



**Colorado Counties Casualty and Property Pool**

Statutory Financial Statements

December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)



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*By Justin L. Smith at 5:09 pm, Apr 13, 2017*

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## **Independent Auditor's Report**

The Board of Directors  
Colorado Counties Casualty and Property Pool

We have audited the accompanying statutory financial statements of Colorado Counties Casualty and Property Pool (the Pool), which comprise the statutory statements of admitted assets, liabilities, and members' surplus of the Pool as of December 31, 2016 and 2015, and the related statutory statements of income and members' surplus and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado. Management is also responsible for 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 audit. We conducted our audit 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 Pool'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 Pool'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.

### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 2 of the financial statements, the Pool prepared these financial statements using accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between these statutory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.



**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Colorado Counties Casualty and Property Pool as of December 31, 2016 and 2015, or the results of its operations or its cash flows for the years then ended.

**Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities and members’ surplus of Colorado Counties Casualty and Property Pool as of December 31, 2016 and 2015, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

*K Financial*

Louisville, Colorado  
March 10, 2017

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL**  
**STATUTORY STATEMENTS OF ADMITTED ASSETS,**  
**LIABILITIES AND MEMBERS' SURPLUS**

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>ADMITTED ASSETS</b>		
Cash and cash equivalents	\$ 2,147,921	\$ 1,544,848
Investments	<u>22,939,604</u>	<u>23,446,298</u>
<b>Total cash and investments</b>	25,087,525	24,991,146
Due from self-funded counties	121,351	47,053
Accrued interest receivable	<u>171,127</u>	<u>183,324</u>
<b>TOTAL ADMITTED ASSETS</b>	<u>\$ 25,380,003</u>	<u>\$ 25,221,523</u>
<b>LIABILITIES AND MEMBERS' SURPLUS</b>		
<b>LIABILITIES</b>		
Reserves for losses and loss adjustment expenses	\$ 6,446,649	\$ 5,796,083
Reserve for unallocated loss adjustment expenses	732,721	718,021
Deposits held for self-funded counties	480,000	360,000
Surplus distribution payable	1,499,914	2,106,585
Other accounts payable	<u>683,440</u>	<u>4,143</u>
<b>Total liabilities</b>	9,842,724	8,984,832
<b>MEMBERS' SURPLUS</b>	<u>15,537,279</u>	<u>16,236,691</u>
<b>TOTAL LIABILITIES AND MEMBERS' SURPLUS</b>	<u>\$ 25,380,003</u>	<u>\$ 25,221,523</u>

These statutory financial statements should be read only in connection with  
the accompanying notes to statutory financial statements.

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL  
STATUTORY STATEMENTS OF INCOME AND MEMBERS' SURPLUS**

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>UNDERWRITING INCOME</b>		
Members contributions written	\$ 9,304,603	\$ 9,527,481
Excess insurance written	<u>(3,264,479)</u>	<u>(3,229,757)</u>
<b>Net underwriting income</b>	<u>6,040,124</u>	<u>6,297,724</u>
 <b>UNDERWRITING EXPENSES</b>		
Net losses and loss adjustment expenses incurred	4,208,880	3,717,565
Unallocated loss adjustment expenses incurred	737,369	775,909
Other underwriting expenses incurred	<u>1,052,069</u>	<u>1,040,863</u>
 <b>Total underwriting expenses incurred</b>	<u>5,998,318</u>	<u>5,534,337</u>
 <b>UNDERWRITING GAIN</b>	41,806	763,387
 <b>NET INVESTMENT INCOME / (LOSS)</b>	<u>604,788</u>	<u>(124,280)</u>
 <b>NET INCOME BEFORE RETURN OF SURPLUS</b>	646,594	639,107
 <b>RETURN OF SURPLUS</b>	(1,500,915)	(1,500,000)
 <b>MEMBERS' SURPLUS - BEGINNING OF YEAR</b>	16,236,691	17,493,991
 <b>CHANGES IN NONADMITTED ASSETS</b>	<u>154,909</u>	<u>(396,407)</u>
 <b>MEMBERS' SURPLUS - END OF YEAR</b>	<u>\$ 15,537,279</u>	<u>\$ 16,236,691</u>

These statutory financial statements should be read only in connection with  
the accompanying notes to statutory financial statements.

