



Office of the Washington State Auditor
Pat McCarthy

Financial Statements Audit Report

Central Washington Public Utilities Unified Insurance Program Trust

Grant County

For the period January 1, 2017 through December 31, 2017

Published August 20, 2018

Report No. 1021910





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

August 20, 2018

Board of Trustees
Central Washington Public Utilities Unified Insurance Program Trust
Okanogan, Washington

Report on Financial Statements

Please find attached our report on the Central Washington Public Utilities Unified Insurance Program Trust's financial statements.

We are issuing this report in order to provide information on the Pool's financial condition.

Sincerely,

Pat McCarthy
State Auditor
Olympia, WA

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Central Washington Public Utilities Unified Insurance Program Trust
Grant County**

January 1, 2017 through December 31, 2017

Board of Trustees

Central Washington Public Utilities Unified Insurance Program Trust
Okanogan, Washington

We have audited, 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, the financial statements of the Central Washington Public Utilities Unified Insurance Program Trust, Grant County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements, and have issued our report thereon dated August 13, 2018.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the Pool's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Pool's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pool's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Pool's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of

deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Pool's financial statements are free from material misstatement, we performed tests of the Pool's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Pool's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



Pat McCarthy
State Auditor
Olympia, WA

August 13, 2018

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

Central Washington Public Utilities Unified Insurance Program Trust Grant County January 1, 2017 through December 31, 2017

Board of Trustees
Central Washington Public Utilities Unified Insurance Program Trust
Okanogan, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Central Washington Public Utilities Unified Insurance Program Trust, Grant County, Washington, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Pool's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Central Washington Public Utilities Unified Insurance Program Trust, as of December 31, 2017, and the changes in financial position and cash flows thereof for the year 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's discussion and analysis and required supplementary information listed on page 9 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.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated August 13, 2018 on our consideration of the Pool's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pool's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Pat McCarthy". The signature is written in a cursive, flowing style.

Pat McCarthy
State Auditor
Olympia, WA

August 13, 2018

FINANCIAL SECTION

Central Washington Public Utilities Unified Insurance Program Trust Grant County January 1, 2017 through December 31, 2017

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2017

Statement of Revenues, Expenses and Changes in Net Position – 2017

Statement of Cash Flows – 2017

Notes to Financial Statements – 2017

REQUIRED SUPPLEMENTARY INFORMATION

Reconciliation of Claims Liabilities by Type of Contract – 2017

Ten-Year Claims Development Information – 2017

SUPPLEMENTARY AND OTHER INFORMATION

List of Participating Members – 2017

DES Schedule of Expenses – 2017

CENTRAL WASHINGTON PUBLIC UTILITIES UNIFIED INSURANCE PROGRAM TRUST

Management's Discussion and Analysis For the Year Ended December 31, 2017

The following management's discussion and analysis presents an overview and analysis of the financial activities of the Central Washington Public Utilities Unified Insurance Program Trust (Trust) for the year ended December 31, 2017, with additional comparative data for the year ended December 31, 2016. Information within this section should be used in conjunction with the accompanying financial statements and related notes.

Overview of the Trust and the Financial Statements

The members of the Trust, as listed in the notes to the financial statements, pay into the Trust a predetermined premium for medical, vision and dental insurance which is established by the Broker and approved by the Trustees at the beginning of each year.

In accordance with requirements set forth by the Governmental Accounting Standards Board, the Trust financial statements employ the accrual basis of accounting in recognizing increases and decreases in economic resources. Accrual accounting recognizes all revenues and expenses during the year, regardless of when cash is received or paid.

The financial statements of the Trust have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to proprietary funds of government units.

The basic financial statements, presented for the year ended December 31, 2017, are comprised of:

- *Statement of Net Position:* The Trust presents its statement of position using the balance sheet format. The Statement of Net Position reflects the assets, liabilities and net position of the Trust at year-end.
- *Statement of Revenues, Expenses, and Changes in Fund Net Position:* This statement reflects the transactions and events that have increased or decreased the Trust's total economic resources during the period. Revenues and expenses are classified as operating or non-operating based on the nature of the transaction.
- *Statement of Cash Flows:* The Statement of Cash Flows reflects the sources and uses of cash separated into two categories of activities: operating and investing.

