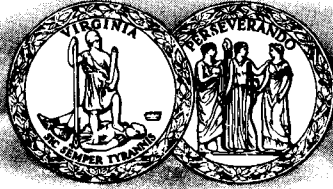


EXAMINATION REPORT
of
PRINCE WILLIAM SELF-INSURANCE GROUP,
PRINCE WILLIAM SELF-INSURANCE
GROUP CASUALTY POOL
PRINCE WILLIAM, VIRGINIA
as of
JUNE 30, 2008

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA

ALFRED W. GROSS
COMMISSIONER OF INSURANCE



P.O. BOX 1157
RICHMOND, VIRGINIA 23218
TELEPHONE: (804) 371-9741
TDD/VOICE: (804) 371-9206
<http://www.state.va.us/scc>

STATE CORPORATION COMMISSION BUREAU OF INSURANCE

I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of Prince William Self-Insurance Group, Prince William Self-Insurance Group Casualty Pool as of June 30, 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 5th day of March, 2010

A handwritten signature in black ink that reads "Alfred W. Gross".

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
December 4, 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

**PRINCE WILLIAM SELF-INSURANCE GROUP,
PRINCE WILLIAM SELF- INSURANCE GROUP CASUALTY POOL**

Prince William, Virginia

hereinafter referred to as the Pool, has been completed. The report is hereby submitted for your consideration.

DESCRIPTION

The Pool is a local government group self-insurance pool licensed to provide risk management and liability insurance coverage to its members pursuant to Section 15.2-2706 of the Code of Virginia and 14 VAC 5-360-10 et seq. (Rules Governing Local Government Group Self-Insurance Pools) promulgated by the State Corporation Commission (the "Commission"). The Pool's members are political subdivisions of the Commonwealth of Virginia or agencies thereof.

The Pool was last examined by representatives of the Commission's Bureau of Insurance (the "Bureau") as of June 30, 2005. This examination covers the period from July 1, 2005 through June 30, 2008.

HISTORY

The Pool was licensed by the Bureau on July 1, 1989. According to its Constitution and Bylaws, the pool was formed:

... to provide for cooperative action in providing risk management and liability insurance coverage for pool members and employees of pool members for acts or omissions arising out of the scope of their employment.

MANAGEMENT AND CONTROL

Control of the Pool is vested in a Members' Supervisory Board (the "Board") elected by the members of the Pool. The by-laws provide for no less than five nor more than eleven board members, three-fourths of whom shall be elected or appointed officials of political subdivisions that are members of the Pool. Board members serve three year terms or until their successors are elected. The terms are staggered to provide that one-third of the Board is elected each year.

The Board and officers were as follows at June 30, 2008:

Representative

Member

Lori J. Gray

Risk Manager
Prince William County
Prince William, Virginia

Raymond T. Colgan

Major
Prince William County Police Department
Prince William, Virginia

John E. Henry

Director of Financial Services
Prince William Manassas Regional Adult
Detention Center
Prince William, Virginia

William B. Hoffman

Deputy Director of Finance
Prince William County
Prince William, Virginia

Michael L. Liedel

Director of Finance
Prince William County Park Authority
Prince William, Virginia

Christopher E. Martino

Director of Finance
Prince William County
Prince William, Virginia

Carol A. Moye

Information Technology Manager
 Prince William Manassas Regional Adult
 Detention Center
 Prince William, Virginia

Kathy T. Pierce

Administrative Director
 Prince William County Park Authority
 Prince William, Virginia

Officers

Christopher E. Martino
 William B. Hoffman

Chairman
 Secretary

TERRITORY AND PLAN OF OPERATION

The operation of the Pool is confined to Virginia where it is licensed to transact the business of comprehensive general liability, automobile liability and automobile physical damage. Membership in the Pool is available to political subdivisions of the Commonwealth of Virginia or agencies thereof, upon the approval of the Board.

All members of the Pool are required to execute member agreements, which set forth the rights, privileges, and obligations of the members, and the terms, coverages, limits and deductibles of the plan.

