

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
TABLE OF CONTENTS  
YEARS ENDED JUNE 30, 2016 AND 2015**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	
<b>BASIC FINANCIAL STATEMENTS</b>	
<b>STATEMENTS OF NET POSITION</b>	<b>7</b>
<b>STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION</b>	<b>8</b>
<b>STATEMENTS OF CASH FLOWS</b>	<b>9</b>
<b>NOTES TO FINANCIAL STATEMENTS</b>	<b>11</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
<b>SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION</b>	<b>22</b>

## INDEPENDENT AUDITORS' REPORT

Board of Directors and Members  
Arizona Public Employers Health Pool  
Phoenix, Arizona

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Arizona Public Employers Health Pool, which comprise the statements of net position as of June 30, 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.

### ***Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 Arizona Public Employers Health Pool as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages 3 through 6 and the required supplementary information on pages 21 and 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*CliftonLarsonAllen LLP*

**CliftonLarsonAllen LLP**

Phoenix, Arizona  
September 29, 2016

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015**

This section of the financial statements of Arizona Public Employers Health Pool (the Pool), presents a management's discussion and analysis of its financial performance for the fiscal years ended June 30, 2016 and 2015. Management's Discussion and Analysis (MDA) is to be read in conjunction with the basic financial statements.

**Overview of the Financial Statements**

The Pool's basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for governmental bodies and risk retention pools, as applicable. The Pool is organized as a public agency risk retention pool under the provisions of Arizona Revised Statutes (A.R.S.) Section 11-952.01. The primary purpose of the Pool is to provide life insurance, accident insurance and health benefits for public entities that qualify as members and non-member participants and join the Pool in the manner provided in the bylaws. Members and non-member participants are referred to collectively as members in the accompanying financial statements.

The basic financial statements with supplementary schedules are presented on an accrual basis of accounting. The three basic financial statements are as follows:

**Statements of Net Position**

The statements present information reflecting the assets, liabilities, and unrestricted net position as of June 30, 2016 and 2015.

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

The statements reflect the revenues and expenses during the years ended June 30, 2016 and 2015.

**Statements of Cash Flows**

The statements reflect the cash flows from operating, investing, and capital and related financing activities during the years ended June 30, 2016 and 2015.

**Financial Highlights**

The more significant highlights of 2016 as compared to 2015 are as follows:

- Cash, cash equivalents and investment securities increased \$313,911 from \$7,231,212 as of June 30, 2015 to \$7,545,123 as of June 30, 2016.
- Total assets increased \$467,902 from \$8,232,372 as of June 30, 2015 to \$8,700,274 as of June 30, 2016.
- Net position increased \$387,657 from \$4,420,565 as of June 30, 2015 to \$4,808,222 as of June 30, 2016.
- Total net revenues increased \$438,110 from \$13,347,076 for the year ended June 30, 2015 as compared to \$13,785,186 for the year ended June 30, 2016.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015**

The following tables and analysis discuss the financial position of the Pool as of June 30, 2016 and 2015 and the results achieved from the operations of the Pool for the year ended June 30, 2016 as compared to the year ended June 30, 2015, and June 30, 2015 as compared to the year ended June 30, 2014.

**Summary of Net Position**

	Years Ended June 30,		
	2016	2015	2014
Cash, Cash Equivalents and Investment Securities	\$ 7,545,123	\$ 7,231,212	\$ 7,994,825
Contributions and Reinsurance Receivables	1,070,953	957,675	875,589
All Other Assets	84,198	43,485	33,962
<b>Total Assets</b>	<b>\$ 8,700,274</b>	<b>\$ 8,232,372</b>	<b>\$ 8,904,376</b>
Reserve for Losses and Loss Expenses	\$ 2,345,149	\$ 2,255,138	\$ 3,367,795
Deferred Contributions	1,437,960	1,360,442	1,466,759
All Other Liabilities	108,943	196,227	338,694
Unrestricted Net Position	4,808,222	4,420,565	3,731,128
<b>Total Liabilities and Net Position</b>	<b>\$ 8,700,274</b>	<b>\$ 8,232,372</b>	<b>\$ 8,904,376</b>

Cash, cash equivalents, and investment securities increased by approximately \$314,000 or 4.3% as of June 30, 2016, as compared to June 30, 2015. The increase was primarily attributable to an increase in net contributions, as well as the timing of payment of claims for the year ended June 30, 2016.

