



**Office of the Washington State Auditor**  
**Pat McCarthy**

January 22, 2018

Board of Trustees  
Association of Washington Cities Employee Benefit Trust Health Care Program  
Olympia, Washington

**Contracted CPA Firm's Audit Report on Financial Statements**

We have reviewed the audit report issued by a certified public accounting (CPA) firm on the Association of Washington Cities Employee Benefit Trust Health Care Program's financial statements for the fiscal year ended December 31, 2016.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The State Auditor's Office did not audit the accompanying financial statements and, accordingly, we do not express an opinion on those financial statements.

This report is being published on the State Auditor's Office website as a matter of public record.

Sincerely,

Pat McCarthy  
State Auditor  
Olympia, WA



*REPORT OF INDEPENDENT AUDITORS  
AND FINANCIAL STATEMENTS  
WITH REQUIRED SUPPLEMENTARY INFORMATION  
AND OTHER INFORMATION*

*FOR*

**ASSOCIATION OF WASHINGTON CITIES  
EMPLOYEE BENEFIT TRUST  
HEALTH CARE PROGRAM**

*December 31, 2016 and 2015*

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## Report of Independent Auditors

The Board of Trustees  
Association of Washington Cities Employee Benefit Trust Health Care Program

### **Report on Financial Statements**

We have audited the accompanying financial statements of the Association of Washington Cities Employee Benefit Trust Health Care Program (the "HCP"), a division of the Association of Washington Cities Employee Benefit Trust (the "Trust"), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the HCP's basic financial statements as listed in the table of contents.

### ***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 opinions 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 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 opinions.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the HCP, as of December 31, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Restriction on Use***

Our report is intended solely for the information and use of the Association of Washington Cities Employee Benefit Trust Health Care Program and Washington State and is not intended to be and should not be used by anyone other than these specified parties.

***Other Matters******Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 and risk pools information on pages 18 through 20 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.

***Supplementary and Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The List of Participating Members and Schedule of Expenses are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Tacoma, Washington  
September 28, 2017

# Association of Washington Cities Employee Benefit Trust Health Care Program Management's Discussion and Analysis

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As management of the Association of Washington Cities Employee Benefit Trust Health Care Program (the "HCP"), we offer readers of the HCP's financial statements this narrative overview and analysis of the financial activities of the HCP for the fiscal years ended December 31, 2016 and 2015. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished within the basic financial statements including the financial statement notes.

## **FINANCIAL HIGHLIGHTS:**

1. The assets of the HCP exceeded its liabilities at the close of 2016 and 2015 by \$5,855,986 and \$5,231,624, respectively (*net position*). The total amount of \$5,855,986 and \$5,231,624 (*unrestricted net position*) may be used to meet the HCP's ongoing obligations to creditors and participants.
2. As of December 31, 2016 and 2015, the actuarial estimate for claims Incurred But Not Paid (IBNP) is \$17,777,000 and \$16,819,000, respectively.

## **OVERVIEW OF THE FINANCIAL STATEMENTS:**

This discussion and analysis is intended to serve as an introduction to the Association of Washington Cities Employee Benefit Trust Health Care Program's basic financial statements. The HCP's financial statements are comprised of two components: 1) basic financial statements and 2) notes to the financial statements. This report contains other supplementary information in addition to the basic financial statements themselves.

The HCP was created pursuant to RCW 48.62 and under the provision of WAC 200-110.

## **Financial Statements**

The *Statement of Net Position* presents information on all of the HCP's assets and liabilities, with the difference between the two reported as Net Position. Over time, increases or decreases in net position may serve as a useful indicator about the health of the financial position of the HCP.

The *Statement of Revenues, Expenses and Changes in Net Position* presents information showing how the HCP's net position changed during the first fiscal year of operation as a self-insured pool. All changes in the net position are reported as soon as the underlying event giving rise to change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., claim reserves is an example).

The HCP's function is to provide health insurance to participating members. The HCP's primary source of revenues is contributions from members and its major expenses include payments on claims and payments for insurance coverage. The HCP reports as a business-type activity.

The HCP's financial statements include only the Association of Washington Cities Employee Benefit Trust Health Care Program itself. The HCP has no *component units* for which it is financially accountable.

# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Management's Discussion and Analysis

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#### **Notes to the Financial Statements**

The *Notes to the Financial Statements* provide additional information that is essential to the full understanding of the data provided in the HCP financial statements.

#### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the Association of Washington Cities Employee Benefit Trust Health Care Program's operations.

#### **HCP FINANCIAL ANALYSIS:**

##### **Net Position**

As noted earlier, net position may serve over time as a useful indicator of a HCP's financial position. In the case of the HCP, assets exceeded liabilities by \$5,855,986 and \$5,231,624 at December 31, 2016 and 2015.

By far, the largest portion of the HCP's assets reflects cash and investments (81% - \$27,359,713 of \$33,791,126 as of December 31, 2016 and 88% - \$25,815,786 of \$29,430,394 as of December 31, 2015). The HCP uses these assets to fund the claim reserves arising from claims that have been reported but not settled and claims that have been incurred but not paid (IBNP), which were estimated at \$17,777,000 and \$16,819,000 at December 31, 2016 and 2015, respectively.

