

McGladrey & Pullen

Certified Public Accountants

Prince William Self-Insurance Group Casualty Pool

Financial Report
06.30.2007

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McGladrey & Pullen

Certified Public Accountants

Independent Auditor's Report

To the Board of Directors
Prince William Self-Insurance Group
Casualty Pool
Woodbridge, Virginia

We have audited the accompanying basic financial statements of the Prince William Self-Insurance Group Casualty Pool (the "Pool"), a component unit of Prince William County, Virginia, as of and for the years ended June 30, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the Pool's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pool as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

McGladrey & Pullen, LLP

Greensboro, North Carolina
October 12, 2007

Prince William Self-Insurance Group
Casualty Pool

Management's Discussion and Analysis (Unaudited)
June 30, 2007 and 2006

Introduction

This section of the Prince William Self-Insurance Group Casualty Pool's (the "Pool") annual financial report presents a discussion and analysis of the financial performance of the Pool for the years ended June 30, 2007 and 2006. Please read it in conjunction with the financial statements, which follow this section.

Overview of the Financial Statements

The Pool's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for state and local governmental entities. The primary purpose of the Pool is to make available a long-term, stable source of cost-effective casualty insurance protection for its members, who consist of Prince William County, Prince William – Manassas Regional Adult Detention Center, and Prince William County Park Authority. The Pool operates in a manner similar to an insurance company and is considered a blended component unit of Prince William County. These financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. The three basic financial statements presented are as follows:

- **Statement of Net Assets** – This statement presents information reflecting the Pool's assets, liabilities, and net assets. Pool net assets represent total assets less total liabilities. The statement of net assets is categorized as to current and noncurrent assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement date.
- **Statement of Revenues, Expenses, and Changes in Net Assets** – This statement reflects the operating revenues and expenses, as well as nonoperating revenues and expenses, and surplus distributions, if any, during the fiscal year. The major source of operating revenues is premium income and of nonoperating revenue is investment income. The major operating expenses are losses and loss adjustment expenses related to claims and excess insurance premiums. The change in net assets for the Pool is similar to net profit or loss for an insurance company.
- **Statement of Cash Flows** – The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating, investing and financing activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.
- **Notes to Financial Statements** – The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found following the statement of cash flows.

Prince William Self-Insurance Group
Casualty Pool

Management's Discussion and Analysis (Unaudited)
June 30, 2007 and 2006

The following table summarizes the financial position and results of operations of the Pool as of and for the fiscal years ended June 30, 2007, 2006, and 2005.

	2007	2006	2005
Assets			
Cash and cash equivalents	\$ 4,331,384	\$ 3,216,494	\$ 3,348,481
Investments	1,169,280	1,553,752	800,000
Other current assets	67,130	147,633	439,933
Total assets	5,567,794	4,917,879	4,588,414
Liabilities			
Current liabilities:			
Unpaid losses and related expenses	326,000	327,000	305,000
Accounts payable	30,403	37,281	19,422
Due to related parties	21,541	-	-
Total current liabilities	377,944	364,281	324,422
Noncurrent liabilities:			
Surplus distribution payable	659,639	711,496	711,496
Unpaid losses and related expenses	698,223	552,532	681,309
Total noncurrent liabilities	1,357,862	1,264,028	1,392,805
Total liabilities	1,735,806	1,628,309	1,717,227
Net Assets			
Restricted	500,000	500,000	500,000
Unrestricted	3,331,988	2,789,570	2,371,187
Total net assets	\$ 3,831,988	\$ 3,289,570	\$ 2,871,187
Revenues, Expenses and Changes in Net Assets			
Operating revenues, premiums earned	\$ 1,527,106	\$ 1,430,178	\$ 1,488,457
Operating expenses:			
Claim losses and loss adjustment expenses	465,177	371,688	355,465
Excess reinsurance premiums	487,445	457,931	515,868
Other operating expenses	325,785	315,449	313,874
Total operating expenses	1,278,407	1,145,068	1,185,207
Net operating income	248,699	285,110	303,250
Nonoperating revenues:			
Interest and investment income	293,719	133,273	126,789
Income before special item	542,418	418,383	430,039
Special item:			
Declaration of surplus distribution	-	-	(795,159)
Change in net assets	542,418	418,383	(365,120)
Net assets:			
Beginning	3,289,570	2,871,187	3,236,307
Ending	\$ 3,831,988	\$ 3,289,570	\$ 2,871,187

Prince William Self-Insurance Group
Casualty Pool

Management's Discussion and Analysis (Unaudited)
June 30, 2007 and 2006

Financial Highlights

Fiscal Year 2007

Total assets as of June 30, 2007 increased approximately \$650,000 in comparison to June 30, 2006 due primarily to the increase in investments resulting from the collection of cash from premiums over cash paid out for losses and expenses.

