



**County Health Pool**

Financial Statements

December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)

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## **COUNTY HEALTH POOL MANAGEMENT DISCUSSION AND ANALYSIS**

This discussion and analysis prepared in conformity with Governmental Accounting Standards Board (GASB) rules, is designed to provide an analysis of County Health Pool's (the Pool) financial condition and operating results. According to GASB rules, the intent of the management discussion and analysis is to inform the readers of the financial statements of the Pool's financial issues and activities.

The Management Discussion and Analysis (MD&A) should be read in conjunction with the Pool's basic financial statements and the Pool's basic financial statements should be read in conjunction with the MD&A.

The Pool's basic financial statements are the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows.

The Pool was formed in January 1984 by an intergovernmental agreement among the member counties of Colorado. During 1999, the Pool changed its by-laws to allow the Pool to provide services to any political subdivision of the state of Colorado. The purpose of the Pool is to provide health, dental and vision benefits and life, accidental death and dismemberment insurance to the employees of the member organizations. Based on the date the Pool was formed, it has no ERISA compliance requirements and it is not regulated by the Division of Insurance of the State of Colorado. At December 31, 2016 and 2015 there were 69 and 71 member organizations, respectively. Basic Financial Statements are presented on the accrual basis of accounting. The three basic statements presented within the financial statements are as follows:

Statements of Net Position -- These statements present information reflecting a snap-shot of "Net Position", which represents the amount of total assets less total liabilities. Although the statement of net position is not presented in a categorized basis, assets are nonetheless listed in liquid to non-liquid order. Liquid in this reference meaning cash or being turned into cash. The Pool's investment balances are considered liquid since the investment portfolio is marketable and easily turned into cash.

The liabilities consist of two categories of accounts. The first is the outstanding claims payable. This balance is the best estimate by management as to the amount of claims which were incurred in the current year and will be paid in future periods. The accounts payable are the liabilities of the Pool, which vendors have presented invoices for payment and the cash will be disbursed in future years.

**COUNTY HEALTH POOL  
MANAGEMENT DISCUSSION AND ANALYSIS**

**Statements of Net Position**

	<u>December 31,</u>			
	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>2014</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 3,815,970	\$ 3,412,920	\$ 403,050	\$ 874,002
Investments	10,877,787	9,197,730	1,680,057	8,804,773
Accrued interest receivable	57,680	48,150	9,530	31,999
Prepaid expenses	11,083	11,083	-	11,083
Deposits	16,490	16,490	-	16,490
Total Assets	<u>\$ 14,779,010</u>	<u>\$ 12,686,373</u>	<u>\$ 2,092,637</u>	<u>\$ 9,738,347</u>
<b>Liabilities</b>				
Claims payable	\$ 5,000,000	\$ 5,000,000	\$ -	\$ 4,000,000
Accounts payable	1,012,640	958,129	54,511	925,162
Contribution Deposits	-	16,007	(16,007)	-
Total liabilities	<u>6,012,640</u>	<u>5,974,136</u>	<u>38,504</u>	<u>4,925,162</u>
Total net position (unrestricted)	<u>8,766,370</u>	<u>6,712,237</u>	<u>\$ 2,054,133</u>	<u>\$ 4,813,185</u>

The change column illustrates for the reader that net position increased, overall, in 2016 due to the increase in contributions received from member organization.

The Statements of Revenues, Expenses and Changes in Net Position -- These statements reflect the Pool's operating revenues and expenses. The essential source of revenues is from member organization contributions and the major sources of operating expenses are health, dental, and vision benefits. The change in net position is similar to net profit for any other insurance company. The amounts captioned as net position reflect the amount that corresponds to members' equity in previous years statements of revenue and expenses and changes in members' equity.

