

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

Financial Report
June 30, 2016 and 2015

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Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of Prince William Self-Insurance Group Casualty Pool (the "Pool"), a component unit of the County of Prince William, Virginia, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Pool'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 opinions 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 opinions.

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 Casualty Pool as of June 30, 2016 and 2015, 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 5 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 17, 2016, on our consideration of the Pool'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 Pool's internal control over financial reporting and compliance.

Cherry Bekant LLP

Tysons Corner, Virginia
October 17, 2016

Management's Discussion and Analysis (Unaudited)
June 30, 2016 and 2015

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, 2016 and 2015. 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 and the Prince William – Manassas Regional Adult Detention Center. 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:

- **Statements of Net Position** – These statements present information reflecting the Pool's assets, liabilities, and net position. The Pool'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 Pool is similar to net profit or loss for an insurance company.
- **Statements of Cash Flows** – The statements of cash flows are presented on the direct method of reporting, which reflects cash flows from operating, investing and financing 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.

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

**Management's Discussion and Analysis (Unaudited)
June 30, 2016 and 2015**

The following table summarizes the financial position and results of operations of the Pool as of and for the fiscal years ended June 30, 2016, 2015, and 2014.

	2016	2015	2014
Assets			
Cash and cash equivalents	\$ 1,124,765	\$ 1,971,635	\$ 1,455,592
Investments	3,202,656	2,500,816	3,297,277
Other current assets	32,715	50,233	55,116
Total assets	4,360,136	4,522,684	4,807,985
Liabilities			
Current liabilities:			
Unpaid losses and related expenses	392,000	399,000	391,000
Surplus distribution payable	445,000	465,000	330,000
Accounts payable	28,644	35,281	27,225
Total current liabilities	865,644	899,281	748,225
Noncurrent liabilities:			
Unpaid losses and related expenses	101,807	152,873	281,832
Surplus distribution payable	1,216,558	1,100,187	1,700,112
Total noncurrent liabilities	1,318,365	1,253,060	1,981,944
Total liabilities	2,184,009	2,152,341	2,730,169
Net Position			
Restricted	500,000	500,000	500,000
Unrestricted	1,676,127	1,870,343	1,577,816
Total net position	\$ 2,176,127	\$ 2,370,343	\$ 2,077,816
Revenues, Expenses and Changes in Net Position			
Operating revenues, premiums earned	\$ 1,467,117	\$ 1,450,735	\$ 1,352,222
Operating expenses:			
Claim losses and loss adjustment expenses	267,286	349,399	486,427
Excess reinsurance premiums	500,007	466,771	498,520
Other operating expenses	384,277	376,664	347,655
Total operating expenses	1,151,570	1,192,834	1,332,602
Net operating income	315,547	257,901	19,620
Nonoperating revenues:			
Interest and investment income	30,237	34,626	66,853
Income before special item	345,784	292,527	86,473
Special item:			
Dividends declared	540,000	-	417,173
Change in net position	(194,216)	292,527	(330,700)
Net position:			
Beginning	2,370,343	2,077,816	2,408,516
Ending	\$ 2,176,127	\$ 2,370,343	\$ 2,077,816

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

**Management's Discussion and Analysis (Unaudited)
June 30, 2016 and 2015**

Financial Highlights

Fiscal Year 2016

Total assets as of June 30, 2016 decreased approximately \$163,000 in comparison to June 30, 2015.

Total liabilities as of June 30, 2016 increased approximately \$32,000 in comparison to June 30, 2015, primarily as a result of an increase in surplus distribution payable of approximately \$96,000 and a decrease in the overall claims reserves including IBNRs and other liabilities of approximately \$64,000.

Premiums earned for the year ended June 30, 2016 increased approximately \$16,000 in comparison to 2015, primarily as a result of an increase in budgeted premiums. This increase was primarily related to the increase in overall budgeted operating expenses.

Interest and investment income for the year ended June 30, 2016 decreased approximately \$4,000 in comparison to 2015 due primarily to market conditions yielding lower investment returns in 2016.