# COLORADO COUNTIES CASUALTY AND PROPERTY POOL

## STATUTORY STATEMENTS OF CASH FLOWS

December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions and assessments received from members (net of surplus returned)	\$ 7,168,287	\$ 8,025,748
Reinsurance premiums	(3,264,479)	(3,229,757)
Other underwriting expenses paid	(415,653)	(1,041,149)
Net loss and loss adjustment expenses paid	(4,008,760)	(4,719,995)
Investment income received	808,637	779,023
	<u>288,032</u>	<u>(186,130)</u>
<b>Net cash flow (used in) provided by operating activities</b>		
	<u>288,032</u>	<u>(186,130)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investments purchased	(7,289,868)	(6,286,681)
Proceeds from sales and maturities of investments	7,604,909	6,170,338
	<u>315,041</u>	<u>(116,343)</u>
<b>Net cash flow (used in) investing activities</b>		
	<u>315,041</u>	<u>(116,343)</u>
<b>NET (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	603,073	(302,473)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>1,544,848</u>	<u>1,847,321</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 2,147,921</u>	<u>\$ 1,544,848</u>

These statutory financial statements should be read only in connection with the accompanying notes to statutory financial statements.

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL**  
**NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**NOTE 1: ORGANIZATION**

The Colorado Counties Casualty and Property Pool (the Pool) was formed on July 1, 1986 by an intergovernmental agreement among certain counties in Colorado. The purpose of the Pool is to provide a risk management fund for defined property and casualty coverage for member counties. 52 counties were members of the Pool, as of December 31, 2016 and 2015.

In carrying out this function, the Pool collects contributions from the counties, verifies claims for benefits submitted by member counties and pays legitimate claims and other Pool expenses.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado, which vary in some respects from generally accepted accounting principles. The more significant differences are as follows:

1. Certain assets, such as excess recoveries receivable, prepaid expenses, and special deposits are designated as "non-admitted assets" and are excluded from the statement of admitted assets, liabilities and members' surplus by a charge to surplus.
2. Investments are carried at amortized cost instead of fair value.
3. Salvage recoveries are not recorded until cash is received.

The Pool has not determined the effect of the aforementioned variances between statutory insurance accounting practices and generally accepted accounting principles.

**Use of Estimates**

The preparation of financial statements in conformity with accounting practices prescribed or permitted by the Division of Insurance of the Department of Regulatory Agencies of the State of Colorado requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Investments**

Investments are carried at amortized cost. Realized gains and losses are determined using the specific identification method. The amortization of bond premiums and the accrual of bond discounts are calculated on the straight-line method.

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL**  
**NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

The Pool evaluates investments for impairment on an ongoing basis. When the following circumstances exist, the Pool classifies the impairment as "other than temporary" and writes the investment value down to fair value:

1. Fair value has been 10% or more below cost for 6 months.
2. There is not sufficient evidence supporting a projected increase in fair value above cost in the near term.
3. The Pool does not have the ability and/or intent to hold the investment until its fair value recovers.

The Pool evaluated its investments at December 31, 2016 and determined that there were no "other than temporary" impairments requiring adjustments in the financial statements.

**Member Contributions**

Annual contributions are recognized on the monthly pro rata basis in relation to the periods of coverage provided, which coincides with the Pool's fiscal year. Contributions for prior claims years, if required, are recognized when assessed.

**Cash and Cash Equivalents**

For purpose of the statement of cash flows, the Pool considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**Reserves for Losses and Loss Adjustment Expenses**

Property coverage offered by the Pool is on an occurrence basis, which provides for payment of claims that occur during the period of coverage regardless of when the claim is received. Coverage for general and automobile liability is on a claims-made basis, which provides for payment of claims during the period of coverage at the time the claim is received.

Insurance losses and related adjustment expense are charged to operations as incurred. The reserves for losses and loss adjustment expenses (both allocated and unallocated) are determined based upon case basis evaluations and actuarial projections by the Pool's actuary, which includes a provision for incurred but not reported losses.

Such liabilities are based on estimates and, while management believes that the amounts are adequate, the ultimate liability may be in excess of or less than the amounts provided.

The actuarial projections of ultimate losses on reported claims and the estimate of claims incurred but not reported are based on the Pool's experience and property and casualty insurance industry data. Losses are reported net of estimated amounts recoverable from excess insurance and reimbursements from self-funded counties. Adjustments to the probable ultimate liability for losses and loss adjustment expenses are made continually based on subsequent developments and experience and are included in operations as incurred.