**Statements of Revenues, Expenses and Changes in Net Position**

	<u>December 31,</u>		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Operating revenue:</b>			
Contributions	<u>\$ 56,508,718</u>	<u>\$ 54,506,704</u>	<u>\$ 50,726,000</u>
Total operating revenue	<u>56,508,718</u>	<u>54,506,704</u>	<u>50,726,000</u>
<b>Operating expenses:</b>			
Net claims incurred	42,334,792	40,543,456	41,876,880
Insurance premiums	7,764,884	7,447,625	7,363,228
Administration	4,478,843	4,622,061	3,992,825
Total operating expenses	<u>54,578,519</u>	<u>52,613,142</u>	<u>53,232,933</u>
Operating income (loss)	1,930,199	1,893,562	(2,506,933)
Net investment income	123,934	5,490	72,935
Increase (Decrease) in net assets	2,054,133	1,899,052	(2,433,998)
Net position - Beginning of year	<u>6,712,237</u>	<u>4,813,185</u>	<u>7,247,183</u>
Net position - End of year	<u>\$ 8,766,370</u>	<u>\$ 6,712,237</u>	<u>\$ 4,813,185</u>

## **COUNTY HEALTH POOL MANAGEMENT DISCUSSION AND ANALYSIS**

The changes in the Contributions income from 2014 to 2015 to 2016 reflects the change in the rates charged to members in the Pool, to receive coverage and increased cost arising from the Health Reform Act. The Pool had 69, 71, and 72 member organizations at December 31, 2016, 2015, and 2014, respectively.

The changes in the overall costs of claims is a reflection of the changing number of members in the Pool, as well as a component of the shifting to higher deductible plans on the part of many member organizations.

In addition, insurance cost, the expense related to covering excess exposures, also increased due to increasing costs in the health care industry and the Pool's past experience.

During 2016, Anthem Blue Cross and Blue Shield did not increase the amount the Pool paid for Anthem's administration costs for the servicing of claims, and handling the network of doctors and hospitals. Anthem also provided plan documents review, membership cards, and administered writing claim checks in 2016.

When the Board of Directors set the rates to charge for the benefits and services for 2016 and 2015, the rates were established at a level that was estimated to increase the Pool's net position by approximately \$100,000.

During 2015, CHP began implementation of an online enrollment program. This decision was made to streamline enrollment and program movement at a savings of man hours and costs. This implementation should be completed during 2017.

The Statements of Cash Flows -- These statements reflect the Pool's cash flows from operating and investing activities.

### **Economic Conditions**

In 2016, health care cost trends continued to accelerate at rates higher than inflation. The "Health Care Act" passed by the U.S. Congress in 2010 continues to impact estimated costs for 2016 and future years. The utilization component of drug trends continues to be higher for generic drugs than for brand drugs. According to MCOS the projected 2017 trend for managed care and pharmacy benefits is expected to be 10% to 18% higher. Enrollment in high deductible health plans tripled since 2009.

Based on the above projections and historical results, corporations are continuing to make adjustments in health care plans to cope with the increasing cost trends. Some of these adjustments include increasing co-pays, higher deductibles, and switching providers searching for lower cost options. An alternative approach is utilization management. This focuses on the employee and helps them live a healthier lifestyle and be wiser health care consumers. Education and wellness programs are the key component of this strategy.

The Pool continues to put health care consumerism to the test with wellness and health education programs aimed at improving outcomes, thereby lowering health care costs. The Pool is trying to educate employees to be as engaged as possible, give them the tools and make them knowledgeable about their condition and about their prevention and treatment alternatives, so they make the best decision on health care access and utilization, improve their outcomes and help keep cost in check. Communication with members' employees has

**COUNTY HEALTH POOL  
MANAGEMENT DISCUSSION AND ANALYSIS**

increased to be on a continuous basis not just during policy renewal time. Input is solicited from members regarding plan design changes, benefit design changes, and contribution adjustments. The Pool's current philosophy is to conduct educational meetings with members' employees, along with continuous publications introducing all the tools and resources available to assist the employees to become better health care purchasers. As a result of the Pool teaming up with Anthem and the ongoing education of the member's employees, the Pool continues to be in a strong financial condition while keeping rate increases below the current average in Colorado.

**Requests for Information**

This report is designed to provide a general overview of the Pool's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Pool's administrator, County Technical Services, Inc. at 800 Grant Street, Suite 400, Denver, Colorado 80203, (or email address: [ctsi@ctsi.org](mailto:ctsi@ctsi.org)).



