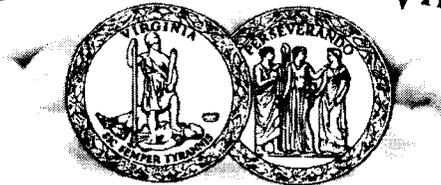


**EXAMINATION REPORT**  
**of**  
**PRINCE WILLIAM SELF-INSURANCE GROUP**  
**WORKERS' COMPENSATION ASSOCIATION**  
**PRINCE WILLIAM, VIRGINIA**  
**as of**  
**DECEMBER 31, 2011**

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

# COMMONWEALTH OF VIRGINIA

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



P.O. BOX 1157  
RICHMOND, VIRGINIA 23218  
TELEPHONE: (804) 371-9741  
TDD/VOICE: (804) 371-9206  
<http://www.scc.virginia.gov/division/boi>

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 Workers' Compensation Association as of December 31, 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 25th day of February, 2013

---

Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

**TABLE OF CONTENTS**

DESCRIPTION.....1

HISTORY .....1

MANAGEMENT AND CONTROL .....2

TERRITORY AND PLAN OF OPERATION .....3

ADMINISTRATIVE AGREEMENT.....4

CLAIMS SERVICE AGREEMENT .....4

ACTUARIAL AND ACCOUNTING SERVICES AGREEMENT.....5

INSURANCE BROKER/AGENT SERVICES AGREEMENT .....5

RISK MANAGEMENT/LOSS CONTROL CONSULTING AGREEMENT.....6

DIVIDENDS TO MEMBERS.....6

FIDELITY BOND COVERAGE.....6

SPECIAL RESERVES AND DEPOSITS .....7

EXCESS INSURANCE COVERAGE .....7

SCOPE .....8

FINANCIAL STATEMENTS .....9

RECOMMENDATIONS FOR CORRECTIVE ACTION .....16

CONCLUSION.....19

Richmond, Virginia  
November 8, 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  
WORKERS' COMPENSATION ASSOCIATION**

Prince William, Virginia

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

**DESCRIPTION**

The Association is a group self-insurance association licensed to provide workers' compensation coverage and employers' liability coverage to its members pursuant to Section 65.2-802 of the Code of Virginia and 14 VAC 5-370-10 et seq. (Rules Governing Group Self-Insurers of Liability Under the Virginia Workers' Compensation Act) promulgated by the State Corporation Commission (the "Commission").

The Association was last examined by representatives of the Commission's Bureau of Insurance (the "Bureau") as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2011.

**HISTORY**

The Association was licensed by the Bureau effective July 1, 1989. On July 1, 1990, the Bureau revised the Association's license to authorize employers' liability coverage. According to the member's indemnity agreement, the Association was formed to allow members to join together to provide for joint and cooperative action to self-insure and to pool their separate liabilities arising pursuant to the terms of the Virginia Workers' Compensation Act.

**MANAGEMENT AND CONTROL**

Control of the Association is vested in a Members' Supervisory Board (the "Board") elected by the members of the Association. The by-laws provide for no less than 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 Association. 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 December 31, 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. Solomon

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 Association is confined to Virginia where it is licensed to transact the business of workers' compensation and employers' liability group self-insurance. Membership in the Association is available to political subdivisions of the Commonwealth of Virginia or agencies thereof, upon the approval of the Board and the Bureau.

All members are required to enter into an indemnity agreement in which each member jointly and severally agrees to assume and discharge members' employers' liabilities and any and all members' liabilities covered under the Virginia Workers' Compensation Act. No formal insurance policy is issued to the members.

The Association has a contractual agreement with an administrator who shall administer and manage the affairs of the Association in accordance with the policies adopted and established by the Board. Claims are processed and paid by a service agent under a contractual agreement with the Association. Additionally, the Association utilizes the services of Prince William County personnel for certain administrative and personnel support services. As compensation for these services, Prince William County shall receive \$147,500 annually. The Association's operations are conducted on a fiscal year basis ending June 30.

### **ADMINISTRATIVE AGREEMENT**

Effective November 18, 2011, the Association entered into an administrative agreement with Self-Insurance Services, LLC ("SIS"). The term of this agreement is for a three-year period, with the Association having 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, SIS shall provide administrator services to the Association. 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 Association.