##### **HCP – NET POSITION**

	12/31/2016	12/31/2015
Current Assets	\$ 33,791,126	\$ 29,430,394
Total Assets	<u>33,791,126</u>	<u>29,430,394</u>
Current Liabilities	27,935,140	24,198,770
Total Liabilities	<u>27,935,140</u>	<u>24,198,770</u>
Unrestricted	5,855,986	5,231,624
Net Position	<u>5,855,986</u>	<u>5,231,624</u>
Total Net Position and Liabilities	<u>\$ 33,791,126</u>	<u>\$ 29,430,394</u>

The unrestricted net position, totaling \$5,855,986 and \$5,231,624 as of December 31, 2016 and 2015, respectively, may be used to meet the HCP's ongoing obligations to creditors.

##### **Changes in Net Position**

The HCP net position increased \$624,362 and \$3,711,456 in 2016 and 2015, respectively. The key element of this increase may be attributed to claim activity being slightly lower than originally projected for fiscal year 2016 and 2015.

# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Management's Discussion and Analysis

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#### HCP – CHANGES IN NET POSITION

	2016 ACTIVITIES	2015 ACTIVITIES
Operating Revenues		
Member Contributions	\$ 207,177,481	\$ 211,349,143
Total Operating Revenues	<u>207,177,481</u>	<u>211,349,143</u>
Operating Expenses		
Claims expense	190,656,460	191,896,984
Administrative services only fees	10,386,866	10,321,389
Reinsurance and stop loss premiums and fees	1,362,396	1,710,111
Administrative expenses	4,330,808	3,888,226
Total Operating Expenses	<u>206,736,530</u>	<u>207,816,710</u>
Non-Operating Revenues		
Investment income	183,411	179,023
Total Non-Operating Revenues	<u>183,411</u>	<u>179,023</u>
Income	<u>624,362</u>	<u>3,711,456</u>
Change in Net Position	<u>\$ 624,362</u>	<u>\$ 3,711,456</u>

#### ***ECONOMIC FACTORS IMPACTING THE HCP:***

The HCP's assets are invested in a diversified portfolio that is professionally managed. The portfolio is heavily weighted in low duration U.S. Treasury and Agency securities that are sensitive to changes in interest rates. Consequently, a change in interest rates will impact unrealized gains/losses on these classes of assets. In spite of the inherent uncertainty in the interest rate environment, the HCP maintains unrestricted net position sufficient to withstand the decline in interest rates.

#### ***REQUESTS FOR INFORMATION:***

This financial report is designed to provide a general overview of the Association of Washington Cities Employee Benefit Trust Health Care Program's finances for all those with an interest in the HCP. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Association of Washington Cities  
Employee Benefit Trust  
Health Care Program  
Carol Wilmes  
Director, Member Pooling Programs  
1076 Franklin Street SE  
Olympia, Washington 98501-1346



**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Statements of Net Position**

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	December 31,	
	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,297,694	\$ 6,773,141
Investments, at fair value	19,000,498	19,000,087
Receivables		
Due from Association of Washington Cities Employee Benefit Trust	4,725,144	3,221,785
Prescription drug rebate receivable	917,880	392,823
Member contributions receivable	788,389	-
Accrued interest	61,521	42,558
Total assets	33,791,126	29,430,394
<b>LIABILITIES</b>		
Accounts payable for administrative expenses	427,173	625,857
Accounts payable for transitional reinsurance fee	647,461	1,082,525
Accounts payable for administrative services only fees	142,267	147,459
Accounts payable claims	7,364,392	5,129,396
Incurred but not paid	17,777,000	16,819,000
Unearned revenue	1,576,847	394,533
Total liabilities	27,935,140	24,198,770
<b>NET POSITION HELD IN HCP FOR PLAN BENEFITS</b>	<b>\$ 5,855,986</b>	<b>\$ 5,231,624</b>

**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Statements of Revenues, Expenses, and Changes in Net Position**

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	Year Ended December 31,	
	2016	2015
OPERATING REVENUES		
Contributions		
Member contributions	\$ 207,177,481	\$ 211,349,143
TOTAL OPERATING REVENUES	207,177,481	211,349,143
OPERATING EXPENSES:		
Claims expense	190,656,460	191,896,984
Administrative services only fees	10,386,866	10,321,389
Reinsurance and stop loss premiums and fees	1,362,396	1,710,111
Administrative expenses	4,330,808	3,888,226
TOTAL OPERATING EXPENSES	206,736,530	207,816,710
OPERATING INCOME	440,951	3,532,433
NONOPERATING REVENUES		
Investment income	183,411	179,023
TOTAL NONOPERATING REVENUES	183,411	179,023
CHANGE IN NET POSITION	624,362	3,711,456
NET POSITION HELD IN HCP FOR PLAN BENEFITS		
Beginning of year	5,231,624	1,520,168
End of year	\$ 5,855,986	\$ 5,231,624

**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Statements of Cash Flows**

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	Year Ended December 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from members	\$ 207,571,406	\$ 211,011,330
Cash payments for claims	(187,463,464)	(189,411,985)
Cash payments for administrative service only fees	(10,392,058)	(10,312,496)
Cash payments for reinsurance and stop loss premiums and fees	(1,797,460)	(2,150,233)
Cash payments for operating expenses	(5,054,549)	(4,244,841)
Net cash flows from operating activities	<u>2,863,875</u>	<u>4,891,775</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in due to/from the Trust	<u>(1,503,359)</u>	<u>(11,442,530)</u>
Net cash flows from financing activities	<u>(1,503,359)</u>	<u>(11,442,530)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of investments	(17,000,411)	(29,000,000)
Sale of investments	17,000,000	38,246,677
Interest income	<u>164,448</u>	<u>219,098</u>
Net cash flows from investing activities	<u>164,037</u>	<u>9,465,775</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	1,524,553	2,915,020
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>6,773,141</u>	<u>3,858,121</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u><u>\$ 8,297,694</u></u>	<u><u>\$ 6,773,141</u></u>