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## **Independent Auditor's Report**

The Board of Directors  
County Health Pool

We have audited the accompanying financial statements of County Health Pool (the Pool), which comprise the statements of net position as of December 31, 2016 and 2015, and the related statements of revenues, expenses, and changes in net position, 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 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 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of County Health Pool as of December 31, 2016 and 2015, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America

### ***Report on Supplementary Information***

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. Management's Discussion and Analysis is presented as supplementary information required by the Governmental Accounting Standards Board and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the



audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*K Financial*

Louisville, Colorado  
March 22, 2017

**COUNTY HEALTH POOL**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,815,970	\$ 3,412,920
Investments	10,877,787	9,197,730
Accrued interest receivable	57,680	48,150
Prepaid expenses	11,083	11,083
Deposits	<u>16,490</u>	<u>16,490</u>
<b>TOTAL ASSETS</b>	<u>\$ 14,779,010</u>	<u>\$ 12,686,373</u>
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Claims payable	\$ 5,000,000	\$ 5,000,000
Accounts payable	1,012,640	958,129
Contribution Deposits	<u>-</u>	<u>16,007</u>
<b>TOTAL LIABILITIES</b>	<u>6,012,640</u>	<u>5,974,136</u>
<b>NET POSITION</b>		
Unrestricted	<u>8,766,370</u>	<u>6,712,237</u>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<u>\$ 14,779,010</u>	<u>\$ 12,686,373</u>

The accompanying notes are an integral part of the financial statements.

**COUNTY HEALTH POOL**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>OPERATING REVENUE</b>		
Contributions	\$ 56,508,718	\$ 54,506,704
<b>OPERATING EXPENSES</b>		
Claims, net of excess insurance recoveries of \$ 8,529,816 and \$ 6,762,886 in 2016 and 2015, respectively	42,334,792	40,543,456
Insurance premiums	7,764,884	7,447,625
Administration	<u>4,478,843</u>	<u>4,622,061</u>
<b>Total operating expenses</b>	<u>54,578,519</u>	<u>52,613,142</u>
<b>OPERATING INCOME (LOSS)</b>	1,930,199	1,893,562
<b>NON-OPERATING REVENUE</b>		
Net investment income	<u>123,934</u>	<u>5,490</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	2,054,133	1,899,052
<b>NET POSITION - BEGINNING OF YEAR</b>	<u>6,712,237</u>	<u>4,813,185</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 8,766,370</u>	<u>\$ 6,712,237</u>

The accompanying notes are an integral part of the financial statements.

**COUNTY HEALTH POOL  
STATEMENTS OF CASH FLOWS  
DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received from members	\$ 56,492,711	\$ 54,520,409
Payments paid to insurers	(7,724,740)	(7,447,625)
Claims paid	(50,908,190)	(46,297,830)
Claims paid recovered from excess insurer	8,529,816	6,762,886
Administrative expenses paid	<u>(4,416,520)</u>	<u>(4,599,677)</u>
<b>Net cash provided by operating activities</b>	1,973,077	2,938,163
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale or maturity of investments	6,130,373	1,212,206
Purchase of investments	(7,956,988)	(1,842,687)
Investment income received	<u>256,588</u>	<u>231,236</u>
<b>Net cash used in investing activities</b>	(1,570,027)	(399,245)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	403,050	2,538,918
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>3,412,920</u>	<u>874,002</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 3,815,970</u>	<u>\$ 3,412,920</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
Operating income (loss)	1,930,199	1,893,562
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Effects of changes in operating assets and liabilities:		
Contribution deposits	(16,007)	16,007
Losses payable	-	1,000,000
Accounts payable	<u>58,885</u>	<u>28,594</u>
Net cash provided by (used in) operating activities	<u>\$ 1,973,077</u>	<u>\$ 2,938,163</u>
<b>NONCASH INVESTING ACTIVITY</b>		
Change in market value of investments	<u>\$ (146,557)</u>	<u>\$ (150,229)</u>

The accompanying notes are an integral part of the financial statements.

**COUNTY HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2016 AND 2015

**NOTE 1: ORGANIZATION**

The Pool was formed in January 1984 by an intergovernmental agreement among the member counties of Colorado. During 1999, the Pool changed its by-laws to allow the Pool to provide services to any political subdivision of the state of Colorado and the Pool changed its name from Colorado Counties Cooperative for Employee Benefits to County Health Pool.

The purpose of the Pool is to provide health, dental and vision benefits and life, accidental death and dismemberment insurance to the employees of the member organizations. At December 31, 2016 and 2015 there were 69 and 71 member organizations, respectively, including County Technical Services, Inc. (see Note 5). The Pool collects contributions from members and makes payments for benefits, excess insurance coverage and administrative fees.

