



County Health Pool

Financial Statements

December 31, 2019 and 2018

(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, 2019 and 2018 there were 66 and 68 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 snapshot of "Net Position", which represents the amount of total assets minus 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 number 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>2019</u> | <u>2018</u> | <u>Change</u> | <u>2017</u> |
| Assets | | | | |
| Cash and cash equivalents | \$ 3,347,106 | \$ 3,385,416 | \$ (38,310) | \$ 2,947,203 |
| Investments | 13,950,972 | 14,042,087 | (91,115) | 13,203,242 |
| Accrued interest receivable | 99,475 | 70,255 | 29,220 | 59,696 |
| Prepaid expenses | 11,083 | 12,036 | (953) | 11,083 |
| Deposits | 16,490 | 16,490 | - | 16,490 |
| Total Assets | <u>\$ 17,425,126</u> | <u>\$ 17,526,284</u> | <u>\$ (101,158)</u> | <u>\$ 16,237,714</u> |
| Liabilities | | | | |
| Claims payable | \$ 5,250,000 | \$ 5,000,000 | \$ 250,000 | \$ 5,000,000 |
| Accounts payable | 1,208,843 | 1,135,281 | 73,562 | 1,010,887 |
| Contribution deposits | 560,609 | 71,822 | 488,787 | 4,974 |
| Total Liabilities | <u>7,019,452</u> | <u>6,207,103</u> | <u>812,349</u> | <u>6,015,861</u> |
| Total Net Position (Unrestricted) | <u>\$ 10,405,674</u> | <u>\$ 11,319,181</u> | <u>\$ (913,507)</u> | <u>\$ 10,221,853</u> |

The change column illustrates for the reader that net position decreased, overall, in 2019 due to the increase in utilization of the plan benefits.

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.

**COUNTY HEALTH POOL
MANAGEMENT DISCUSSION AND ANALYSIS**

Statements of Revenues, Expenses and Changes in Net Position

| | <u>December 31,</u> | | |
|-----------------------------------|----------------------|----------------------|----------------------|
| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
| Operating revenue: | | | |
| Contributions | \$ 59,460,094 | \$ 58,683,712 | \$ 55,995,413 |
| Total operating revenue | <u>59,460,094</u> | <u>58,683,712</u> | <u>55,995,413</u> |
| Operating expenses: | | | |
| Net claims incurred | 46,199,215 | 43,781,846 | 42,245,801 |
| Insurance premiums | 11,065,701 | 10,010,939 | 8,438,654 |
| Administration | <u>3,838,751</u> | <u>3,887,098</u> | <u>4,037,490</u> |
| Total operating expenses | <u>61,103,667</u> | <u>57,679,883</u> | <u>54,721,945</u> |
| Operating income (loss) | (1,643,573) | 1,003,829 | 1,273,468 |
| Net investment income | <u>730,066</u> | <u>93,499</u> | <u>182,015</u> |
| Increase (Decrease) in net assets | (913,507) | 1,097,328 | 1,455,483 |
| Net position - Beginning of year | <u>11,319,181</u> | <u>10,221,853</u> | <u>8,766,370</u> |
| Net position - End of year | <u>\$ 10,405,674</u> | <u>\$ 11,319,181</u> | <u>\$ 10,221,853</u> |

The changes in the Contributions income from 2019 to 2018 to 2017 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 66, 68, and 68 member organizations at December 31, 2019, 2018 and 2017, respectively.

The changes in the overall costs of claims reflects 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 entities.

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 2019, Anthem Blue Cross and Blue Shield decreased the amount The Pool paid for Anthem's administration costs for the servicing of claims and handling the network of doctors and hospitals by 1%.

During 2018, 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 2019 and 2018.

When the Board of Directors set the rates to charge for the benefits and services for 2019, the rates were established at a level that was estimated to decrease The Pool's net position by approximately \$140,000.

COUNTY HEALTH POOL MANAGEMENT DISCUSSION AND ANALYSIS

When the Board of Directors set the rates to charge for the benefits and services for 2018, the rates were established at a level that was estimated to increase The Pool's net position by approximately \$1,000,000.

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

Economic Conditions

In 2019, health care cost trends continued to accelerate at rates higher than inflation. The "Health Care Act" passed by the U.S. Congress in 2010 continued to impact estimated costs for 2019. The utilization component of drug trends continues to be higher for generic drugs than for brand drugs. According to Willis Towers Watson the 2019 trend for managed health care benefit costs was expected to rise 7.6%. The 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 member's employees has 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 member's 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).