Condensed Comparative Financial Information

Provided below is a two year comparison of key financial information:

Statement of Net Position Information

	12/31/2017	12/31/2016	Increase (Decrease)	% Change
Current Assets	\$ 2,752,618	\$ 2,916,725	\$ (164,107)	-5.63%
Investments	8,229,642	7,625,580	604,062	7.92%
Current Liabilities	3,632,408	3,647,668	(15,260)	-0.42%
Unrestricted Net Position	<u>\$ 7,349,852</u>	<u>\$ 6,894,637</u>	<u>\$ 455,215</u>	6.60%

Statement of Revenues, Expenses, and Changes in Fund Net Position

	12/31/2017	12/31/2016	Increase (Decrease)	% Change
Operating Revenues	\$ 22,620,747	\$ 21,177,132	\$ 1,443,615	6.82%
Nonoperating Revenues	154,112	121,974	32,138	26.35%
Total Revenues	<u>22,774,859</u>	<u>21,299,106</u>	<u>1,475,753</u>	6.93%
Operating Expenses				
Claims and Administrative Fees	21,472,976	20,895,712	577,264	2.76%
Other Contracts	630,758	418,246	212,512	50.81%
Other Expenses	215,910	300,662	(84,752)	-28.19%
Total Operating Expenses	<u>22,319,644</u>	<u>21,614,620</u>	<u>705,024</u>	3.26%
Change in Net Position	455,215	(315,514)	770,729	-244.28%
Beginning Net Position	6,894,637	7,210,151	(315,514)	-4.38%
Ending Net Position	<u>\$ 7,349,852</u>	<u>\$ 6,894,637</u>	<u>\$ 455,215</u>	6.60%

Financial Analysis

Revenues

Operating revenues increased by \$1,443,615 from the year ended December 31, 2017, to the year ended December 31, 2016, primarily attributable to the increase in premium rates.

Expenses

Operating expenses increased by \$705,024 from the year ended December 31, 2017, to the year ended December 31, 2016, primarily attributable to the increase in claims paid.

Summary of Financial Position

The overall financial position of the Trust has improved during the year ended December 31, 2017, with an increase in net position of \$455,215 or 6.60% of total net position. The increase in net position is attributable mainly to an increase in premium rates. There are no material restrictions, commitments or other limitations that affect availability of Trust resources for future use.

**CENTRAL WASHINGTON PUBLIC UTILITIES
UNIFIED INSURANCE PROGRAM TRUST**

STATEMENT OF NET POSITION
As of December 31, 2017

	<u>2017</u>
<u>ASSETS</u>	
Current Assets:	
Cash and Cash Equivalents (Notes 1.C and 2)	\$ 199,599
Investments (Note 2.B)	2,150,326
Accrued Interest Receivable	43,326
Accounts Receivable	296,675
Prepaid Insurance	1,446
Prepaid Administrative Expenses	<u>61,246</u>
Total Current Assets	2,752,618
Non Current Assets:	
Investments (Note 2.B)	<u>8,229,642</u>
Total Assets	<u>\$ 10,982,260</u>
 <u>LIABILITIES AND NET POSITION</u>	
Current Liabilities:	
Accrued Administrative Expenses	\$ 1,800
Accrued Claims - Reported Medical	327,608
Accrued Claims - IBNR (Notes 1.C and 3)	<u>3,303,000</u>
Total Current Liabilities	<u>3,632,408</u>
 Total Liabilities	<u>\$ 3,632,408</u>
Net Position:	
Unrestricted	<u>7,349,852</u>
 TOTAL NET POSITION	<u><u>\$ 7,349,852</u></u>

The accompanying notes are an integral part of the financial statements

**CENTRAL WASHINGTON PUBLIC UTILITIES
UNIFIED INSURANCE PROGRAM TRUST**

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
For The Year Ended December 31, 2017

