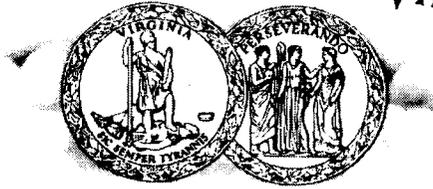


**EXAMINATION REPORT**  
**of**  
**PRINCE WILLIAM SELF-INSURANCE GROUP,**  
**PRINCE WILLIAM SELF-INSURANCE**  
**GROUP CASUALTY POOL**  
**PRINCE WILLIAM, VIRGINIA**  
**as of**  
**JUNE 30, 2011**

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

# COMMONWEALTH OF VIRGINIA

JACQUELINE K. CUNNINGHAM  
COMMISSIONER OF INSURANCE  
STATE CORPORATION COMMISSION  
BUREAU OF INSURANCE



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I, Jacqueline K. Cunningham, 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 Casualty Pool as of June 30, 2011, 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 22nd day of January, 2013

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Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
October 23, 2012

Honorable Jacqueline K. Cunningham  
Commissioner of Insurance  
Richmond, Virginia

Dear Madam:

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, 2008. This examination covers the period from July 1, 2008 through June 30, 2011.

**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, 2011:

<u>Representative</u>	<u>Member</u>
Lori J. Gray	Risk Management Division Chief Prince William County 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
Edward J. Lanham	Major Prince William County Police Department Prince William, Virginia
Michael L. Liedel	Director of Finance Prince William County Park Authority 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

Steven A. Soloman

Director of Finance  
Prince William County  
Prince William, Virginia

Officers

Lori J. Gray

Chairman

William B. Hoffman

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 utilizes the services of Prince William County personnel for certain administrative and personnel support services. As compensation for these services, the Pool paid Prince William County \$147,500 for the 2010/2011 fiscal year. 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, 2010 through August 24, 2011. 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 was 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 received \$45,600 for the agreement period July 1, 2010 through June 30, 2011.

### **ACTUARIAL AND ACCOUNTING SERVICES AGREEMENT**

Effective May 5, 2011, 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 \$46,150 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 was 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.

## RISK MANAGEMENT/LOSS CONTROL CONSULTING AGREEMENT

Effective October 24, 2006, the Pool entered into a risk management and loss control agreement with AON. The initial term of this agreement was 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 the agreement, AON shall provide an in-depth review of the physical and operational risks associated with the operation of a members' property; provide on-going risk consulting to enhance the risk, safety and insurance management program and provide claims consulting to reduce the financial impact of claims that have occurred.

As compensation for its services, AON bills the Pool based on varying hourly rates for its team members and administrative staff. A \$10,500 fee is assessed annually for claims auditing.

### 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 5, 2009</u>
1989/1990	\$ 2,642
1990/1991	4,204
1991/1992	63,194
1992/1993	65,606
1993/1994	68,585
1994/1995	42,644
1995/1996	63,034
1996/1997	84,089
1997/1998	55,913
1998/1999	68,952
1999/2000	31,124
2000/2001	46,338
2001/2002	47,395
2002/2003	50,776
2003/2004	100,199
2004/2005	58,059
2005/2006	<u>56,725</u>
 Total	 <u>\$ 909,479</u>

**FIDELITY BOND COVERAGE**

At June 30, 2011, 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.

**REINSURANCE COVERAGE**

The Pool had two reinsurance agreements in force at June 30, 2011, as set forth in the following schedule:

<b><u>Coverage Type</u></b>	<b><u>Pool's Retention</u></b>	<b><u>Excess Insurer's Limits</u></b>
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, 2011, the Pool had a U.S. Government Agency Bond with an \$800,000 par value 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, 2008 through June 30, 2011. Assets were verified and liabilities were established at June 30, 2011. 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  
Actuarial and Accounting Services Agreement  
Insurance Broker/Agent Services Agreement  
Risk Management/Loss Control Consulting Agreement  
Dividend To Members  
Fidelity Bond Coverage  
Reinsurance Coverage  
Financial Statements

**FINANCIAL STATEMENTS**

There follows a statement of financial condition as of June 30, 2011, a statement of revenues, expenses and changes in Pool equity for the fiscal year ended June 30, 2011, 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, 2011.

