

McGladrey & Pullen

Certified Public Accountants

Prince William Self-Insurance Group Workers' Compensation Association

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
Workers' Compensation Association
Woodbridge, Virginia

We have audited the accompanying basic financial statements of the Prince William Self-Insurance Group Workers' Compensation Association (the "Association"), 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 Association'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 Association 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
Workers' Compensation Association

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

Introduction

This section of the Prince William Self-Insurance Group Workers' Compensation Association's (the "Association") annual financial report presents a discussion and analysis of the financial performance of the Association 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 Association'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 Association is to make available a long-term, stable source of cost-effective workers' compensation 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 Association operates in a manner similar to an insurance company. The Association is considered a blended component unit of Prince William County. These financial statements are presented using the economic resources measurement focus and accrual basis of accounting. The three basic financial statements presented are as follows:

- **Statement of Net Assets** – This statement presents information reflecting the Association's assets, liabilities, and net assets. Association 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. The change in net assets for the Association is similar to net profit or loss for a group self-insurance association.
- **Statement of Cash Flows** – The statement of cash flows is presented on the direct method of reporting, which reflects cash flows from operating and investing 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.

The table on the next page summarizes the financial position and results of operations of the Association as of and for the fiscal years ended June 30, 2007, 2006, and 2005.

Prince William Self-Insurance Group
Workers' Compensation Association

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

| | 2007 | 2006 | 2005 |
|--|---------------------|---------------------|---------------------|
| Assets | | | |
| Cash and cash equivalents | \$ 10,454,480 | \$ 8,333,790 | \$ 7,617,165 |
| Investments | 3,191,010 | 2,785,793 | 1,798,587 |
| Other current assets | 244,448 | 217,346 | 90,435 |
| Total assets | 13,889,938 | 11,336,929 | 9,506,187 |
| Liabilities | | | |
| Current liabilities: | | | |
| Unpaid losses and related expenses | 1,247,000 | 1,200,000 | 1,210,000 |
| Accounts payable | 71,708 | 103,466 | 48,852 |
| Other current liabilities | 14,876 | 10,004 | 72,872 |
| Total current liabilities | 1,333,584 | 1,313,470 | 1,331,724 |
| Noncurrent liabilities: | | | |
| Unpaid losses and related expenses | 9,909,897 | 8,285,281 | 4,290,331 |
| Total liabilities | 11,243,481 | 9,598,751 | 5,622,055 |
| Net Assets | | | |
| Restricted | 1,664,863 | 1,545,215 | 1,445,658 |
| Unrestricted | 981,594 | 192,963 | 2,438,474 |
| Total net assets | \$ 2,646,457 | \$ 1,738,178 | \$ 3,884,132 |
| Revenues, expenses, and changes in net assets | | | |
| Operating revenues, premiums earned | \$ 3,988,277 | \$ 3,318,550 | \$ 2,144,414 |
| Operating expenses: | | | |
| Claim losses and loss adjustment expenses | 3,106,032 | 5,158,083 | 2,235,125 |
| Excess reinsurance premiums | 221,515 | 245,081 | 176,526 |
| Other operating expenses | 457,567 | 463,154 | 450,945 |
| Total operating expenses | 3,785,114 | 5,866,318 | 2,862,596 |
| Net operating income (loss) | 203,163 | (2,547,768) | (718,182) |
| Nonoperating revenues: | | | |
| Interest and investment income | 690,683 | 401,814 | 203,388 |
| Other income | 14,433 | - | - |
| Total nonoperating revenues | 705,116 | 401,814 | 203,388 |
| Change in net assets | 908,279 | (2,145,954) | (514,794) |
| Net assets: | | | |
| Beginning | 1,738,178 | 3,884,132 | 4,398,926 |
| Ending | \$ 2,646,457 | \$ 1,738,178 | \$ 3,884,132 |

Prince William Self-Insurance Group
Workers' Compensation Association

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 \$2,553,000 in comparison to June 30, 2006 due primarily to the investing of excess premiums received over cash payments out.

Total liabilities as of June 30, 2007 increased approximately \$1,645,000 in comparison to June 30, 2006 primarily as a result of an increase in the liability for unpaid losses and related expenses.