The Pool's loss ratio, which is derived as the ratio of claim losses and loss adjustment expenses to premiums earned, was 18% for 2016 down from 24% for 2015. There continues to be favorable loss reserve development as claims from prior years developed better than expected.

Fiscal Year 2015

Total assets as of June 30, 2015 decreased approximately \$285,000 in comparison to June 30, 2014.

Total liabilities as of June 30, 2015 decreased approximately \$577,000 in comparison to June 30, 2014 primarily as a result of a decrease in surplus distribution payable of approximately \$465,000 and in the overall claims reserves including IBNRs of approximately \$121,000.

Premiums earned for the year ended June 30, 2015 increased approximately \$99,000 in comparison to 2014, primarily as a result of an increase in budgeted premiums. This increase was primarily related to the increase in overall actual operating expenses.

Interest and investment income for the year ended June 30, 2015 decreased approximately \$32,000 in comparison to 2014 due primarily to market conditions yielding lower investment returns in 2015.

The Pool's loss ratio, which is derived as the ratio of claim losses and loss adjustment expenses to premiums earned, was 24% for 2015 down from 36% for 2014. There continues to be favorable loss reserve development as claims from prior years developed better than expected.

Request 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, VA, 22192, telephone number 703-792-6754.

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

**Statements of Net Position
June 30, 2016 and 2015**

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 1,124,765	\$ 1,971,635
Investments (Note 2)	2,702,656	2,000,816
Interest receivable	6,948	1,460
Prepaid expenses and other receivable	25,767	48,773
Total current assets	3,860,136	4,022,684
Noncurrent assets:		
Investments, restricted (Note 2)	500,000	500,000
Total assets	4,360,136	4,522,684
Liabilities		
Current liabilities:		
Unpaid losses and related expenses (Note 7)	392,000	399,000
Surplus distribution payable (Note 5)	445,000	465,000
Accounts payable	28,644	35,281
Total current liabilities	865,644	899,281
Noncurrent liabilities:		
Unpaid losses and related expenses (Note 7)	101,807	152,873
Surplus distribution payable (Note 5)	1,216,558	1,100,187
Total noncurrent liabilities	1,318,365	1,253,060
Total liabilities	2,184,009	2,152,341
Commitments and contingencies (Notes 4 and 8)		
Net position		
Restricted	500,000	500,000
Unrestricted	1,676,127	1,870,343
Total net position	\$ 2,176,127	\$ 2,370,343

See Notes to the Basic Financial Statements.

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

**Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and 2015**

	2016	2015
Operating revenues:		
Premiums	<u>\$ 1,467,117</u>	<u>\$ 1,450,735</u>
Operating expenses:		
Claim losses and loss adjustment expenses, net of recoveries (Note 7)	267,286	349,399
Excess reinsurance premiums (Note 4)	500,007	466,771
General administration (Note 6)	335,352	327,739
Claims administration	48,925	48,925
Total operating expenses	<u>1,151,570</u>	<u>1,192,834</u>
Operating income	315,547	257,901
Nonoperating revenues:		
Interest and investment income	<u>30,237</u>	<u>34,626</u>
Income before special item	345,784	292,527
Special item:		
Dividends declared (Note 5)	540,000	-
Change in net position	<u>(194,216)</u>	<u>292,527</u>
Net position:		
Beginning	2,370,343	2,077,816
Ending	<u>\$ 2,176,127</u>	<u>\$ 2,370,343</u>

See Notes to the Basic Financial Statements.