Total liabilities as of June 30, 2007 increased approximately \$107,000 in comparison to June 30, 2006 primarily as a result of an increase in the overall claims reserves including IBNRs of approximately \$145,000, and a decrease in the surplus distribution payable of approximately \$52,000.

Premiums earned for the year ended June 30, 2007 increased approximately \$97,000 in comparison to 2006 primarily as a result of an increase in budgeted premiums. This increase was primarily related to the increase in budgeted operating expenses, such as excess reinsurance premiums.

Interest and investment income for the year ended June 30, 2007 increased approximately \$160,000 in comparison to 2006 due primarily to market conditions yielding higher interest rates.

The Pool's loss ratio, which is derived as the ratio of claim losses and loss adjustment expenses to premiums earned, changed from 26% for 2006 to 30% for 2007. There was favorable loss reserve development during the year ended June 30, 2007 as claims developed better than expected.

Excess reinsurance premiums expense for the year ended June 30, 2007 increased approximately \$30,000 in comparison to 2006. These premiums increased primarily as a result of the excess reinsurance carrier charging more for the amounts of coverage obtained by the Pool.

Fiscal Year 2006

Total assets as of June 30, 2006 increased approximately \$329,000 in comparison to June 30, 2005 due primarily to the increase in investments resulting from the collection of cash from premiums over cash paid out for losses and expenses.

Total liabilities as of June 30, 2006 decreased approximately \$89,000 in comparison to June 30, 2005 primarily as a result of a decrease in the overall claims reserves including IBNRs.

Premiums earned for the year ended June 30, 2006 decreased approximately \$58,000 in comparison to 2005 primarily as a result of a decrease in budgeted premiums. This decrease was primarily related to the decrease in budgeted operating expenses, such as excess reinsurance premiums.

Interest and investment income for the year ended June 30, 2006 increased approximately \$6,000 in comparison to 2005 due primarily to market conditions yielding higher interest rates.

**Prince William Self-Insurance Group
Casualty Pool**

**Management's Discussion and Analysis (Unaudited)
June 30, 2007 and 2006**

The Pool's loss ratio, which is derived as the ratio of claim losses and loss adjustment expenses to premiums earned, changed from 24% for 2005 to 26% for 2006. There was favorable loss development during the year ended June 30, 2006 as claims developed better than expected.

Excess reinsurance premiums expense for the year ended June 30, 2006 decreased approximately \$58,000 in comparison to 2005. These premiums decreased primarily as a result of a change in the excess reinsurance policy affecting the per occurrence retentions accepted by the Pool for the year ended June 30, 2006.

Request for Information

Questions concerning this report or requests for additional information should be directed to Lori Gray, Risk Manager, Prince William County, 4349 Ridgewood Center Drive (RW514), Prince William, VA, 22192, telephone number 703-792-6754.

Prince William Self-Insurance Group
Casualty Pool

Statements of Net Assets
June 30, 2007 and 2006

	2007	2006
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 4,331,384	\$ 3,216,494
Investments (Note 2)	669,280	1,053,752
Interest receivable	9,349	13,700
Due from related parties (Note 5)	-	16,078
Prepaid expenses	57,781	117,855
Total current assets	5,067,794	4,417,879
Noncurrent assets:		
Investments, restricted (Note 2)	500,000	500,000
Total assets	5,567,794	4,917,879
Liabilities		
Current liabilities:		
Unpaid losses and related expenses (Note 6)	326,000	327,000
Due to related parties (Note 5)	21,541	-
Accounts payable	30,403	37,281
Total current liabilities	377,944	364,281
Noncurrent liabilities:		
Surplus distribution payable (Note 4)	659,639	711,496
Unpaid losses and related expenses (Note 6)	698,223	552,532
Total noncurrent liabilities	1,357,862	1,264,028
Total liabilities	1,735,806	1,628,309
Commitments and contingencies (Notes 3 and 7)		
Net assets		
Restricted	500,000	500,000
Unrestricted	3,331,988	2,789,570
Total net assets	\$ 3,831,988	\$ 3,289,570

See Notes to Basic Financial Statements.