	Year Ended Dec 31 2017
OPERATING REVENUES:	
Premiums Received from Members	\$ 22,000,715
Claims and Administrative Fee Refunds	620,032
Total Operating Revenues	<u>22,620,747</u>
 OPERATING EXPENSES:	
Medical Claims Paid	15,956,109
Medical Claims - IBNR (Note 1.C)	3,032,000
Dental Claims Paid	1,363,563
Dental Claims - IBNR (Note 1.C)	271,000
Administrative Fees	850,304
Other Insurance Premiums	630,758
Other Operating Expenses	215,910
Total Operating Expenses	<u>22,319,644</u>
 OPERATING INCOME	 301,103
 NONOPERATING REVENUES:	
Investment Income (net)	154,112
Total Nonoperating Revenues	<u>154,112</u>
 CHANGE IN NET POSITION	 455,215
 TOTAL NET POSITION, January 1	 <u>6,894,637</u>
 TOTAL NET POSITION, December 31	 <u><u>\$ 7,349,852</u></u>

The accompanying notes are an integral part of the financial statements

**CENTRAL WASHINGTON PUBLIC UTILITIES
UNIFIED INSURANCE PROGRAM TRUST**

STATEMENT OF CASH FLOWS
For The Year Ended December 31, 2017

	Year Ended Dec 31 2017
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Received from Members	\$ 22,587,060
Cash Payments to Service Providers	(22,396,144)
Net Cash Provided by Operating Activities	<u>190,916</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from Maturities of Investments	2,650,684
Purchases of Investments (including Net Premium Paid of \$15,043)	(2,965,043)
Interest Received	159,937
Net Cash Used by Investing Activities	<u>(154,422)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	36,494
CASH AND CASH EQUIVALENTS, January 1	<u>163,105</u>
CASH AND CASH EQUIVALENTS, December 31	<u><u>\$ 199,599</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 301,103
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
(Increase)Decrease in Accounts Receivable	(33,687)
(Increase)Decrease in Prepaid Insurance	6
(Increase) Decrease in Other Prepaid Fees	(61,246)
Increase (Decrease) in Accrued Administrative Expenses	(150,908)
Increase (Decrease) in Accrued Claims - Reported Medical	61,648
Increase (Decrease) in Accrued Claims - IBNR	74,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 190,916</u></u>
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:	
Amortization and Change in Accrued Interest	<u><u>\$ 4,565</u></u>

The accompanying notes are an integral part of the financial statements

CENTRAL WASHINGTON PUBLIC UTILITIES UNIFIED INSURANCE PROGRAM TRUST

Notes to the Financial Statements
December 31, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Central Washington Public Utilities Unified Insurance Program Trust (Trust) conform to accounting principles generally accepted in the United States of America applicable to proprietary funds of governmental units as promulgated by the Governmental Accounting Standards Board. The significant accounting policies are described below.

A. Reporting Entity

The Trust was organized as of October 1, 1982, pursuant to the provisions of the Revised Code of Washington, Chapter 54, and interlocal governmental agreements. The Trust's general objectives are to provide a central fund for the collection and disbursement of employee benefit premiums and claims involving medical, dental, life, accidental death and dismemberment (AD&D), and long-term disability (LTD) coverage.

Members of the Trust are the Public Utility District (PUD) No. 1 of Benton County, PUD No. 1 of Douglas County, PUD No. 1 of Ferry County, PUD No. 1 of Franklin County, PUD No. 2 of Grant County, PUD No. 1 of Okanogan County and PUD No. 1 of Pend Oreille County. The Trust is administered by a Board of Trustees comprised of an appointed Trustee and alternate Trustee from each of the seven member Districts (Member). The Trust has an agreement with Wells Fargo Bank to serve as custodian and investment manager of the Trust's assets. The Trustees are authorized to negotiate for, obtain, and maintain insurance policies to provide benefits which include, but are not limited to, medical, dental, life, AD&D and LTD insurance.

Effective August 1, 2002, the Trust established a self-insured medical plan which has been approved by the Washington State Office of Risk Management (currently the Washington State Department of Enterprise Services). Premier Blue Cross and the Trust have signed a Cost Plus Agreement for the self-insured medical, prescription and vision services. The Trust contracted with Washington Dental Services (WDS) to provide dental insurance until January 1, 2009, when the Trust became self-insured for dental. Effective January 1, 2009, WDS and the Trust have signed a Cost Plus Agreement for the self-insured dental. Effective August 1, 2009, the Trust contracted with Unum to provide life insurance, AD&D insurance, and LTD insurance. Effective January 1, 2017, the Trust voted to change providers and contracted with Symetra Life Insurance Company. Effective August 1, 2011, the Trust voted to have these costs paid directly by the individual PUD's to the Provider.