Reserve for losses and loss expenses increased by approximately \$90,000 or 4.0% for the year ended June 30, 2016, compared to June 30, 2015. The increase resulted from an increase in the provision for incurred but not reported losses (IBNR) of approximately \$108,000, and an increase in the unallocated loss adjustment expense of approximately \$2,000 and a decrease of in reported claims of approximately \$20,000. Unearned contributions totaled approximately \$1,437,960 and \$1,360,442 as of June 30, 2016 and 2015, respectively.

During 2016, the increase in the provision for incurred but unreported losses was due to increased losses and expected loss experience resulting from the increase in number of lives covered and increased medical costs per life due to rising medical costs. The other liabilities decreased by approximately \$87,000.

Cash, cash equivalents, and investment securities decreased by approximately \$764,000 or 9.6% as of June 30, 2015, as compared to June 30, 2014. The decrease is primarily attributable to the timing of payment of claims for the year ended June 30, 2015, and the loss of a significant member of the Pool effective June 30, 2014.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015**

**Summary of Net Position (Continued)**

Reserve for losses and loss expenses decreased by approximately \$1,113,000 or 33.0% for the year ended June 30, 2015, compared to June 30, 2014. The decrease resulted from a decrease in reported claims of approximately \$86,000, decrease in the provision for incurred but not reported losses of approximately \$913,000 and decrease in the unallocated loss adjustment expense of approximately \$114,000. Unearned contributions totaled approximately \$1,360,442 and \$1,466,759 as of June 30, 2015 and 2014, respectively.

During 2015, the overall decrease in reserves for losses and loss expenses is due to the loss of one significant member of the Pool effective June 30, 2014, which resulted in a decrease in the number of lives covered. The other liabilities decrease by approximately \$142,000.

Net position is reported in the accompanying financial statements as unrestricted.

**Summary of Revenues and Expenses and Changes in Net Position**

	Years Ended June 30,		
	2016	2015	2014
Net Contributions	\$ 13,692,120	\$ 13,258,490	\$ 15,514,742
Other Operating Income	<u>93,066</u>	<u>88,586</u>	<u>158,525</u>
<b>Total Revenues</b>	<b><u>13,785,186</u></b>	<b><u>13,347,076</u></b>	<b><u>15,673,267</u></b>
Losses and Loss Expense	11,512,483	10,706,911	15,372,076
All Other Expenses	<u>1,885,046</u>	<u>1,950,728</u>	<u>1,852,739</u>
<b>Total Expenses</b>	<b><u>13,397,529</u></b>	<b><u>12,657,639</u></b>	<b><u>17,224,815</u></b>
<b>Change in Net Position</b>	<b><u>\$ 387,657</u></b>	<b><u>\$ 689,437</u></b>	<b><u>\$ (1,551,548)</u></b>

Net contributions increased by approximately \$434,000 or 3.3% for the year ended June 30, 2016 as compared to the year ended June 30, 2015. The increase in net contribution revenue is due to an increase in premiums due to rising medical costs, offset somewhat by an increase in the number of participants electing a high-deductible health plan.

Total expenses increased by approximately \$740,000 or 5.8% for the year ended June 30, 2016 as compared to the year ended June 30, 2015. This net increase is primarily due to the increase in losses and loss expense of approximately \$806,000 and decrease in all other expenses of \$66,000. The increase in losses and loss expense is due to medical and pharmacy costs trending up, as well as an increase in the number of large-dollar claims.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015**

**Summary of Revenues and Expenses and Changes in Net Position (Continued)**

The change in net position was approximately \$388,000 for 2016, a decrease of \$302,000 from approximately \$689,000 for 2015.

Net contributions decreased by approximately \$2,256,000 or 14.5% for the year ended June 30, 2015 as compared to the year ended June 30, 2014. The decrease in net contribution revenue is primarily due to the loss of a significant member of the Pool effective June 30, 2014.

Total expenses decreased by approximately \$4,567,000 or 26.5% for the year ended June 30, 2015 as compared to the year ended June 30, 2014. This net decrease is primarily due to the decrease in losses and loss expense of approximately \$4,665,000 and increase in all other expenses of \$98,000. The increase in losses and loss expense is primarily due to an unusually high amount of claims paid for the year ended June 30, 2014, as well as the loss of a significant member of the Pool effective June 30, 2014.

The change in net position was approximately \$689,000 for 2015, an increase of \$2,241,000 from approximately \$(1,552,000) for 2014.

**Contact Information**

The management report is to provide our members, customers, consultants and financial advisor with a general overview of the Pool's finances. If you have any questions about this report or need additional information, contact the Arizona Public Employers Health Pool at 333 East Osborn Road, Suite 300, Phoenix, Arizona 85012.