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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, 2019 and 2018, 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, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matter

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

K Financial

Louisville, Colorado
March 18, 2020

COUNTY HEALTH POOL
Statements of Net Position
DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------------|-----------------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 3,347,106 | \$ 3,385,416 |
| Investments | 13,950,972 | 14,042,087 |
| Accrued interest receivable | 99,475 | 70,255 |
| Prepaid expenses | 11,083 | 12,036 |
| Deposits | <u>16,490</u> | <u>16,490</u> |
| TOTAL ASSETS | <u>\$ 17,425,126</u> | <u>\$ 17,526,284</u> |
| LIABILITIES AND NET POSITION | | |
| LIABILITIES | | |
| Claims payable | \$ 5,250,000 | \$ 5,000,000 |
| Accounts payable | 1,208,843 | 1,135,281 |
| Contribution deposits | <u>560,609</u> | <u>71,822</u> |
| TOTAL LIABILITIES | <u>7,019,452</u> | <u>6,207,103</u> |
| NET POSITION | | |
| Unrestricted | <u>10,405,674</u> | <u>11,319,181</u> |
| TOTAL LIABILITIES AND NET POSITION | <u>\$ 17,425,126</u> | <u>\$ 17,526,284</u> |

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

COUNTY HEALTH POOL
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------------|
| OPERATING REVENUE | | |
| Contributions | \$ 59,460,094 | \$ 58,683,712 |
| OPERATING EXPENSES | | |
| Claims, net of excess insurance recoveries of (\$10,078,507 and \$8,442,169 in 2019 and 2018, respectively) | 46,199,215 | 43,781,846 |
| Insurance premiums | 11,065,701 | 10,010,939 |
| Administration | <u>3,838,751</u> | <u>3,887,098</u> |
| TOTAL OPERATING EXPENSES | <u>61,103,667</u> | <u>57,679,883</u> |
| OPERATING INCOME | (1,643,573) | 1,003,829 |
| NON-OPERATING REVENUE | | |
| Net investment income | <u>730,066</u> | <u>93,499</u> |
| INCREASE (DECREASE) IN NET POSITION | (913,507) | 1,097,328 |
| NET POSITION - BEGINNING OF YEAR | <u>11,319,181</u> | <u>10,221,853</u> |
| NET POSITION - END OF YEAR | <u>\$ 10,405,674</u> | <u>\$ 11,319,181</u> |

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

COUNTY HEALTH POOL
STATEMENTS OF CASH FLOWS
DECEMBER 31, 2019 AND 2018

| | <u>2019</u> | <u>2018</u> |
|--|-------------------------|-------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Contributions received from members | \$ 59,949,883 | \$ 58,750,550 |
| Payments paid to insurers | (10,687,493) | (9,887,739) |
| Claims paid | (56,072,196) | (53,308,052) |
| Claims paid recovered from excess insurer | 10,078,507 | 9,525,126 |
| Administrative expenses paid | <u>(4,098,972)</u> | <u>(3,885,768)</u> |
| Net cash provided by (used in) operating activities | <u>(830,271)</u> | <u>1,194,117</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Proceeds from sale or maturity of investments | 7,310,920 | 1,987,041 |
| Purchase of investments | (6,892,532) | (3,087,131) |
| Investment income received | <u>373,573</u> | <u>344,186</u> |
| Net cash provided by (used in) investing activities | 791,961 | (755,904) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (38,310) | 438,213 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>3,385,416</u> | <u>2,947,203</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 3,347,106</u> | <u>\$ 3,385,416</u> |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES | | |
| Operating Income | \$ (1,643,573) | \$ 1,003,829 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | |
| Effects of changes in operating assets and liabilities: | | |
| Contribution deposits | 488,787 | 66,848 |
| Claims payable | 250,000 | - |
| Prepaid insurance | 953 | (964) |
| Accounts payable | <u>73,562</u> | <u>124,404</u> |
| Net cash provided by operating activities | <u>\$ (830,271)</u> | <u>\$ 1,194,117</u> |
| NONCASH INVESTING ACTIVITY | | |
| Change in market value of investments | <u>\$ (327,274)</u> | <u>\$ 54,875</u> |

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

COUNTY HEALTH POOL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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 entities. At December 31, 2019 and 2018 there were 66 and 68 member entities, 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, 2019 AND 2018

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 on the statement of net position. 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, 2019 AND 2018

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, 2019, The Pool's cash deposits had a bank balance of \$2,921,483 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, 2019 was \$2,042,893.

At December 31, 2018, The Pool's cash deposits had a bank balance of \$2,047,974 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, 2018 was \$1,340,377.