As compensation for its services, SIS shall receive \$20,000 annually, payable in quarterly installments.

### **CLAIMS SERVICE AGREEMENT**

On October 15, 2007, the Association 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 Association 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 Association in establishing and maintaining a variety of safety and loss prevention programs; and provide notice to excess insurers of all qualified claims which may exceed the Association's retention.

As compensation for its services, PMA shall receive \$77,500 for the agreement period July 1, 2011 through June 30, 2012. Additionally, PMA shall receive \$600 per case for telephonic medical case management and \$95 per hour for on-site medical case management. For cost containment services, the Association pays \$8.25 per bill reviewed and PMA receives 35% of the savings generated.

## **ACTUARIAL AND ACCOUNTING SERVICES AGREEMENT**

Effective May 5, 2011, the Association entered into an Actuarial and Accounting Services Agreement with AON. The initial term of this agreement is for three years and the Association 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 Association, including performing annual actuarial valuations to determine the appropriate level of loss reserves; conduct annual actuarial studies to determine the appropriate level of member contributions; establish and maintain a general ledger financial and accounting system; record all cash receipts and cash disbursements; prepare all checks for signature; perform monthly account reconciliations; prepare annual budgets; and prepare quarterly financial statements to the Board and annual statements for statutory filing with the Bureau.

As compensation for its services, AON shall receive \$57,060 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 Association entered into an agreement with AON to serve as its insurance broker. The initial term of this agreement was for five years, and the Association 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 Association'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 Association 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 Association entered into a risk management and loss control agreement with AON. The initial term of this agreement was for three years and the Association 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 members' owned property; provide on-going risk consulting to enhance the risk, safety and insurance management program and provide claims consulting to reduce financial impact of claims that have occurred.

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

## DIVIDENDS TO MEMBERS

Any surplus assets accumulated within a fiscal year may be declared refundable by the Board. Payment of this surplus in the form of dividends, however, may not be made until the Association has received approval from the Bureau. During the examination period, the Bureau approved the following dividends:

<u>Fiscal Year</u>	<u>March 12, 2009</u>	<u>July 19, 2010</u>
1989/1990	\$ 148,663	
1990/1991		\$ 73,150
1991/1992	8,244	4,699
1993/1994	11,515	14,256
1994/1995	141,966	341,919
1995/1996	191,630	466,357
1997/1998	97,660	
1999/2000	180,270	
2000/2001	<u>203,390</u>	<u>                    </u>
Totals	<u>\$ 983,338</u>	<u>\$ 900,381</u>

## FIDELITY BOND COVERAGE

At December 31, 2011, the Association 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.

### **SPECIAL RESERVES AND DEPOSITS**

At December 31, 2011, the Association had a U.S. Government Agency Bond with a par value of \$1,000,000 on deposit with the Treasurer of Virginia. Pursuant to 14 VAC 5-370-60 A, each group self-insurance association licensed by the Bureau shall maintain a security deposit of \$250,000. The additional deposit was required in lieu of carrying aggregate excess insurance.

### **EXCESS INSURANCE COVERAGE**

The Association had a specific excess insurance agreement in force at December 31, 2011, with the following limits:

	<u>Association's Retention</u>	<u>Excess Insurer's Limits</u>
Specific Excess	\$1,000,000 for each accident and each employee for disease	Workers' Compensation Statutory Employers' Liability \$1,000,000

The Association does not carry aggregate excess insurance because it has satisfied the requirement set forth in 14 VAC 5-370-90, which states, in part, that the Commission may release the Association from the excess insurance requirement if the contingency reserve established by the Association is in an amount determined by the Commission to be adequate.

## SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. It covers the period January 1, 2009 through December 31, 2011. Assets were verified and liabilities were established at December 31, 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 matters were reviewed, several of which are discussed separately under their respective captions in the report:

History  
Management and Control  
Territory and Plan of Operation  
Administrative Agreement  
Claims Service Agreement  
Actuarial and Accounting Services Agreement  
Insurance Broker/Agent Services Agreement  
Risk Management/Loss Control Consulting Agreement  
Dividends to Members  
Fidelity Bond Coverage  
Special Reserves and Deposits  
Excess Insurance Coverage  
Financial Statements

**FINANCIAL STATEMENTS**

There follows a statement reflecting the financial condition of the Association at December 31, 2011, a statement of income for the year ended December 31, 2011, a reconciliation of members' equity for the period under review, a statement of members' account by fiscal year inception to date and a statement of Examiners' changes in members' equity.