**BALANCE SHEET**  
**JUNE 30, 2011**

**Assets**

Current assets:	
Cash and cash equivalents	\$1,891,355
Investments	2,681,840
Interest receivable	5,429
Due from related parties	5,400
Prepaid expenses and other receivable	<u>62,411</u>
Total current assets	\$4,646,435
Noncurrent assets:	
Investments, restricted	<u>500,000</u>
Total assets	<u><u>\$5,146,435</u></u>

**Liabilities and Members' Equity**

Current liabilities:	
Unpaid losses and related expenses	\$352,000
Surplus distribution payable	303,160
Accounts payable	<u>28,333</u>
Total current liabilities	<u>\$683,493</u>
Noncurrent liabilities:	
Surplus distribution payable	\$379,589
Unpaid losses and related expenses	<u>505,255</u>
Total noncurrent liabilities	<u>\$884,844</u>
Total liabilities	<u>\$1,568,337</u>
Members' equity:	
Restricted	\$500,000
Unrestricted	<u>3,078,098</u>
Total members' equity	<u>\$3,578,098</u>
Total liabilities and members' equity	<u><u>\$5,146,435</u></u>

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
MEMBERS' EQUITY FOR THE YEAR ENDED JUNE 30, 2011**

Operating revenues:	
Premiums	<u>\$1,458,488</u>
Operating expenses:	
Claims losses and loss adjustment expenses, net of recoveries	\$570,050
Excess reinsurance premiums	510,256
General administration	277,692
Claims administration	<u>45,600</u>
Total operating expenses	<u>\$1,403,598</u>
Operating income	\$54,890
Nonoperating revenues:	
Interest and investment revenue	<u>28,464</u>
Change in members' equity	\$83,354
Members' equity, beginning of year	<u>3,494,744</u>
Members' equity, end of year	<u><u>\$3,578,098</u></u>

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

	<u>2008/2009</u>	<u>2009/2010</u>	<u>2010/2011</u>
Members' equity, beginning of fiscal year	<u>\$3,355,418</u>	<u>\$2,925,619</u>	<u>\$3,494,744</u>
Excess of revenue over expenses	\$479,680	\$569,125	\$83,354
Dividends declared but unpaid	<u>(909,479)</u>	<u>0</u>	<u>0</u>
Change in members' equity	<u>(\$429,799)</u>	<u>\$569,125</u>	<u>\$83,354</u>
Members' equity, end of fiscal year	<u><u>\$2,925,619</u></u>	<u><u>\$3,494,744</u></u>	<u><u>\$3,578,098</u></u>

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

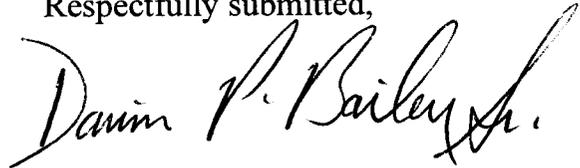
Cash flows from operating activities:	
Premiums received	\$1,155,327
Claims paid	(389,594)
Excess reinsurance premiums paid	(460,138)
Claims administration expenses paid	(34,200)
(Payments) refunds overpayments of claims made to related parties	15,274
General administrative expenses paid	<u>(292,618)</u>
<b>Net cash (used in) provided by operating activities</b>	<b><u>(\$5,949)</u></b>
Cash flows from investing activities:	
Purchase of investments	(\$4,778,944)
Proceeds from sales and maturities of investments	4,575,000
Interest and dividends	<u>41,268</u>
<b>Net cash used in investing activities</b>	<b><u>(\$162,676)</u></b>
Cash flows used in financing activities:	
Surplus distributions paid	<u>(\$71,681)</u>
<b>Net decrease in cash and cash equivalents</b>	<b>(\$240,306)</b>
Cash and cash equivalents, beginning of the year	<u>2,131,661</u>
Cash and cash equivalents, end of the year	<u><u>\$1,891,355</u></u>
Reconciliation of operating income to net cash:	
Provided by (used in) operating activities	
Operating income	\$54,890
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Dividends applied to premiums	(303,161)
Change in operating assets and liabilities:	
Due from related parties	15,274
Prepaid expenses and other receivable	51,518
Accounts payable	(4,926)
Unpaid losses and related expenses	<u>180,456</u>
<b>Net cash used in operating activities</b>	<b><u>(\$5,949)</u></b>

**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, George Morgan, CFE and Milton Parker participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Darrin P. Bailey, Sr." with a stylized flourish at the end.

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