

**EXAMINATION REPORT**  
**of**  
**PRINCE WILLIAM SELF-INSURANCE GROUP,**  
**PRINCE WILLIAM SELF-INSURANCE**  
**GROUP CASUALTY POOL**  
**PRINCE WILLIAM, VIRGINIA**  
**as of**  
**JUNE 30, 2015**

**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, 2015, 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 3<sup>rd</sup> day of February, 2017

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Jacqueline K. Cunningham  
Commissioner of Insurance

(SEAL)

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Richmond, Virginia  
November 18, 2016

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.

**SCOPE OF THE EXAMINATION**

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. The last examination of the Pool was made by representatives of the State Corporation Commission's Bureau of Insurance (the "Bureau") as of June 30, 2011. This examination covers the period from July 1, 2011 through June 30, 2015.

The Bureau planned and performed the examination to evaluate the Pool's financial condition and operational activities. All accounts and activities of the Pool were considered generally in accordance with the risk-focused examination process contained in the NAIC Financial Condition Examiners Handbook.

The examination report includes findings of fact and general information about the Pool and its financial condition.

**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, 2015:

<u>Representative</u>	<u>Member</u>
Michelle L. Attreed	Director of Finance Prince William County Prince William, Virginia
Lori J. Gray	Risk Management Division Chief Prince William County Prince William, Virginia
Kevin L. Hughart	Major Prince William County Police Department Prince William, Virginia
Tim L. Keen	Deputy Fire Chief Prince William County Prince William, Virginia
Lillie Jo Krest	Financial Analyst Manager Prince William County Prince William, Virginia

Michael A. Liedel

Senior Accountant  
Prince William County Parks and  
Recreation Department  
Prince William, Virginia

Carol A. Moyer-Vienna

Finance Director  
Prince William Manassas Regional Adult  
Detention Center  
Prince William, Virginia

Ronda E. Wiggins

Business Operations Manager  
Prince William Manassas Regional Adult  
Detention Center  
Prince William, Virginia

### Officers

Lori J. Gray  
Lillie Jo Krest

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 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 November 18, 2011, the Pool entered into an administrative agreement with Self Insurance Services, LLC ("SIS"). 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, 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 \$20,000 annually.

### CLAIMS ADMINISTRATION AGREEMENT

Effective July 1, 2013, the Pool entered into a claims administration agreement with PMA Management Corporation ("PMA"). The initial term of this agreement was for three years 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 \$48,925.

### 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 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 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 May 22, 2014, the Association entered into an agreement with AON to serve as its insurance broker. The initial term of this agreement is for three 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 \$50,000 annually.

### **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 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 dividends:

<u>Fiscal Year</u>	<u>November 16, 2012</u>	<u>April 7, 2014</u>
1991/1992	\$ 155,269	\$ 255
1992/1993	162,512	476
1993/1994	170,687	507
1994/1995	115,642	1,758
1995/1996	156,317	363
1996/1997	208,925	560
1997/1998	140,523	514
1998/1999	176,954	718
1999/2000	86,866	1,608
2000/2001	117,945	100
2001/2002	118,457	314
2002/2003	12,663	30,000
2003/2004	10,390	50,000
2004/2005	8,030	50,000
2005/2006	36,282	50,000
2006/2007	9,608	100,000
2007/2008	11,539	30,000
2008/2009	33,361	50,000
2009/2010	<u>0</u>	<u>50,000</u>
Totals	<u>\$ 1,731,970</u>	<u>\$ 417,173</u>

**REINSURANCE COVERAGE**

The Pool had two reinsurance agreements in force at June 30, 2015, 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	\$25,000 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, 2015, 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.

**FINANCIAL STATEMENTS**

There follows a statement of financial condition as of June 30, 2015, a statement of revenues, expenses and changes in Pool equity for the fiscal year ended June 30, 2015, 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, 2015.