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

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America applicable to governmental risk pools, set forth by the Governmental Accounting Standards Board. The accrual basis of accounting is utilized where revenue is recognized when earned and expenses are recognized when the liability is incurred.

The Pool distinguishes between operating revenues and expenses and non-operating items in the Statement of Revenues, Expenses and Changes in Net Position. Operating revenues and expenses generally result from providing services in connection with the Pool's purpose of providing health, life, vision, dental and accidental death and dismemberment insurance coverage for its members. Operating revenues consist of contributions from its members. Operating expenses include the cost of claims paid, administrative expenses, and management fees. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Pool has elected to follow Governmental Accounting Standards Board pronouncements. Therefore, statements issued by the Financial Accounting Standards Board after November 30, 1989 are not applied.

**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 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.

**COUNTY HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2016 AND 2015

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

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Pool considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

**Investments**

Investments are carried at fair value, which is based upon quoted market prices. Realized gains and losses are determined using the specific identification method. The Pool accounts for its investments in accordance with GASB statement No. 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools (GASB 31). GASB 31 requires governmental entities to report investments at fair value in the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**Reserve for Claims Payable**

Claims are charged to operations as incurred and are reported net of excess insurance reimbursements and subrogation recoveries. The liability for claims payable is determined based upon case-basis evaluations and projections and includes a provision for incurred but not reported claims. The projections of ultimate losses on reported claims and the estimate of claims incurred but not reported are based on a composite of the Pool's experience, trends in costs of services and changes in number of covered employees. Adjustments to the probable ultimate liability for claims are made continually based on subsequent developments and experience and are included in operations as incurred (see Note 6).

**Contributions**

The intergovernmental agreement provides for contributions from members based on rates determined annually by the Board of Directors.

**Income Tax**

The Pool is qualified and exempt from income tax under the provisions of Section 115 of the Internal Revenue Code. Therefore, the accompanying financial statements do not include a provision for income taxes.

**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. The pool for all the uninsured public deposits as a group is to be maintained by another institution or held in trust. The market value of the collateral must be at least equal to the aggregate uninsured deposits. The PDPA requires that collateral must exceed 102% of the uninsured deposits.

**COUNTY HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2016 AND 2015

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

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.

At December 31, 2016, the Pool's cash deposits had a bank balance of \$3,533,413 of which \$250,000 is insured by the Federal Deposit Insurance Corporation (FDIC), the remaining balance is collateralized according to the PDPA. The carrying balance of cash deposits as of December 31, 2016 was \$1,539,376.

At December 31, 2015, the Pool's cash deposits had a bank balance of \$2,300,330 of which \$250,000 is insured by the Federal Deposit Insurance Corporation (FDIC), the remaining balance is collateralized according to the PDPA. The carrying balance of cash deposits as of December 31, 2015 was \$720,670.

**Investments**

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 eligible investment allowed by State statute if specifically approved by the Board

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

<b>Type of Security</b>	<b>Market Value</b>	<b>REMAINING MATURITY (in Months)</b>		
		<b>12 or Less</b>	<b>13 to 24 Months</b>	<b>25 to 60 Months</b>
Negotiable certificates of deposit	7,386,083	-	-	7,386,083
Corporate notes	3,491,704	49,735	-	3,441,969
Local government investment pool	1,744,435	1,744,435	-	-
<b>Total</b>	<u>\$ 12,622,222</u>	<u>\$ 1,794,170</u>	<u>\$ -</u>	<u>\$10,828,052</u>

**COUNTY HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2016 AND 2015

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

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

<b>Type of Security</b>	<b>Market Value</b>	<b>REMAINING MATURITY (in Months)</b>		
		<b>12 or Less</b>	<b>13 to 24 Months</b>	<b>25 to 60 Months</b>
Negotiable certificates of deposit	6,515,254	5,019,653	-	1,495,601
Corporate notes	2,682,476	-	50,470	2,632,006
Local government investment pool	2,496,763	2,496,763	-	-
<b>Total</b>	<u>\$ 11,694,493</u>	<u>\$ 7,516,416</u>	<u>\$ 50,470</u>	<u>\$ 4,127,607</u>

**Interest Rate Risk**

In accordance with the investment policy, the Pool limits investment maturities to five years. As of December 31, 2016, the duration of the investments is in accordance with the guidelines of the investment policy.