**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Statements of Cash Flows (Continued)**

	Year Ended December 31,	
	2016	2015
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 440,951	\$ 3,532,433
Adjustments to reconcile operating income to net cash flows from operating activities		
Increase in prescription drug rebate receivable	(525,057)	(392,823)
Increase in member contribution receivable	(788,389)	-
Increase in claims payable	2,234,996	1,354,999
Decrease in transitional reinsurance fee payable	(435,064)	(440,122)
Increase (decrease) in administrative fees only payable	(5,192)	8,893
Increase (decrease) in accounts payable for expenses	(198,684)	36,208
Increase (decrease) in unearned revenue	1,182,314	(337,813)
Increase in incurred but not paid (IBNP)	958,000	1,130,000
Net cash flows from operating activities	<u>\$ 2,863,875</u>	<u>\$ 4,891,775</u>

# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Notes to Financial Statements

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#### **Note 1 – Description of the Health Care Program and Summary of Significant Accounting Policies**

**Description of the Health Care Program** – The Association of Washington Cities Employee Benefit Trust Health Care Program (the “HCP”) is a local government risk sharing pool formed to provide health insurance coverage to participating members of the HCP and is a division of Association of Washington Cities Employee Benefit Trust (the “Trust”). The members are made up of cities, towns and other local governmental entities throughout the State of Washington. The self-insured HCP was formed January 1, 2014, pursuant to RCW 48.62.031, 36.16.138 and 39.34.

The HCP's general objectives are to provide quality benefit programs to its members in an efficient and cost-effective manner through timely information, technical assistance, member education and advocacy. As of December 31, 2016 and 2015, 258 members participated in the HCP.

The HCP provides medical, dental and vision coverage up to the stop loss limit of \$1,500,000 per individual for Regence BlueShield members and \$750,000 per individual for Kaiser Permanente members.

The HCP financial statements include only the Association of Washington Cities Employee Benefit Trust Health Insurance Program itself. The HCP has no other *component units* for which it is responsible.

**Basis of accounting** – The accounting records of the HCP are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of RCW Chapter 43.09. The HCP also follows the accounting standards established by Statement No 10 of the Governmental Accounting Standards Board (GASB), *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, as amended by the GASB Statement 30, *Risk Financing Omnibus*, the GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*.

The HCP uses the full accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred. Long-term liabilities are accounted for within the financial statements.

**Use of estimates** – The preparation of financial statements in conformity with principles generally accepted in the United States of America requires the HCP administrator to make estimates and assumptions that affect certain amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

**Investment valuation** – Investments in U.S. government securities are measured at the closing price on the last day of trading reported by the principal exchange on which the investment is traded.

**Income recognition** – Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date. Interest income is recorded on the accrual basis. The net appreciation in fair value of investments consists of both the realized gains or losses and unrealized appreciation and depreciation of those investments.

# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Notes to Financial Statements

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#### Note 1 – Description of the Health Care Program and Summary of Significant Accounting Policies (continued)

**Cash and cash equivalents** – The HCP considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

The Federal Deposit Insurance Corporation (“FDIC”) provides coverage of at least \$250,000 per depositor under the FDIC’s general deposit insurance rules. Custodial risk for deposits is the risk that in the event of the failure of a depository financial institution, the HCP will not be able to recover deposits. The HCP does not have a deposit policy for custodial credit risk. As of December 31, 2016 and 2015, respectively, \$6,380,601 and \$6,027,800 of the HCP’s bank balances were exposed to custodial credit risk.

**Unpaid claims liabilities** – The HCP establishes claims liabilities based on estimates of the ultimate cost of claims, including future claim adjustment expenses, that have been reported but not settled, and claims that have been incurred but not paid (IBNP). The IBNP has been calculated using actuarial standard methodology and have been fully reserved as shown on the Statement of Net Position.

Actual claims cost depend on such complex factors as inflation, plan utilization by members, medical trend, changes in doctrines of legal liability, and damage awards. Therefore, the process used in computing claims liabilities does not result in an exact amount.

Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

**Stop loss insurance** – The HCP purchases stop loss for medical coverage to reduce its exposure to large medical claims on all types of insured events. Stop loss insurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the HCP as direct insurer of the risks reinsured. The HCP does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. The individual and aggregate stop loss limits are negotiated annually based on the size of the group.

The following shows the stop loss policies in effect during the 2016 and 2015 policy years:

Insurance Company	Type of Coverage	Individual Deductible	Aggregate
Life Map	Regence Blueshield Excess Loss, Medical, Vision, RX	\$ 1,500,000	200% of expected claims
Sun Life Assurance	Kaiser Permanente Excess Loss, Medical, RX	\$ 750,000	200% of expected claims

# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Notes to Financial Statements

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#### **Note 1 – Description of the Health Care Program and Summary of Significant Accounting Policies (continued)**

**Member contributions** – Member contributions are set annually and are effective January 1 of each plan year. Contributions include medical, dental and vision coverage. Member contributions are received monthly by each member based upon the number of eligible employees and their dependents. In addition, eligible retired employees are offered medical and dental coverage through the HCP.