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL  
NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Income Taxes**

The pool provides an essential government function to its members as described in Section 115 of the Internal Revenue Code (The Code) and is considered to be exempt from Federal income taxes pursuant to the Code. Therefore, the accompanying statutory financial statements do not include a provision for income tax.

**NOTE 3: CASH AND INVESTMENTS**

The Colorado Public Deposit Protection Act (PDPA) requires that all units of local government and entities such as the Pool, deposit cash in eligible public depositories. Eligibility is determined by state regulators. Amounts on deposit in excess of federal insurance levels must be collateralized. The eligible collateral is determined by the PDPA. PDPA allows the institution to create a single collateral pool for all public funds. These uninsured public deposits are to be maintained by another institution or held in trust. The fair value of the collateral must be at least equal to the aggregate uninsured deposits.

The Colorado Division of Banking is required by statute to monitor the naming of eligible depositories and reporting of the uninsured deposits and assets maintained in the collateral pools. The PDPA requires fair value of the collateral must exceed 102% of the uninsured deposits.

At December 31, 2016, the Pool's cash deposits had a bank balance of \$278,985 which is insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000. Any balance in excess of \$250,000 is collateralized as required by the PDPA. The carrying balance of cash deposits as of December 31, 2016 was \$(61,329).

At December 31, 2015, the Pool's cash deposits had a bank balance of \$399,767 which is insured by the Federal Deposit Insurance Corporation (FDIC), up to \$250,000. Any balance in excess of \$250,000 is collateralized as required by the PDPA. The carrying balance of cash deposits as of December 31, 2015 was \$(141,375).

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which local governments, and entities such as the Pool, may invest. The Pool has adopted an investment policy which is more restrictive and limits investments to:

- Obligations of the United States and certain U.S. government agency securities
- Bankers' acceptances of certain banks
- Commercial paper
- Local government investment pools
- Any other investment authorized in Part 6 of C.R.S., Title 24, Article 75 regarding investments of public funds as approved by the Board of Directors

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL  
NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**NOTE 3: CASH AND INVESTMENTS (continued)**

The Pool owned the following investments as of December 31, 2016.

	<b>Carrying Amount</b>	<b>REMAINING MATURITY (in Months)</b>		
		<b>12 or Less</b>	<b>13 to 24</b>	<b>25 to 60</b>
Negotiable certificates of deposit	\$ 9,138,226	\$ 366,274	\$ 1,200,000	\$ 7,571,952
Corporate bonds	13,801,378	446,607	2,140,135	11,214,636
Local government investment pool	<u>770,314</u>	<u>770,314</u>	<u>-</u>	<u>-</u>
	<u>\$ 23,709,918</u>	<u>\$ 1,583,195</u>	<u>\$ 3,340,135</u>	<u>\$ 18,786,588</u>

The Pool owned the following investments as of December 31, 2015.

	<b>Carrying Amount</b>	<b>REMAINING MATURITY (in Months)</b>		
		<b>12 or Less</b>	<b>13 to 24</b>	<b>25 to 60</b>
Negotiable certificates of deposit	\$ 9,377,119	\$ 3,799,490	\$ 365,107	\$ 5,212,522
Corporate bonds	14,069,179	350,204	353,687	13,365,288
Local government investment pool	<u>879,704</u>	<u>879,704</u>	<u>-</u>	<u>-</u>
	<u>\$ 24,326,002</u>	<u>\$ 5,029,398</u>	<u>\$ 718,794</u>	<u>\$ 18,577,810</u>

As of December 31, 2016 and 2015, the Pool had invested \$770,314 and \$879,704, respectively, in the Colorado Local Government Liquid Asset Trust (the Trust), an investment vehicle established for local government entities in Colorado to pool surplus funds. The State Securities Commissioner administers and enforces all State statutes governing the Trust. The Trust operates similarly to a money market fund and each share is equal in value to \$1.00.

Cash deposits and investments are reflected on the December 31, 2016 and 2015 statements of admitted assets, liabilities and members' surplus as follows:

	<b>2016</b>	<b>2015</b>
Cash deposits	\$ 1,377,607	\$ 665,144
Investments	<u>23,709,918</u>	<u>24,326,002</u>
	<u>\$ 25,087,525</u>	<u>\$ 24,991,146</u>

Two separate Certificates of Deposit with a total face amount of \$500,000 are on joint deposit with the Division of Insurance of the State of Colorado at December 31, 2016 and 2015.

