Prince William Self-Insurance Group Workers' Compensation Association

Financial Report
June 30, 2015 and 2014

Cherry Bekaert LLP
CPAs & Advisors

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors
Prince William Self-Insurance Group Workers' Compensation Association
Woodbridge, Virginia

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, 2015 and 2014, 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 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 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 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, 2015 and 2014, 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 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.

Cherry Bekaert LLP

Tysons Corner, Virginia
September 30, 2015

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, 2015 and 2014. 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:

- *Statement of Net Position* – This statement presents information reflecting the Association's assets, liabilities, and net position. The Association's net position represents total assets less total liabilities. The statement of net position 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 Position* – This statement reflects 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.

- *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, 2015, 2014, and 2013.

	2015	2014	2013
Assets			
Cash and cash equivalents	$ 9,354,352	$ 5,993,788	$ 5,075,120
Investments	19,967,690	22,079,950	20,926,560
Other current assets	99,249	72,057	102,366
Total assets	29,421,291	28,145,795	26,104,046
Liabilities			
Current liabilities:			
Unpaid losses and related expenses	1,733,000	1,641,000	1,671,000
Surplus distribution payable	400,000	234,893	234,893
Accounts payable	108,757	97,561	89,030
Total current liabilities	2,241,757	1,973,454	1,994,923
Noncurrent liabilities:			
Unpaid losses and related expenses	12,038,003	11,147,769	13,076,195
Surplus distribution payable	2,149,472	2,716,582	2,401,475
Total noncurrent liabilities	14,187,475	13,864,351	15,477,670
Total liabilities	16,429,232	15,837,805	17,472,593
Net Position			
Restricted	2,177,081	2,028,587	2,282,655
Unrestricted	10,814,978	10,279,403	6,348,798
Total net position	$ 12,992,059	$ 12,307,990	$ 8,631,453
Revenues, expenses, and changes in net position			
Operating revenues, premiums earned	$ 4,981,756	$ 4,061,618	$ 3,958,897
Operating expenses:			
Claim losses and loss adjustment expenses	3,631,413	(591,578)	4,185,555
Excess reinsurance premiums	322,814	278,808	265,862
Other operating expenses	572,262	551,186	515,820
Total operating expenses	4,526,489	238,416	4,967,237
Net operating income (loss)	455,267	3,823,202	(1,008,340)
Nonoperating revenues:			
Interest and investment income	209,961	388,162	(127,627)
Other income	18,841	15,173	23,293
Total nonoperating revenues	228,802	403,335	(104,334)
Income (loss) before special item	684,069	4,226,537	(1,112,674)
Special item:			
Dividends declared	-	(550,000)	(1,824,468)
Change in net position	684,069	3,676,537	(2,937,142)
Net position:			
Beginning	12,307,990	8,631,453	11,568,595
Ending	$ 12,992,059	$ 12,307,990	$ 8,631,453

Financial Highlights

Fiscal Year 2015

Total assets as of June 30, 2015 increased approximately $1,275,000 in comparison to June 30, 2014 due primarily to the investing of excess premiums received over cash payments out.

Total liabilities as of June 30, 2015 increased approximately $591,000 in comparison to June 30, 2014 primarily as a result of a increase in the liability for unpaid losses and related expenses of approximately $982,000, a decrease in the surplus distribution payable of approximately $402,000 and an increase in other liabilities of approximately $11,000.

Premiums earned for the year ended June 30, 2015 increased approximately $920,000 in comparison to 2014, primarily as a result of a 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, 2015 decreased approximately $178,000 in comparison to 2015 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 73% for 2014 and 15% for 2014. 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, 2015 increased approximately $44,000 in comparison to 2014. The Association's per occurrence retention was $1,500,000 in 2015 and 2014.

Fiscal Year 2014

Total assets as of June 30, 2014 increased approximately $2,042,000 in comparison to June 30, 2013 due primarily to the investing of excess premiums received over cash payments out.

Total liabilities as of June 30, 2014 decreased approximately $1,635,000 in comparison to June 30, 2013 primarily as a result of a decrease in the liability for unpaid losses and related expenses of approximately $1,958,000, an increase in the surplus distribution payable of approximately $315,000 and a increase in other liabilities of approximately $8,500.