**Unearned revenue** - Unearned revenue on the statement of net position consists of contributions received in the current year that are related to coverage during the year ended December 31, 2017 and 2016.

**Member contributions receivable** – Member contributions receivable on the statement of net position consists of contributions for coverage for the current year, but were not received until subsequent to year end.

**Unpaid claims** – Claims are charged to income as incurred. Claim reserves represent the accumulation of estimates for reported unpaid claims plus a provision for claims incurred, but not paid (IBNP). These estimates are continually reviewed and updated, and any resulting adjustments are reflected in current earnings.

**Reserve for unallocated claims adjustment expenses** – The IBNP estimate incorporates a reserve for unallocated claims adjustment expenses representing two adjustments: 1) a claim fluctuation margin, to address the likelihood that the claim liability estimate (IBNP) is sufficient under moderately adverse conditions; and 2) an expense load to reflect administrative fees expected upon payment of outstanding claims. The claim fluctuation margin used is 5%. The expense load for Regence is estimated at 10% of the IBNP liability, and for Kaiser Permanente it is estimated as three months of administrative costs. Management estimates this liability at the end of the year based upon estimated costs provided in the year end actuarial report. The change in the liability each year is charged or credited to unallocated claims adjustment expenses in the current year.

**Operating revenues and expenses** – The HCP includes contributions from members as operating revenues. Operating expenses are defined as those expenses necessary for performing the HCP's mission and include claim costs, stop loss insurance, reinsurance fees and general and administrative expenses.

**Non-operating revenues** – Non-operating revenues include revenues derived from investment decisions and include interest income.

**Retirement and pension disclosure** – There are no employees of the HCP. Individuals that perform services for the HCP are employees of the Association of Washington Cities. For this reason, no disclosure for retirement or pension obligation is made in these statements.

# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Notes to Financial Statements

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#### Note 1 – Description of the Health Care Program and Summary of Significant Accounting Policies (continued)

**Exemption from federal and state taxes** – Pursuant to Revenue Ruling 90-74, income of municipal risk pools is excluded from gross income under IRC SEC 1 15(1). Accordingly, no federal income taxes are provided for in the financial statements.

Chapter 48.62 RCW exempts the HCP from insurance premium taxes, and business and occupation taxes imposed pursuant to Chapter 82.04 RCW.

**New accounting pronouncements** - In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 is intended to address accounting and financial reporting issues related to fair value measurements. The definition of fair value is 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. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This guidance is effective for the HCP in the year ended December 31, 2016. The HCP has adopted this standard in the December 31, 2016 financial statements.

#### Note 2 – Deposits and Investments

**Deposits** – The HCP deposits were held in a money market account under an Investment Manager and Custodian Agreement with a major national bank as of December 31, 2016 and 2015.

**Investments** – As permitted by state law, investments of the HCP's funds are in U.S. Treasuries and Agency securities as allowed by Chapter 39.59 RCW. All deposits are insured and registered or held by the HCP or its agent in the HCP's name.

The following table discloses by level, the fair value hierarchy, of the Plan's assets at fair value as of December 31, 2016 and 2015:

Fair Value Measurement at December 31, 2016				
	Level 1	Level 2	Level 3	Total
U.S. Treasury & Agency Securities	\$ -	\$ 19,000,498	\$ -	\$ 19,000,498
Total assets at fair value	<u>\$ -</u>	<u>\$ 19,000,498</u>	<u>\$ -</u>	<u>\$ 19,000,498</u>
Fair Value Measurement at December 31, 2015				
	Level 1	Level 2	Level 3	Total
U.S. Treasury & Agency Securities	\$ -	\$ 19,000,087	\$ -	\$ 19,000,087
Total assets at fair value	<u>\$ -</u>	<u>\$ 19,000,087</u>	<u>\$ -</u>	<u>\$ 19,000,087</u>



# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Notes to Financial Statements

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#### Note 2 – Deposits and Investments (continued)

As of December 31, 2016, the HCP had the following investments:

Investments	Maturities	Face Values December 31, 2016	Fair Values December 31, 2016
FED FARM CREDIT BK	1/7/2019	\$2,000,000	\$2,163,198
FED HOME LN MTG CORP	11/24/2017	\$2,000,000	\$1,998,140
FED HOME LN MTG CORP	7/27/2018	\$2,000,000	\$1,986,300
FED HOME LN BK	7/11/2019	\$2,000,000	\$1,972,480
FED HOME LN MTG CORP	6/29/2018	\$1,000,000	\$998,420
FED HOME LN MTG CORP	7/27/2018	\$1,000,000	\$996,690
FED HOME LN MTG CORP	3/30/2018	\$1,000,000	\$995,680
FED HOME LN MTG CORP	8/24/2018	\$1,000,000	\$994,410
FED HOME LN MTG CORP	4/26/2019	\$1,000,000	\$992,870
FED NATL MTG ASSN	11/26/2019	\$1,000,000	\$990,980
FED NATL MTG ASSN	9/30/2019	\$1,000,000	\$989,100
FED NATL MTG ASSN	11/25/2019	\$1,000,000	\$988,020
FED NATL MTG ASSN	2/25/2021	\$1,000,000	\$987,160
FED HOME LN MTG CORP	11/25/2020	\$1,000,000	\$981,900
FED HOME LN MTG CORP	8/25/2021	\$1,000,000	\$965,150