Premiums earned for the year ended June 30, 2007 increased approximately \$670,000 in comparison to 2006 primarily as a result of an increase in rates and an increase in reported payroll. Premiums are based on the members' payroll and other factors. As the members' reported payroll increases, generally, premiums would be expected to increase.

Interest and investment income for the year ended June 30, 2007 increased approximately \$289,000 in comparison to 2006 primarily as a result of market conditions yielding higher interest rates.

The Association's loss ratio, which is derived as the ratio of claim losses and loss adjustment expenses to premiums earned, was 155% for 2006 and 78% for 2007. A loss ratio greater than 100% indicates total losses incurred were in excess of total premiums earned. A loss ratio less than 100% indicates total losses incurred were less than total premiums earned. 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 decreased approximately \$24,000 in comparison to 2006. These premiums decreased primarily due to an increase in the Association's per occurrence retention from \$400,000 in 2006 to \$500,000 in 2007.

Fiscal Year 2006

Total assets as of June 30, 2006 increased approximately \$1,831,000 in comparison to June 30, 2005 due primarily to the investing of excess premiums received over cash payments out and an increase in amounts due from related parties related to additional premiums.

Total liabilities as of June 30, 2006 increased approximately \$3,977,000 in comparison to June 30, 2005 primarily as a result of an increase in the liability for unpaid losses and related expenses caused by negative loss development and trending of several serious claims that occurred in fiscal years 2003, 2004, 2005 and 2006.

Premiums earned for the year ended June 30, 2006 increased approximately \$1,174,000 in comparison to 2005 primarily as a result of an increase in rates and an increase in reported payroll. Premiums are based on the members' payroll and other factors. As the members' reported payroll increases, generally, premiums would be expected to increase.

Interest and investment income for the year ended June 30, 2006 increased approximately \$198,000 in comparison to 2005 primarily as a result of market conditions yielding higher interest rates.

**Prince William Self-Insurance Group
Workers' Compensation Association**

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

The Association's loss ratio, which is derived as the ratio of claim losses and loss adjustment expenses to premiums earned, was 104% for 2005 and 155% for 2006. A loss ratio greater than 100% indicates total losses incurred were in excess of total premiums earned. The increase in claims expense is primarily attributed to the following:

- The increase in the liability for unpaid losses and related expenses in 2006 compared to 2005 related to several significant and serious claims.
- There were 7 claims over \$200,000 attributing to \$3,620,772 of the total claim reserve in which two were related to training, two were the result of an auto accident, one was a heart/lung claim, and two were materials handling incidents.

Excess reinsurance premiums expense for the year ended June 30, 2006 increased approximately \$69,000 in comparison to 2005. These premiums increased primarily due to an increase in the members' reported payroll and an increase in excess reinsurance rates charged by the excess reinsurance carrier.

Requests 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, Virginia 22192, telephone number 703-792-6754.

Prince William Self-Insurance Group
Workers' Compensation Association

Statements of Net Assets
June 30, 2007 and 2006

| | 2007 | 2006 |
|---|---------------------|---------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents (Note 2) | \$ 10,454,480 | \$ 8,333,790 |
| Investments (Note 2) | 2,441,010 | 2,035,793 |
| Interest receivable | 53,831 | 22,372 |
| Accounts receivable | 81,104 | 112,064 |
| Prepaid expenses | - | 2,293 |
| Due from related parties (Note 4) | 109,513 | 80,617 |
| Total current assets | 13,139,938 | 10,586,929 |
| Noncurrent assets: | | |
| Investments, restricted (Note 2) | 750,000 | 750,000 |
| Total assets | 13,889,938 | 11,336,929 |
| Liabilities | | |
| Current liabilities: | | |
| Unpaid losses and related expenses (Note 5) | 1,247,000 | 1,200,000 |
| Accounts payable | 71,708 | 103,466 |
| Due to related parties (Note 4) | 14,876 | 10,004 |
| Total current liabilities | 1,333,584 | 1,313,470 |
| Noncurrent liabilities: | | |
| Unpaid losses and related expenses (Note 5) | 9,909,897 | 8,285,281 |
| Total liabilities | 11,243,481 | 9,598,751 |
| Commitments and Contingencies (Notes 3 and 7) | | |
| Net assets | | |
| Restricted | 1,664,863 | 1,545,215 |
| Unrestricted | 981,594 | 192,963 |
| Total net assets | \$ 2,646,457 | \$ 1,738,178 |

See Notes to Basic Financial Statements.