**BALANCE SHEET**  
**DECEMBER 31, 2011**

**ASSETS**

Bonds, long-term	\$15,521,515
Other invested assets	8,201,039
Cash on deposit	3,064,461
Deposit with service agent	60,604
Premiums receivable	93,009
Interest due and accrued	32,386
Amounts recoverable on paid losses	28,454
Other prepaid expenses	90,850
Prepaid excess insurance premiums	111,106
Prepaid service agent's fees	19,375
Prepaid administrative fees	2,959
	<hr/>
Total assets	<u><u>\$27,225,758</u></u>

**LIABILITIES AND MEMBERS' EQUITY**

Losses unpaid	\$12,267,689
Loss adjustment expenses unpaid	1,183,522
Contingency reserve	1,532,222
Unearned premiums	2,042,918
Premium refunds payable	20,860
Taxes, licenses and fees payable	125,032
Dividends payable	900,381
Accrued audit fees	11,750
Investment fees payable	656
Other accrued expenses	21,938
	<hr/>
Total liabilities	\$18,106,968
Restricted members' equity	\$1,002,640
Unrestricted members' equity	8,116,150
	<hr/>
Total liabilities and members' equity	<u><u>\$27,225,758</u></u>

**STATEMENT OF INCOME**  
**FOR YEAR ENDED DECEMBER 31, 2011**

**UNDERWRITING INCOME**

Premiums earned	\$3,931,524
Deductions:	
Losses incurred	\$2,491,114
Loss expenses incurred	395,242
Other underwriting expenses incurred	470,806
Contingency reserve	122,762
Total underwriting deductions	\$3,479,924
Net underwriting gain	\$451,600

**INVESTMENT INCOME**

Net investment income earned	\$207,886
Net realized capital gains	59,811
Net investment gain	\$267,697

**OTHER INCOME**

Other income	\$11,838
Net income before federal income taxes	\$731,135
Federal income taxes incurred	0
Net income	\$731,135

**RECONCILIATION OF MEMBERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	<u>2009</u>	<u>2010</u>	<u>2011</u>
Members' equity, previous year before undistributed dividends	* \$8,266,558	\$10,270,883	\$9,516,250
Adjustment for previous examination changes	450,050		
Net income	1,954,488	(355,225)	731,135
Net unrealized capital gains or (losses)	(72,433)	(71,628)	99,564
Dividends paid to members	<u>(327,780)</u>	<u>(327,780)</u>	<u>(327,778)</u>
Restricted and unrestricted members' equity, end of year	\$10,270,883	\$9,516,250	\$10,019,171
Less: Restricted members' equity, end of year	<u>992,500</u>	<u>1,007,770</u>	<u>1,002,640</u>
Unrestricted members' equity, end of year before undistributed dividends	\$9,278,383	\$8,508,480	\$9,016,531
Less: Dividends declared but unpaid	<u>655,558</u>	<u>1,228,159</u>	<u>900,381</u>
Unrestricted members' equity, end of year	<u>\$8,622,825</u>	<u>\$7,280,321</u>	<u>\$8,116,150</u>