As of December 31, 2015, the HCP had the following investments:

Investments	Maturities	Face Values December 31, 2015	Fair Values December 31, 2015
FED FARM CREDIT BK	1/2/2018	\$2,000,000	\$2,098,357
FED HOME LN MTG CORP	11/24/2017	\$2,000,000	\$1,989,380
FED HOME LN MTG CORP	7/27/2018	\$2,000,000	\$1,981,960
FED NATL MTG ASSN	3/29/2019	\$1,000,000	\$1,000,740
FED HOME LN MTG CORP	11/25/2020	\$1,000,000	\$1,000,150
FED HOME LN MTG CORP	11/21/2018	\$1,000,000	\$997,190
FED HOME LN MTG CORP	8/24/2018	\$1,000,000	\$996,500
FED HOME LN MTG CORP	3/30/2018	\$1,000,000	\$995,880
FED HOME LN MTG CORP	11/25/2019	\$1,000,000	\$995,620
FED HOME LN MTG CORP	1/19/2018	\$1,000,000	\$995,530
FED FARM CREDIT BK	4/20/2020	\$1,000,000	\$993,920
FED HOME LN MTG CORP	11/25/2020	\$1,000,000	\$992,800
FED HOME LN MTG CORP	4/27/2018	\$1,000,000	\$991,400
FED HOME LN MTG CORP	3/30/2018	\$1,000,000	\$990,590
FED HOME LN MTG CORP	8/24/2018	\$1,000,000	\$990,260
FED HOME LN MTG CORP	4/29/2019	\$1,000,000	\$989,810

Investment securities are exposed to various risks that can affect the value of the HCP's investments such as custodial credit risk, interest rate risk, credit risk, concentration risk, and foreign currency risk. The HCP invests in U.S. government agency securities. Holdings in debt securities are particularly sensitive to credit risk and change in interest rates.

**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Notes to Financial Statements**

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**Note 2 – Deposits and Investments (continued)**

**Custodial credit risk** – This is the risk that in event of a failure of the counterparty to an investment transaction, the HCP would not be able to recover the value of the investment or collateral securities. As the HCP's total position of \$19,000,498 and \$19,000,087 in debt securities and obligations of the U.S. Treasury is held at the Federal Reserve as of December 31, 2016 and 2015, respectively, there is limited exposure to custodial credit risk.

**Interest rate risk** – Interest rate risk arises from the likelihood that interest rates will rise or fall during the holding period of a fixed rate security and adversely affect the selling price of the security prior to maturity. The price of a debt security typically moves in the opposite direction of the change in interest rates.

**Credit risk** – The HCP conforms with the State law which restricts investment of public funds to debt securities of the U.S. Treasury, U.S. Government agencies, and certain other U.S. Government sponsored corporations, certificates of deposit, and other evidences of deposit at financial institutions qualified by the Washington Public Deposit Protection Commission (PDPC), and other investments allowed by Chapter 39.59 RCW.

**Concentration of credit risk** – The HCP's investment makeup at December 31, 2016 and 2015 conformed with State law related to investment of public funds, as all investments were restricted to debt securities and obligation of the U.S. Treasury.

**Note 3 – Risk Financial Limits**

The following table reflects the risk financing limits on coverage policies issued and retained by the HCP at December 31, 2016 and 2015:

Type of Coverage	Deductible	Self-Insured Retention	Excess Limits
Fiduciary Liability	\$ 1,000	\$ -	\$ 5,000,000
Fiduciary Dishonesty	\$ -	\$ -	\$ 5,000,000
Cyber Liability	\$ 50,000	\$ -	\$ 2,000,000

**Note 4 – Members' Supplemental Contributions**

The interlocal governmental agreement does not provide for supplemental contributions and credits to members based on actual claim experience.

# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Notes to Financial Statements

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#### Note 5 – Adequacy of Liability for Claims and Claims Adjustment Expense

Management has established the liability for claims and claims adjustment expense based on an actuarial review, its own claims data and, for the purpose of incurred but not paid claims, the experience of other entities providing similar insurance coverage as it applies to the HCP's data. Management believes the estimate of this liability is reasonable.

#### Note 6 – Related Party Transactions

An affiliated organization, the Association of Washington Cities (AWC), owns the offices occupied by the HCP, employs the HCP's personnel, and performs various administrative services for the HCP. The HCP is billed monthly for the costs of these services and has reimbursed the Association of Washington Cities for the following expenses:

	Year Ended December 31,	
	2016	2015
Administrative	\$ 2,189,388	\$ 2,008,080
Personnel Costs	927,676	835,723
Member Education and Training	65,880	24,012
Staff Travel	34,417	22,253
Postage	28,754	21,988
E&O and Cyber Liability Insurance	24,071	23,052
Communications and Marketing	22,912	15,073
Board and Committee Expense	18,368	29,246
State Risk Manager Expense	11,654	-
Publication and Dues	11,242	10,557
Other	729	28
Total	<u>\$ 3,335,091</u>	<u>\$ 2,990,012</u>

Services payable to AWC were \$318,222 and \$525,035 at December 31, 2016 and 2015, respectively.

During 2016 and 2015, there were no loans to or from the HCP to any Board member or member entity.