Prince William Self-Insurance Group
Casualty Pool

Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2007 and 2006

	2007	2006
Operating revenues:		
Premiums	\$ 1,527,106	\$ 1,430,178
Operating expenses:		
Claim losses and loss adjustment expenses, net of recoveries (Note 6)	465,177	371,688
Excess reinsurance premiums (Note 3)	487,445	457,931
General administration	282,685	272,349
Claims administration	43,100	43,100
Total operating expenses	1,278,407	1,145,068
Operating income	248,699	285,110
Nonoperating revenues:		
Interest and investment revenue	293,719	133,273
Change in net assets	542,418	418,383
Net assets:		
Beginning	3,289,570	2,871,187
Ending	\$ 3,831,988	\$ 3,289,570

See Notes to Basic Financial Statements.

Prince William Self-Insurance Group
Casualty Pool

Statements of Cash Flows
Years Ended June 30, 2007 and 2006

	2007	2006
Cash Flows From Operating Activities		
Premiums received	\$ 1,527,106	\$ 1,430,178
Claims paid	(320,486)	(478,465)
Excess reinsurance premiums paid	(429,664)	(451,757)
Claims administration expenses paid	(43,100)	(43,100)
Refunds of overpayments of claims made to related parties	37,619	293,013
General administration expenses paid	(287,248)	(250,712)
Net cash provided by operating activities	484,227	499,157
Cash Flows From Investing Activities		
Purchase of investments	(1,194,875)	(796,250)
Proceeds from sales and maturities of investments	1,600,000	-
Interest and dividends	277,395	165,106
Net cash provided by (used in) investing activities	682,520	(631,144)
Cash Flows Used In Financing Activities		
Surplus distributions paid	(51,857)	-
Net increase (decrease) in cash and cash equivalents	1,114,890	(131,987)
Cash and cash equivalents:		
Beginning	3,216,494	3,348,481
Ending	\$ 4,331,384	\$ 3,216,494
Reconciliation of Operating Income to Net Cash		
Provided By Operating Activities		
Operating income	\$ 248,699	\$ 285,110
Adjustments to reconcile operating income to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Due from related parties	16,078	293,013
Prepaid expenses	60,074	9,931
Accounts payable	(6,856)	17,880
Due to related parties	21,541	-
Unpaid losses and related expenses	144,691	(106,777)
Net cash provided by operating activities	\$ 484,227	\$ 499,157
Supplemental Schedule of Noncash Investing and Financing Activities		
(Increase) decrease in fair value of investments	\$ 20,653	\$ (42,498)

See Notes to Basic Financial Statements.

Prince William Self-Insurance Group
Casualty Pool

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

General: Pursuant to the Commonwealth of Virginia's Insurance Regulations, the Prince William Self-Insurance Group Casualty Pool (the "Pool") was licensed by the State Corporation Commission of Virginia ("SCC") to begin operations on July 1, 1989.

The Pool's members consist of Prince William County (the "County"), Prince William – Manassas Regional Adult Detention Center, and Prince William County Park Authority.

The objective of the Pool is to make available a long-term, stable source of cost-effective casualty insurance protection for participating members. The policies concerning the financial and business affairs of the Pool are determined by the Board of County Supervisors (the "Board"), and the County is the predominant participant. Therefore, the Pool is considered a blended component unit of the County. Since the County is the predominant participant, under Governmental Accounting Standards Board ("GASB") Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the Pool is classified as an "entity other than a pool."

The Pool provides general liability (including public officials and police professionals), automobile liability, and automobile physical damage insurance protection to its members. The Pool is funded only by its members. The Pool has an arrangement with a third-party administrator to process claims (automobile liability, automobile physical damage subrogation claims, and certain general liability claims), perform claims adjustments, and authorize payment for such claims. Claims not administered by the third-party administrator are processed by the respective Pool member and/or the Office of the Prince William County Attorney. The Pool has also retained a pool administrator for assistance and advice in the daily operation of the Pool.