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, 2019:

| Type of Security | REMAINING MATURITY (in Months) | | | |
|------------------------------------|---------------------------------------|-----------------------|----------------------------|----------------------------|
| | Market Value | 12 or Less | 13 to 24 Months | 25 to 60 Months |
| Negotiable certificates of deposit | 8,047,462 | 856,446 | 3,061,995 | 4,129,021 |
| Corporate notes | 5,903,510 | 604,794 | 760,716 | 4,538,000 |
| Local government investment pool | 1,047,822 | 1,047,822 | - | - |
| Total | \$ 14,998,794 | \$ 2,509,062 | \$ 3,822,711 | \$ 8,667,021 |

**COUNTY HEALTH POOL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018**

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

The Pool owned the following investments as of December 31, 2018:

| Type of Security | REMAINING MATURITY (in Months) | | | |
|------------------------------------|---------------------------------------|-----------------------|----------------------------|----------------------------|
| | <u>Market Value</u> | <u>12 or Less</u> | <u>13 to 24 Months</u> | <u>25 to 60 Months</u> |
| Negotiable certificates of deposit | 10,764,893 | 1,142,699 | 836,999 | 8,785,195 |
| Corporate notes | 3,277,194 | 1,457,849 | 700,895 | 1,118,450 |
| Local government investment pool | 2,003,293 | 2,003,293 | - | - |
| Total | <u>\$ 16,045,380</u> | <u>\$ 4,603,841</u> | <u>\$ 1,537,894</u> | <u>\$ 9,903,645</u> |

Interest Rate Risk

In accordance with the investment policy, The Pool limits investment maturities to five years. As of December 31, 2019 and 2018, 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, 2019.

COUNTY HEALTH POOL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2019, the corporate investments that The Pool participated in were rated as follows:

| <u>Investment</u> | <u>Standard & Poor's Rating at December 31, 2019</u> |
|-------------------------------|--|
| BANK OF HALIFAX | A+ |
| UNITED STATES BANKCORP | A+ |
| UNITEDHEALTH GROUP | A+ |
| NATIONAL RURAL UTILITIES COOP | A |
| SYSTEM ENERGY RES INC | A |
| WESTAR ENERGY INC | A |
| AON PLC | A- |
| BROOKFIELD FIN LLC | A- |
| CIGNA CORP | A- |
| EXPRESS SCRIPTS HLDG CO | A- |
| MIDWEST CONNECTOR CAP CO LLC | A- |
| CISCO SYSTEMS INC. | AA- |
| EQT CORP | BB+ |
| MACY'S RETAIL | BB+ |
| BUCKEYE PARTNERS | BB |
| TEVA PHARMA FIN | BB |
| CENTERPOINT ENERGY CORP | BBB+ |
| GOLDMAN SACHS GROUP | BBB+ |
| ALTRIA GROUP INC | BBB |
| METROPOLITAN EDISON CO | BBB |
| FORD MTR CR CO LLC | BBB- |
| HOSPITALITY PPTYS | BBB- |
| OWL ROCK CAP CORP | BBB- |
| PARK AEROSPACE HLDINGS | BBB- |
| PROSPECT CAP CORP | BBB- |
| SASOL FING USA LLC | BBB- |
| Baidu INC | Not Rated |
| EAGLE BANCORP INC | Not Rated |

COUNTY HEALTH POOL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

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, 2019, concentrations in single issuers of The Pool's entire investment portfolio were as follows:

| <u>Investment Type</u> | <u>Market Value</u> | <u>% of Total Portfolio</u> |
|-------------------------------|---------------------|-----------------------------|
| HOSPITALITY PPTYS | \$ 758,908 | 5% |
| EAGLE BANCORP INC | 266,788 | 2% |
| MIDWEST CONNECTOR CAP CO LLC | 262,460 | 2% |
| METROPOLITAN EDISON CO | 258,365 | 2% |
| CENTERPOINT ENERGY CORP | 254,838 | 2% |
| EXPRESS SCRIPTS HLDG CO | 254,403 | 2% |
| MACY'S RETAIL | 252,575 | 2% |
| BUCKEYE PARTNERS | 251,370 | 2% |
| FORD MTR CR CO LLC | 248,984 | 2% |
| PARK AEROSPACE HLDINGS | 246,045 | 2% |
| PROSPECT CAP CORP | 245,748 | 2% |
| EQT CORP | 245,703 | 2% |
| SASOL FING USA LLC | 243,644 | 2% |
| OWL ROCK CAP CORP | 238,763 | 2% |
| BAIDU INC | 213,188 | 2% |
| SYSTEM ENERGY RES INC | 204,303 | 1% |
| AON PLC | 202,140 | 1% |
| BROOKFIELD FIN LLC | 176,976 | 1% |
| ALTRIA GROUP INC | 169,779 | 1% |
| BANK OF HALIFAX | 102,601 | 1% |
| CIGNA CORP | 101,656 | 1% |
| WESTAR ENERGY INC | 101,577 | 1% |
| UNITEDHEALTH GROUP | 101,016 | 1% |
| CISCO SYSTEMS INC. | 100,585 | 1% |
| UNITED STATES BANKCORP | 100,552 | 1% |
| NATIONAL RURAL UTILITIES COOP | 100,356 | 1% |
| GOLDMAN SACHS GROUP | 100,130 | 1% |
| TEVA PHARMA FIN | 100,059 | 1% |
| | <u>\$ 5,903,510</u> | |