The HCP is a division of the Trust and shares a bank account for receipt of member contributions and payment of operational expenses for the convenience of the common membership of both the HCP and the Trust. As of December 31, 2016 the Trust owed the HCP \$4,725,144 and as of December 31, 2015, the HCP owed the Trust \$3,221,785 for these routine transactions.

# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Notes to Financial Statements

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#### Note 7 – Unpaid Claims Liability

As discussed in Note 1, the HCP establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of claims and related claims adjustments expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the HCP:

	Year Ended December 31,	
	2016	2015
Unpaid claims and claim adjustment expenses at beginning of year	\$ 21,948,396	\$ 19,463,397
Incurred claims and claim adjustment expenses		
Provision for insured events of the current year	190,656,460	191,896,984
Increases in provision for uninsured events of prior years	-	-
Total incurred claims and claim adjustment expenses	212,604,856	211,360,381
Payments for claims and claims adjustment expenses		
Attributable to insured events of the current year	(165,515,068)	(169,948,588)
Attributable to insured events of prior years	(21,948,396)	(19,463,397)
Total payments	(187,463,464)	(189,411,985)
Total unpaid claims and claim adjustment expenses at the end of the year	25,141,392	21,948,396
Unallocated loss adjustment expense/claims reserve at the end of the year	-	-
Total claims reserves at the end of the year	\$ 25,141,392	\$ 21,948,396

#### Note 8 – Washington Administrative Code (WAC) 200-110

Washington Administrative Code (WAC) 200-110-040 requires all joint health and welfare programs self-insuring medical, dental, vision, or prescription drug benefit programs or any combination of programs to establish program reserves in amount not less than eight weeks of program expenses for each program offered.

In lieu of the eight-week requirement, programs must obtain an independent actuarial study and fund to the actuarially determined program liability. As of December 31, 2016 and 2015, the actuarially determined amount for the Incurred But Not Paid (IBNP) is \$17,777,000 and \$16,819,000, respectively.

## **Required Supplementary Information**

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# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Required Supplementary Information

#### Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in the claims liabilities for 2016 for the HCP's three types of contracts: medical, dental, and vision health care benefits.

	Medical 2016	Dental 2016	Vision 2016	Total
Unpaid claims and claim adjustment expenses at beginning of year	\$ 20,944,157	\$ 667,869	\$ 336,370	\$ 21,948,396
Incurring claims and claim adjustment expenses:				
Provision for insured events of the current year	175,610,497	12,953,820	2,092,143	190,656,460
Increases in provision for uninsured events of prior years	-	-	-	-
Total incurred claims and claim adjustment expenses	196,554,654	13,621,689	2,428,513	212,604,856
Payments for claims and claims adjustment expenses:				
Attributable to insured events of the current year	(151,617,406)	(12,142,361)	(1,755,301)	(165,515,068)
Attributable to insured events of prior years	(20,944,157)	(667,869)	(336,370)	(21,948,396)
Total payments	(172,561,563)	(12,810,230)	(2,091,671)	(187,463,464)
Total unpaid claims and claim adjustment expenses at the end of the year	\$ 23,993,091	\$ 811,459	\$ 336,842	\$ 25,141,392

The schedule below presents the changes in the claims liabilities for 2015 for the HCP's three types of contracts: medical, dental, and vision health care benefits.

	Medical 2015	Dental 2015	Vision 2015	Total
Unpaid claims and claim adjustment expenses at beginning of year	\$ 18,373,441	\$ 745,659	\$ 344,297	\$ 19,463,397
Incurring claims and claim adjustment expenses:				
Provision for insured events of the current year	177,079,772	12,693,106	2,124,106	191,896,984
Increases in provision for uninsured events of prior years	-	-	-	-
Total incurred claims and claim adjustment expenses	195,453,213	13,438,765	2,468,403	211,360,381
Payments for claims and claims adjustment expenses:				
Attributable to insured events of the current year	(156,135,615)	(12,025,237)	(1,787,736)	(169,948,588)
Attributable to insured events of prior years	(18,373,441)	(745,659)	(344,297)	(19,463,397)
Total payments	(174,509,056)	(12,770,896)	(2,132,033)	(189,411,985)
Total unpaid claims and claim adjustment expenses at the end of the year	\$ 20,944,157	\$ 667,869	\$ 336,370	\$ 21,948,396

# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Required Supplementary Information

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This required supplementary information is an integral part of the accompanying financial statements.

#### 1. Ten-Year Claims Development Information

The following table illustrates how the HCP's earned revenues (net of reinsurance) and investment income compare to related costs of claims (net of amount assumed by reinsurers) and other expenses assumed by the HCP as of the end of the last ten years. Since this is the first year for self-funding, the information within this table is limited to one year. The rows of the table are defined as follows:

- a. This line shows the total of each fiscal year gross earned contribution revenue and investment revenue, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
- b. This line shows each year's other operating costs of the HCP including overhead and claims expense not allocable to individual claims.
- c. This line shows the HCP's gross incurred claims and allocated claim adjustment expenses, claims assumed by reinsurers, and net incurred claims and allocated adjustment expenses (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- d. This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
- e. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each claim year.
- f. This section of ten rows shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known.)
- g. This line compares the latest re-estimated net incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years matures, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of net incurred claims currently recognized in less mature policy years. The columns of the table show data for successive policy years.

