Prince William Self-Insurance Group Workers' Compensation Association

Financial Report
June 30, 2017 and 2016

Contents

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

Board of Directors
Prince William Self-Insurance Group Workers' Compensation Association
County of Prince William, Virginia

Report of the Financial Statements

We have audited the accompanying financial statements of Prince William Self-Insurance Group Workers' Compensation Association (the "Association"), a component unit of the County of Prince William, Virginia, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Association's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Prince William Self-Insurance Group Workers' Compensation Association as of June 30, 2017 and 2016, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2017, on our consideration of the Association's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Association's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Tysons Corner, Virginia
October 30, 2017

Management's Discussion and Analysis (Unaudited)
June 30, 2017 and 2016

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, 2017 and 2016. 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 and the Prince William – Manassas Regional Adult Detention Center. 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:

- ***Statements of Net Position*** – These statements present information reflecting the Association's assets, liabilities, and net position. The Association's net position represents total assets less total liabilities. The statements of net position are 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.

- ***Statements of Revenues, Expenses, and Changes in Net Position*** – These statements reflect the operating revenues and expenses, as well as non-operating revenues and expenses, and surplus distributions, if any, during the fiscal year. The major source of operating revenues is premium income and of non-operating revenue is investment income. The major operating expenses are losses and loss adjustment expenses related to claims, excess reinsurance premiums, and general administration expenses. The change in net position for the Association is similar to net profit or loss for a group self-insurance association.

- ***Statements of Cash Flows*** – The statements of cash flows are presented on the direct method of reporting, which reflects cash flows from operating and investing activities. Cash collections and payments are reflected in these statements to arrive at the net increase or decrease in cash and cash equivalents for the fiscal year.

- ***Notes to the Basic Financial Statements*** – The notes to the basic 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 statements 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, 2017, 2016, and 2015.

Prince William Self-Insurance Group
Workers' Compensation Association

Management's Discussion and Analysis (Unaudited)
June 30, 2017 and 2016

	2017	2016	2015
Assets			
Cash and cash equivalents	**$ 2,591,805**	$ 12,903,715	$ 9,354,352
Investments	**25,835,447**	16,692,565	19,967,690
Other current assets	**180,012**	102,590	99,249
Total assets	**28,607,264**	29,698,870	29,421,291
Liabilities			
Current liabilities:			
Unpaid losses and related expenses	**2,085,000**	1,879,000	1,733,000
Surplus distribution payable	**850,000**	500,000	400,000
Accounts payable	**146,686**	107,706	108,757
Total current liabilities	**3,081,686**	2,486,706	2,241,757
Noncurrent liabilities:			
Unpaid losses and related expenses	**14,783,666**	12,235,906	12,038,003
Surplus distribution payable	**1,994,944**	3,149,984	2,149,472
Total noncurrent liabilities	**16,778,610**	15,385,890	14,187,475
Total liabilities	**19,860,296**	17,872,596	16,429,232
Net Position			
Restricted	**2,117,920**	1,960,227	2,177,081
Unrestricted	**6,629,048**	9,866,047	10,814,978
Total net position	**$ 8,746,968**	$ 11,826,274	$ 12,992,059
Revenues, Expenses, and Changes in Net Position			
Operating revenues, premiums earned	**$ 5,256,414**	$ 4,759,351	$ 4,981,756
Operating expenses:			
Claim losses and loss adjustment expenses	**7,310,625**	3,834,301	3,631,413
Excess reinsurance premiums	**418,361**	344,766	322,814
Other operating expenses	**686,316**	557,096	572,262
Total operating expenses	**8,415,302**	4,736,163	4,526,489
Net operating income (loss)	**(3,158,888)**	23,188	455,267
Nonoperating revenues:			
Interest and investment income	**56,968**	396,478	209,961
Other income	**22,614**	14,549	18,841
Total nonoperating revenues	**79,582**	411,027	228,802
Income (loss) before special item	**(3,079,306)**	434,215	684,069
Special item:			
Dividends declared	**-**	(1,600,000)	-
Change in net position	**(3,079,306)**	(1,165,785)	684,069
Net position:			
Beginning	**11,826,274**	12,992,059	12,307,990
Ending	**$ 8,746,968**	$ 11,826,274	$ 12,992,059

Financial Highlights

Fiscal Year 2017

Total assets as of June 30, 2017 decreased approximately $1,092,000 in comparison to June 30, 2016 due primarily to cash payments for expenses over premiums received.