COUNTY HEALTH POOL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019 AND 2018

NOTE 3: CASH AND INVESTMENTS (CONTINUED)

As of December 31, 2018, concentrations in single issuers of The Pool's entire investment portfolio were as follows:

| <u>Investment Type</u> | <u>Market Value</u> | <u>% of Total Portfolio</u> |
|-------------------------------|---------------------|-----------------------------|
| CENTERPOINT ENERGY CORP | \$ 255,025 | 2% |
| KLA-TENCOR CORP | 249,658 | 2% |
| TRANSCANADA PIPELINES LTD | 249,093 | 2% |
| DIGNITY HEALTH | 248,540 | 2% |
| EBAY INC | 248,340 | 2% |
| JEFFERIES GROUP INC | 205,232 | 1% |
| NEWMONT MINING CORP | 202,646 | 1% |
| AON PLC SR | 197,822 | 1% |
| ANHEUSER-BUSCH INBEV FIN INC | 116,682 | 1% |
| WESTAR ENERGY INC | 102,672 | 1% |
| REINSURANCE GROUP AMER INC | 102,665 | 1% |
| BANK NS HALIFAX AR | 102,630 | 1% |
| CIGNA CORP | 101,817 | 1% |
| ALLSTATE CORP | 101,544 | 1% |
| UNITEDHEALTH GROUP INC | 101,335 | 1% |
| ONEOK PARTNERS LP | 100,180 | 1% |
| FIRST TENNESSEE BANK | 99,225 | 1% |
| GOLDMAN SACHS GROUP INC | 99,022 | 1% |
| CISCO SYSTEMS INC. | 98,675 | 1% |
| NATIONAL RURAL UTILITIES COOP | 98,555 | 1% |
| UNITED STATES BANKCORP | 98,523 | 1% |
| TEVA PHARMACEUTICAL FIN | 97,314 | 1% |
| | <u>\$ 3,277,194</u> | |

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NOTE 3: CASH AND INVESTMENTS (CONTINUED)

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, 2019 and 2018, as follows:

| | <u>2019</u> | <u>2018</u> |
|---------------------------|----------------------|----------------------|
| Cash and cash equivalents | \$ 3,347,106 | \$ 3,385,416 |
| Investments | <u>13,950,972</u> | <u>14,042,087</u> |
| | <u>\$ 17,298,078</u> | <u>\$ 17,427,503</u> |

The composition of investment returns for the years ended December 31, 2019 and 2018 are as follows:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|-------------------|------------------|
| Interest | \$ 209,345 | \$ 251,559 |
| Unrealized Gain (Loss) on Investments | <u>520,721</u> | <u>(158,060)</u> |
| Net Investment Income | <u>\$ 730,066</u> | <u>\$ 93,499</u> |

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 2019 and 2018. Excess insurance premiums for the years ended December 31, 2019 and 2018 were \$11,065,701 and \$10,010,939, respectively.

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 \$680,940 and \$664,778 for 2019 and 2018, 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 \$2,591,937 and \$2,686,250 for 2019 and 2018, respectively. CTSI and Anthem are considered to be related parties for purposes of these financial statements.

COUNTY HEALTH POOL
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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, 2019 and 2018.

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Claims payable, beginning of year | \$ 5,000,000 | \$ 5,000,000 |
| Provision for claims expense | | |
| Provision for covered events of the current year | 45,983,097 | 44,011,268 |
| Increase (decrease) in provision for covered events of prior years | <u>216,118</u> | <u>(229,422)</u> |
| | <u>46,199,215</u> | <u>43,781,846</u> |
| | | |
| Payments, net of excess insurance recoveries | | |
| Claims expenses attributable to covered events of the current year. | 40,733,097 | 39,011,268 |
| Claims expenses attributable to covered events of prior years | <u>5,216,118</u> | <u>4,770,578</u> |
| Total payments | <u>45,949,215</u> | <u>43,781,846</u> |
| | | |
| Claims payable, end of year | <u>\$ 5,250,000</u> | <u>\$ 5,000,000</u> |

As a result of changes in estimates of insured events in prior years, the provision for claims expense increased by \$216,118 in 2019 and decreased by \$229,422 in 2018. The increase in 2019 is due to higher than expected losses and related expenses. The decrease in 2018 is 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, 2019 and 2018 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, 2019 through March 18, 2020, 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.