9,574,925</b>	<b>\$ 56,273,275</b>	<b>\$ -</b>

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 5: EXCESS INSURANCE ACTIVITY**

The Fund limits the maximum net loss that can arise from large risks or risks in concentrated areas of exposure by reinsuring (ceding) certain levels of risks with other insurers. Ceded insurance is treated as the risk and liability of the assuming companies.

The Fund cedes insurance to other companies and these excess insurance contracts do not relieve the Fund from its obligations to members. Failure of reinsurers and the Alabama Guaranty Association (for insolvent reinsurers if any) to honor their obligations could result in losses to the Fund; consequently, allowances are established for amounts deemed uncollectible. The Fund evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers to minimize its exposure to significant losses from reinsurer insolvencies. At December 31, 2014, excess insurance receivable with a carrying value of \$55,035 and excess insurance recoverable on unpaid losses of \$3,946,874 were associated with excess insurance carriers. At December 31, 2013, excess insurance receivable with a carrying value of \$13,379 and excess insurance recoverable on unpaid losses of \$3,603,404 were associated with excess reinsurance carriers.

The Fund obtained excess insurance from the Alabama Reinsurance Trust Fund (ART Fund) for certain fund years. The ART Fund has the right to assess its members additional premiums at the discretion of its trustees. The assessment shall be made pro-rata among the participating and former participating Funds in the proportion to their respective annual premiums due under their respective policies for the calendar year, or in the case of a former participating fund, its annual premium for the calendar year of its withdrawal or termination of participation.

The Fund has obtained specific excess insurance and aggregate excess insurance. The parameters of coverage are summarized below for years with open claims.

Year Beginning	Year Ending	Aggregate Retention	Aggregate Limit	Specific Retention	Specific Limit
January 1, 1986	December 31, 1986	85% ENC	Statutory	\$ 150,000	Statutory
January 1, 1987	December 31, 1987	N/A	N/A	150,000	Statutory
January 1, 1988	December 31, 1994	N/A	N/A	175,000	Statutory
January 1, 1995	December 31, 2001	N/A	N/A	300,000	Statutory
January 1, 2002	December 31, 2003	N/A	N/A	500,000	Statutory
January 1, 2004	December 31, 2014	N/A	N/A	750,000	Statutory

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 6: PROPERTY AND EQUIPMENT**

Property and equipment consists of the following:

	2014		2013	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Building, furniture, office equipment, and software	\$ 2,258,061	\$ 1,409,439	\$ 2,523,159	\$ 1,414,684
Land	132,044	-	132,044	-
Land improvements	22,253	22,253	22,253	22,253
Automobiles	134,394	61,521	128,419	47,215
	<b>\$ 2,546,752</b>	<b>\$ 1,493,213</b>	<b>\$ 2,805,875</b>	<b>\$ 1,484,152</b>

Depreciation expense for the years ended December 31, 2014 and 2013 was \$355,646 and \$324,393.

**NOTE 7: LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES**

The Fund has accounted for unpaid losses and loss adjustment expenses by the discounted present value method for the years ended December 31, 2014 and 2013. This method of accounting for unpaid losses was adopted because the Fund's management believes that discounted reserves more fairly presents the Fund's financial position by matching estimates of ultimate cost of all unpaid losses with contributions necessary to fund these costs. As of December 31, 2014 and 2013, the discounted unpaid losses were calculated in accordance with the Fund's own estimated loss payment pattern. The Fund uses Internal Revenue Service interest rates to compute discounted reserves.