Prince William Self-Insurance Group
Workers' Compensation Association

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

| | 2007 | 2006 |
|--|---------------------|---------------------|
| Operating revenues: | | |
| Premiums | <u>\$ 3,988,277</u> | <u>\$ 3,318,550</u> |
| Operating expenses: | | |
| Claim losses and loss adjustment expenses, net of recoveries (Note 6) | 3,106,032 | 5,158,083 |
| Excess reinsurance premiums (Note 3) | 221,515 | 245,081 |
| General administration | 357,417 | 350,111 |
| Claims administration | 100,150 | 113,043 |
| Total operating expenses | <u>3,785,114</u> | <u>5,866,318</u> |
| | | |
| Operating income (loss) | <u>203,163</u> | <u>(2,547,768)</u> |
| Nonoperating revenues: | | |
| Interest and investment revenue | 690,683 | 401,814 |
| Other Income | 14,433 | - |
| Total nonoperating revenues | <u>705,116</u> | <u>401,814</u> |
| | | |
| Change in net assets | <u>908,279</u> | <u>(2,145,954)</u> |
| Total net assets: | | |
| Beginning | 1,738,178 | 3,884,132 |
| Ending | <u>\$ 2,646,457</u> | <u>\$ 1,738,178</u> |

See Notes to Basic Financial Statements.

Prince William Self-Insurance Group
Workers' Compensation Association

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

| | 2007 | 2006 |
|--|----------------------|---------------------|
| Cash Flows From Operating Activities | | |
| Premiums received | \$ 3,964,253 | \$ 3,175,065 |
| Other receipts | 14,433 | - |
| Claims paid | (1,399,856) | (1,208,404) |
| Excess reinsurance premiums paid | (227,106) | (232,750) |
| Claims administration expenses paid | (103,750) | (112,143) |
| General administration expenses paid | (381,305) | (302,803) |
| Net cash provided by operating activities | 1,866,669 | 1,318,965 |
| Cash Flows From Investing Activities | | |
| Proceeds from sales and maturities of investments | 2,810,000 | 2,500,000 |
| Interest and dividends | 633,918 | 389,560 |
| Purchases of investments | (3,189,897) | (3,491,900) |
| Net cash provided by (used in) investing activities | 254,021 | (602,340) |
| Net increase in cash and cash equivalents | 2,120,690 | 716,625 |
| Cash and cash equivalents: | | |
| Beginning | 8,333,790 | 7,617,165 |
| Ending | \$ 10,454,480 | \$ 8,333,790 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities | | |
| Operating income (loss) | \$ 203,163 | \$ (2,547,768) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | |
| Other income | 14,433 | - |
| Change in operating assets and liabilities: | | |
| Accounts receivable | 30,960 | (34,371) |
| Due from related parties | (28,896) | (80,617) |
| Prepaid expenses | 2,293 | 4,998 |
| Accounts payable | (31,772) | 54,641 |
| Due to related parties | 4,872 | (62,868) |
| Unpaid losses and related expenses | 1,671,616 | 3,984,950 |
| Net cash provided by operating activities | \$ 1,866,669 | \$ 1,318,965 |
| Supplemental Schedule of Noncash Investing and Financing Activities | | |
| (Increase) decrease in fair value of investments | \$ (25,320) | \$ 4,694 |

See Notes to Basic Financial Statements.

Prince William Self-Insurance Group
Workers' Compensation Association

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 Workers' Compensation Association (the "Association") was licensed by the State Corporation Commission of Virginia ("SCC") to begin operations on July 1, 1989.

The Association 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 Association is to make available a long-term, stable source of cost-effective workers' compensation insurance protection for participating members. The policies concerning the financial and business affairs of the Association are determined by the Board of County Supervisors (the "Board"), and the County is the predominant participant. Therefore, the Association 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 Association is classified as an "entity other than a pool."

The Association provides workers' compensation and employers' liability insurance protection to its members. The Association is funded only by its members. The Association has an arrangement with a third-party administrator to process claims, perform claims adjustments, and authorize payment for such claims. The Association has also retained an association administrator for assistance and advice in the daily operation of the Association.