**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
STATEMENTS OF NET POSITION  
JUNE 30, 2016 AND 2015**

	2016	2015
<b>ASSETS</b>		
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 3,188,470	\$ 4,850,759
Investment Securities	4,356,653	2,380,453
Contributions Receivable	1,062,953	891,531
Reinsurance Receivables, Net	8,000	66,144
Interest and Other Receivables	36,184	11,227
Flex Benefits Paid in Excess of Contributions	452	625
Prepaid Expenses	45,987	24,386
Restricted Asset - Cash and Cash Equivalents	1,575	7,247
Total Assets	\$ 8,700,274	\$ 8,232,372
<b>LIABILITIES AND NET POSITION</b>		
<b>LIABILITIES</b>		
Reserve for Losses and Loss Expenses:		
Reported Claims	\$ 196,908	\$ 216,510
Claims Incurred but Not Reported	2,062,000	1,954,000
Unallocated Loss Adjustment Expense	86,241	84,628
Unearned Contributions	1,437,960	1,360,442
Accounts Payable and Other Accrued Expenses	106,916	188,817
Flex Savings Accounts Payable	2,027	7,410
Total Liabilities	3,892,052	3,811,807
<b>NET POSITION</b>		
Unrestricted Net Position	4,808,222	4,420,565
Total Liabilities and Net Position	\$ 8,700,274	\$ 8,232,372

See accompanying Notes to Basic Financial Statements.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>REVENUES</b>		
Contributions:		
Gross Contributions	\$ 14,586,309	\$ 14,127,618
Cost of Premiums and Excess Insurance	(894,189)	(869,128)
Net Contributions	<u>13,692,120</u>	<u>13,258,490</u>
Interest and Dividend Income, Net	108,917	132,414
Net Decrease in Fair Value of Investments	(15,851)	(43,828)
Net Investment Income	<u>93,066</u>	<u>88,586</u>
Total Revenues	<u>13,785,186</u>	<u>13,347,076</u>
<b>EXPENSES</b>		
Losses and Loss Expense	11,512,483	10,706,911
Claim Service Fees	950,920	1,011,913
Management Fees	627,000	627,000
Administrative	271,201	280,863
Advertising	35,925	30,952
Total Expenses	<u>13,397,529</u>	<u>12,657,639</u>
<b>INCREASE IN NET POSITION</b>	387,657	689,437
Net Position - Beginning of Year	<u>4,420,565</u>	<u>3,731,128</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 4,808,222</u>	<u>\$ 4,420,565</u>

See accompanying Notes to Basic Financial Statements.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions Collected from Members	\$ 14,464,763	\$ 13,904,826
Investment Income Received	106,392	137,542
Excess Insurance Premiums Paid	(836,045)	(831,888)
Losses and Loss Expenses Paid Net of Recoveries and Reinsurance	(11,422,472)	(11,819,568)
Operating Expenses Paid	(1,988,548)	(2,107,867)
Net Cash Provided (Used) by Operating Activities	324,090	(716,955)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from Sale of Investments Securities	784,293	2,391,973
Purchases of Investment Securities	(2,776,344)	(505,198)
Net Cash Provided (Used) by Investing Activities	(1,992,051)	1,886,775
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(1,667,961)	1,169,820
Cash and Cash Equivalents - Beginning of Year	4,858,006	3,688,186
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 3,190,045	\$ 4,858,006

(Continued)

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
<b>RECONCILIATION OF THE INCREASE IN NET POSITION TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Increase in Net Position	\$ 387,657	\$ 689,437
Adjustment to Reconcile Increase in Net Position to Net Cash Provided (Used) by Operating Activities:		
Change in Net Unrealized Loss on Investment Securities	40,258	94,037
Realized Gain on Investment Securities	(24,407)	(50,209)
Change in Allowance for Reinsurance Receivables	(208,874)	-
Effects of Changes in Operating Assets and Liabilities:		
Contributions Receivable	(171,422)	(119,326)
Reinsurance Receivables	267,018	37,240
Interest and Other Receivables	(24,957)	5,128
Flex Benefits Paid in Excess of Contributions	173	(178)
Prepaid Expenses	(21,601)	(11,643)
Reserve for Losses and Loss Expenses	90,011	(1,112,657)
Unearned Contributions	77,518	(106,317)
Accounts Payable and Other Accrued Expenses	(81,901)	(145,496)
Flex Savings Accounts Payable	(5,383)	3,029
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 324,090</b>	<b>\$ (716,955)</b>
<b>CASH AND CASH EQUIVALENTS - RECONCILIATION</b>		
Unrestricted		
Cash and Cash Equivalents	\$ 3,188,470	\$ 4,850,759
Restricted		
Cash and Cash Equivalents	1,575	7,247
	<b>\$ 3,190,045</b>	<b>\$ 4,858,006</b>