The Pool has a contractual agreement with an administrator who shall administer and manage the affairs of the Pool 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 Pool. Additionally, the Pool has an insurance broker/agent services agreement with AON Risk Services, Inc. ("AON"). The Pool's operations are conducted on a fiscal year basis ending June 30.

ADMINISTRATIVE AGREEMENT

Effective August 15, 2003, the Pool entered into an administrative agreement with Self Insurance Services, LLC ("SIS"). The amended term of this agreement was for a one-year period, August 25, 2007 through August 24, 2008, with the Pool having the option to extend the agreement for three additional one-year periods. Either party may terminate this agreement upon written notice.

According to the agreement, SIS shall provide administrator services to the Pool. These services include coordinating the activities of all service providers; reviewing and authorizing all regulatory filings with the Bureau and coordinating all Bureau examinations; coordinating and reviewing the compilation of all data for actuarial studies, contribution calculations, and insurance policy renewals; preparing, coordinating and distributing all forms required for administrative activities; maintaining member records; and preparing and presenting an annual management report for the Pool.

As compensation for its services, SIS shall receive \$18,600 annually, payable in quarterly installments.

CLAIMS SERVICE AGREEMENT

On October 15, 2007, the Pool entered into a claims administration agreement with PMA Management Corporation ("PMA"). The initial term of this agreement is for three years, effective July 1, 2007, and the Pool has the option to extend the agreement for three additional one-year periods. Either party may terminate this agreement upon written notice.

Under the terms of the agreement, PMA shall provide full claims handling and adjusting for all claims incurred during the period of the agreement until their conclusion; provide computerized claim loss/experience reports on a quarterly basis and at other reporting intervals as requested; assist the Pool in establishing and maintaining a variety of safety and loss prevention programs; and notifying excess insurers of all qualified claims which may exceed the Pool's retention.

As compensation for its services, PMA shall receive \$41,800 annually for years one and two of the agreement and \$43,700 for year three.

ACTUARIAL AND ACCOUNTING SERVICES AGREEMENT

Effective May 6, 2003, the Pool entered into an Actuarial and Accounting Services Agreement with AON. The initial term of this agreement is for three years and the Pool has the option to extend the agreement for five additional one-year periods. Either party may terminate this agreement upon written notice.

According to this agreement, AON shall provide actuarial and accounting services to the Pool, including performing annual actuarial valuations to determine the appropriate level of loss reserves; conducting annual actuarial studies to determine the appropriate level of member contributions; establishing and maintaining a general ledger financial and accounting system; recording all cash receipts and cash disbursements; preparing all checks for signature; performing monthly account reconciliations; preparing annual budgets; and preparing quarterly financial statements to the Board and annual statements for statutory filing with the Bureau.

As compensation for its services, AON shall receive \$40,310 annually. AON subcontracted the accounting function to Adams, Jenkins, & Cheatham, PC, an accounting firm located in Richmond, Virginia.

INSURANCE BROKER/AGENT SERVICES AGREEMENT

Effective July 1, 2004, the Pool entered into an agreement with AON to serve as its insurance broker. The initial term of this agreement is for five years, and the Pool has the option to extend the contract for five additional one-year periods. Either party may terminate this agreement upon written notice.

AON's responsibilities shall include, but not be limited to, the following: review of the Pool's exposures to accidental loss and recommend enhancements to existing and proposed insurance coverages; solicit bids based on insurance specifications from qualified insurance companies; prepare a working summary of each policy including key terms, conditions and endorsements; assist in the negotiation for other insurance coverages, as requested; submit an annual report to the Pool to include detailed losses for each policy, the status of major losses incurred during the year, assessment of current conditions in insurance markets and recommendations regarding risk controls.

As compensation for its services, AON shall receive \$34,200 annually, payable in quarterly installments.