# Association of Washington Cities Employee Benefit Trust

## Health Care Program

### Required Supplementary Information

ASSOCIATION OF WASHINGTON CITIES EMPLOYEE BENEFIT TRUST											
HEALTH CARE PROGRAM											
	Medical Program - Policy Years Ended (in Thousands of Dollars)										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	
1. Required contribution and investment revenue:											
Earned	-	-	-	-	-	-	-	200,520	211,528	207,361	
Ceded	-	-	-	-	-	-	-	465	577	661	
Net Earned	-	-	-	-	-	-	-	200,055	210,951	206,700	
2. Unallocated expenses	-	-	-	-	-	-	-	15,124	15,343	15,419	
3. Estimated claims and expenses, end of policy year:											
Earned	-	-	-	-	-	-	-	183,521	191,395	191,874	
Ceded	-	-	-	-	-	-	-	610	-	-	
Net Earned	-	-	-	-	-	-	-	182,911	191,395	191,874	
4. Net paid (cumulative) as											
End of policy year	-	-	-	-	-	-	-	167,722	177,420	177,343	
One year later	-	-	-	-	-	-	-	182,333	191,149		
Two years later	-	-	-	-	-	-	-	182,246			
Three years later	-	-	-	-	-	-	-				
Four years later	-	-	-	-	-	-	-				
Five years later	-	-	-	-	-	-	-				
Six years later	-	-	-	-	-	-	-				
Seven years later	-	-	-	-	-	-	-				
Eight years later	-	-	-	-	-	-	-				
Nine years later	-	-	-	-	-	-	-				
5. Reestimated ceded claims and expenses	-	-	-	-	-	-	-	610	-	-	
6. Reestimated net incurred claims and expenses											
End of policy year	-	-	-	-	-	-	-	182,911	191,395	191,874	
One year later	-	-	-	-	-	-	-	181,728	190,890		
Two years later	-	-	-	-	-	-	-	181,636			
Three years later	-	-	-	-	-	-	-				
Four years later	-	-	-	-	-	-	-				
Five years later	-	-	-	-	-	-	-				
Six years later	-	-	-	-	-	-	-				
Seven years later	-	-	-	-	-	-	-				
Eight years later	-	-	-	-	-	-	-				
Nine years later	-	-	-	-	-	-	-				
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	-	-	-	-	-	-	-	(1,275)	(505)	-	



## **Supplementary and Other Information**

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**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Supplementary and Other Information**

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**List of Participating Members**

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City of Aberdeen  
Adams County Mosquito Control District  
City of Airway Heights  
Town of Albion  
City of Algona  
Town of Almira  
City of Anacortes  
City of Arlington  
City of Asotin  
City of Auburn  
City of Bainbridge Island  
City of Battle Ground  
Town of Beaux Arts Village  
City of Bellingham  
Benton Clean Air Agency  
Benton County Mosquito Control District  
Benton-Franklin Council of Governments  
City of Bingen  
City of Black Diamond  
City of Blaine  
City of Bonney Lake  
City of Bothell  
City of Bremerton  
City of Bridgeport  
City of Brier  
City of Buckley  
Town of Bucoda  
City of Burien  
City of Burlington  
City of Camas  
Town of Carbonado  
City of Castle Rock  
Town of Cathlamet  
City of Centralia  
City of Chehalis  
City of Chelan  
City of Cheney  
City of Chewelah  
City of Clarkston  
City of Cle Elum  
City of Clyde Hill  
City of Colfax  
City of College Place  
Town of Colton  
Columbia County Public Transportation

**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Supplementary and Other Information**

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**List of Participating Members (continued)**

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City of Colville  
Town of Conconully  
Town of Concrete  
City of Connell  
City of Cosmopolis  
Town of Coulee City  
Town of Coulee Dam  
Town of Coupeville  
City of Covington  
Town of Creston  
Town of Cusick  
Town of Darrington  
City of Davenport  
City of Dayton  
City of Deer Park  
City of Des Moines  
City of DuPont  
City of Duvall  
City of East Wenatchee  
Town of Eatonville  
City of Edgewood  
City of Edmonds  
City of Electric City  
City of Elma  
Town of Elmer City  
Town of Endicott  
City of Entiat  
City of Enumclaw  
Town of Fairfield  
City of Federal Way  
City of Ferndale  
City of Fife  
City of Fircrest  
City of Forks  
Town of Friday Harbor  
Town of Garfield  
City of George  
City of Gig Harbor  
City of Gold Bar  
City of Goldendale  
City of Grandview  
Town of Hamilton  
Town of Harrah  
City of Harrington  
City of Hoquiam

**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Supplementary and Other Information**

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**List of Participating Members (continued)**

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Housing Authority of Pasco & Franklin County

City of Ilwaco

Town of Index

Town of Ione

I-COM 9-1-1

City of Issaquah

City of Kelso

City of Kenmore

City of Kennewick

City of Kettle Falls

Kitsap Regional Library

Kitsap Transit

City of La Center

Town of La Conner

City of Lacey

Lacey Fire District #3

Town of LaCrosse

City of Lake Forest Park

City of Lake Stevens

City of Lakewood

City of Langley

City of Liberty Lake

Town of Lind

City of Long Beach

City of Longview

LOTT Clean Water Alliance

Town of Lyman

City of Lynden

City of Lynnwood

City of Maple Valley

City of Marysville

Mason County Emergency Communications

Mason Transit Authority

City of McCleary

City of Medical Lake

City of Medina

City of Mercer Island

City of Mesa

Town of Metaline Falls

City of Mill Creek

City of Millwood

City of Milton

City of Monroe

City of Montesano

City of Morton

**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Supplementary and Other Information**

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**List of Participating Members (continued)**