Total liabilities as of June 30, 2017 increased approximately $1,988,000 in comparison to June 30, 2016, primarily as a result of an increase in the liability for unpaid losses and related expenses of approximately $2,754,000 and a net decrease in the surplus distribution payable and other payables of approximately $766,000.

Premiums earned for the year ended June 30, 2017 increased approximately $497,000 in comparison to 2016, primarily as a result of an increase of members' payroll and other factors. Premiums are based on the members' payroll and other factors.

Interest and investment income for the year ended June 30, 2017 decreased approximately $340,000 in comparison to 2016, primarily as a result of the market yielding lower returns on investments.

The Association's loss ratio, which is derived as the ratio of claim losses and loss adjustment expenses to premiums earned, was 139% for 2017 and 81% for 2016. 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.

Excess reinsurance premiums expense for the year ended June 30, 2017 increased approximately $74,000 in comparison to 2016, primarily as a result of an increase of members' payroll and other factors. The Association's per occurrence retention was $1,500,000 in 2017 and 2016.

Fiscal Year 2016

Total assets as of June 30, 2016 increased approximately $278,000 in comparison to June 30, 2015 due primarily to the investing of excess premiums received over cash payments out.

Total liabilities as of June 30, 2016 increased approximately $1,443,000 in comparison to June 30, 2015, primarily as a result of increase in the liability for unpaid losses and related expenses of approximately $343,000 and an increase in the surplus distribution payable of approximately $1,100,000.

Premiums earned for the year ended June 30, 2016 decreased approximately $222,000 in comparison to 2015, primarily as a result of a decrease of members' payroll and other factors. Premiums are based on the members' payroll and other factors.

Interest and investment income for the year ended June 30, 2016 increased approximately $187,000 in comparison to 2015, primarily as a result of the market yielding higher returns on investments.

The Association's loss ratio, which is derived as the ratio of claim losses and loss adjustment expenses to premiums earned, was 81% for 2016 and 73% for 2015. 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.

Fiscal Year 2016 - Continued

Excess reinsurance premiums expense for the year ended June 30, 2016 increased approximately $22,000 in comparison to 2015. The Association's per occurrence retention was $1,500,000 in 2016 and 2015.

Requests for Information

Questions concerning this report or requests for additional information should be directed to Lori Gray, Risk Manager, Prince William County, 4379 Ridgewood Center Drive (RW514), Prince William, Virginia 22192, telephone number 703-792-6754.

Prince William Self-Insurance Group
Workers' Compensation Association

Statements of Net Position
June 30, 2017 and 2016

	2017	2016
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	**$ 2,591,805**	$ 12,903,715
Investments (Note 2)	**25,085,447**	15,942,565
Interest receivable	**93,875**	51,286
Accounts receivable	**57,190**	23,536
Prepaid expenses	**28,947**	27,768
Total current assets	**27,857,264**	28,948,870
Noncurrent assets:		
Investments, restricted (Note 2)	**750,000**	750,000
Total assets	**28,607,264**	29,698,870
Liabilities		
Current liabilities:		
Unpaid losses and related expenses (Note 6)	**2,085,000**	1,879,000
Surplus distribution payable (Note 7)	**850,000**	500,000
Accounts payable	**146,686**	107,706
Total current liabilities	**3,081,686**	2,486,706
Noncurrent liabilities:		
Unpaid losses and related expenses (Note 6)	**14,783,666**	12,235,906
Surplus distribution payable (Note 7)	**1,994,944**	3,149,984
Total noncurrent liabilities	**16,778,610**	15,385,890
Total liabilities	**19,860,296**	17,872,596
Commitments and contingencies (Notes 4 and 8)		
Net position		
Restricted	**2,117,920**	1,960,227
Unrestricted	**6,629,048**	9,866,047
Total net position	**$ 8,746,968**	$ 11,826,274

See Notes to the Basic Financial Statements.