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL  
NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**NOTE 3: CASH AND INVESTMENTS (continued)**

A summary of the amortized cost and fair value of the Pool's investments at December 31, 2016 and 2015, by contractual maturity, is as follows:

	<u>2016</u>	
	<u>Amortized</u>	
	<u>Cost</u>	<u>Fair Value</u>
Maturity:		
Due in one year or less	\$ 812,881	\$ 803,974
Due after one through five years	<u>22,126,723</u>	<u>22,119,219</u>
	<u>\$ 22,939,604</u>	<u>\$ 22,923,193</u>

	<u>2015</u>	
	<u>Amortized</u>	
	<u>Cost</u>	<u>Fair Value</u>
Maturity:		
Due in one year or less	\$ 4,149,694	\$ 4,168,759
Due after one through five years	<u>19,296,604</u>	<u>18,788,547</u>
	<u>\$ 23,446,298</u>	<u>\$ 22,957,306</u>

The Pool's investments at December 31, 2016 and 2015 are summarized below:

	<u>2016</u>			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Negotiable certificates of deposit	\$ 9,138,226	\$ 41,529	\$ 69,596	\$ 9,110,159
Corporate Obligations	<u>13,801,378</u>	<u>80,588</u>	<u>68,932</u>	<u>13,813,034</u>
	<u>\$ 22,939,604</u>	<u>\$ 122,117</u>	<u>\$ 138,528</u>	<u>\$ 22,923,193</u>
	<u>2015</u>			
Negotiable certificates of deposit	\$ 9,377,119	\$ 27,798	\$ 15,688	\$ 9,389,229
Corporate Obligations	<u>14,069,179</u>	<u>34,522</u>	<u>535,624</u>	<u>13,568,077</u>
	<u>\$ 23,446,298</u>	<u>\$ 62,320</u>	<u>\$ 551,312</u>	<u>\$ 22,957,306</u>

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL  
NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**NOTE 3: CASH AND INVESTMENTS (continued)**

At December 31, 2016 and 2015, the Pool had the following unrealized losses, which are considered temporary, therefore the underlying securities were not impaired.

<u>Description of securities</u>	2016					
	<u>Less than 12 months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized losses</u>	<u>Fair Value</u>	<u>Unrealized losses</u>	<u>Fair Value</u>	<u>Unrealized losses</u>
Negotiable certificates of deposit	\$ -	\$ -	\$ 4,680,404	\$ 69,596	\$ 4,680,404	\$ 69,596
Corporate Obligations	<u>336,818</u>	<u>9,789</u>	<u>7,595,527</u>	<u>59,143</u>	<u>7,932,345</u>	<u>68,932</u>
	<u>\$336,818</u>	<u>\$ 9,789</u>	<u>\$ 12,275,931</u>	<u>\$ 128,739</u>	<u>\$ 12,612,749</u>	<u>\$ 138,528</u>

  

<u>Description of securities</u>	2015					
	<u>Less than 12 months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized losses</u>	<u>Fair Value</u>	<u>Unrealized losses</u>	<u>Fair Value</u>	<u>Unrealized losses</u>
Negotiable certificates of deposit	\$ -	\$ -	\$3,376,312	\$ 15,688	\$ 3,376,312	\$ 15,688
Corporate Obligations	-	-	<u>9,038,173</u>	<u>535,624</u>	<u>9,038,173</u>	<u>535,624</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,414,485</u>	<u>\$ 551,312</u>	<u>\$ 12,414,485</u>	<u>\$ 551,312</u>

Proceeds from the sales, calls and maturities of debt securities during 2016 and 2015 were approximately \$7,604,909 and \$6,170,338, respectively.

Gross gains of \$26,151 and \$79,707 were realized on those sales and calls during 2016 and 2015, respectively.

Gross losses of \$14,619 and \$855,261 were realized on those sales and calls during 2016 and 2015, respectively.