Premiums earned for the year ended June 30, 2014 increased approximately $103,000 in comparison to 2013, primarily as a result of a 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, 2014 increased approximately $516,000 in comparison to 2013 primarily as a result of the market yielding higher returns on investments.

Fiscal 2014 - Continued

The Association's loss ratio, which is derived as the ratio of claim losses and loss adjustment expenses to premiums earned, was 15% for 2014 and 106% for 2013. 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, 2014 increased approximately $13,000 in comparison to 2013. The Association's per occurrence retention was $1,500,000 and $1,000,000 in 2014 and 2013, respectively.

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, 2015 and 2014

	2015	2014
Assets		
Current assets:		
Cash and cash equivalents (Note 2)	$ 9,354,352	$ 5,993,788
Investments (Note 2)	19,217,690	21,329,950
Interest receivable	51,410	63,378
Accounts receivable	40,429	1,439
Prepaid expenses	7,410	7,240
Total current assets	28,671,291	27,395,795
Noncurrent assets:		
Investments, restricted (Note 2)	750,000	750,000
Total assets	29,421,291	28,145,795
Liabilities		
Current liabilities:		
Unpaid losses and related expenses (Note 5)	1,733,000	1,641,000
Surplus distribution payable (Note 6)	400,000	234,893
Accounts payable	108,757	97,561
Total current liabilities	2,241,757	1,973,454
Noncurrent liabilities:		
Unpaid losses and related expenses (Note 5)	12,038,003	11,147,769
Surplus distribution payable (Note 6)	2,149,472	2,716,582
Total noncurrent liabilities	14,187,475	13,864,351
Total liabilities	16,429,232	15,837,805
Commitments and Contingencies (Notes 3 and 7)		
Net position		
Restricted	2,177,081	2,028,587
Unrestricted	10,814,978	10,279,403
Total net position	$ 12,992,059	$ 12,307,990

See Notes to Basic Financial Statements.

Prince William Self-Insurance Group
Workers' Compensation Association

Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2015 and 2014

	2015	2014
Operating revenues:		
Premiums	$ 4,981,756	$ 4,061,618
Operating expenses:		
Claim losses and loss adjustment expenses, net of recoveries (Note 5)	3,631,413	(591,578)
Excess reinsurance premiums (Note 3)	322,814	278,808
General administration	492,437	471,361
Claims administration	79,825	79,825
Total operating expenses	4,526,489	238,416
Operating income	455,267	3,823,202
Nonoperating revenues (expenses):		
Interest and investment revenue	209,961	388,162
Other Income	18,841	15,173
Total nonoperating revenues (expenses)	228,802	403,335
Income before special item	684,069	4,226,537
Special item:		
Dividends declared (Note 6)	-	(550,000)
Change in net position	684,069	3,676,537
Net position:		
Beginning	12,307,990	8,631,453
Ending	$ 12,992,059	$ 12,307,990

See Notes to Basic Financial Statements.

Prince William Self-Insurance Group
Workers' Compensation Association

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash Flows From Operating Activities		
Premiums received	$ 4,746,863	$ 3,851,737
Other receipts	18,841	23,641
Claims paid	(2,649,179)	(1,366,848)
Excess reinsurance premiums paid	(322,814)	(278,808)
Claims administration expenses paid	(79,825)	(79,825)
General administration and other expenses paid	(520,401)	(462,987)
Net cash provided by operating activities	1,193,485	1,686,910
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	12,380,988	4,000,000
Interest and dividends	280,518	228,508
Purchases of investments	(10,327,317)	(4,996,750)
Net cash provided by (used in) investing activities	2,334,189	(768,242)
Cash Flows Used In Financing Activities		
Surplus distributions paid	(167,110)	-
Net cash used in financing activities	(167,110)	-
Net increase in cash and cash equivalents	3,360,564	918,668
Cash and cash equivalents:		
Beginning	5,993,788	5,075,120
Ending	$ 9,354,352	$ 5,993,788
Reconciliation of Operating Income to Net Cash Provided By Operating Activities		
Operating income	$ 455,267	$ 3,823,202
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Other income	18,841	15,173
Dividends applied to premiums	(234,893)	(234,893)
Change in operating assets and liabilities:		
Accounts receivable	(38,990)	8,468
Due from related parties	-	25,012
Prepaid expenses	(170)	(165)
Accounts payable	11,196	8,539
Unpaid losses and related expenses	982,234	(1,958,426)
Net cash provided by operating activities	$ 1,193,485	$ 1,686,910
Supplemental Schedule of Noncash Investing and Financing Activities		
Increase (decrease) in fair value of investments, including amortization of premiums and discounts	$ (58,589)	$ 156,640