A. Reporting Entity (continued)

Each participating Member is responsible for the collection and payment of contributions required for employees who are covered under the Trust program. All premiums for medical and dental are sent by each Member to the Trust. The Trust pays medical, prescription, and vision claims to Premiera based on the Cost Plus Agreement. The Trust pays WDS dental claims based on the Cost Plus Agreement.

A Member may withdraw from and terminate its participation in the Trust and its obligation to make contributions to the Trust fund provided that notice of intent to withdraw by such Member is given, in writing, to the Chair on or before the beginning of the Trust year and will become effective at the end of the year succeeding such notice. A withdrawn Member shall have no claim to, nor any right, title or interest in, any money or assets of or attributable to the Trust. Trust insurance policy contractual provisions apply to all claims by employees of the withdrawing Member incurred before the date of withdrawal.

On February 11, 2015, the members of the Trust approved a change in the fiscal year end, July 31 to a calendar year, December 31. Approval was also granted by the Washington State Department of Enterprise Services on February 26, 2015. As a result of this change, the Trust had a short year for five months from August 1, 2014 to December 31, 2014. This change was implemented to follow the change in the premium year to a calendar year.

B. Measurement Focus, Basis of Accounting

1. Proprietary Funds

The accounting records of the Trust are maintained in accordance with methods prescribed by the State Auditor's Office under the authority of Chapter 43.09 RCW. When applicable, the Trust 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 GASB Statement 30, *Risk Financing Omnibus*, GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Funds*, and GASB Statement 72, *Fair Value Measurement and Application*.

The financial statements are reported using the economic resources measurement focus and the full-accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

The principal operating revenues of the Trust are Member contributions. Nonoperating revenues represent income from investments.

Operating expenses include medical and dental claims and administrative fees, bank fees, broker fees, accounting fees, medical insurance premiums, and self-insurance program fees.

C. Assets, Liabilities, Fund Balance, Net Position

1. Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Trust considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

2. Investments

See Note 2.B.

3. Capital Assets

The Trust owns no capital assets.

4. Unpaid Claims Liabilities

The Trust 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 reported (IBNR). The liability for IBNR is based on 8 weeks of average medical, prescription, vision, and dental claims.

Actual claims costs depend on complex factors such 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 necessarily result in an exact amount, particularly for coverage such as general liability.

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.

5. Trust Premiums

Trust premiums are set annually and are effective January 1 (previously August 1) of each plan year, beginning with the 2015 plan year. Premiums include medical, prescription, vision and dental coverage. Trust premiums are paid monthly by each Member based upon the number of eligible employees and the contract year's premium. In addition, eligible retired employees are offered medical and dental coverage through the Trust. Participating Members manage the collection of premiums from retired employees and make remittance to the Trust.

C. Assets, Liabilities, Fund Balance, Net Position (continued)

6. Unpaid Claims

Claims are charged to income as incurred. Claims reserves represent the accumulation of estimates for reported, unpaid claims, plus a provision for claims IBNR. Claims reserves are recomputed looking at past average monthly claims. These estimates are reviewed and updated on an annual basis and any resulting adjustments are reflected in current earnings.

7. Trust Held Reserves

The Trust adopted a financial reserve policy in April 2011, that complies with guidelines for self-insured employee health benefit programs issued by the Washington State Department of Enterprise Services. Under the policy, the Trust maintains reserves in two accounts, the IBNR Reserve and the Contingency Reserve. The IBNR Reserve is intended to fully fund the IBNR liability. The Contingency Reserve holds the remainder of the Trust funds with a targeted balance equivalent to 12 weeks of estimated medical claims and 8 weeks of estimated dental claims based on the average monthly medical claims over the last fiscal year. As of December 31, 2017, the Contingency Reserve exceeded the target reserve levels by \$2,306,302 (47.86%) and the IBNR Reserve was below target levels by \$138,137 (4.18%), netting 26.69% above target levels. Targeted reserve levels are revised annually in accordance with the financial reserve policy.

The Trust does not show a reserve for unallocated loss adjustment expenses, as an actuary or actuarial method is not used to calculate IBNR. The Trust has chosen to follow a non-actuarial method by using estimated monthly expenses multiplied by the reserve month by benefit to meet applicable requirements.