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City of Moses Lake  
City of Mount Vernon  
City of Mountlake Terrace  
City of Moxee  
City of Mukilteo  
Mukilteo Water & Wastewater District  
City of Napavine  
NORCOM 911  
Town of Nespelem  
City of Newcastle  
City of Newport  
City of Nooksack  
City of Normandy Park  
City of North Bend  
City of North Bonneville  
Town of Northport  
Northwest Clean Air Agency  
City of Oak Harbor  
Town of Oakesdale  
City of Oakville  
City of Ocean Shores  
Town of Odessa  
City of Okanogan  
Okanogan County Transit Authority (TranGo)  
City of Olympia  
Olympic Region Clean Air Agency (ORCAA)  
City of Omak  
City of Oroville  
City of Orting  
City of Pacific  
City of Palouse  
City of Pateros  
Town of Pe Ell  
Pierce County Library System  
City of Pomeroy  
City of Port Angeles  
Port of Seattle  
City of Port Orchard  
City of Port Townsend  
City of Prosser  
City of Pullman  
City of Rainier  
City of Raymond  
Town of Reardan  
City of Republic

**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Supplementary and Other Information**

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**List of Participating Members (continued)**

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City of Ritzville  
RiverCom 911  
Town of Riverside  
Riverside Fire Authority  
City of Rock Island  
City of Roslyn  
City of Roy  
City of Ruston  
City of Sammamish  
City of SeaTac  
Seattle Southside Regional Tourism Authority  
City of Sedro-Woolley  
City of Sequim  
City of Shelton  
City of Shoreline  
Skagit Council of Governments  
Skagit Transit  
Town of Skykomish  
SNOCOM 9-1-1  
City of Snohomish  
City of Snoqualmie  
City of Soap Lake  
City of South Bend  
Town of South Cle Elum  
South Sound 911  
Town of Spangle  
Spokane County Library District  
City of Spokane Valley  
City of Sprague  
Town of St. John  
City of Stanwood  
Town of Steilacoom  
City of Stevenson  
City of Sultan  
City of Sumas  
City of Sumner  
Sunnyside Housing Authority  
Tacoma-Pierce County Health Department  
City of Tekoa  
City of Tenino  
Thurston 9-1-1 Communications (TCOMM)  
City of Tieton  
Timberland Regional Library  
City of Toledo  
City of Tonasket

**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Supplementary and Other Information**

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**List of Participating Members (continued)**

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City of Toppenish  
City of Tumwater  
Town of Twisp  
City of Union Gap  
City of University Place  
Valley Communications Center  
Valley Regional Fire Authority  
Valley View Sewer District  
Valley Water District  
Washington State Convention Center  
City of Waitsburg  
City of Walla Walla  
Walla Walla Valley MPO/SRTPO  
City of Wapato  
City of Warden  
Washington Cities Insurance Authority  
City of Washougal  
Town of Waterville  
City of Wenatchee  
City of West Richland  
Whatcom Council of Governments  
Whatcom Transportation Authority  
City of White Salmon  
Town of Wilbur  
Town of Winthrop  
City of Woodinville  
Woodinville Water District  
City of Woodland  
Town of Woodway  
Town of Yacolt  
Yakima Valley Conference of Governments  
Town of Yarrow Point  
City of Yelm

**Association of Washington Cities Employee Benefit Trust**  
**Health Care Program**  
**Supplementary and Other Information**

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**Schedule of Expenses**

	Year Ended December 31,	
	2016	2015
<b>CONTRACTED SERVICES</b>		
Administration (AWC)	\$ 3,117,064	\$ 2,843,803
Administration (NWA)	474,720	426,098
Consultant Services	214,952	157,527
Legal Fees	76,632	45,065
Audit Fees	30,106	31,907
Custodial Fees	4,562	5,068
<b>TOTAL CONTRACTED SERVICES</b>	<b>3,918,036</b>	<b>3,509,468</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b>		
Postage	81,195	69,072
Member Education/Training	67,560	51,295
Publication and Dues	66,237	67,779
Printing and Publications	46,066	60,972
Travel and Training	39,478	25,841
Communications and Marketing	25,114	19,631
Board E&O, Fiduciary Insurance, HIPAA Security	24,071	23,052
State Risk Manager Fee	23,307	23,307
Board & Officer Expense/Training	22,066	25,504
Advisory Committee	17,678	12,305
<b>TOTAL GENERAL AND ADMINISTRATIVE EXPENSES</b>	<b>412,772</b>	<b>378,758</b>
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>4,330,808</b>	<b>3,888,226</b>
<b>CLAIMS EXPENSES</b>		
Claims Expense	190,656,460	191,896,984
ASO Fees	10,386,866	10,321,389
<b>TOTAL CLAIMS EXPENSES</b>	<b>201,043,326</b>	<b>202,218,373</b>
<b>FEES AND STOP LOSS INSURANCE</b>		
ACA Reinsurance	701,190	1,133,356
Stop Loss Insurance	661,206	576,755
<b>TOTAL FEES AND STOP LOSS INSURANCE</b>	<b>1,362,396</b>	<b>1,710,111</b>
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 206,736,530</b>	<b>\$ 207,816,710</b>