Basis of accounting: The Pool's financial statements have been prepared using the economic resources measurement focus and accrual basis of accounting. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, and consistent with the other proprietary funds of the County, the Pool applies all applicable GASB pronouncements and all applicable Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Cash equivalents: Cash equivalents include all highly liquid investments with original maturities of three months or less and are stated at fair value. At June 30, 2007 and 2006, cash equivalents consisted of money market mutual funds, which are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Investments: Investments are stated at fair value. All investments with maturity or call dates greater than one year from the statement of net assets date and all restricted investments are reported as noncurrent assets. Normally, the Pool holds such assets to maturity, unless called, in which case the assets are reinvested in the current market environment.

Premiums: Premiums charged to members are collected in advance and recognized ratably as revenue in the period for which insurance protection is provided. The premium is determined based on loss history and projected exposure for the year that insurance coverage is provided.

Notes to Basic Financial Statements

Note 1. Summary of Significant Accounting Policies (Continued)

Unpaid losses and related expenses: Losses are charged to operations as incurred. The liability for unpaid losses is determined using case-basis evaluations and a provision for incurred but not reported losses that is based upon actuarial projections. Actuarial projections of ultimate losses are based on a composite of the Pool's members' experience and property and casualty insurance industry data, which is used to supplement the Pool's historical experience, and includes the effects of inflation and other factors. Claims liabilities include allocated loss adjustment expenses and are reported net of estimated amounts recoverable from excess reinsurance, salvage and subrogation, and the deductible portion of claims. A significant range of variability exists around the best estimate of the ultimate cost of settling all unpaid Pool claims; accordingly, the amount of the liability for unpaid losses and related expenses and the related provisions included in the financial statements may be more or less than the actual cost of settling all unpaid claims, and such variations could be significant. Adjustments to claim liabilities are made continually, based on subsequent developments and experience, and are included in operations as made.

Excess reinsurance premiums: Excess reinsurance premiums for risk coverage are recognized as expenses in the applicable contract period, which coincides with the Pool's fiscal year.

Federal and state taxes: The Pool has been granted a federal income tax exemption pursuant to Section 115 of the Internal Revenue Code and a state tax exemption by the State Department of Revenue. Therefore, no provision for taxes is included in the accompanying financial statements.

Use of estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and certain reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating revenues and expenses: The Pool's policy is to report all revenues and expenses as operating, with the exception of interest and investment income and other miscellaneous receipts.

Net assets: Net assets represent the difference between assets and liabilities in the financial statements. The net assets of the Pool are divided into two categories, restricted and unrestricted. Restricted net assets result from requirements imposed by the SCC. In accordance with the requirements of the SCC for the licensing of the Prince William Self-Insurance Group Casualty Pool, the Pool is required to deposit securities in the amount of \$500,000 with the Commonwealth of Virginia for additional collateral because the Pool does not maintain aggregate excess insurance. As of June 30, 2007 and 2006, the U. S. Government Agency security discussed in Note 2 was deposited with the Commonwealth of Virginia. While the security was held by the Commonwealth of Virginia, it was held in the names of the Pool and the County. The required deposit is reflected as restricted investments of the Pool at June 30, 2007 and 2006. The remaining net assets are reported as unrestricted.

Notes to Basic Financial Statements

Note 2. Deposits and Investments

Deposits:

Custodial credit risk: At June 30, 2007 and 2006, the carrying values (book balances) of the Pool's deposits with banks and savings institutions were \$200,233 and \$173,139, respectively. The balances reported by the banks at June 30, 2007 and 2006 were \$208,993 and \$250,713, respectively. For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the Pool may not recover its deposits. The Pool does not have a deposit policy for custodial credit risk. Of the bank balances, 100% was covered by federal depository related insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"). Under the Act, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation ("FDIC") must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the Commonwealth Treasury Board. If any member bank fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. If the value of the Pool's collateral was inadequate to cover the loss, additional amounts would be assessed on a pro rata basis to the members of the Pool. Collateral is not specifically identified as security for any one public depositor and public depositors are prohibited from holding collateral in their name as security for deposits. With the ability to make additional assessments, the multiple bank collateral pool functions similar to depository insurance. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. The Commonwealth Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act. Funds deposited in accordance with the requirements of the Act are considered fully secured and not subject to custodial credit risk.

In addition, at June 30, 2007 and 2006, the Pool had \$89,031 and \$96,399, respectively, on deposit with a third-party claims administrator. Such amounts are covered by federal depository insurance or are fully collateralized.