**NOTE 4: RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES**

Components of the reserve for losses and loss adjustment expenses are as follows at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Estimated reserves for claims		
Reported	\$ 4,157,878	\$ 3,922,240
Incurred but not reported	5,022,248	5,170,135
Less estimated amounts recoverable pursuant to excess insurance contracts	<u>(2,733,477)</u>	<u>(3,296,292)</u>
	<u>\$ 6,446,649</u>	<u>\$ 5,796,083</u>

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL  
NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**NOTE 4: RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES**

Changes in this liability for the years ended December 31, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Reserve for losses and loss adjustment expense at beginning of year	\$ 6,514,104	\$ 6,386,352
Incurred loss and loss adjustment expenses:		
Provision for insured events of the current year	5,191,280	5,393,008
Decrease in provision for insured events of prior years	<u>(245,023)</u>	<u>(899,534)</u>
Total incurred losses and loss adjustment expenses	<u>4,946,257</u>	<u>4,493,474</u>
Payments, net of recoveries:		
Losses and loss adjustment expenses attributable to insured events of the current year	\$ 2,131,361	\$ 2,325,523
Losses and loss adjustment expenses attributable to insured events of prior years	<u>2,149,630</u>	<u>2,040,199</u>
Total payments, net of recoveries	<u>4,280,991</u>	<u>4,365,722</u>
Reserve for losses and loss adjustment expenses at year end	<u>\$ 7,179,370</u>	<u>\$ 6,514,104</u>
Reserves for losses and loss adjustment expenses	6,446,649	\$ 5,796,083
Reserves for unallocated and loss adjustment expenses	<u>732,721</u>	<u>718,021</u>
	<u>\$ 7,179,370</u>	<u>\$ 6,514,104</u>

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased by \$245,023 and \$899,534 in 2016 and 2015, respectively, due to lower-than-anticipated losses and related expenses for claims.

The reserve for losses and loss adjustment expense is based upon actuarial projections prepared by the Pool's independent actuary and provided to the Division of Insurance annually. However, there exists a range of variability around the best estimate of the ultimate cost of settling all Pool claims. While management's estimate of the ultimate cost of settling all Pool claims as of December 31, 2016 and 2015 is \$7,179,370 and \$6,514,104, respectively, which includes unallocated loss adjustment expenses of \$732,721 and \$718,021, respectively, the actual cost of settling all remaining claims may be more or less than the reserves for losses and loss adjustment expenses as of December 31, 2016 and 2015.

Seven member counties have a higher retention level for their claims, as of December 31, 2016. Six member counties had a higher retention level for their claims as of December 31, 2015. Four of these counties are responsible for the cost of their own claims up to a maximum per claim liability of \$125,000, two are responsible for up to a maximum of \$100,000, and the other is responsible up to a maximum of \$75,000. Claim

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL  
NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**NOTE 4: RESERVES FOR LOSSES AND LOSS ADJUSTMENT EXPENSES** (continued)

amounts in excess of these levels are covered by the Pool and the Pool's excess insurance contracts (see Note 5).

The Pool maintains minimum deposits from these counties and bills these counties as claims and expenses are paid on their behalf. The Pool provides all administrative services for these counties, including the purchase of excess insurance, claims administration, billing, loss prevention and all other risk management services. Member contributions from these counties were \$2,334,290 and \$1,464,701 during the years ended December 31, 2016 and 2015, respectively.

An estimate of the total losses and loss adjustment expenses attributable to each of these counties was made by the Pool's independent actuary and approximately \$3,382,411 and \$2,988,008 has been reflected as a reduction to the reserve for losses and loss adjustment expenses as of December 31, 2016 and 2015, respectively.

The Pool has purchased annuities from several life insurance companies in settlement with various claimants. Although management believes they have acquired these annuity policies from solvent carriers, a contingent liability in the amount of \$163,678 and \$182,087 exists as of December 31, 2016 and 2015, respectively, if the life insurance companies could not meet their annuity payment.

**NOTE 5: EXCESS INSURANCE CONTRACTS**

The Pool is self-insured for \$150,000 for each property claim made and \$250,000 for liability claims for any one occurrence. The Pool has entered into excess insurance contracts for losses which exceed these retention limits. Property claims in excess of \$150,000 are insured to \$100,000,000. Boiler and machinery property claims in excess of \$5,000 are insured to \$100,000,000.