DIVIDEND 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 Pool has received acknowledgement from the Bureau. During the examination period, the Bureau acknowledged the following dividend:

<u>Fiscal Year</u>	<u>February 29, 2008</u>
1989/1990	\$ 4,253
1990/1991	4,842
1991/1992	83,758
1992/1993	83,725
1993/1994	86,853
1994/1995	47,652
1995/1996	80,746
1996/1997	106,160
1997/1998	70,829
1998/1999	87,740
1999/2000	36,596
2000/2001	64,700
2001/2002	64,034
2002/2003	52,687
2003/2004	<u>114,577</u>
 Total	 <u>\$ 989,152</u>

The Board elected to use \$150,000 of the dividend to obtain a health management consultant, \$619,289 was held for the payment of 2009 premiums and distribution to the members and \$219,863 was used to offset reported deficits in the 2006 and 2007 fiscal years.

FIDELITY BOND COVERAGE

At June 30, 2008, the Pool was listed as a named insured on a fidelity bond with a \$500,000 limit of liability, to insure against losses arising from dishonest acts of its administrator and employees.

EXCESS INSURANCE COVERAGE

The Pool had two excess insurance agreements in force at June 30, 2008, as set forth in the following schedule:

<u>Coverage Type</u>	<u>Pool's Retention</u>	<u>Excess Insurer's Limits</u>
General Liability;	\$750,000 each occurrence;	\$10,000,000 each occurrence
Automotive Liability; Public Officials Liability; Police Professional Liability	\$1,000,000 each occurrence arising from fire trucks and ambulances owned by the named insured under the automobile liability hazard	\$20,000,000 aggregate
Commercial Pollution Legal Liability	\$75,000 each incident	\$5,000,000 each incident \$10,000,000 aggregate

In lieu of carrying aggregate excess insurance, the Bureau required the Pool to make an initial security deposit of \$250,000 with the Treasurer of Virginia. Additionally, annual deposits of \$100,000 were required until the total deposit equaled \$500,000. At June 30, 2008, the Pool had \$800,000 in \$1 par value shares of a U.S. Treasury Money Market Fund on deposit with the State Treasurer, \$500,000 as a result of the aforementioned deposit and \$300,000 that was voluntarily contributed by the Pool.

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 from July 1, 2005 through June 30, 2008. Assets were verified and liabilities were established at June 30, 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 items were reviewed, several of which are discussed separately under their respective captions in this report.

History
Management and Control
Territory and Plan of Operation
Administrative Agreement
Claims Service Agreement
Insurance Broker/ Agent Services Agreement
Dividend To Members
Fidelity Bond Coverage
Excess Insurance Coverage
Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition as of June 30, 2008, a statement of revenues, expenses and changes in Pool equity for the fiscal year ended June 30, 2008, a statement of changes in Pool equity for the period under review, and a statement of cash flows for the fiscal year ended June 30, 2008.

BALANCE SHEET
JUNE 30, 2008

Assets

Current assets:

Unrestricted:

Cash and cash equivalents	\$3,832,619
Investments	1,519,095
Interest receivable	24,742
Due from related parties	64,990
Other receivable	5,250
Prepaid expenses	<u>2,293</u>

Total unrestricted assets \$5,448,989

Restricted:

Cash and cash equivalents, restricted	<u>500,000</u>
---------------------------------------	----------------

Total assets \$5,948,989

Liabilities and Members' Equity

Current liabilities:

Unpaid losses and related expenses	\$329,000
Due to related parties	64,393
Accounts payable	<u>31,218</u>

Total current liabilities \$424,611

Noncurrent liabilities:

Surplus distribution payable	1,549,668
Unpaid losses and related expenses	<u>619,292</u>

Total liabilities \$2,593,571

Members' equity:

Restricted	\$500,000
Unrestricted	<u>2,855,418</u>

Total members' equity \$3,355,418

Total liabilities and members' equity \$5,948,989

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
MEMBERS' EQUITY FOR THE YEAR ENDED JUNE 30, 2008**