8. Stop Loss Insurance

The Trust purchases stop loss coverage for medical and prescriptions coverage to reduce its exposure to large losses 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 Trust as direct insurer of the risks reinsured. The Trust 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 losses are negotiated based on the size of the group. Symetra's reimbursement is 100% in excess of the individual deductible, with an aggregate maximum of \$1,000,000 per policy period.

8. Stop Loss Insurance (continued)

The following shows the stop loss policy:

Policy Dates	Insurance Company	Type of Coverage	Estimated Attachment Point
1/1/17 – 12/31/17	Symetra Life Insurance Company	Group Excess Loss, Medical, Prescription	\$18,567,682

Individual Stop Loss Deductible	\$250,000
Aggregate Stop Loss Deductible	125% of expected claims

The amount of Funded Stop Loss from Symetra amounted to zero for year ended December 31, 2017.

9. Exempt from Federal and State Taxes

Pursuant to revenue ruling number 90-74, income of Municipal Risk Pools is excluded from gross income under IRC Section 115(1).

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

The Trust deposits were held in a money market account under an Investment Manager and Custodian Agreement with a major national bank as of December 31, 2017. The Trust deposits are entirely covered by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

Under state law, public funds may only be deposited with institutions that are approved by the Washington PDPC. Public depositaries in turn are required to report public funds held to the PDPC and abide by requirements set forth in state law. Under the PDPC, public deposits are entirely insured by collateral held in a multiple financial institution collateral pool administered by the PDPC. Public depositaries may be assessed on a prorated basis if the pool's collateral is insufficient to cover a loss. All amounts held in the Trust at December 31, 2017, have been reported to the PDPC.

Custodial credit risk: Of the Trust's total position of \$199,599 of cash and cash equivalents, zero is exposed to custodial credit risk for they are insured up to applicable limits established by the Federal Deposit Insurance Corporation. Balances above the amount are collateralized under Wells Fargo Bank, N.A. Collateralized Institutional Bank Deposit Account.

B. Investments

The Trust measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. Investments are recorded at amortized cost in the financial statements, which approximates fair value, therefore, no adjustment from amortized cost to fair value is necessary.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the Trust manages its exposure to declines in fair values by matching investment maturities to meet anticipated cash flow requirements. The policy does not formally limit investment maturities.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Trust's investment policy conforms with 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 is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Trust's investment makeup at December 31, 2017, conformed with state law related to investment of public funds, as all investments were restricted to debt securities and obligations of the U.S. Treasury and its Agencies.

Custodial credit risk: This is the risk that in event of a failure of the counterparty to an investment transaction the Trust would not be able to recover the value of the investment or collateral securities. Of the Trust's total position of \$10,288,670 fair value in debt securities and obligations of the U.S. Treasury and its Agencies, zero is exposed to custodial credit risk for the investments are held at the Federal Reserve.

Investments Measured at Fair Value

GASB Statement 72, *Fair Value Measurement and Application*, has the primary objective to address the reporting issues related to fair value measurements. This statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. These Trust measures and reports investments at fair value using the valuation input hierarchy established by generally accepted accounting principles, as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities;
- Level 2: These are quoted market prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other than quoted market prices that are not observable;.
- Level 3: Unobservable inputs for an asset or liability.

B. Investments (continued)

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.

At December 31, 2017, the Trust had the following investments measured at fair value:

		Fair Value Measurements Using		
Investments by Fair Value Level	Total	Level 1	Level 2	Level 3
Debt Securities				
U.S. Treasury securities	\$ 2,085,535	\$ -	\$ 2,085,535	\$ -
U.S. Agency securities	8,203,135	-	8,203,135	-
Total Investments by Fair Value Level	\$ 10,288,670	\$ -	\$ 10,288,670	\$ -

B. Investments (continued)

As of December 31, 2017, the Trust had the following investments at their face value and fair market value, using the last traded or closing price from actual, live market prices:

<i>Investments</i>	<i>Maturities</i>	<i>Face Values</i>	<i>Fair Values</i>
		<i>December 31, 2017</i>	<i>December 31, 2017</i>
Federal Home LN BK	03/09/18	\$ 450,000	\$ 450,032
Federal Home LN BK	03/09/18	400,000	400,028
Federal Natl Mortgage Assn	05/21/18	500,000	498,690
Federal Home LN BK	09/14/18	100,000	100,167
Federal Natl Mortgage Assn	09/18/18	500,000	500,435
Federal Natl Mortgage Assn	10/19/18	200,000	198,996
Federal Home LN BK	03/08/19	250,000	250,023
US Treasury Note	05/31/19	250,000	247,930
Federal Natl Mortgage Assn	06/20/19	500,000	499,170
Federal Home LN MTG Corp	08/01/19	200,000	198,044
Federal Home LN MTG Corp	08/01/19	200,000	198,044
Federal Natl Mortgage Assn	09/12/19	250,000	249,293
US Treasury Note	09/30/19	250,000	249,433
US Treasury Note	09/30/19	200,000	199,546
Federal Home LN MTG Corp	10/02/19	150,000	148,214
Federal Natl Mortgage Assn	01/21/20	250,000	248,363
Federal Natl Mortgage Assn	03/06/20	500,000	497,190
Federal Natl Mortgage Assn	03/06/20	100,000	99,438
Federal Home LN BK	03/13/20	500,000	497,785
Federal Home LN MTG Corp	05/01/20	200,000	197,010
Federal Natl Mortgage Assn	06/22/20	200,000	197,628
Federal Natl Mortgage Assn	06/22/20	200,000	197,628
Federal Home LN BK	09/28/20	100,000	98,257
Federal Home LN BK	12/11/20	250,000	248,963
Federal Home LN BK	02/18/21	250,000	244,408
Federal Natl Mortgage Assn	02/26/21	250,000	244,738
US Treasury Note	02/28/21	250,000	249,853
Federal Home LN BK	03/12/21	200,000	197,956
US Treasury Note	04/30/21	250,000	244,590
US Treasury Note	06/30/21	100,000	100,195
Federal Home LN BK	11/29/21	350,000	347,078
Federal Home LN BK	11/29/21	250,000	247,913
Federal Home LN BK	12/10/21	200,000	203,506
US Treasury Note	02/15/22	300,000	298,569
US Treasury Note	02/15/22	250,000	248,808
Federal Home LN BK	03/11/22	250,000	250,373
Federal Natl Mortgage Assn	04/05/22	500,000	493,770
US Treasury Note	07/31/22	250,000	246,613

NOTE 3 – UNPAID CLAIMS LIABILITY

As discussed in Note 1, the Trust establishes a liability for both reported and unreported insured events, which includes estimates of both future payments of losses and related claims adjustments expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the Trust during the year ended December 31:

RECONCILIATION OF CLAIMS LIABILITIES

	<u>12/31/2017</u>	<u>12/31/2016</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 3,494,960	\$ 3,362,208
Incurred claims and claim adjustment expenses:		
- Provision for insured events of the current year	21,233,628	20,494,869
- Increases in provision for insured events of prior years	<u>-</u>	<u>-</u>
Total incurred claims and claim adjustment expenses	<u>\$ 24,728,588</u>	<u>\$ 23,857,077</u>
Payments for claims and claims adjustment expenses:		
- Attributable to insured events of the current year	\$ (17,603,020)	\$ (16,999,909)
- Attributable to insured events of prior years	<u>(3,494,960)</u>	<u>(3,362,208)</u>
Total Payments	<u>\$ (21,097,980)</u>	<u>\$ (20,362,117)</u>
Total unpaid claims and claim adjustment expenses at the end of the year	\$ 3,630,608	\$ 3,494,960
Unallocated loss adjustment expense/claims reserve at the end of the year	<u>-</u>	<u>-</u>
Total Claims reserves at the end of the year	<u>\$ 3,630,608</u>	<u>\$ 3,494,960</u>

At December 31, 2017, \$3,630,608 of unpaid claims and claim adjustment expenses are presented as the excess of total incurred claims and claim adjustments over total payments.

NOTE 4 – RISK FINANCING LIMITS

The following table reflects the risk financing limits on coverage policies issued and retained by the Trust at December 31, 2017:

Type of Coverage	Deductible	Self-Insured Retention	Excess Limits
Fiduciary Liability	\$0	\$0	\$1,000,000 each policy period \$25,000 HIPAA Sublimit each policy period
Commercial Crime	\$5,000	\$0	\$1,000,000 each loss

NOTE 5 – MEMBERS' SUPPLEMENTAL ASSESSMENTS AND CREDITS

The Trust interlocal governmental agreement does not provide for supplemental assessments and credits to members.