See accompanying Notes to Basic Financial Statements.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 1 ORGANIZATION**

**General**

Arizona Public Employers Health Pool (the Pool) was organized in the State of Arizona in June 1985 as a not-for-profit entity. The Pool is designed as a risk-retention group of certain cities, towns, public school districts, counties, and fire districts (28 members) in the State of Arizona. The Pool also has five “non-member participants” which are charter schools sponsored by the Arizona Department of Education or the Arizona State Board for Charter Schools (members and non-member participants are collectively referred to as members in the accompanying financial statements). Any excess net position of the Pool may be returned to its members in the form of dividends or reductions in future premiums. The Pool enters into contracts forming a risk retention pool as authorized by the Arizona Revised Statutes (ARS) section 11-952.01, for the payment of life, accident, and health claims on a cooperative basis. The Pool is engaged in providing life insurance, accident insurance or health benefits for public entities that qualify as members and join the Pool in the manner provided in the bylaws.

The Pool is governed by the Board of Directors, while daily operations are conducted by an administrator, Ashton Tiffany, LLC (the Administrator), in exchange for an annual fee. Services provided by the Administrator include underwriting, loss control, accounting, recordkeeping, member relations, promotion, marketing and new program development.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Accounting**

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units, specifically standards applicable to public entity risk pools. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**Use of Estimates in Preparing Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of 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. Such estimates and assumptions affect the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the entity evaluates their estimates and assumptions based upon historical experience and various other factors and circumstances. Management of the entity believes that its estimates and assumptions are reasonable in the circumstances; however, actual results may differ from these estimates under different future conditions.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

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

**Contributions**

The Pool calculates the annual contributions due from members based on their pro rata share of the anticipated liabilities and expenses of the upcoming fiscal year. A State of Arizona statute provides that in the event the Pool becomes insolvent or is unable to discharge its liabilities, members will be assessed one additional pro rata contribution for the then current fiscal year. The additional contributions are to be an amount necessary to discharge such obligations; however, the additional contributions are limited to a maximum of each member's required annual contribution for the year of assessment. If a member has withdrawn from participation in the Pool, the member will remain liable, after withdrawal, for assessments of additional contributions incurred during the period the member participated in the Pool.

Contributions for the Pool are earned on a pro rata basis over the rating period which coincides with the entity's fiscal year. Unearned contributions represent contributions received in advance of the related rating period. Contributions receivable represents contributions due from members for contributions.

**Fund Accounting**

The Pool reports in a manner consistent with a special purpose entity for their ongoing operations and activities, which are similar to those often found in the private sector as a proprietary fund. Proprietary funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The principle operating revenues of the Pool's are fees charged to members for contributions less costs for excess insurance and net investment earnings (losses). Operating expenses for the Pool include losses and loss expense, claim service fees, management fees, administrative expenses, advertising and other operating expenses.

**Cash and Cash Equivalents**

Cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of 90 days or less from the date of purchase.

The Pool has a sweep arrangement with Wells Fargo Bank, N.A. Under this arrangement, available cash balances are applied from one bank account to another on each banking business day to cover claim related disbursements.

**Investment Securities**

All investment securities are carried at estimated fair value. Fair value is estimated based on quoted market prices. In recording realized gains and losses on the sale of investment securities, cost is determined using the specific identification method.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

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

**Reserve for Losses and Loss Expense**

The Pool may experience variability in the development of its annual reserve for losses and loss expense as a result of its changing coverage terms, changing demographics, and recent growth. There is a level of uncertainty inherent in the establishment of the required losses and loss adjustment expense reserves for the Pool. Since the emergence and disposition of claims are subject to uncertainties, the net amounts that will ultimately be paid to settle the claims liability may vary significantly from the estimated amounts provided for in the accompanying financial statements. Any adjustments to reserves are reflected in the operating results in the periods in which they are made.

**Excess Insurance**

The Pool uses excess insurance to reduce exposure to losses. Excess insurance permits recovery of a portion of losses from excess insurers, although it does not discharge the primary liability of the entities as direct insurer of the risks reinsured.