Operating revenues:	
Premiums	<u>\$1,440,085</u>
Operating expenses:	
Claims losses and loss adjustment expenses, net of recoveries	\$273,050
Excess reinsurance premiums	543,571
General administration	294,870
Claims administration	<u>41,800</u>
Total operating expenses	<u>\$1,153,291</u>
Operating income	\$286,794
Nonoperating revenues:	
Interest and investment revenue	<u>225,788</u>
Income before special item	\$512,582
Special item:	
Declaration of surplus distribution	<u>(989,152)</u>
Change in members' equity	(\$476,570)
Members' equity, beginning of year	<u>3,831,988</u>
Members' equity, end of year	<u><u>\$3,355,418</u></u>

STATEMENT OF CHANGES IN MEMBERS' EQUITY
FOR THE PERIOD UNDER REVIEW

	<u>2005/2006</u>	<u>2006/2007</u>	<u>2007/2008</u>
Members' equity, beginning of fiscal year	<u>\$2,871,187</u>	<u>\$3,289,570</u>	<u>\$3,831,988</u>
Excess of revenue over expenses	418,383	542,418	512,582
Dividends declared but unpaid	<u>0</u>	<u>0</u>	<u>(989,152)</u>
Change in members' equity	<u>\$418,383</u>	<u>\$542,418</u>	<u>(\$476,570)</u>
Members' equity, end of fiscal year	<u><u>\$3,289,570</u></u>	<u><u>\$3,831,988</u></u>	<u><u>\$3,355,418</u></u>

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008

Cash flows from operating activities:	
Premiums received	\$1,440,085
Claims paid	(348,981)
Excess reinsurance premiums paid	(485,790)
Claims administration expenses paid	(47,050)
Overpayments of claims made to related parties	(22,138)
General administrative expenses paid	(296,617)
	<hr/>
Net cash provided by operating activities	\$239,509
	<hr/>
Cash flows from investing activities:	
Purchase of investments	(\$2,033,680)
Proceeds from sales and maturities of investments	1,705,000
Interest and dividends	189,529
	<hr/>
Net cash used in investing activities	(\$139,151)
	<hr/>
Cash flows used in financing activities - surplus distribution paid	(\$99,123)
	<hr/>
Net increase in cash and cash equivalents	\$1,235
	<hr/>
Cash and cash equivalents, beginning of the year	4,331,384
	<hr/>
Cash and cash equivalents, end of the year	\$4,332,619
	<hr/> <hr/>
Reconciliation of operating income to net cash used in operating activities:	
Operating income	\$286,794
Adjustments to reconcile operating income to net cash used in operating activities:	
Change in assets and liabilities:	
Due from related parties	(64,990)
Prepaid expenses	55,488
Other receivable	(5,250)
Accounts payable	546
Due to related parties	42,852
Unpaid losses and related expenses	(75,931)
	<hr/>
Net cash provided by operating activities	\$239,509
	<hr/> <hr/>

SUBSEQUENT EVENT

On February 5, 2009, the Bureau approved dividends for the Pool totaling \$909,479.

CONCLUSION

Acknowledgment is hereby made of the courteous cooperation extended by the Pool's administrator and service agent during the course of the examination.

In addition to the undersigned, Ken Campbell, CFE and Milton Parker participated in the work of the examination.

Respectfully submitted,



Cliff Lewis, CFE
Senior Insurance Examiner

PRINCE WILLIAM SELF INSURANCE GROUP CASUALTY POOL

Administered By
SELF INSURANCE SERVICES, LLC
COST CONTROL THROUGH SERVICE

STATE CORP COMMISSION OF
VIRGINIA
7-1-10

10 FEB 25 AM 9:16

February 16, 2010

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

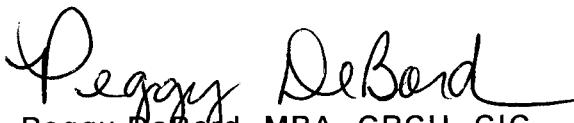
Dear Mr. Smith:

This is to acknowledge that we have received the examination report for Prince William Self Insurance Group Casualty Pool during the examination period July 1, 2005 through June 30, 2008.

Sincerely,



Christopher E. Martino
Chairman
Members' Supervisory Board
Prince William Self Insurance Group
Casualty Pool



Peggy DeBord, MBA, CPCU, CIC
President
Self Insurance Services, LLC

Enclosures