



Colorado Workers' Compensation Pool

Statutory Financial Statements

December 31, 2016 and 2015

(With Independent Auditor's Report Thereon)



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By Justin L. Smith at 5:05 pm, Apr 13, 2017

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Independent Auditor's Report

The Board of Directors
County Workers' Compensation Pool

We have audited the accompanying statutory financial statements of County Workers' Compensation 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 County Workers’ Compensation 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 County Workers’ Compensation 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

COUNTY WORKERS' COMPENSATION POOL
STATUTORY STATEMENTS OF ADMITTED ASSETS,
LIABILITIES AND MEMBERS' SURPLUS

DECEMBER 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ADMITTED ASSETS		
Cash and cash equivalents	\$ 1,662,558	\$ 1,242,937
Investments	<u>39,441,038</u>	<u>38,942,846</u>
Total cash and investments	41,103,596	40,185,783
Due from self-funded counties	89,663	106,264
Accrued interest receivable	<u>269,863</u>	<u>271,685</u>
TOTAL ADMITTED ASSETS	<u>\$ 41,463,122</u>	<u>\$ 40,563,732</u>
LIABILITIES AND MEMBERS' SURPLUS		
LIABILITIES		
Reserves for losses and loss adjustment expenses	\$ 20,171,049	\$ 20,830,563
Reserve for unallocated loss adjustment expenses	855,044	1,047,282
Surplus distribution payable	1,123,874	1,099,648
Deposits held for self-funded counties	250,000	250,000
Accounts payable	<u>26,020</u>	<u>27,331</u>
Total liabilities	22,425,987	23,254,824
MEMBERS' SURPLUS	<u>19,037,135</u>	<u>17,308,908</u>
TOTAL LIABILITIES AND MEMBERS' SURPLUS	<u>\$ 41,463,122</u>	<u>\$ 40,563,732</u>

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

COUNTY WORKERS' COMPENSATION POOL
STATUTORY STATEMENTS OF INCOME AND MEMBERS' SURPLUS

DECEMBER 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
UNDERWRITING INCOME		
Member contributions written	\$ 11,318,778	\$ 10,704,856
Reinsurance and excess insurance ceded	<u>(899,372)</u>	<u>(789,412)</u>
Net underwriting income	<u>10,419,406</u>	<u>9,915,444</u>
UNDERWRITING EXPENSES		
Net losses and loss adjustment expense incurred	7,081,825	7,105,798
Unallocated loss adjustment expense incurred	728,332	830,443
Other underwriting expenses incurred	<u>738,638</u>	<u>748,860</u>
Total underwriting expenses incurred	<u>8,548,795</u>	<u>8,685,101</u>
UNDERWRITING GAIN	1,870,611	1,230,343
NET INVESTMENT INCOME	<u>886,134</u>	<u>99,020</u>
NET INCOME BEFORE RETURN OF SURPLUS	2,756,745	1,329,363
RETURN OF SURPLUS	(1,000,000)	(1,000,000)
MEMBERS' SURPLUS - BEGINNING OF YEAR	17,308,908	16,709,391
CHANGES IN NONADMITTED ASSETS	<u>(28,518)</u>	<u>270,154</u>
MEMBERS' SURPLUS - END OF YEAR	<u>\$ 19,037,135</u>	<u>\$ 17,308,908</u>

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

COUNTY WORKERS' COMPENSATION POOL
STATUTORY STATEMENTS OF CASH FLOWS

DECEMBER 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions and assessments received from members (net of surplus returned)	\$ 10,343,004	\$ 10,020,931
Net loss and loss adjustment expenses paid	(8,673,581)	(7,756,283)
Reinsurance premiums	(899,372)	(789,412)
Other underwriting expenses paid	(740,192)	(768,287)
Investment income received	<u>1,312,736</u>	<u>1,248,505</u>
Net cash flow provided by operating activities	1,342,595	1,955,454
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments purchased	(11,770,215)	(10,583,388)
Proceeds from sales and maturities of investments	<u>10,847,241</u>	<u>7,641,662</u>
Net cash flow (used in) investing activities	<u>(922,974)</u>	<u>(2,941,726)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	419,621	(986,272)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>1,242,937</u>	<u>2,229,209</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 1,662,558</u>	<u>\$ 1,242,937</u>

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

COUNTY WORKERS' COMPENSATION POOL
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

NOTE 1: ORGANIZATION

The County Workers' Compensation Pool (the Pool) was formed on January 1, 1985 by an intergovernmental agreement among certain counties in Colorado. The purpose of the Pool is to provide workers' compensation coverage for the employees of the member counties. 51 counties were members of the Pool, as of December 31, 2016 and 2015.

In carrying out this function, the Pool collects contributions from the member counties, verifies claims for workers' compensation benefits submitted by member counties' employees 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 and prepaid expenses 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.

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 is calculated using the straight line method.

COUNTY WORKERS' COMPENSATION 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 period 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 the purpose of the statements 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

The 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.

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. 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 workers' compensation insurance industry data. Losses are reported net of estimated amounts recoverable from excess insurance and 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.