NOTE 6 – SOLVENCY

A. For Health and Welfare Pools (Joint Pools)

Washington Administrative code 200-110-040 requires all joint health and welfare programs self-insuring medical benefit programs to establish program reserves in an amount greater than 16 weeks. For vision, dental or prescription drug benefit programs or any combination of programs to establish program reserves in an amount not less than eight weeks of program expenses for each program offered. In addition, maintain an aggregate stop-loss insurance policy with an attachment point set at or below one hundred twenty-five percent of annual expected claim costs (refer to Note 1.C.8); and establish by ordinance or resolution of the governing body, an additional contingency reserve for a joint vision, dental or prescription drug program in the amount equal to at least eight weeks of program expenses.

NOTE 6 – SOLVENCY (continued)

Medical 16 Weeks Claims Test	
<u>Program Expenses</u>	
Medical Claims Paid	\$ 14,655,684
Other Operating Expenses related to medical	672,406
Other Operating Expenses other than related to medical	728,568
TOTAL	16,056,658
<u>Minimum Program Reserves</u>	
Total Program Expenses	16,056,658
Divided by 52	308,782
Multiplied by 16	4,940,512
Total expected program reserves	\$ 4,940,512
<u>Actual Program Reserves</u>	
Net Position	\$ 7,349,852
16 Weeks Claims Test	Met

Eight Weeks Claims Test		Additional Contingency Reserve	
<u>Program Expenses</u>		<u>Program Expenses</u>	
Dental/Vision and Rx Claims Paid	\$ 5,966,987	Dental/Vision and Rx Claims Paid	\$ 5,966,987
Other Operating Expenses related to medical	177,898	Other Operating Expenses related to medical	177,898
Other Operating Expenses other than related to medical	118,101	Other Operating Expenses other than related to medical	118,101
TOTAL	6,262,986	TOTAL	6,262,986
<u>Minimum Program Reserves</u>		<u>Minimum Program Reserves</u>	
Total Program Expenses	6,262,986	Total Program Expenses	6,262,986
Divided by 52	120,442	Divided by 52	120,442
Multiplied by 8	963,536	Multiplied by 8	963,536
Total expected program reserves	\$ 963,536	Total expected program reserves	\$ 963,536
<u>Actual Program Reserves</u>		<u>Reserves after meeting 8 weeks test</u>	
Net Position	\$ 2,409,340	Net position - 8 weeks of claims	\$ 1,445,804
Eight Weeks Claims Test	Met	Additional Contingency Reserve	Met

**CENTRAL WASHINGTON PUBLIC UTILITIES
UNIFIED INSURANCE PROGRAM TRUST**

REQUIRED SUPPLEMENTAL INFORMATION

For the Year Ended December 31, 2017

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

Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in claims liabilities for the year ended December 31, 2017, and the year ended December 31, 2016, for the Trust's two types of contracts: medical and dental health care benefits.

	Medical		Dental	
	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2017</u>	<u>12/31/2016</u>
Unpaid claims and claim adjustment expenses at beginning of year.	\$ 3,217,960	\$ 2,916,365	\$ 277,000	\$ 445,843
Incurred claims and claim adjustment expenses:				
- Provision for insured events of the current year	19,599,064	18,837,279	1,634,563	1,657,590
- Increases in provision for insured events of prior years	-	-	-	-
Total incurred claims and claim adjustment expenses	<u>22,817,024</u>	<u>21,753,644</u>	<u>1,911,563</u>	<u>2,103,433</u>
Payments for claims and claims adjustment expenses:				
- Attributable to insured events of the current year	(16,239,456)	(15,619,319)	(1,363,563)	(1,380,590)
- Attributable to insured events of prior years	<u>(3,217,960)</u>	<u>(2,916,365)</u>	<u>(277,000)</u>	<u>(445,843)</u>
Total Payments	<u>(19,457,416)</u>	<u>(18,535,684)</u>	<u>(1,640,563)</u>	<u>(1,826,433)</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u><u>\$ 3,359,608</u></u>	<u><u>\$ 3,217,960</u></u>	<u><u>\$ 271,000</u></u>	<u><u>\$ 277,000</u></u>