State based liability claims in excess of \$250,000 are insured up to Colorado governmental immunity limits. Federal liability claims are insured as follows:

<b>Years Insured</b>	<b>Insured Up To</b>
1986 - 2001	\$2,000,000
2002 - 2007	\$3,000,000
2008	\$5,000,000
2009 - 2016	\$10,000,000

The excess coverage is provided by the insuring company directly to the Pool. In addition, the aggregate amount of liability claims paid by the Pool is limited to \$6,000,000 for the years ended December 31, 2016 and 2015.

Although management believes they have acquired excess insurance from solvent carriers, a contingent liability exists with respect to any excess insurance recoveries which may prove to be uncollectible if the excess insurance carriers were unable to meet their obligations under the contracts.

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL  
NOTES TO STATUTORY FINANCIAL STATEMENTS**

December 31, 2016 and 2015

**NOTE 6: MEMBERS' SURPLUS**

The Pool is required by the Division of Insurance of the State of Colorado to maintain a minimum statutory surplus of \$300,000. The Pool allocates contributions, paid losses, and underwriting expenses by claim year and, accordingly, may make assessments or distributions to counties which were members during a claim year. Distributions can be made as adjustments of future contributions or as direct payments. The Pool declared a return of surplus to members of \$1,500,915 and \$1,500,000 for the years ended December 31, 2016 and 2015, respectively

For 2016 and 2015, in addition to the surplus return, the Pool discounted member contributions based upon anticipated investment earnings.

**NOTE 7: ADMINISTRATIVE AND CLAIMS SERVICING AGREEMENTS**

The Pool has entered into an agreement with County Technical Services, Inc. (CTSI), a nonprofit corporation, to provide administrative services to the Pool. Fees for such services were \$837,467 and \$824,320 in 2016 and 2015, respectively.

Additionally, CTSI provides claims administration services for The Pool. Fees for such services were \$722,669 in 2016 and \$712,213 in 2015. CTSI is considered a related-party for purposes of these financial statements.

**NOTE 8: CONCENTRATIONS**

The business plan of the Pool calls for contributions to be allocated and spread out among members to avoid concentrations. There were no contributions from individual members during the years ended December 31, 2016 and 2015 that exceeded 10% of total contributions.

**NOTE 9: FAIR VALUE MEASUREMENTS**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a hierarchy for fair value measurements based upon inputs to the valuation and the degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows

Level 1 - Inputs to the valuation are based upon quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.

Level 2 - Inputs to the valuation include quoted prices in either markets that are not active, or in active markets for similar assets or liabilities, inputs other than quoted prices that are observable, and inputs that are derived principally from or corroborated by observable market data.

Level 3 - Inputs to the valuation are unobservable inputs for the asset or liability.

**COLORADO COUNTIES CASUALTY AND PROPERTY POOL  
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**NOTE 9: FAIR VALUE MEASUREMENTS (continued)**

The fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used by the Pool.

- Bonds: Valued at the amortized cost of shares held by the Pool at year end.
- Local government investment pool: Valued at cash equivalent.

Financial assets measured at fair value on a recurring basis are reflected in the Pool's statement of admitted assets, liabilities and members' surplus at December 31, 2016 as follows:

	<b>Assets:</b>			Total
	Level 1	Level 2	Level 3	
Negotiable certificates of deposit	\$ 9,110,159	\$ -	\$ -	\$ 9,110,159
Corporate obligations	13,813,034	-	-	13,813,034
Local government investment pool	<u>770,314</u>	<u>-</u>	<u>-</u>	<u>770,314</u>
Total	<u>\$23,693,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$23,693,507</u>

Financial assets measured at fair value on a recurring basis are reflected in the Pool's statement of admitted assets, liabilities and members' surplus at December 31, 2015 as follows:

	<b>Assets:</b>			Total
	Level 1	Level 2	Level 3	
Negotiable certificates of deposit	\$ 9,389,229	\$ -	\$ -	\$ 9,389,229
Corporate obligations	13,568,077	-	-	13,568,077
Local government investment pool	<u>879,704</u>	<u>-</u>	<u>-</u>	<u>879,704</u>
Total	<u>\$23,837,010</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$23,837,010</u>

**NOTE 10: SUBSEQUENT EVENTS**

As part of the administrative services provided to the Pool, CTSI has evaluated events subsequent to December 31, 2016 through March 10, 2017, which is the issuance date of this report. There were no material events noted in the subsequent period that would have impacted the results reported herein or in the Pool's results going forward.