**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 7: LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (CONTINUED)**

Activity in the liability for unpaid losses and loss adjustment expenses is summarized as follows:

	<b>2014</b>	<b>2013</b>
Balance at January 1	\$ 30,094,259	\$ 27,331,298
Less excess insurance recoverables	3,603,404	5,006,171
Net balance at January 1	<b>26,490,855</b>	22,325,127
Incurred related to:		
Current year	9,846,509	9,327,408
Prior years	(3,196,722)	797,945
Total incurred	<b>6,649,787</b>	10,125,353
Paid related to:		
Current year	2,431,873	2,110,840
Prior years	3,219,922	3,848,786
Total paid	<b>5,651,795</b>	5,959,626
Balance at December 31 (net of excess insurance recoverable)	<b>27,488,847</b>	26,490,854
Less present value discount at end of year	<b>1,872,636</b>	2,172,215
Balance at December 31 ( net of excess insurance recoverable and discount)	<b>\$ 25,616,211</b>	\$ 24,318,639

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 7: LIABILITY FOR UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES (CONTINUED)**

Unpaid losses and loss adjustment expenses of \$29,563,085 and \$27,922,043 as of December 31, 2014 and 2013, respectively, represent estimates of the amounts required to pay existing unpaid losses net of subrogation of approximately \$104,811 for 2014 and \$105,967 for 2013 against the Fund including case development, adjusting and other expenses (AOE) of \$519,772 and \$712,838 for 2014 and 2013, and incurred but not reported (IBNR) discounted losses of \$9,732,329 for 2014 and \$8,679,537 for 2013. An understatement of the reserves has the effect of either understating recoveries indicated due from excess insurance carriers or overstatement of members' equity and reserves for retrospective refunds and the opposite effect if reserves are overstated.

Provisions for reserves for claims include (1) individual case estimates for reported losses, (2) estimates for subrogation recoverable, (3) current trends, and (4) estimates of expenses for investigating and settling claims. Claims reserves are established upon the claims management experience of the Fund's claims personnel and a regular review of all open claims. The reserves for loss development are based upon the recommendation of the Fund's independent actuary for incurred but not reported losses and development on reported claims.

**NOTE 8: MEMBERS' EQUITY**

As discussed in Note 2, the Fund maintains a retrospective refund plan that contractually binds the Fund to return to members of the Fund any and all excess revenues over expenses, exclusive of the present value discount on unpaid losses and loss adjustment expenses and the deferred income taxes associated with the present value discount. The present value discount and related deferred taxes are excluded in order to preserve the Fund's financial reserves. In addition, the Board of Trustees may vote to retain equity each year in order to further preserve the Fund's financial reserves. During 2014 and 2013, the Board of Trustees voted to retain an additional \$1,270,884 and \$1,395,945, respectively.

Accordingly, members' equity consists of the following:

<i>December 31,</i>	<b>2014</b>	<b>2013</b>
Board appropriated members' equity	<b>\$ 14,754,096</b>	\$ 13,483,212
Retained equity as defined by retrospective refund plan	<b>1,235,940</b>	1,433,663
	<b>\$ 15,990,036</b>	\$ 14,916,875

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 9: INCOME TAX STATUS**

The Fund is a taxable entity under Internal Revenue Code (IRC) Section 831. Additionally, a self-insured fund that is required to discount unpaid losses under IRC 846 is allowed an additional deduction that is not to exceed the excess of (1) the amount of certain undiscounted unpaid losses, over (2) the amount of the related discounted unpaid losses, to the extent the amount was not deducted in a preceding tax year.

The Fund has elected to take the additional deduction, and accordingly, at December 31, 2014 and 2013, the Fund had a federal income tax deposit, Special Loss Discount Account (SLDA), in the amount of \$636,696 and \$738,553, respectively. In 2014 and 2013, the Fund had taxable income of \$496,470 and \$2,113,429, respectively.

The U.S. Federal statutory income tax rate applicable to ordinary income is 34 percent for 2014 and 2013. The net deferred tax liability for 2014 and 2013 is \$1,959,104 and \$2,068,269. This liability is based on temporary timing differences as outlined below. The deferred tax liabilities for 2014 and 2013 are \$2,170,072 and \$2,224,114 and the deferred tax assets are \$210,968 and \$155,845. The SLDA deposit decreased by \$101,857 during 2014 and increased by \$26,394 during 2013. The overpayments were applied to income tax.