Excess insurance recoverables are reported as assets and are recognized in a manner consistent with the liabilities relating to the underlying excess insurance contracts. Excess insurance premiums are recorded based on management's best estimate of the ultimate amounts to be incurred. An allowance is established based on the agings of the reinsurance receivables. At June 30, 2016 and 2015, the Pool had \$8,000 and \$275,018 in gross excess insurance receivables and an allowance of \$- and \$208,874 as of June 30, 2016, and 2015, respectively.

**Risks and Uncertainties**

The Pool invests in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

**Income Taxes**

The Pool is not subject to federal corporate income taxes; therefore, the accompanying financial statements do not include an income tax provision. The Pool is not subject to state of Arizona income taxes by state statute.

**Reclassifications**

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 basic financial statement presentation with no effect on previously reported 2015 net position or changes in net position.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 3 CASH, INVESTMENT SECURITIES, AND RESTRICTED ASSETS**

The Pool's investment policy, as approved by the Board of Directors, is to match investment maturities with cash requirements. The fair value of investment securities as of June 30, 2016 and 2015, by contractual maturity, is shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The Pool had the following investments and maturities as of June 30:

		2016				
		Investment Maturities (in Years)				
Credit-Quality Rating	Fair Value	Less Than 1	1-5	6-10	Greater Than 10	
Corporate Bonds	A1	\$ 300,450	\$ 300,450	\$ -	\$ -	\$ -
Corporate Bonds	A2	1,031,442	100,065	931,377	-	-
Corporate Bonds	A3	848,094	-	848,094	-	-
Corporate Bonds	Baa1	499,750	499,750	-	-	-
Total Corporate Bonds		<u>2,679,736</u>	<u>900,265</u>	<u>1,779,471</u>	<u>-</u>	<u>-</u>
Government Bonds	AA+	1,009,090	-	1,009,090	-	-
Preferred Stock	A	100,880	100,880	-	-	-
Mutual Funds		<u>566,947</u>	<u>566,947</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investment Securities		<u>\$ 4,356,653</u>	<u>\$ 1,568,092</u>	<u>\$ 2,788,561</u>	<u>\$ -</u>	<u>\$ -</u>
		2015				
		Investment Maturities (in Years)				
Credit-Quality Rating	Fair Value	Less Than 1	1-5	6-10	Greater Than 10	
Corporate Bonds	A2	\$ 653,365	\$ -	\$ 653,365	\$ -	\$ -
Corporate Bonds	A3	403,908	-	403,908	-	-
Corporate Bonds	Baa1	499,505	-	499,505	-	-
Total Corporate Bonds		<u>1,556,778</u>	<u>-</u>	<u>1,556,778</u>	<u>-</u>	<u>-</u>
Government Bonds	Aaa	515,000	515,000	-	-	-
Preferred Stock	AA	100,400	100,400	-	-	-
Mutual Funds		<u>208,275</u>	<u>208,275</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Investment Securities		<u>\$ 2,380,453</u>	<u>\$ 823,675</u>	<u>\$ 1,556,778</u>	<u>\$ -</u>	<u>\$ -</u>

The above credit quality ratings are based on Moody's rating system. Those investments with credit ratings of Baa1, Baa2, and Baa3 under the Moody's system have Standard & Poor credit rating of A- or better.



**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 3 CASH, INVESTMENT SECURITIES, AND RESTRICTED ASSETS (CONTINUED)**

Net realized gains on investments were \$24,407 and \$50,209 for the years ended June 30, 2016 and 2015, respectively. The calculation of realized gains is independent of the calculation of the change in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year were included as a net change in the fair value of investments reported in the prior years and the current year.

**Interest Rate Risk**

In accordance with its investment policy, the Pool manages its exposure to declines in fair value due to interest rate fluctuations by actively managing portfolio duration. Duration is the measure of the price sensitivity of a fixed income investment to a change in the interest rates.

**Credit Risk**

The Pool's investment policies mandate the quality of investments allowable for purchase. At the time of purchase, all investments met the Pool's investment policy.

**Concentration of Credit Risk**

The Pool's investment policies limit unreasonable risks inherent in over-weighting in investments. The Pool Portfolio Diversification statement directs that: investments must be limited up to 15% of Pool funds, which includes cash and cash equivalents, in bond securities of one entity; no more than \$250,000 may be invested in certificates of deposit of any one issue; and no more than 5% can be invested in stock of any one corporate entity or in any one investment fund. As of June 30, 2016 and 2015, the Pool was in compliance with its investment policies.