See Notes to 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 financial statements. The remainder of the notes is organized to provide explanation, including required disclosures of the Association's financial activities for the year ended June 30, 2015.

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 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 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, 2015 and 2014, 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 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. The tax years from 2012 to 2014 remain subject to examination by taxing authorities.

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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. This reserve amounted to $1,427,081 and $1,278,587 at June 30, 2015 and 2014, 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, 2015 and 2014, respectively. 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 at June 30, 2015 and 2014, respectively. The remaining net position is reported as unrestricted.

Subsequent events: The Association has evaluated subsequent events through September 30, 2015 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, 2015 and 2014, the carrying values (book balances) of the Association's deposits with banks and savings institutions were $395,320 and $3,880,390, respectively. The balances reported by the banks at June 30, 2015 and 2014 were $395,320 and $3,888,662 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, 2015 and 2014, the Association had $113,429 and $249,736, 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 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*.

Note 2. Deposits and Investments (Continued)

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, 2015 and 2014, the Association had $993,240 and $999,760, respectively, at fair value, in a Federal National Mortgage Association bond 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, 2015 and 2014, the Association's investments were as follows:

	Weighted Average Maturity*		Fair Value	
Investments	2015	2014	2015	2014
U. S. Government agency securities	2.367	2.915	$ 16,645,603	$ 18,959,790
LGIP	0.003	0.003	4,667,503	664,254
Money market mutual funds	0.003	0.003	4,178,100	1,199,408
Certificiates of deposit	0.411	0.414	1,004,999	1,000,000
Corporate bonds	2.860	1.863	2,004,980	2,120,160
Municipal bonds	4.277	0.000	312,108	-
Total			$ 28,813,293	$ 23,943,612

*Duration in years

<u>Interest rate risk</u>: 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.

<u>Credit risk</u>: 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, 2015 and 2014, 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 2015	2014
U. S. Government Agency Securities	100%	AAA	57.77%	79.18%
LGIP/Money market mutual funds	80%	AAAm/AAA	30.70%	7.78%
Corporate Bonds	25%	AAA/AA3	6.96%	8.86%
Certificates of Deposit	30%	—	3.49%	4.18%
Municipal Bonds	25%	AA1	1.08%	-
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 2015	Fair Value 2014	Percentage of Total Investments 2015	Percentage of Total Investments 2014
Federal National Mortgage Association	$ 2,997,090	$ 3,983,320	10.40%	16.64%
Federal Home Loan Bank	5,653,443	5,984,110	19.62%	24.99%
Federal Home Loan Mortgage Corporation	3,002,440	4,001,370	10.42%	16.71%
Federal Farm Credit Bank	4,992,630	4,990,990	17.33%	20.84%
	$ 16,645,603	$ 18,959,790	57.77%	79.18%

Note 3. Excess Reinsurance

For the fiscal years 2015 and 2014, 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 2015 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

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 2015 and 2014.

Note 5. Liability for Unpaid Losses and Related Expenses

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

	2015	2014
Balance, July 1	$ 12,788,769	$ 14,747,195
Incurred related to:		
Current year	3,500,000	3,200,000
Prior years	131,413	(3,791,578)
Total incurred	3,631,413	(591,578)
Paid related to:		
Current year	721,588	431,487
Prior years	1,927,591	935,361
Total paid	2,649,179	1,366,848
Balance, June 30	$ 13,771,003	$ 12,788,769

Management's estimate of the portion of the liability as of June 30, 2015 and 2014 to be paid within one year is $1,733,000 and $1,641,000, respectively. This estimate is based upon the Association's past experience.

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

Note 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. During the fiscal year 2014, the Board of Directors approved a distribution of surplus of $550,000. At June 30, 2015 and 2014, 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 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.