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

**Statements of Cash Flows
Years Ended June 30, 2016 and 2015**

	2016	2015
Cash Flows From Operating Activities		
Premiums received	\$ 1,160,723	\$ 1,144,341
Claims paid	(325,352)	(470,358)
Excess reinsurance premiums paid	(464,250)	(454,853)
Claims administration expenses paid	(61,524)	(48,925)
General administration expenses paid	(342,142)	(326,885)
Net cash used in operating activities	(32,545)	(156,680)
Cash Flows From Investing Activities		
Purchase of investments	(1,600,000)	-
Proceeds from sales and maturities of investments	900,000	800,000
Interest and dividends	22,910	31,254
Net cash provided by (used in) investing activities	(677,090)	831,254
Cash Flows Used In Financing Activities		
Surplus distributions paid	(137,235)	(158,531)
Net cash used in financing activities	(137,235)	(158,531)
Net increase (decrease) in cash and cash equivalents	(846,870)	516,043
Cash and cash equivalents:		
Beginning	1,971,635	1,455,592
Ending	<u>\$ 1,124,765</u>	<u>\$ 1,971,635</u>
Reconciliation of Operating Income to Net Cash		
Used In Operating Activities		
Operating income	\$ 315,547	\$ 257,901
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Dividends applied to premiums	(306,394)	(306,394)
Change in operating assets and liabilities:		
Prepaid expenses and other receivable	23,006	4,716
Accounts payable	(6,638)	8,056
Unpaid losses and related expenses	(58,066)	(120,959)
Net cash used in operating activities	\$ (32,545)	\$ (156,680)
Supplemental Schedule of Noncash Investing and Financing Activities		
Increase (decrease) in fair value of investments	\$ 1,840	\$ (3,539)

See Notes to the Basic Financial Statements.

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

**Notes to the Basic Financial Statements
June 30, 2016 and 2015**

Note 1. Summary of Significant Accounting Policies

The Prince William Self-Insurance Group Casualty Pool (the "Pool") 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 Pool 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 Pool's financial activities for the year ended June 30, 2016.

Reporting entity: For financial reporting purposes, the Pool'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 Pool are blended in the internal service funds in the County's basic financial statements. The inclusion criteria which define the Pool as a component unit are:

- All the Pool'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 Pool was licensed by the State Corporation Commission of Virginia ("SCC") to begin operations on July 1, 1989.

The Pool's 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 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. Since the County is the predominant participant, 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.

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

**Notes to the Basic Financial Statements
June 30, 2016 and 2015**

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, 2016 and 2015, cash equivalents consisted primarily of investments in a Local Government Investment Pool ("LGIP") and money market mutual funds. Money market mutual funds 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: 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 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.

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. 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 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. The tax years from 2013 to 2015 remain subject to examination by taxing authorities.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

**Notes to the Basic Financial Statements
June 30, 2016 and 2015**

Note 1. Summary of Significant Accounting Policies (Continued)

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 position: Net position represents the difference between assets and liabilities in the financial statements. The net position of the Pool is divided into two categories; restricted and unrestricted. Restricted net position results from requirements imposed by the SCC. In accordance with the requirements of the SCC for the licensing of the 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, 2016 and 2015, the U. S. Government Agency security discussed in Note 2 was deposited with the Commonwealth of Virginia. While the security and funds are held by the Commonwealth of Virginia, they are held in the names of the Pool and the County. The required deposit is reflected as restricted investments of the Pool at June 30, 2016 and 2015. The remaining net position is reported as unrestricted.

Subsequent events: The Pool has evaluated subsequent events through October 17, 2016 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, 2016 and 2015, the carrying values (book balances) of the Pool's deposits with banks and savings institutions were \$191,297 and \$506,428, respectively. The balances reported by the banks at June 30, 2016 and 2015 were \$248,957 and \$606,675, 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, 2016 and 2015, the Pool had \$87,261 and \$92,851, respectively, on deposit with a third-party claims administrator. Such amounts are covered by federal depository insurance or are fully collateralized.

Prince William Self-Insurance Group
Casualty Pool

Notes to the Basic Financial Statements
June 30, 2016 and 2015

Note 2. Deposits and Investments (continued)

Investments:

The Pool's investment policy, pursuant to the *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 Local 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. 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*.

In accordance with the requirements of the SCC for the licensing of the Pool, the Pool is required to deposit securities with the State Treasurer. As of June 30, 2016 and 2015, the Pool had \$800,912 and \$799,416, 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 investments are held by the State Treasurer, they are in the name of the Pool and are included in the investments of the Pool.

As of June 30, 2016 and 2015, the Pool's investments were as follows:

Investments	Weighted Average Maturity*		Fair Value	
	2016	2015	2016	2015
U. S. Government agency securities	1.529	1.737	\$ 3,202,656	\$ 2,500,816
LGIP	0.000	0.003	462,862	260,810
Money market mutual funds	0.000	0.003	383,345	1,111,546
			<u>\$ 4,048,863</u>	<u>\$ 3,873,172</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.