Investments in any one issuer that represents 5% or more of total Pool's investments, which excludes cash and cash equivalents, as of June 30, 2016, are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value</u>
Federal National Mortgage Association	Government Bonds	\$ 1,009,090
Northern Trust Company	Corporate Bonds	530,145
SunTrust Bank	Corporate Bonds	499,750
Morgan Stanley	Corporate Bonds	449,258
Wells Fargo and Company	Corporate Bonds	401,232
Goldman Sachs Group Inc.	Corporate Bonds	398,836
Bank of America North America	Corporate Bonds	300,450
RiverNorth Capital Management, LLC	Mutual Fund	219,160

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 3 CASH, INVESTMENT SECURITIES, AND RESTRICTED ASSETS (CONTINUED)**

**Concentration of Credit Risk (Continued)**

Investments in any one issuer that represents 5% or more of total Pool's investments as of June 30, 2015, are as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Fair Value</u>
Northern Trust Company	Corporate Bonds	\$ 553,300
Stanford University	Government Bonds	515,000
SunTrust Bank	Corporate Bonds	499,505
Goldman Sachs Group Inc.	Corporate Bonds	403,908
PIMCO Dynamic Income Fund	Mutual Fund	159,195

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be returned to the Pool.

At June 30, 2016, the carrying amount of the Pool's cash and cash equivalents was \$3,190,045 and the bank balance was \$3,681,272. At June 30, 2015, the carrying amount of the Pool's cash and cash equivalents was \$4,848,006 and the bank balance was \$5,396,448. The difference represents deposits in transit, outstanding checks and other reconciling items. The Pool's deposits with the bank are entirely covered by federal depository insurance or by collateral held by the Pool's fiscal agent.

**Custodial Credit Risk – Investments**

For an investment, this is the risk that, in the event of the failure of the counterparty, the Pool will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Pool utilizes a third party custodial agent for investment transactions, all of which are held in the Pool's name.

**NOTE 4 FAIR VALUE MEASUREMENTS**

In determining fair value, the Pool uses various valuation approaches within the fair value measurement framework. Fair value measurements are determined based on the assumptions that market participants would use in pricing an asset or liability.

Fair value measurements framework establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

Fair value measurements define levels within the hierarchy based on the reliability of inputs as follows:

*Level 1* – Valuations based on unadjusted quoted prices for identical assets or liabilities in active markets;

*Level 2* – Valuations based on quoted prices for similar assets or liabilities or identical assets or liabilities in less active markets, such as dealer or broker markets; and

*Level 3* – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable, such as pricing models, discounted cash flow models and similar techniques not based on market, exchange, dealer or broker-traded transactions.

The asset or liability's 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.

Following is a description of the valuation methodologies used for assets measured at fair value.

Corporate bonds listed on a national market or exchange are valued at the last sales price, or if there is no sale and the market is still considered active at the last transaction price before year-end. Such securities are classified within Level 2 of the valuation hierarchy.

Government bonds consisting of government agency debt obligations are generally valued at the most recent price of the equivalent quoted yield for such securities, or those of comparable maturity, quality and type. Debt securities are generally classified within Level 2 of the valuation hierarchy.

The Pool's investments at June 30, 2016, categorized within the fair value hierarchy detailed above were as follows:

<b>Investments by Fair Value Level</b>	Fair Value Measurements Using			
	Amount	(Level 1)	(Level 2)	(Level 3)
Equities:				
Preferred Stock	\$ 100,880	\$ 100,880	\$ -	\$ -
Mutual Fund	566,947	566,947	-	-
Debt Securities:				
Corporate Bonds	2,679,736	-	2,679,736	-
Government Bonds	1,009,090	-	1,009,090	-
Total Investments by Fair Value Level	<u>\$ 4,356,653</u>	<u>\$ 667,827</u>	<u>\$3,688,826</u>	<u>\$ -</u>

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 4 FAIR VALUE MEASUREMENTS (CONTINUED)**

The Pool's investments at June 30, 2015, categorized within the fair value hierarchy detailed above were as follows:

Investments by Fair Value Level	Fair Value Measurements Using			
	Amount	(Level 1)	(Level 2)	(Level 3)
Equities:				
Preferred Stock	\$ 100,400	\$ 100,400	\$ -	\$ -
Mutual Fund	208,275	208,275	-	-
Debt Securities:				
Corporate Bonds	1,556,778	-	1,556,778	-
Government Bonds	515,000	-	515,000	-
Total Investments by Fair Value Level	<u>\$ 2,380,453</u>	<u>\$ 308,675</u>	<u>\$2,071,778</u>	<u>\$ -</u>

**NOTE 5 RESERVES FOR LOSSES AND LOSS EXPENSES**

As discussed in Note 2, the Pool establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related loss adjustment expenses.