The net deferred tax liability consists of the following:

<i>December 31,</i>	<b>2014</b>	<b>2013</b>
Unrealized gains on investments	<b>\$ (1,445,916)</b>	\$ (1,358,961)
Discount on unpaid losses and loss adjustment expenses	<b>(636,696)</b>	(738,553)
Difference in book retrospective refund plan and tax dividend plan	<b>124,073</b>	69,150
Depreciation	<b>(87,460)</b>	(126,600)
Unearned contributions, net of acquisition costs	<b>86,895</b>	86,695
	<b>\$ (1,959,104)</b>	\$ (2,068,269)

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 9: INCOME TAX STATUS (CONTINUED)**

The following provides a reconciliation of taxable income to financial statement income:

	<b>2014</b>	<b>2013</b>
Financial statement net income	\$ 1,073,161	\$ 1,446,875
Unearned contributions	1,306	(9,786)
Acquisition cost on unearned contributions	(723)	5,382
Current tax provision	168,800	718,566
Deferred tax provision (benefit)	(203,931)	17,655
Non-deductible expenses	23,727	26,978
Difference in book and tax depreciation	143,751	16,555
Change in discount on losses and loss adjustment expenses	299,579	(77,629)
Dividends received deduction	(73,202)	(61,313)
Difference in book and tax retrospective refund deduction	(935,998)	30,146
<b>Taxable income</b>	<b>\$ 496,470</b>	<b>\$ 2,113,429</b>

**NOTE 10: RELATED PARTY TRANSACTIONS**

The activities of the Fund and Alabama Retail Association (ARA) are conducted in common facilities owned by each respective organization.

For the years ended December 31, 2014 and 2013, administrative expenses for reimbursement of services provided by Alabama Retail Association's staff to the Fund were \$35,283 and \$22,500, respectively. The Fund had amounts due from ARA of \$1,715 at December 31, 2014 and amounts due to ARA of \$23,563 at December 31, 2013. ARA has also allowed its name and logo to be used in connection with promotion and support of the Fund. The Fund paid the Association \$340,837 in 2014 and \$308,875 in 2013 for the use of trademark rights.

Fund members are required to be members of the Alabama Retail Association. The Trustees of the Fund are not required to be Directors of ARA. The Trustees of the Fund obtain their company's worker's compensation coverage from the Fund.



**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 11: CONTINGENCIES**

In the normal course of its operations, the Fund is involved in litigation related to certain claims. In the opinion of management, the disposition of these matters will not have a material adverse effect on the Fund's financial position.

**NOTE 12: CONCENTRATION OF RISK**

Financial instruments that potentially subject the Fund to credit risk consist principally of contribution balances in the course of collection and amounts receivable from excess insurance carriers. The Fund's members consist of various businesses within the State of Alabama.

The Fund maintains its cash balances at a state-wide financial institution. These cash balances were not in excess of the Federal Deposit Insurance Corporation (FDIC) insured amount of \$250,000 as of December 31, 2014 and 2013.

**NOTE 13: RETIREMENT PLAN**

Effective December 31, 2006, the Fund converted its retirement plan to a 401(k) defined contribution plan. The plan is a defined contribution plan and employees are eligible to participate upon hiring. The Fund begins contributing after one year of service. The Fund contributions to the plan were equal to 13% of eligible employees' salaries for the years ended December 31, 2014 and 2013. Contributions to the plan for the years ended December 31, 2014 and 2013 amounted to \$179,817 and \$167,763. New employees of the Fund who were previously employed by ARA were given credit for time served as ARA employees.

**Alabama Retail Association  
Workers' Compensation Self-Insurance Fund  
d/b/a Alabama Retail Comp  
Notes to Financial Statements**

**NOTE 14: CHANGE IN ACCOUNTING ESTIMATES**

A net increase in income of \$2,592,656 and \$3,802,105 resulted from changes in significant accounting estimates for prior fund years, as shown below:

Changes in accounting estimates:

<i>For the years ended December 31,</i>	<b>2014</b>	<b>2013</b>
Increase (decrease) in revenues:		
Member contributions	\$ 136,118	\$ 53,720
(Increase) decrease in expenses:		
Unpaid losses and loss adjustment expenses	<b>2,456,538</b>	3,748,385
<b>Net change</b>	<b>\$ 2,592,656</b>	<b>\$ 3,802,105</b>