**BALANCE SHEET**  
**JUNE 30, 2015**

**Assets**

Current assets:	
Cash and cash equivalents	\$1,971,635
Investments	2,000,816
Interest receivable	1,460
Prepaid expenses and other receivable	<u>48,773</u>
Total current assets	\$4,022,684
Noncurrent assets:	
Investments, restricted	<u>500,000</u>
Total assets	<u><u>\$4,522,684</u></u>

**Liabilities and Members' Equity**

Current liabilities:	
Unpaid losses and related expenses	\$399,000
Surplus distribution payable	465,000
Accounts payable	<u>35,281</u>
Total current liabilities	<u>\$899,281</u>
Noncurrent liabilities:	
Unpaid losses and related expenses	\$152,873
Surplus distribution payable	<u>1,100,187</u>
Total noncurrent liabilities	<u>\$1,253,060</u>
Total liabilities	<u>\$2,152,341</u>
Members' equity:	
Restricted	\$500,000
Unrestricted	<u>1,870,343</u>
Total members' equity	<u>\$2,370,343</u>
Total liabilities and members' equity	<u><u>\$4,522,684</u></u>

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
MEMBERS' EQUITY FOR THE YEAR ENDED JUNE 30, 2015**

Operating revenues:	
Premiums	<u>\$1,450,735</u>
Operating expenses:	
Claims losses and loss adjustment expenses, net of recoveries	\$349,399
Excess reinsurance premiums	466,771
General administration	327,739
Claims administration	<u>48,925</u>
Total operating expenses	<u>\$1,192,834</u>
Operating income	\$257,901
Nonoperating revenues:	
Interest and investment revenue	<u>34,626</u>
Change in members' equity	\$292,527
Members' equity, beginning of year	<u>2,077,816</u>
Members' equity, end of year	<u><u>\$2,370,343</u></u>

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

	<u>2011/2012</u>	<u>2012/2013</u>	<u>2013/2014</u>	<u>2014/2015</u>
Members' equity, beginning of fiscal year	\$3,578,098	\$3,995,955	\$2,408,516	\$2,077,816
Excess of revenue over expenses	\$417,857	\$144,531	\$86,473	\$292,527
Dividends declared but unpaid		<u>(1,731,970)</u>	<u>(417,173)</u>	
Change in members' equity	<u>\$417,857</u>	<u>(\$1,587,439)</u>	<u>(\$330,700)</u>	<u>\$292,527</u>
Members' equity, end of fiscal year	<u><u>\$3,995,955</u></u>	<u><u>\$2,408,516</u></u>	<u><u>\$2,077,816</u></u>	<u><u>\$2,370,343</u></u>

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2015**

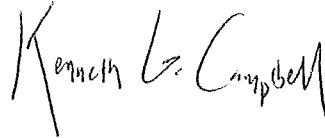
Cash flows from operating activities:	
Premiums received	\$1,144,341
Claims paid	(470,358)
Excess reinsurance premiums paid	(454,853)
Claims administration expenses paid	(48,925)
General administrative expenses paid	<u>(326,885)</u>
<b>Net cash used in operating activities</b>	<b><u>(\$156,680)</u></b>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	\$800,000
Interest and dividends	<u>31,245</u>
<b>Net cash provided by investing activities</b>	<b><u>\$831,245</u></b>
Cash flows used in financing activities:	
Surplus distributions paid	<u>(\$158,531)</u>
<b>Net increase in cash and cash equivalents</b>	<b>\$516,043</b>
Cash and cash equivalents, beginning of the year	<u>1,455,592</u>
Cash and cash equivalents, end of the year	<u><u>\$1,971,635</u></u>
Reconciliation of operating income to net cash:	
Provided by (used in) operating activities	
Operating income	\$257,901
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:	
Dividends applied to premiums	(306,394)
Change in operating assets and liabilities:	
Due from related parties	
Prepaid expenses and other receivable	4,716
Accounts payable	8,056
Unpaid losses and related expenses	<u>(120,959)</u>
<b>Net cash used in operating activities</b>	<b><u>(\$156,680)</u></b>

**ACKNOWLEDGEMENT**

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, Gerald Hicks and Ben MacKercher participated in the work of the examination.

Respectfully submitted,

A handwritten signature in black ink that reads "Kenneth G. Campbell". The signature is written in a cursive style with a large initial "K" and a distinct "G" before the last name.

Kenneth G. Campbell, CFE  
Assistant Chief Examiner



**PRINCE WILLIAM SELF INSURANCE GROUP CASUALTY POOL**

*Administered By*  
**SELF INSURANCE SERVICES, LLC**  
**COST CONTROL THROUGH SERVICE**

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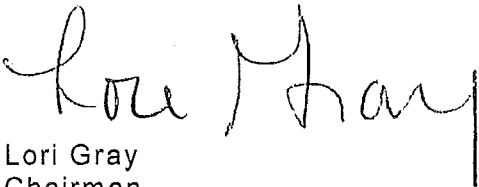
January 19, 2017

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, 2011 through June 30, 2015.

Sincerely,



Lori Gray  
Chairman  
Members' Supervisory Board  
Prince William Self Insurance Group  
Casualty Pool



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

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