COUNTY WORKERS' COMPENSATION 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 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. 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 that the 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 \$368,951 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 is \$72,604.

At December 31, 2015, the Pool's cash deposits had a bank balance of \$410,188 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 is \$191,940.

**COUNTY WORKERS' COMPENSATION POOL
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

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 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.

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

	Carrying Amount	REMAINING MATURITY (in Months)		
		12 or Less	13 to 24	25 to 60
Negotiable certificates of deposit	\$ 12,324,277	\$ 266,285	\$ 1,350,000	\$ 10,707,992
Corporate debt securities	27,116,761	1,256,289	2,359,821	23,500,651
Local government investment pool	<u>606,426</u>	<u>606,426</u>	-	-
	<u>\$ 40,047,464</u>	<u>\$ 2,129,000</u>	<u>\$ 3,709,821</u>	<u>\$ 34,208,643</u>

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

	Carrying Amount	REMAINING MATURITY (in Months)		
		12 or Less	13 to 24	25 to 60
Negotiable certificates of deposit	\$ 12,340,865	\$ 7,048,824	\$ 265,167	\$ 5,026,874
Corporate debt securities	26,601,981	350,588	422,452	25,828,941
Local government investment pool	<u>886</u>	<u>886</u>	-	-
	<u>\$ 38,943,732</u>	<u>\$ 7,400,298</u>	<u>\$ 687,619</u>	<u>\$ 30,855,815</u>

As of December 31, 2016 and 2015, the Pool had invested \$606,426 and \$886, 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.

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.

COUNTY WORKERS' COMPENSATION POOL
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

Total cash and investments as of December 31, 2016 and 2015 are summarized as follows:

	<u>2016</u>	<u>2015</u>
Cash deposits	\$ 1,056,132	\$ 1,242,051
Investments	<u>40,047,464</u>	<u>38,943,732</u>
	<u>\$ 41,103,596</u>	<u>\$ 40,185,783</u>

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 Cost</u>	<u>Fair Value</u>
Maturity:		
Due in one year or less	\$ 1,522,574	\$ 1,522,083
Due after one through five years	<u>37,918,464</u>	<u>37,747,623</u>
	<u>\$ 39,441,038</u>	<u>\$ 39,269,706</u>
	<u>2015</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Maturity:		
Due in one year or less	\$ 7,399,412	\$ 7,428,745
Due after one through five years	<u>31,543,434</u>	<u>30,700,211</u>
	<u>\$ 38,942,846</u>	<u>\$ 38,128,956</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	\$ 12,324,277	\$ 50,118	\$ 128,093	\$ 12,246,302
Corporate debt securities	<u>27,116,761</u>	<u>68,980</u>	<u>162,337</u>	<u>27,023,404</u>
	<u>\$ 39,441,038</u>	<u>\$ 119,098</u>	<u>\$ 290,430</u>	<u>\$ 39,269,706</u>
	<u>2015</u>			
Negotiable certificates of deposit	\$ 12,340,865	\$ 36,022	\$ 16,974	\$ 12,359,913
Corporate debt securities	<u>26,601,981</u>	<u>2,708</u>	<u>835,646</u>	<u>25,769,043</u>
	<u>\$ 38,942,846</u>	<u>\$ 38,730</u>	<u>\$ 852,620</u>	<u>\$ 38,128,956</u>

COUNTY WORKERS' COMPENSATION 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>	<u>Less than 12 months</u>		<u>2016</u> <u>12 Months or Greater</u>		<u>Total</u>	
	Unrealized		Unrealized		Unrealized	
	<u>Fair Value</u>	<u>losses</u>	<u>Fair Value</u>	<u>losses</u>	<u>Fair Value</u>	<u>losses</u>
Negotiable certificates of deposit	\$ -	\$ -	\$ 7,351,907	\$ 128,093	\$ 7,351,907	\$ 128,093
Corporate debt securities	<u>841,688</u>	<u>1,923</u>	<u>18,226,057</u>	<u>160,414</u>	<u>19,067,745</u>	<u>162,337</u>
	<u>\$841,688</u>	<u>\$ 1,923</u>	<u>\$ 25,577,964</u>	<u>\$ 288,507</u>	<u>\$26,419,652</u>	<u>\$ 290,430</u>

<u>Description of securities</u>	<u>Less than 12 months</u>		<u>2015</u> <u>12 Months or Greater</u>		<u>Total</u>	
	Unrealized		Unrealized		Unrealized	
	<u>Fair Value</u>	<u>losses</u>	<u>Fair Value</u>	<u>losses</u>	<u>Fair Value</u>	<u>losses</u>
Negotiable certificates of deposit	\$ -	\$ -	\$ 3,659,900	\$ 16,974	\$ 3,659,900	\$ 16,974
Corporate debt securities	<u>-</u>	<u>-</u>	<u>24,029,606</u>	<u>835,646</u>	<u>24,029,606</u>	<u>835,646</u>
	<u>\$-</u>	<u>\$-</u>	<u>\$27,689,506</u>	<u>\$ 852,620</u>	<u>\$27,689,506</u>	<u>\$ 852,620</u>

Proceeds from the sales, calls and maturities of debt securities during 2016 and 2015 were approximately \$10,847,241 and \$7,641,662, respectively. Gross gains of \$16,083 and \$65,391 were realized on those sales and calls during 2016 and 2015. Gross losses of \$29,704 and \$925,706 were realized on those sales and calls during 2016 and 2015.