\*- Adjusted members' equity from previous examination

**Members' Account By Fiscal Year Inception to Date December 31, 2011**

	All Other Fiscal Years Preceding 1989-2008	Third Fiscal Year Preceding 2008-2009	Second Fiscal Year Preceding 2009-2010	First Fiscal Year Preceding 2010-2011	Partial Current Fiscal Year 7/1/11-12/31/11	Total Inception to Date (1989-2011)
<b><u>Income Received</u></b>						
Premiums written	\$36,349,049	\$4,691,851	\$4,003,635	\$3,822,530	\$4,229,816	\$53,096,881
Less: Excess insurance	2,141,607	228,627	225,247	227,384	229,950	3,052,815
Net premiums written	\$34,207,442	\$4,463,224	\$3,778,388	\$3,595,146	\$3,999,866	\$50,044,066
Investment income	6,680,384	199,771	85,748	25,495	282,929	7,274,327
Allocation between years	170,583	37,120	22,773	31,651	(262,127)	0
Other	4,658,074	150	10,383	8,300	40,517	4,717,424
Total income collected	\$45,716,483	\$4,700,265	\$3,897,292	\$3,660,592	\$4,061,185	\$62,035,817
<b><u>Less: Expenses Paid</u></b>						
Losses paid	\$16,071,723	\$774,716	\$1,407,552	\$789,323	\$296,575	\$19,339,889
Allocated loss adjustment expenses paid	908,791	124,360	128,722	94,074	26,516	1,282,463
Administrative fees	859,761	18,600	18,600	18,600	11,943	927,504
Service agent's fees	1,305,015	68,200	71,300	74,400	58,125	1,577,040
Taxes, licenses, and fees	593,309	101,323	117,000	60,766	0	872,398
Other expenses	2,639,427	298,924	314,875	277,797	204,746	3,735,769
Total expenses	\$22,378,026	\$1,386,123	\$2,058,049	\$1,314,960	\$597,905	\$27,735,063
Net cash income	\$23,338,457	\$3,314,142	\$1,839,243	\$2,345,632	\$3,463,280	\$34,300,754
<b><u>Add: Receivables</u></b>						
Premiums receivable	\$0	\$0	\$0	\$159	\$92,850	\$93,009
Interest due and accrued	19,527	4,249	2,607	3,623	2,380	32,386
Amounts recoverable on paid losses	28,454	0	0	0	0	28,454
Other	0	0	0	0	224,290	224,290
Total	\$47,981	\$4,249	\$2,607	\$3,782	\$319,520	\$378,139
<b><u>Deduct: Liabilities</u></b>						
Losses unpaid	\$4,766,813	\$389,555	\$2,833,141	\$2,588,112	\$1,690,068	\$12,267,689
Loss adjustment expenses	576,236	11,369	230,585	253,491	111,841	1,183,522
Contingency reserve	1,091,069	140,756	120,109	114,681	65,607	1,532,222
Unearned premiums	0	0	0	0	2,042,918	2,042,918
Premium refunds payable	0	0	0	0	20,860	20,860
Taxes, licenses & fees payable	0	0	0	60,000	65,032	125,032
Other expenses payable	0	0	0	0	34,344	34,344
Total	\$6,434,118	\$541,680	\$3,183,835	\$3,016,284	\$4,030,670	\$17,206,587

**Members' Account By Fiscal Year Inception to Date December 31, 2011**

	<u>All Other Fiscal Years Preceding 1989-2008</u>	<u>Third Fiscal Year Preceding 2008-2009</u>	<u>Second Fiscal Year Preceding 2009-2010</u>	<u>First Fiscal Year Preceding 2010-2011</u>	<u>Partial Current Fiscal Year 7/1/11-12/31/11</u>	<u>Total Inception to Date (1989-2011)</u>
Restricted and Unrestricted Members' Equity to date by fiscal year before dividends	\$16,952,320	\$2,776,711	(\$1,341,985)	(\$666,870)	(\$247,870)	\$17,472,306
Less: Dividends paid inception to date by fiscal year	7,453,135	0	0	0	0	7,453,135
Less: Restricted Members' Equity by fiscal year	<u>200,528</u>	<u>200,528</u>	<u>200,528</u>	<u>200,528</u>	<u>200,528</u>	<u>1,002,640</u>
Unrestricted Members' Equity undistributed by fiscal year	\$9,298,657	\$2,576,183	(\$1,542,513)	(\$867,398)	(\$448,398)	\$9,016,531
Less: Dividends declared but unpaid	<u>900,381</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>900,381</u>
Unrestricted Members' Equity 12/31/11	<u>\$8,398,276</u>	<u>\$2,576,183</u>	<u>(\$1,542,513)</u>	<u>(\$867,398)</u>	<u>(\$448,398)</u>	<u>\$8,116,150</u>

\* - Although the cumulative unrestricted members' equity for the fiscal years 1989-2008 at December 31, 2011 was \$8,398,276; the 1989/90, 1990/91 and 1992/93 fiscal years had members' equity deficits of \$5,004, \$19,383 & \$216,790 respectively.