Prince William Self-Insurance Group
Workers' Compensation Association

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2017 and 2016

	2017	2016
Operating revenues:		
Premiums	**$ 5,256,414**	$ 4,759,351
Operating expenses:		
Claim losses and loss adjustment expenses, net of recoveries (Note 6)	**7,310,625**	3,834,301
Excess reinsurance premiums (Note 4)	**418,361**	344,766
General administration	**604,096**	477,271
Claims administration	**82,220**	79,825
Total operating expenses	**8,415,302**	4,736,163
Operating income (loss)	**(3,158,888)**	23,188
Nonoperating revenues (expenses):		
Interest and investment revenue	**56,968**	396,478
Other Income	**22,614**	14,549
Total nonoperating revenues (expenses)	**79,582**	411,027
Income (loss) before special item	**(3,079,306)**	434,215
Special item:		
Dividends declared (Note 7)	**-**	(1,600,000)
Change in net position	**(3,079,306)**	(1,165,785)
Net position:		
Beginning	**11,826,274**	12,992,059
Ending	**$ 8,746,968**	$ 11,826,274

See Notes to the Basic Financial Statements.

Prince William Self-Insurance Group
Workers' Compensation Association

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash Flows From Operating Activities		
Premiums received	$ 4,464,874	$ 4,524,458
Claims paid	(4,556,865)	(3,490,398)
Excess reinsurance premiums paid	(418,361)	(344,766)
Claims administration expenses paid	(82,839)	(100,380)
General administration and other expenses paid	(599,414)	(461,237)
Net cash provided by (used in) operating activities	(1,192,605)	127,677
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	10,012,050	23,420,717
Interest and dividends	346,034	321,964
Other receipts	22,614	14,549
Purchases of investments	(19,486,503)	(20,070,949)
Net cash provided by (used in) investing activities	(9,105,805)	3,686,281
Cash Flows Used In Financing Activities		
Surplus distributions paid	(13,500)	(264,595)
Net cash used in financing activities	(13,500)	(264,595)
Net increase (decrease) in cash and cash equivalents	(10,311,910)	3,549,363
Cash and cash equivalents:		
Beginning	12,903,715	9,354,352
Ending	$ 2,591,805	$ 12,903,715
Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities		
Operating income (loss)	$ (3,158,888)	$ 23,188
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Dividends applied to premiums	(791,540)	(234,893)
Change in operating assets and liabilities:		
Accounts receivable	(33,654)	16,893
Prepaid expenses	(1,179)	(20,358)
Accounts payable	38,896	(1,056)
Unpaid losses and related expenses	2,753,760	343,903
Net cash provided by (used in) operating activities	$ (1,192,605)	$ 127,677
Supplemental Schedule of Noncash Investing and Financing Activities		
Increase (decrease) in fair value of investments, including amortization of premiums and discounts	$ (331,571)	$ 74,643

See Notes to the Basic Financial Statements.

Note 1. Summary of Significant Accounting Policies

The Prince William Self-Insurance Group Workers' Compensation Association (the "Association") prepares the financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP"), as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for governmental accounting and financial reporting. The GASB periodically updates its codification of the existing governmental accounting and financial reporting standards which, along with subsequent GASB pronouncements (statements and interpretations), constitutes GAAP for governmental units. The accounting and reporting framework and significant accounting principles and practices utilized by the Association are discussed in subsequent sections of these notes to the basic financial statements. The remainder of the notes are organized to provide explanation, including required disclosures of the Association's financial activities for the years ended June 30, 2017 and 2016.

Reporting entity: For financial reporting purposes, the Association's reporting entity is considered a component unit of Prince William County, Virginia (the "County"). Accordingly, the financial position, changes in financial position, and cash flows of the Association are blended in the internal service funds in the County's basic financial statements. The inclusion criteria which define the Association as a component unit are:

- All the Association's Board of Directors are appointed by the County; and
- A financial benefit/burden relationship exists.

General: Pursuant to the Commonwealth of Virginia's Insurance Regulations, the Association was licensed by the State Corporation Commission of Virginia ("SCC") to begin operations on July 1, 1989.

The Association members consist of the County and the Prince William – Manassas Regional Adult Detention Center. The Prince William County Park Authority merged with Prince William County effective July 1, 2012.

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. Since the County is the predominant participant, 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.

Note 1. Summary of Significant Accounting Policies (Continued)

Cash equivalents: Cash equivalents include all highly liquid investments with original maturities of three months or less and are stated at fair value. Restricted cash and cash equivalents are reported as noncurrent assets. At June 30, 2017 and 2016, cash equivalents consisted primarily of investments in a Local Government Investment Pool ("LGIP") and money market mutual funds. These cash equivalents are valued at amortized cost, which approximates fair value. Money market mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Investments: Certificates of deposit are stated at cost, which approximates fair value. All other investments are stated at fair value. All investments with maturity or call dates greater than one year from the statement of net position 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.