**Credit Risk**

The Pool requires investments in local government investment pools and corporate notes to carry defined credit ratings. The local government investment pool, ColoTrust, has been rated AAAm by Standard & Poor's at December 31, 2016.

As of December 31, 2016, the corporate investments that the Pool participated in were rated as follows:

<b>Investment</b>	<b>Standard &amp; Poor's Rating at December 31, 2016</b>
WELLPOINT INC.	A
DIGNITY HEALTH	A
MUFG AMERICAS HOLDINGS CORP	A
CIGNA CORP NOTE	A
WESTAR ENERGY INC.	A
NATIONAL RURAL UTILITIES COOP	A
ALLSTATE CORP	A-
LINCOLN NATIONAL CORP	A-
REINSURANCE GROUP OF AM	A-
CENTERPOINT ENERGY CORP	A-
AON PLC SR. NOTE	A-
BANK OF HALIFAX NOTE	A+
UNITEDHEALTH GROUP NOTE	A+
UNITED STATES BANKCORP	A+
CISCO SYSTEMS INC.	AA-
SAFEWAY INC.	B-
NEWMONT MINING CORP	BBB
ONEOK PARTNERS LP	BBB

**COUNTY HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
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KLA-TENCOR CORP	BBB
FIRST TENNESSEE BANK NOTE	BBB
TEVA PHARMA FIN	BBB
JEFFERIES GROUP INC.	BBB-
EBAY INC	BBB+
GOLDMAN SACHS GROUP	BBB+
MISSISSIPPI POWER CO	BBB+

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

**Concentration of Credit Risk**

The Pool requires that, excluding direct U.S. government obligations such as Treasury Notes, Treasury Bills, and FDIC insured certificates of deposit, no single investment will represent more than 5% of the total fair value of the investment portfolio and commercial paper cannot represent more than 10% of the fair value. Limits by issuer are not defined. As of December 31, 2016, concentrations in single issuers of the Pool's entire investment portfolio were as follows:

Investment Type	Fair Value	% of Total Portfolio
CENTERPOINT ENERGY CORP	\$ 262,305	2.0%
KLA-TENCOR CORP	255,940	1.9%
DIGNITY HEALTH	252,178	1.9%
EBAY INC	249,885	1.9%
JEFFERIES GROUP INC.	226,832	1.7%
NEWMONT MINING CORP	213,928	1.6%
AON PLC SR. NOTE	199,918	1.5%
LINCOLN NATIONAL CORP	115,058	0.9%
ALLSTATE CORP	111,749	0.8%
REINSURANCE GROUP OF AM	110,943	0.8%
WELLPOINT INC.	109,603	0.8%
WESTAR ENERGY INC.	108,752	0.8%
BANK OF HALIFAX NOTE	106,737	0.8%
CIGNA CORP NOTE	106,306	0.8%
MISSISSIPPI POWER CO	105,889	0.8%
UNITEDHEALTH GROUP NOTE	105,308	0.8%
ONEOK PARTNERS LP	103,632	0.8%
FIRST TENNESSEE BANK NOTE	100,248	0.8%
UNITED STATES BANKCORP	100,229	0.8%
GOLDMAN SACHS GROUP	100,105	0.8%
CISCO SYSTEMS INC.	99,785	0.8%
NATIONAL RURAL UTILITIES COOP	99,402	0.8%
MUFG AMERICAS HOLDINGS CORP	98,935	0.8%
TEVA PHARMA FIN	98,302	0.7%
SAFEWAY INC.	49,735	0.4%
	<b>\$ 3,491,704</b>	