Basis of accounting: The Association'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 Association 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 Association holds such assets to maturity, unless called, in which case the assets are reinvested in the current market environment.

Premiums: Annual premiums charged to members are collected in full at the beginning of the fiscal year 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.

As a result of recalculating premiums based on actual payroll, the Association is either due additional premiums or owes refunds to participants at year-end. The premium recalculation using actual payroll figures is required to ensure compliance with the SCC regulations.

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 Association members' experience and insurance industry data, which is used to supplement the Association'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. A significant range of variability exists around the best estimate of the ultimate cost of settling all unpaid Association 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 Association's fiscal year.

Federal and state taxes: The Association 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Operating revenues and expenses: The Association'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 Association are divided into two categories, restricted and unrestricted. Restricted net assets result from requirements imposed by the *Code of Virginia* and include a contingency reserve equivalent to 3% of the Association's earned premiums since inception. This reserve amounted to \$914,863 and \$795,215 at June 30, 2007 and 2006, respectively. In addition, in accordance with the provisions of Section 14 Virginia Administrative Code ("VAC") 5-370-60 of the *Code of Virginia*, for the licensing of the Association, the Association is required to deposit securities in the amount of \$500,000 with the Commonwealth of Virginia as additional collateral because the Association does not maintain aggregate excess insurance. Also, in accordance with the provisions of Section 14 VAC 5-370-60 of the *Code of Virginia*, the Association is required to maintain on deposit with the Commonwealth of Virginia investments in the amount of \$250,000, in lieu of a surety bond. As of June 30, 2007 and 2006, the U.S. Government Agency Securities discussed in Note 2 were deposited with the Commonwealth of Virginia. While the securities were held by the Commonwealth of Virginia, they were held in the names of the Association and the County. The required deposits totaling \$750,000 are reflected as restricted investments of the Association at June 30, 2007 and 2006. The remaining net assets are reported as unrestricted.

Prince William Self-Insurance Group
Workers' Compensation Association

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 Association's deposits with banks and savings institutions were \$353,662 and \$492,026, respectively. The balances reported by the banks at June 30, 2007 and 2006 were \$512,712 and \$492,026, respectively. For deposits, custodial credit risk is the risk that in the event of a failure of a depository financial institution, the Association may not recover its deposits. The Association 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 State 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 Association had \$61,882 and \$27,234, respectively, on deposit with the third-party claims administrators. Such amounts are covered by federal depository insurance or are fully collateralized.

Investments:

The Association's investment policy pursuant to *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 Association 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*.

Prince William Self-Insurance Group
Workers' Compensation Association

Notes to Basic Financial Statements

Note 2. Deposits and Investments (Continued)

In accordance with Virginia Insurance regulations for the licensing of the Prince William County Self-Insurance Group Workers' Compensation Association, the Association is required to deposit securities with the State Treasurer. As of June 30, 2007 and 2006, the Association had \$810,000 and \$795,793, respectively, at fair value, in money market mutual funds (2007) and U.S. Government Agency Securities (2006) deposited with the State Treasurer to comply with the \$750,000 requirement as discussed in Note 1, with \$250,000 serving as a security deposit in lieu of a surety bond. The remainder serves as additional collateral because the Association does not maintain aggregate excess insurance. While these securities are held by the State Treasurer, they are in the name of the Association and are included in the investments of the Association.

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

| Investments | Weighted Average Maturity* | | Fair Value | |
|------------------------------------|----------------------------|-------|----------------------|----------------------|
| | 2007 | 2006 | 2007 | 2006 |
| LGIP | 0.003 | 0.003 | \$ 5,559,566 | \$ 2,332,070 |
| Money market mutual funds | 0.003 | 0.003 | 4,479,366 | 5,482,460 |
| U. S. Government agency securities | 3.533 | 0.366 | 3,191,010 | 2,785,793 |
| Total | | | \$ 13,229,942 | \$ 10,600,323 |

*Duration in years

Interest rate risk: As a means of limiting its exposure to fair value losses arising from increasing interest rates, the Association's investment policy states that the weighted average maturity for the Association 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 asset is matched to a specific obligation of the Association.