Investments:

The Pool's investment policy, pursuant to the *Code of Virginia* Sec. 2.2-4501 through 2.2-4516 is to invest in obligations of the United States or agencies thereof; "prime quality" commercial paper; certificates of deposits, negotiable bank notes and short-term corporate notes rated AAA or better by Standard & Poor's, Inc. and Aaa or better by Moody's Investors Service, Inc; banker's acceptances; repurchase agreements; money market mutual funds; and the State Treasurer's Local Government Investment Pool ("LGIP").

The Pool invests in an externally managed investment pool, the LGIP, which is not SEC-registered. Pursuant to Sec. 2.1-234.7 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at its regularly scheduled monthly meetings, and the fair value of the position in the LGIP is the same as the value of the pool shares. Investments authorized for the LGIP are the same as those authorized for local governments in Sec. 2.2-4500 et seq. of the *Code of Virginia*.

In accordance with the requirements of the SCC for the licensing of the Prince William Self-Insurance Group Casualty Pool, the Pool is required to deposit securities with the State Treasurer. As of June 30, 2007 and 2006, the Pool had \$773,504 and \$762,248, respectively, at fair value, in a U. S. Government Agency security deposited with the State Treasurer to comply with the \$500,000 requirement as discussed in Note 1. While these securities are held by the State Treasurer, they are in the name of the Pool and are included in the investments of the Pool.

Prince William Self-Insurance Group
Casualty Pool

Notes to Basic Financial Statements

Note 2. Deposits and Investments (Continued)

As of June 30, 2007 and 2006, the Pool's investments were as follows:

Investments	Weighted Average Maturity*		Fair Value	
	2007	2006	2007	2006
LGIP	0.003	0.003	\$ 880,178	\$ 835,028
Money Market Mutual Funds	0.003	0.003	3,161,942	2,111,928
U. S. Government Agency Securities	4.934	7.245	1,169,280	1,553,752
			<u>\$ 5,211,400</u>	<u>\$ 4,500,708</u>

*Duration in years

Interest rate risk: As a means of limiting its exposure to fair value losses arising from increasing interest rates, the Pool's investment policy states that the weighted average maturity for the Pool portfolio may not exceed three years, except to the extent that assets are purchased specifically for collateral deposits with the Commonwealth of Virginia as required by the SCC. The final maturity of any individual security may not exceed five years from the time of purchase, except where an asset is matched to a specific obligation of the Pool.

Credit risk: The *Code of Virginia* authorizes the Pool to invest in various instruments as described above. The Pool's investment policy, however, does not provide for investments in obligations of other states and political subdivisions outside of the Commonwealth of Virginia. To minimize credit risk, the Pool's investment policy seeks to diversify its portfolio by limiting the percentage of the portfolio that may be invested in any one type of instrument. The Pool has no official policy to limit investments based on ratings by nationally recognized statistical rating agencies. It is Pool policy to invest in Certificates of Deposits from banks with a rating of at least A-1 by Standard & Poor's and P-1 by Moody's Investor's Services. Furthermore, the Pool will only invest in money market or mutual funds with a rating of AAA by at least one nationally recognized statistical rating organization. During the year, the Pool made investments in money market mutual funds and LGIP.

As of June 30, 2007 and 2006, the Pool's investment limits, ratings, and credit exposure are as follows:

Investment Type	Investment Policy Limit	Credit Quality (Rating)	Credit Exposure as a Percentage of Total Investments	
			2007	2006
LGIP	40%	AAAm	16.88 %	18.55 %
Money Market Mutual Funds	80%	AAA	60.67	46.92
U.S. Government Agency Securities	100%	AAA	22.45	34.53
			<u>100.00 %</u>	<u>100.00 %</u>

Custodial credit risk: For investments, custodial credit risk is the risk that, in the event of the failure of the counter party, the Pool will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. However, the Pool's investment policy requires that all securities purchased by the Pool be properly and clearly labeled as an asset of the Pool and held in safekeeping by a third party custodial bank or institution in compliance with Section 2.2-4515 of the *Code of Virginia*. Therefore, the Pool has no custodial credit risk.