**COUNTY HEALTH POOL**  
**NOTES TO FINANCIAL STATEMENTS**  
DECEMBER 31, 2016 AND 2015

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

As of December 31, 2015, concentrations in single issuers of the Pool's entire investment portfolio were as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>% of Total Portfolio</b>
PARTNERRE FINANCE	\$ 279,400	3.0%
KLA-TENCOR CORP	252,570	2.7%
DIGNITY HEALTH	251,000	2.7%
EBAY INC	247,160	2.7%
JEFFERIES GROUP INC.	232,930	2.5%
NEWMONT MINING CORP	208,034	2.3%
LINCOLN NATIONAL	120,102	1.3%
ALLSTATE CORP	116,809	1.3%
REINSURANCE GROUP OF AM	112,522	1.2%
WELLPOINT INC.	112,341	1.2%
MISSISSIPPI POWER	106,011	1.2%
PETROLOGISTICS LP	104,500	1.1%
GOLDMAN SACHS GROUP	99,241	1.1%
FIRST TENNESSEE BANK NOTE	99,239	1.1%
MUFG AMERICAS HOLDINGS CORP	98,327	1.1%
TEVA PHARMA FIN	96,767	1.1%
ONEOK PARTNERS LP	95,053	1.0%
SAFEWAY INC.	50,470	0.5%
	<u>\$ 2,682,476</u>	

The Pool's trust agent, Pershing LLC, uses Level 1 inputs for valuation purposes based on fair values in actively traded markets for identical assets. Financial assets that are measured at fair value on a recurring basis are reflected in the Pool's statements of net position at December 31, 2016 and 2015, as follows:

	<b><u>2016</u></b>	<b><u>2015</u></b>
Cash and cash equivalents	\$ 3,815,970	\$ 3,412,920
Investments	<u>10,877,787</u>	<u>9,197,730</u>
	<u>\$ 14,693,757</u>	<u>\$ 12,610,650</u>

The composition of investment returns for the years ended December 31, 2016 and 2015 are as follows:

	<b><u>2016</u></b>	<b><u>2015</u></b>
Interest	\$ 256,408	\$ 155,719
Unrealized Loss on Investments	<u>(132,474)</u>	<u>(150,229)</u>
Net Investment Income	<u>\$ 123,934</u>	<u>\$ 5,490</u>

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**NOTE 4: EXCESS INSURANCE CONTRACTS**

The Pool entered into an excess insurance contract to limit large losses. The excess loss coverage limits the Pool's exposure to \$100,000 of claims paid per person in 2016 and 2015.

Although management believes they have acquired excess insurance from solvent carriers, a contingent liability exists with respect to excess insurance coverages which would become a liability of the Pool if the excess insurers were unable to meet their obligations under the contracts.

**NOTE 5: ADMINISTRATIVE AND CLAIMS SERVICING AGREEMENTS**

The Pool entered into an agreement with County Technical Services, Inc. (CTSI), a nonprofit corporation, to provide administrative services for the Pool. Fees for such services were \$664,677 and \$655,405 for 2016 and 2015, respectively.

Additionally, the Pool entered into an agreement with a third-party claims administrator, Anthem Blue Cross and Blue Shield (Anthem). Fees for such services were \$2,745,595 and \$2,778,934 for 2016 and 2015, respectively. CTSI and Anthem are considered to be related parties for purposes of these financial statements.

**NOTE 6: CLAIMS PAYABLE**

As discussed in Note 2, the Pool establishes a liability for both reported and un-reported claims. The following represents changes in that liability for the Pool during the years ended December 31, 2016 and 2015.

	<u>2016</u>	<u>2015</u>
Claims payable, beginning of year	\$ 5,000,000	\$ 4,000,000
Provision for claims expenses		
Provision for covered events of the current year	43,303,769	41,468,177
Decrease in provision for covered events of prior years	<u>(968,977)</u>	<u>(924,721)</u>
	<u>42,334,792</u>	<u>40,543,456</u>
Payments, net of excess insurance recoveries		
Claims expenses attributable to covered events of the current year	38,303,769	36,468,177
Claims expenses attributable to covered events of prior years	<u>4,031,023</u>	<u>3,075,279</u>
Total payments	<u>42,334,792</u>	<u>39,543,456</u>
Claims payable, end of year	<u>\$ 5,000,000</u>	<u>\$ 5,000,000</u>

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As a result of changes in estimates of insured events in prior years, the provision for claims expenses decreased by \$968,977 in 2016, and decreased by \$924,721 in 2015. The decreases in 2016 and 2015 are due to lower than expected losses and related expenses.

**NOTE 7: 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 8: SUBSEQUENT EVENTS**

As part of the administrative services provided to the Pool, CTSI has evaluated events subsequent to December 31, 2016 through March 22, 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.