Ten-Year Claims Development Information

The following table illustrates how the Trust's earned revenues (net of reinsurance) and investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the Trust as of the end of each of the past ten years. The rows of the table are defined as follows:

1. This line shows the total of each fiscal year's gross earned contribution revenue and investment revenues, contribution revenue ceded to reinsurers, and net earned contribution revenue and reported investment revenue.
2. This line shows each fiscal year's other operating costs of the Trust including overhead and claims expense not allocable to individual claims.
3. This line shows the Trust'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*).
4. This section of ten rows shows the cumulative net amounts paid as of the end of successive years for each policy year.
5. This line shows the latest re-estimated amount of claims assumed by reinsurers as of the end of the current year for each accident year.
6. This section shows how each policy year's net incurred claims increased or decreased as of the end of successive years. (The annual re-estimation results from new information received on known claims, reevaluation of existing information on known claims, and emergence of new claims not previously known.)
7. 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 net claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and re-estimated amounts commonly is 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.

CENTRAL WASHINGTON PUBLIC UTILITIES UNIFIED INSURANCE PROGRAM TRUST										
	Medical Program – Policy Years* Ended (in Thousands of Dollars)									
	2009	2010	2011	2012	2013	2014	5 Months 12/31/14	2015	2016	2017
1. Required contribution and investment revenue:										
Earned	14,872	15,251	16,646	17,104	17,863	17,920	7,275	17,145	18,031	19,373
Ceded	383	414	428	534	630	659	278	756	551	611
Net earned	14,489	14,837	16,218	16,570	17,233	17,261	6,997	16,389	17,480	18,762
2. Unallocated expenses	135	188	202	179	228	187	269	362	301	216
3. Estimated claims and expenses, end of policy year:										
Earned	12,979	15,627	16,255	16,377	16,202	15,640	7,016	18,373	18,989	19,599
Ceded	-	566	245	-	249	186	-	545	152	-
Net earned	12,979	15,061	16,010	16,377	15,953	15,454	7,016	17,828	18,837	19,599
4. Net paid (cumulative) as										
End of policy year	-	-	-	-	(1)	-	(1)	(108)	1245	17605
One year later	-	-	-	-	(1)	-	1	1,177	16,943	
Two years later	-	-	-	-	1	49	1,369	15,947		
Three years later	-	-	(1)	-	(32)	1,118	9,430			
Four years later	-	(2)	(2)	1	1,414	13,490				
Five years later	(4)	-	2	1,647	13,931					
Six years later	2	-	1,084	14,944						
Seven years later	(5)	1,561	14,152							
Eight years later	1,023	13,785								
Nine years later	11,695									
5. Reestimated ceded claims and expenses	Information not available. See Note 1.C for further information.									
6. Reestimated net incurred claims and expenses	Information not available. See Note 1.C for further information.									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	Information not available. See Note 1.C for further information.									

*Policy years prior to December 31, 2014 were August 1 - July 31. Beginning August 1, 2014, the policy year was changed to a calendar year ending December 31.

**CENTRAL WASHINGTON PUBLIC UTILITIES
UNIFIED INSURANCE PROGRAM TRUST**

LIST OF PARTICIPATING MEMBERS

Public Utility District (PUD) No. 1 of Benton County
PUD No. 1 of Douglas County
PUD No. 1 of Ferry County
PUD No. 1 of Franklin County
PUD No. 2 of Grant County
PUD No. 1 of Okanogan County
PUD No. 1 of Pend Oreille County

**CENTRAL WASHINGTON PUBLIC UTILITIES
UNIFIED INSURANCE PROGRAM TRUST**

DES SCHEDULE OF EXPENSES
For The Year Ended December 31, 2017

INSURANCE MEMBERS:

Medical Claims Paid	\$ 15,956,109
Medical Claims - IBNR	3,032,000
Dental Claims Paid	1,363,563
Dental Claims - IBNR	271,000

CONTRACTED SERVICES:

Administrative Fees	850,304
Other Insurance Premiums	630,758
Accounting	21,600
Actuarial	140,000
Audit	16,386

GENERAL ADMINISTRATIVE EXPENSES:

Bank Fees	18,794
Insurance-Bond, Liability, Assessment, Claims Audit, ACA Fees	19,130

TOTAL OPERATING EXPENSES	\$ 22,319,644
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ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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