Changes in those aggregate liabilities for the Pool as of June 30 are as follows:

	2016	2015
Reserves for Losses and Loss Expenses - Beginning of Year	<u>\$ 2,255,138</u>	<u>\$ 3,367,795</u>
Incurring Losses and Loss Expenses:		
Provision for Insured Events of the Current Year	11,500,789	10,644,052
Provision for Insured Events of Prior Years	11,694	62,859
Total Incurred Losses and Loss Expenses	<u>11,512,483</u>	<u>10,706,911</u>
Payments:		
Losses and Loss Expenses Attributable to Insured Events of the Current Year	9,741,928	8,306,876
Losses and Loss Expenses Attributable to Insured Events of Prior Years	1,680,544	3,512,692
Total Payments	<u>11,422,472</u>	<u>11,819,568</u>
Reserves for Losses and Loss Expenses - End of Year	<u>\$ 2,345,149</u>	<u>\$ 2,255,138</u>

The reserves were determined by the Administrator, Ashton Tiffany, LLC. The Pool has engaged an independent actuary to review and evaluate the reserves calculated by the Pool's management. The actuary has provided a recommended reserve of \$2,062,000 and \$1,954,000 as of June 30, 2016 and 2015, respectively.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 5 RESERVES FOR LOSSES AND LOSS EXPENSES (CONTINUED)**

The components of the Pool's reserve for losses and loss expense as of June 30 are as follows:

	2016	2015
Reserve for Reported Losses	\$ 196,908	\$ 216,510
Reserve for Incurred but Not Reported (IBNR) Losses	2,062,000	1,954,000
Unallocated Loss Expense Adjustment	86,241	84,628
Total	<u>\$ 2,345,149</u>	<u>\$ 2,255,138</u>

**NOTE 6 RELATED PARTY TRANSACTION**

Compensation paid to the Administrator for the operation of the Pool was \$627,000 for the years ended June 30, 2016 and 2015, respectively. Amounts due to the administrator were \$574 and \$1,200 as of June 30, 2016 and 2015, respectively, and are included in accounts payable and other accrued expenses.

**NOTE 7 CONTINGENCIES**

Financial markets as a whole have incurred significant volatility over the past two years. Because the values of individual investments fluctuate with market conditions, the amount of investment losses that the Pool might recognize in future financial statements, if any, cannot be determined.

**NOTE 8 SIGNIFICANT CUSTOMERS**

The Pool received a significant portion of its contribution revenues from three members which accounted for approximately 38% of total contribution revenues for the year ended June 30, 2016. These three members accounted for approximately 54% of total contributions receivable as of and for the year ended June 30, 2016.

The Pool received a significant portion of its contribution revenues from three members for the year ended June 30, 2015. These three members accounted for approximately 38% of total contribution revenues and 49% of total contributions receivable as of and for the year ended June 30, 2015.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**NOTE 9 SUBSEQUENT EVENTS**

Management evaluated subsequent events through September 29, 2016, the date the financial statements were available to be issued. Events or transactions occurring after June 30, 2016, but prior to September 29, 2016 that provided additional evidence about conditions that existed at June 30, 2016, have been recognized in the financial statement for the year ended June 30, 2016. Events or transactions that provided evidence about conditions that did not exist at June 30, 2016, but arose before the financial statements were available to be issued have not been recognized in the financial statements for the year ended June 30, 2016.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL  
REQUIRED SUPPLEMENTARY INFORMATION  
(UNAUDITED)  
JUNE 30, 2016 AND 2015**

The following table illustrates how contributions and investment income compare to the related costs of losses and loss expenses, and other expenses for each of the last ten years for the Pool. The rows of the table are defined as follows:

- Total of each fiscal year's net contributions and investment income.
- Each fiscal year's administrative and other expenses.
- The Pool's estimated incurred losses and loss expenses attributable to insured events of the current year (both paid and accrued), as originally reported at the end of the fiscal year.
- Cumulative amount of losses and loss expenses paid as of the end of successive years.
- How each year's losses and loss expenses increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- Comparison of the latest reestimated incurred loss and loss expense amounts to the amount originally established (line 3) and whether this latest estimate is greater or less than originally thought.

As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred losses currently recognized in less mature fiscal years. The columns of the table show data as of June 30 for successive policy years.