Prince William Self-Insurance Group
Casualty Pool

Notes to Basic Financial Statements

Note 2. Deposits and Investments (Continued)

Concentration of credit risk: The Pool places a limit on the amount it may invest in any one type of investment instrument as follows: 35% for commercial paper; 25% for corporate notes; 40% for banker's acceptances; 50% for repurchase agreements; 40% for negotiable certificates of deposits; 5% for non-negotiable certificates of deposit; 100% for U.S. Government Agency Obligations; and 80% for money market funds.

In addition, the Pool places a limit on the amount it may invest with any single issuer as follows: 5% for commercial paper, corporate notes, banker's acceptance, and negotiable certificates of deposit; 20% for repurchase agreements; and 40% for money market funds. More than 5% of the Pool's investments are in obligations issued by the following:

Investments	Investments		Percentage of Total Investments and Cash Equivalents	
	2007	2006	2007	2006
Federal Home Loan Bank	\$ 773,504	\$ 762,248	14.84%	16.94%
Federal Home Loan Mortgage Corporation	395,776	791,504	7.60%	17.59%
Total	\$ 1,169,280	\$ 1,553,752	22.44%	34.53%

Note 3. Excess Reinsurance

For fiscal years 2007 and 2006, the Pool's per occurrence retention was \$750,000, except for ambulances and fire trucks. For fiscal years 2007 and 2006, the Pool's per occurrence retention for ambulances and fire trucks was \$1,500,000.

The Pool provides for its excess reinsurance coverage through a commercial insurance carrier. The limits provided by the carrier above the Pool's retentions are as follows:

General liability	\$ 10,000,000/occurrence
Automobile liability	10,000,000/occurrence
Public officials' liability	10,000,000/occurrence
Police professional liability	10,000,000/occurrence

Excess reinsurance coverage for general, police professionals, and automobile liability is written on an occurrence basis. Excess reinsurance coverage for public official's liability is written on a claims-made basis.

The Pool remains contingently liable for the ceded portion of any claims in the event the reinsurer is unable to pay its portion.

Note 4. Members' Supplemental Premiums and Credits

As provided for in the constitution and bylaws of the Pool, the Prince William Self-Insurance Group's Board of Directors has the authority to assess members' premiums for any deficits and may provide for a distribution in the case of a surplus. The Board of Directors did not approve a distribution of surplus during fiscal years 2007 or 2006. At June 30, 2007 and 2006, the intent of the Board of Directors was not to pay out the distribution payable in the near-term, but rather hold for future distributions to its members to be used for risk control initiatives.

Prince William Self-Insurance Group
Casualty Pool

Notes to Basic Financial Statements

Note 5. Related Parties Transactions

As of June 30, 2007 and 2006, the following amounts are due from (to) related parties:

Due from (to):	2007	2006
Prince William County for reimbursement of first party automobile claims	\$ (21,541)	\$ 16,078

The Pool's offices are located within County office space, and the Pool utilizes the services of County personnel in its operations. As such, the Pool pays the County for certain administrative and personnel support services. Such expenses totaled \$147,500 in each of the fiscal years 2007 and 2006.

Note 6. Liability for Unpaid Losses and Related Expenses

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

	2007	2006
Balance, July 1	\$ 879,532	\$ 986,309
Incurred related to:		
Current year	760,000	698,706
Prior years	(294,823)	(327,018)
Total incurred	465,177	371,688
Paid related to:		
Current year	245,272	325,606
Prior years	75,214	152,859
Total paid	320,486	478,465
Balance, June 30	\$ 1,024,223	\$ 879,532

The total paid amounts in the table above represent all claims paid during the year, including amounts paid by the County on behalf of the Pool for first-party automobile claims. Amounts paid by the County and not reimbursed by the Pool as of year-end are recorded within due to related parties.

Management's estimate of the portion of the liability as of June 30, 2007 and 2006 to be paid within one year was \$326,000 and \$327,000, respectively. This estimate is based on the Pool's past experience.

There was favorable loss reserve development during the years ended June 30, 2007 and 2006 as claims developed better than expected. No individual events were responsible for a significant portion of the change.

Note 7. Commitments and Contingencies

The members of the Pool are contingently liable with respect to certain lawsuits, as well as asserted and unasserted claims, that have arisen in the ordinary course of the members' operations. It is the opinion of the Pool, the County management, and the County Attorney that losses, if any, which may ultimately be incurred as a result of these claims in excess of amounts provided for in the accompanying financial statements will not be material to the Pool or the County taken as a whole.