Prince William Self-Insurance Group
Casualty Pool

Notes to the Basic Financial Statements
June 30, 2016 and 2015

Note 2. Deposits and Investments (Continued)

Investments (Continued):

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 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. 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, LGIP, corporate bonds, and obligations of agencies of the United States.

As of June 30, 2016 and 2015, the Pool's investment limits, ratings, and credit exposure are as follows:

Investment Type	Investment Policy Limit	Quality Quality (Rating)	Credit Exposure as a Percentage of Total Investments	
			2016	2015
U.S. Government Agency Securities	100%	AAA	79.10%	64.57%
LGIP/Money Market Mutual Funds	80%	AAAm/AAA	20.90%	35.43%
			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 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.

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; 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.

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

**Notes to the Basic Financial Statements
June 30, 2016 and 2015**

Note 2. Deposits and Investments (Continued)

Investments (Continued):

In addition, the Pool 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 or LGIP. More than 5% of the Pool's investments are in obligations issued by the following:

Investments	Investments		Percentage of Total Investments and Cash Equivalents	
	2016	2015	2016	2015
Federal Home Loan Mortgage Corporation	\$ 800,584	\$ 2,500,816	19.77%	64.57%
Federal Home Loan Bank	2,402,072	-	59.33	-
Total	\$ 3,202,656	\$ 2,500,816	79.10%	64.57%

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 Pool's investment portfolio are estimated using unadjusted prices obtained by its investment manager from third-party pricing services, where available. For securities where the Pool 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.

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

**Notes to the Basic Financial Statements
June 30, 2016 and 2015**

Note 3. Fair Value Measurements (continued)

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 Pool's investment manager that obtain fair values from third party pricing services, 2) discussing with the Pool's investment manager its process for reviewing and validating pricing obtained from outside pricing services, 3) reviewing the security pricing received from the Pool's investment manager and monitoring changes in unrealized gains and losses. The Pool 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 Pool 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.

The following tables present the balances of assets measured at fair value on a recurring basis as of June 30, 2016 and 2015, by level within the fair value hierarchy:

	June 30, 2016			
	Level 1	Level 2	Level 3	Total
Investments				
U. S. Government agency securities	\$ -	\$ 3,202,656	\$ -	\$ 3,202,656
	June 30, 2015			
	Level 1	Level 2	Level 3	Total
Investments				
U. S. Government agency securities	\$ -	\$ 2,500,816	\$ -	\$ 2,500,816

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.

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Note 4. Excess Reinsurance

For fiscal years 2016 and 2015, the Pool's per occurrence retention was \$750,000, except for ambulances and fire trucks. For fiscal years 2016 and 2015, the Pool's per occurrence retention for ambulances and fire trucks was \$1,000,000.

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 5. 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 distribution of surplus declared was \$540,000 and \$0 during the fiscal years 2016 and 2015, respectively. At June 30, 2016 and 2015, 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 6. Related Parties Transactions

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 2016 and 2015.

**Prince William Self-Insurance Group
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**Notes to the Basic Financial Statements
June 30, 2016 and 2015**

Note 7. Liability for Unpaid Losses and Related Expenses

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

	2016	2015
Balance, July 1	<u>\$ 551,873</u>	<u>\$ 672,832</u>
Incurred related to:		
Current year	592,500	600,000
Prior years	(325,214)	(250,601)
Total incurred	<u>267,286</u>	<u>349,399</u>
Paid related to:		
Current year	287,263	245,609
Prior years	38,089	224,749
Total paid	<u>325,352</u>	<u>470,358</u>
Balance, June 30	<u><u>\$ 493,807</u></u>	<u><u>\$ 551,873</u></u>

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, 2016 and 2015 to be paid within one year was \$392,000 and \$399,000, respectively. This estimate is based on the Pool's past experience.

There was favorable loss reserve development during the years ended June 30, 2016 and 2015 as claims developed better than expected. No individual events were responsible for a significant portion of the change.

Note 8. 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.