**ARIZONA PUBLIC EMPLOYERS HEALTH POOL**  
**SCHEDULE OF TEN-YEAR CLAIMS DEVELOPMENT INFORMATION**  
**(UNAUDITED)**  
**YEARS ENDED JUNE 30,**  
**(SEE INDEPENDENT AUDITORS' REPORT)**

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1 Net Contributions and Investment Income	\$ 6,218,561	\$ 6,272,744	\$ 6,218,368	\$ 11,689,913	\$ 13,683,322	\$ 14,287,543	\$ 15,073,080	\$ 15,673,267	\$ 13,347,076	\$ 13,785,186
2 Administration and Other Expenses:										
Claim Service Fees	344,985	412,852	472,664	695,066	864,880	822,383	886,649	1,131,574	1,011,913	950,920
Management Fees	165,240	156,750	187,238	276,781	289,293	293,501	329,760	374,741	627,000	627,000
Administrative	147,548	144,113	129,725	200,797	207,002	176,159	216,987	317,004	280,863	271,201
Advertising	656	1,021	599	2,194	10,348	9,955	24,785	29,420	30,952	35,925
Other Operating Expenses (Income)	(3,203)	(2,662)	22,456	253	-	-	-	-	-	-
Total Administration and Other Expenses	655,226	712,074	812,682	1,175,091	1,371,523	1,301,998	1,458,181	1,852,739	1,950,728	1,885,046
3 Estimated Losses and Loss Expenses										
Attributable to Insured Events of the Current Year	3,583,277	4,899,516	6,173,004	10,304,526	11,408,109	12,307,713	14,592,077	15,312,190	10,644,052	11,500,789
4 Cumulative Payments as of:										
End of Policy Year	2,903,277	4,144,516	5,284,004	8,912,526	9,642,109	10,254,907	12,440,201	12,426,682	8,306,876	9,741,928
One Year Later	3,736,817	4,931,378	5,783,010	10,525,523	11,584,090	12,032,476	14,573,332	15,637,040	10,555,362	-
Two Years Later	3,740,245	4,932,540	5,787,445	10,545,059	11,586,731	12,096,075	14,566,349	15,678,068	-	-
Three Years Later	3,740,243	4,923,531	5,787,445	10,545,059	11,579,402	12,096,075	14,566,214	-	-	-
Four Years Later	3,737,057	4,923,326	5,787,164	10,541,581	11,579,402	12,095,813	-	-	-	-
Five Years Later	3,737,057	4,923,326	5,785,552	10,541,581	11,579,402	-	-	-	-	-
Six Years Later	3,737,057	4,922,326	5,785,552	10,541,581	-	-	-	-	-	-
Seven Years Later	3,737,057	4,922,326	5,785,552	-	-	-	-	-	-	-
Eight Years Later	3,737,057	4,922,326	-	-	-	-	-	-	-	-
Nine Years Later	3,737,057	-	-	-	-	-	-	-	-	-
5 Estimated Incurred Claims and Expenses										
End of Policy Year	3,583,277	4,899,516	6,173,004	10,304,526	11,408,109	12,307,713	14,592,077	15,312,190	10,644,052	11,500,789
One Year Later	3,736,817	4,931,378	5,783,010	10,525,523	11,584,090	12,071,600	14,651,963	15,699,900	10,567,056	-
Two Years Later	3,740,245	4,932,540	5,787,445	10,545,059	11,586,731	12,096,075	14,566,349	15,678,068	-	-
Three Years Later	3,740,243	4,923,531	5,787,445	10,545,059	11,579,402	12,096,075	14,566,214	-	-	-
Four Years Later	3,737,057	4,923,326	5,787,164	10,541,581	11,579,402	12,095,813	-	-	-	-
Five Years Later	3,737,057	4,923,326	5,785,552	10,541,581	11,579,402	-	-	-	-	-
Six Years Later	3,737,057	4,922,326	5,785,552	10,541,581	-	-	-	-	-	-
Seven Years Later	3,737,057	4,922,326	5,785,552	-	-	-	-	-	-	-
Eight Years Later	3,737,057	4,922,326	-	-	-	-	-	-	-	-
Nine Years Later	3,737,057	-	-	-	-	-	-	-	-	-
6 Increase (Decrease) in Estimated Losses and Loss Expenses and Reestimated Incurred Claims and Expenses	\$ 153,780	\$ 22,810	\$ (387,452)	\$ 237,055	\$ 171,293	\$ (211,900)	\$ (25,863)	\$ 365,878	\$ (76,996)	\$ -