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. Claims liabilities are not reported net of any discounting. 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.

Note 1. Summary of Significant Accounting Policies (Continued)

Use of estimates: The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures 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 position: Net position represents the difference between assets and liabilities in the financial statements. The net position of the Association is divided into two categories; restricted and unrestricted. Restricted net position results from requirements imposed by the *Code of Virginia* and includes a contingency reserve equivalent to 3% of the Association's earned premiums since inception. During 2016, the SCC approved excess contingency reserves of $360,564 to be released into the Association's unrestricted equity. This reserve amounted to $1,367,920 and $1,210,227 at June 30, 2017 and 2016, 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. Investments discussed in Note 2 were deposited with the Commonwealth of Virginia as of June 30, 2017 and 2016. While the securities are held by the Commonwealth of Virginia, they are held in the names of the Association and the County. The required deposits totaling $750,000 are reflected as restricted investments at June 30, 2017 and 2016. The remaining net position is reported as unrestricted.

Subsequent events: The Association has evaluated subsequent events through October ??, 2017 in connection with the preparation of these financial statements, which is the date the financial statements were available to be issued.

Note 2. Deposits and Investments

Deposits:

Custodial credit risk: At June 30, 2017 and 2016, the carrying values (book balances) of the Association's deposits with banks and savings institutions were $815,006 and $1,016,538, respectively. The balances reported by the banks at June 30, 2017 and 2016 were $820,773 and $1,041,343, 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, 2017 and 2016, the Association had $85,191 and $68,066, respectively, on deposit with the third-party claims administrators. Such amounts are not covered by federal depository insurance or collateralized.

Investments:

The Association's investment policy pursuant to *Code of Virginia* Sec. 2.2-4501 through 2.2-4518 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 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. The management of LGIP has determined that LGIP is in compliance with the requirements of GASB Statement 79 and elects to measure its investments at amortized cost for financial reporting. Therefore, the Pool also measures LGIP at amortized cost for financial reporting. The LGIP does not have any limitation or restrictions on participant withdrawals. 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.*

Note 2. Deposits and Investments (Continued)

Investments (Continued):

In accordance with Virginia Insurance regulations for the licensing of the Association, the Association is required to deposit securities with the State Treasurer. As of June 30, 2017 and 2016, the Association had $985,550 and $1,000,630, respectively, at fair value, in a Federal Home Loan Bank bond and a Federal National Mortgage Association bond, respectively, 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 investments 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, 2017 and 2016, the Association's investments were as follows:

	Weighted Average Maturity*		Fair Value	
Investments	**2017**	2016	**2017**	2016
U. S. Government agency securities	**3.210**	2.523	**$ 17,270,290**	$ 10,007,010
LGIP	**0.000**	0.000	**358,776**	10,481,145
Money market mutual funds	**0.000**	0.000	**1,332,832**	1,337,966
Certificiates of deposit	**0.410**	0.405	**1,018,113**	1,010,023
Corporate bonds	**3.190**	2.734	**6,230,177**	4,315,288
Municipal bonds	**2.020**	3.003	**1,316,867**	1,360,244
Total			**$ 27,527,055**	$ 28,511,676

*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 negotiable 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, corporate bonds, and obligations of agencies of the United States.

Note 2. Deposits and Investments (Continued)

Investments (Continued):

As of June 30, 2017 and 2016, 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 2017	2016
U. S. Government Agency Securities	100%	AAA	**62.74%**	35.10%
LGIP/Money market mutual funds	80%	AAAm/AAA	**6.15%**	41.45%
Corporate Bonds	25%	AAA/AA2/A1	**22.63%**	15.14%
Certificates of Deposit	30%	—	**3.70%**	3.54%
Municipal Bonds	25%	AAA/AA1	**4.78%**	4.77%
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; 30% for banker's acceptances and negotiable certificates of deposit; 50% for repurchase agreements; 40% for non-negotiable certificates of deposit; 100% for U.S. Government Agency Obligations; and 80% for money market funds and LGIP.