Credit risk: The *Code of Virginia* authorizes the investment in various instruments as described above. The Association'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 Association'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 Association has no official policy to limit investments based on its ratings by nationally recognized statistical rating agencies. It is Association 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 for maturities of one year or less, and a rating of AA by Standard & Poor's and Aa by Moody's Investor's Services for maturities over one year and not exceeding five years. Furthermore, the Association 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 Association made investments in money market mutual funds, LGIP, and agencies of the United States.

Prince William Self-Insurance Group
Workers' Compensation Association

Notes to Basic Financial Statements

Note 2. Deposits and Investments (Continued)

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

| Investment Type | Investment Policy Limit | Credit Quality (Rating) | Credit Exposure as a Percent of Total Investments | |
|------------------------------------|-------------------------|-------------------------|---|----------------|
| | | | 2007 | 2006 |
| LGIP | 40% | AAAm | 42.02% | 22.00% |
| Money market mutual funds | 80% | AAA | 33.86% | 51.72% |
| U. S. Government Agency Securities | 100% | AAA | 24.12% | 26.28% |
| Total | | | 100.00% | 100.00% |

Custodial credit risk: For investments, custodial credit risk is the risk, that in the event of the failure of the counter party, the Association 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 Association's investment policy requires that all securities purchased by the Association be properly and clearly labeled as an asset of the Association 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 Association has no custodial credit risk.

Concentration of credit risk: The Association 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 Association 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 Association's investments are in the following:

| Investments | Fair Value | | Percentage of Total Investments | |
|---------------------------------------|---------------------|---------------------|---------------------------------|---------------|
| | 2007 | 2006 | 2007 | 2006 |
| Federal Home Loan Bank | \$ 999,380 | \$ 1,990,000 | 7.55% | 18.77% |
| Federal Farm Credit Bank | 795,504 | - | 6.01% | - |
| Federal National Mortgage Association | 1,396,126 | 697,355 | 10.55% | 6.58% |
| | \$ 3,191,010 | \$ 2,687,355 | 24.11% | 25.35% |

Prince William Self-Insurance Group
Workers' Compensation Association

Notes to Basic Financial Statements

Note 3. Excess Reinsurance

For the fiscal years 2007 and 2006, the Association's per occurrence retention was \$500,000 and \$400,000, respectively.

The Association provides for its excess reinsurance coverage through a commercial insurance carrier. The limits provided by the carrier above the Association's retentions for 2007 are as follows:

| | |
|-----------------------|------------------------|
| Workers' compensation | Statutory |
| Employer liability | \$1,000,000/occurrence |

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

Note 4. Related Parties Transactions

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

| | <u>2007</u> | <u>2006</u> |
|--|-------------------|------------------|
| Due from: | | |
| County, additional premiums | <u>\$ 109,513</u> | <u>\$ 80,617</u> |
| Due to: | | |
| Park Authority, refund of premiums | 14,118 | 7,709 |
| Adult Detention Center, refund of premiums | 758 | 2,295 |
| | <u>\$ 14,876</u> | <u>\$ 10,004</u> |

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

Prince William Self-Insurance Group
Workers' Compensation Association

Notes to Basic Financial Statements

Note 5. 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 | \$ 9,485,281 | \$ 5,500,331 |
| Incurred related to: | | |
| Current year | 3,450,004 | 4,700,000 |
| Prior years | (343,972) | 458,083 |
| Total incurred | 3,106,032 | 5,158,083 |
| Paid related to: | | |
| Current year | 479,607 | 524,882 |
| Prior years | 954,809 | 648,251 |
| Total paid | 1,434,416 | 1,173,133 |
| Balance, June 30 | \$ 11,156,897 | \$ 9,485,281 |

Management's estimate of the portion of the liability as of June 30, 2007 and 2006 to be paid within one year is \$1,247,000 and \$1,200,000, respectively. This estimate is based upon the Association's past experience.

There was favorable loss reserve development during the year ended June 30, 2007. In recent prior years the Association had experienced some adverse development. No individual events were responsible for a significant portion of the change.

Note 6. Members' Supplemental Premiums and Credits

As provided for in the constitution and bylaws of the Association, 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 Association's Board of Directors did not approve or pay a surplus to its members during fiscal years 2007 and 2006.

Note 7. Commitments and Contingencies

The members of the Association 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 Association, 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 Association or the County taken as a whole.