**STATEMENT OF EXAMINERS' CHANGES IN MEMBERS' EQUITY**  
**DECEMBER 31, 2011**

	<u>Amount Per Association</u>	<u>Amount Per Examiner</u>	<u>Increase (Decrease) Members' Equity</u>
<u>Assets:</u>			
Premiums receivable	\$159	\$93,009	\$92,850
Amounts recoverable on paid losses	58,853	28,454	(30,399)
Prepaid excess insurance premiums	114,975	111,106	(3,869)
<u>Liabilities:</u>			
Losses unpaid	12,031,466	12,267,689	(236,223)
Loss adjustment expenses unpaid	1,119,504	1,183,522	(64,018)
Contingency reserve	1,530,062	1,532,222	(2,160)
Unearned premiums	2,114,908	2,042,918	71,990
Premium refunds payable	0	20,860	(20,860)
Taxes, licenses and fees payable	122,500	125,032	(2,532)
Other accrued expenses	20,360	21,938	(1,578)
Examiners' changes in members' equity			<u>(\$196,799)</u>
Restricted and unrestricted members' equity per Association			\$9,315,589
Restricted and unrestricted members' equity per Examiners			<u>9,118,790</u>
Decrease in unrestricted members' equity			<u>(\$196,799)</u>

**RECOMMENDATIONS FOR CORRECTIVE ACTION**

Management and Control

1. The results of this examination reflected members' equity deficits for the 1989/1990, 1990/1991, 1992/1993, 2009/2010, 2010/2011 fiscal year and the 2011/2012 partial current fiscal year of \$5,004, \$19,383, \$216,790, \$1,542,513, \$867,398 and \$448,398, respectively. The Board is reminded of its responsibility to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.

Accounts and Records

- |                                |                 |
|--------------------------------|-----------------|
| 2. <u>Premiums receivable</u>  | <u>\$93,009</u> |
| <u>Premium refunds payable</u> | <u>\$20,860</u> |

The above amounts have been increased \$92,850 and \$20,860, respectively. The Examiners' amounts are based on subsequent 2011/2012 fiscal year member payroll audits and reflect differences between audited contributions and contributions paid, prorated for the period July 1, 2011 through December 31, 2011.

- |  |                 |
|--|-----------------|
| 3. <u>Amounts recoverable on paid losses</u> | <u>\$28,454</u> |
|--|-----------------|

The above asset is \$30,399 less than the amount reported by the Association in its 2011 Annual Statement. The decrease is due to an amount reported by the Association as excess claims recoverable at December 31, 2011 deemed uncollectible by the Examiners. It is recommended that the Association, with its service agent, fully review and properly report the amounts recoverable on paid losses in future Annual Statement filings with the Bureau.

- |   |                  |
|---|------------------|
| 4. <u>Prepaid excess insurance premiums</u> | <u>\$111,106</u> |
|---|------------------|

The above asset is \$3,869 less than the amount reported by the Association in its 2011 Annual Statement. The Examiners' amount is based on subsequent 2011/2012 member payroll audits and compares excess insurance premiums paid at December 31, 2011 to the excess insurance premiums owed, prorated for the period July 1, 2011 through December 31, 2011.

5. Losses unpaid \$12,267,689

The above liability is \$236,223 more than the amount reported by the Association in its 2011 Annual Statement. The increase in Losses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
1992/1993	\$ 28,171	\$ 159,152	\$ 130,981
1998/1999	91,841	196,143	104,302
1999/2000	0	940	940
Total change			<u>\$ 236,223</u>

The Examiner's increase results from a development of losses paid and reserve changes occurring during the period January 1, 2012 through September 30, 2012, on claims incurred December 31, 2011 and prior. The Association should review its methodologies to ensure sufficient loss reserves are established in all future filings with the Bureau.

6. Loss adjustment expenses unpaid \$1,183,522

The above liability is \$64,018 more than the amount reported by the Association in its 2011 Annual Statement. The increase in Loss adjustment expenses unpaid by fiscal year is as follows:

<u>Fiscal Year</u>	<u>Association</u>	<u>Examiners</u>	<u>Increase</u>
1992/1993	\$ 721	\$ 31,624	\$ 30,903
1998/1999	4,218	37,219	33,001
1999/2000	0	114	114
Total change			<u>\$ 64,018</u>

The Examiner's increase results from a development of loss adjustment expenses paid and reserve changes occurring during the period January 1, 2012 through September 30, 2012, on claims incurred December 31, 2011 and prior. The Association should review its methodologies to ensure sufficient loss reserves are established in all future filings with the Bureau.