In addition, the Association places a limit on the amount it may invest with any single issuer as follows: 5% for commercial paper, banker's acceptance, and negotiable certificates of deposit; 10% for non-negotiable certificates of deposit and corporate notes; 20% for repurchase agreements; and 40% for money market funds and LGIP. More than 5% of the Association's investments are in obligations issued by the following:

Investments	Fair Value 2017	Fair Value 2016	Percentage of Total Investments 2017	Percentage of Total Investments 2016
Federal National Mortgage Association	**$ 2,951,920**	$ 2,002,320	**10.72%**	7.02%
Federal Home Loan Bank	**5,427,925**	2,000,730	**19.72%**	7.02%
Federal Home Loan Mortgage Corporation	**2,981,360**	2,001,780	**10.83%**	7.02%
Federal Farm Credit Bank	**5,909,085**	4,002,180	**21.47%**	14.04%
	$ 17,270,290	$ 10,007,010	**62.74%**	35.10%

Note 3. Fair Value Measurements

Fair value was estimated for each class of financial instrument for which it was practical to estimate fair value. Fair value is defined as the price in the principal market that would be received for an asset to facilitate an orderly transaction between market participants on the measurement date. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not acting under duress. Fair value hierarchy disclosures are based on the quality of inputs used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value. The three levels of the fair value hierarchy are defined as follows:

Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities traded in active markets.

Level 2 – inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, significant other observable inputs, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs.

Level 3 – inputs to the valuation methodology are significant unobservable for the asset or liability and are significant to the fair value measurement.

Fair values of the Association's investment portfolio are estimated using unadjusted prices obtained by its investment manager from third party pricing services, where available. For securities where the Association is unable to obtain fair values from a pricing service or broker, fair values are estimated using information obtained from the Pool's investment manager.

Management performs several procedures to ascertain the reasonableness of investment values included in the financial statements including 1) obtaining and reviewing internal control reports from the Association's investment manager that obtain fair values from third party pricing services, 2) discussing with the Association's investment manager its process for reviewing and validating pricing obtained from outside pricing services, 3) reviewing the security pricing received from the Association's investment manager and monitoring changes in unrealized gains and losses. The Association has evaluated the various types of securities in its investment portfolio to determine an appropriate fair value hierarchy level based upon trading activity and the observability of market inputs. The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair values of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 3. Fair Value Measurements (continued)

The following tables present the balances of assets measured at fair value on a recurring basis as of June 30, 2017 and 2016, by level within the fair value hierarchy:

	June 30, 2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Investments				
U. S. Government agency securities	$ -	$17,270,290	$ -	$17,270,290
Corporate bonds	-	6,230,177	-	6,230,177
Municipal bonds	-	1,316,867	-	1,316,867
	$ -	$24,817,334	$ -	$24,817,334

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments				
U. S. Government agency securities	$ -	$10,007,010	$ -	$10,007,010
Corporate bonds	-	4,315,288	-	4,315,288
Municipal bonds	-	1,360,244	-	1,360,244
	$ -	$15,682,542	$ -	$15,682,542

Due to the relatively short-term nature of cash, cash equivalents, receivables and payables, their carrying amounts are reasonable estimates of fair value. Level 2 investments used matrix pricing technique to measure fair value.

Note 4. Excess Reinsurance

For the fiscal years 2017 and 2016, the Association's per occurrence retention was $1,500,000.

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 2017 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 5. Related Parties Transactions

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 $197,500 and $147,500 in each of the fiscal years 2017 and 2016, respectively.

Note 6. Liability for Unpaid Losses and Related Expenses

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

	2017	2016
Balance, July 1	**$ 14,114,906**	$ 13,771,003
Incurred related to:		
Current year	**4,575,000**	6,000,000
Prior years	**2,735,625**	(2,165,699)
Total incurred	**7,310,625**	3,834,301
Paid related to:		
Current year	**1,102,869**	1,620,445
Prior years	**3,453,996**	1,869,953
Total paid	**4,556,865**	3,490,398
Balance, June 30	**$ 16,868,666**	$ 14,114,906

Management's estimate of the portion of the liability as of June 30, 2017 and 2016 to be paid within one year is $2,085,000 and $1,879,000, respectively. This estimate is based upon the Association's past experience.

No individual events were responsible for a significant portion of the changes.

Note 7. 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. During the fiscal year 2016, the Board of Directors approved a distribution of surplus of $1,600,000. During the fiscal year 2017, the Board of Directors did not approve a distribution of surplus. At June 30, 2017 and 2016, the intent of the Board of Directors was not to pay out all of the distribution payable in the near-term, but rather hold a portion for future distributions to its members to be used for risk control initiatives and/or apply as a credit to future fiscal year premiums.

Note 8. 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.