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>
Reported	\$ 13,181,227	\$ 13,963,228
Incurred but not reported	<u>6,989,822</u>	<u>6,867,335</u>
	<u>\$ 20,171,049</u>	<u>\$ 20,830,563</u>

COUNTY WORKERS' COMPENSATION POOL
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

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

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

	<u>2016</u>	<u>2015</u>
Reserves for losses and loss adjustment expenses at beginning of year	\$ 21,877,845	\$ 22,007,352
Incurred losses and loss adjustment expenses:		
Provision for insured events of the current year	9,117,735	8,597,392
(Decrease) increase in provision for insured events of prior years	<u>(1,307,578)</u>	<u>(661,151)</u>
Total incurred losses and loss adjustment expenses	7,810,157	7,936,241
Payments, net of recoveries		
Losses and loss adjustment expenses attributable to insured events of the current year	3,358,371	3,324,996
Losses and loss adjustment expenses attributable to insured events of prior years	<u>5,303,538</u>	<u>4,740,752</u>
Total payments	<u>8,661,909</u>	<u>8,065,748</u>
Reserve for losses and loss adjustment expenses at year end	<u>\$ 21,026,093</u>	<u>\$ 21,877,845</u>
Reserves for losses and loss adjustment expenses	\$ 20,171,049	\$ 20,830,563
Reserves for unallocated loss adjustment expenses	<u>855,044</u>	<u>1,047,282</u>
	<u>\$ 21,026,093</u>	<u>\$ 21,877,845</u>

As a result of changes in estimates of insured events in prior years, the provision for losses and loss adjustment expenses decreased in 2016 and 2015 by \$1,307,578 and \$661,151, respectively. These decreases were the result of lower than anticipated losses and related expenses.

The reserve for losses and loss adjustment expenses 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 \$21,026,093 and \$21,877,845, respectively, which includes unallocated loss adjustment expenses of \$855,044 and \$1,047,282, 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.

COUNTY WORKERS' COMPENSATION POOL
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

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

Certain member counties have been partially self-funded. These counties are responsible for their own claims up to a maximum per claim liability, as follows:

	Years <u>Self-Funded</u>	Per Claim <u>Maximum</u>
Pueblo	1990 - 1992	\$ 200,000
Pueblo	1993 - 2016	\$ 225,000
Summit	1996 - 2009	\$ 100,000
Summit	2010 - 2016	\$ 150,000

Amounts in excess of these per claim maximums will be paid by the Pool.

The Pool maintains minimum deposits from these counties and bills these counties as claims and expenses are paid on their behalf. An estimate of the total claims and expenses attributable to each of these counties was made by the Pool's independent actuary. As of December 31, 2016 and 2015, respectively, approximately \$3,238,371 and \$3,227,552 had been reflected as a reduction to the reserves for losses and loss adjustment expenses. The Pool recorded a membership contribution from the participating counties of \$1,102,131 and \$844,743 in 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 \$233,352 and \$241,658 as of December 31, 2016 and 2015 existed if the life insurance companies could not meet their annuity payment obligations.

NOTE 5: INSURANCE CONTRACTS

Excess of Loss

The Pool has entered into excess of loss contracts to limit large losses. For 2016 and 2015, the Pool's exposure on individual claims paid is \$875,000. The excess insurer has an obligation under the contracts to pay in excess of this retention amount up to statutory limits.

COUNTY WORKERS' COMPENSATION 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 \$1,000,000 as a return of surplus to members for the years ended December 31, 2016 and 2015.

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 \$616,458 and \$608,572 in 2016 and 2015, respectively. Additionally, CTSI provides claims administration services for the Pool. Fees for such services were \$920,570 in 2016 and \$1,025,372 in 2015. CTSI is considered a related-party for purposes of these financial statements.

NOTE 8: 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.

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.

COUNTY WORKERS' COMPENSATION POOL
NOTES TO STATUTORY FINANCIAL STATEMENTS
DECEMBER 31, 2016 and 2015

NOTE 8: FAIR VALUE MEASUREMENTS (CONTINUED)

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:

	Assets:			
	Level 1	Level 2	Level 3	Total
Negotiable certificates of deposit	\$ 12,246,302			\$ 12,246,302
Corporate debt securities	27,023,404	-	-	27,023,404
Local government investment pool	<u>606,426</u>			<u>606,426</u>
Total	<u>\$ 39,876,132</u>	<u>-</u>	<u>-</u>	<u>\$ 39,876,132</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:

	Assets:			
	Level 1	Level 2	Level 3	Total
Negotiable certificates of deposit	\$ 12,359,913			\$12,359,913
Corporate debt securities	25,769,043	-	-	25,769,043
Local government investment pool	<u>886</u>			<u>886</u>
Total	<u>\$ 38,129,842</u>	<u>-</u>	<u>-</u>	<u>\$38,129,842</u>

NOTE 9: 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 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.