7. Contingency reserve \$1,532,222

The above liability is \$2,160 more than the amount reported by the Association in its 2011 Annual Statement. The Examiners' amount is a result of an increase in earned premium based on a review of member payroll audits during the period under review and subsequent 2011/2012 fiscal year member payroll audits, which is the basis for the calculation of the contingency reserve.

8. Unearned premiums \$2,042,918

The above liability is \$71,990 less than the amount reported by the Association in its 2011 Annual Statement. The Examiners' amount reflects the estimated premiums received to date at December 31, 2011, less the amount earned at December 31, 2011 based on subsequent 2011/2012 fiscal year member payroll audits.

9. Taxes, licenses and fees payable \$125,032

The above liability is \$2,532 more than the amount reported by the Association in its 2011 Annual Statement. The Examiner's amount is based on a review of invoices paid in 2012 for taxes pertaining to 2011.

10. Other accrued expenses \$21,938

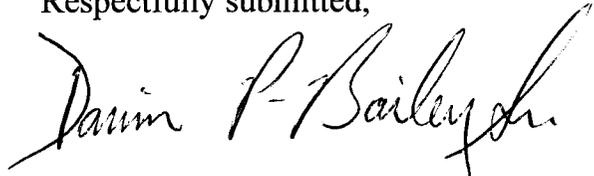
The above liability is \$1,578 more than the amount reported by the Association in its 2011 Annual Statement. The Examiner's amount is based on a review of invoices paid in 2012 for loss control expenses pertaining to 2011.

**CONCLUSION**

The courteous cooperation extended by the Association's administrator and service agent during the course of the examination is gratefully acknowledged.

In addition to the undersigned, George 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." The signature is written in a cursive style with a large, prominent initial "D".

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

PRINCE WILLIAM SELF INSURANCE GROUP WORKERS' COMPENSATION  
ASSOCIATION

Administered By  
SELF INSURANCE SERVICES, LLC  
COST CONTROL THROUGH SERVICE

STATE CORP COMMISSION  
BUREAU OF INSURANCE  
13 FEB 15 PM 9:34

January 24, 2013

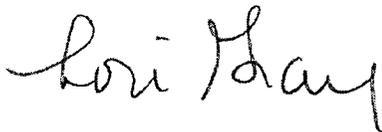
Mr. David H. Smith, CFE, CPA, CPCU  
Chief Examiner  
State Corporation Commission  
Bureau of Insurance  
P. O. Box 1157  
Richmond, VA 23218

Dear Mr. Smith:

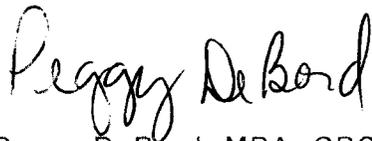
Enclosed are the responses to your recommendations for corrective action for Prince William Self Insurance Group Workers' Compensation Association during the examination period January 1, 2009 through December 31, 2011.

Please let me know if you have any questions concerning our responses.

Sincerely,



Lori Gray  
Chairman  
Members' Supervisory Board  
Prince William Self Insurance Group  
Workers' Compensation



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

Enclosures

# Prince William Self Insurance Group Workers' Compensation Association

## Responses to Recommendations for Corrective Action

### Management and Control

1. The Association is aware of and will make every effort to assure that the Association is financially sound and able to fulfill its obligations under the Virginia Workers' Compensation Act.

### Accounts and Records

2. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
3. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed. The recoverable amounts on paid losses are unpredictable based on claims that change. The Association makes every effort to report the recoverable amounts sufficiently.
4. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed.
5. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed. The IBNR number is unpredictable based on claims that change. The Association makes every effort to set reserves sufficiently.
6. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent payroll audit information not available at the time the financial statement was filed. The IBNR number is unpredictable based on claims that change. The Association makes every effort to set reserves sufficiently.
7. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.

8. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.
9. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.
10. The Association agrees with this adjustment. The adjustment was made with the benefit of subsequent audit information not available at the time the financial statement was filed.