



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

January 14, 2019

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, 2017. The Group contracted with the CPA firm for this audit and requested that we accept in lieu of performing our own audit.

Based on this review, we have accepted this report in lieu of the audit required by RCW 43.09.260. The Office of the Washington State Auditor 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 Office of the Washington State Auditor website as a matter of public record.

Sincerely,

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

Pat McCarthy

State Auditor

Olympia, WA



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

ASSOCIATION OF WASHINGTON CITIES EMPLOYEE
BENEFIT TRUST HEALTH CARE PROGRAM

December 31, 2017 and 2016



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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, 2017 and 2016, 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, 2017 and 2016, 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
October 9, 2018

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

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, 2017 and 2016. 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 2017 and 2016 by \$17,108,821 and \$5,855,986, respectively (*net position*). The total amount of \$17,108,821 and \$5,855,986 (*unrestricted net position*) may be used to meet the HCP's ongoing obligations to creditors and participants.
2. As of December 31, 2017 and 2016, the actuarial estimate for claims Incurred But Not Paid (IBNP) is \$15,509,000 and \$17,777,000, 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 the Revised Code of Washington (RCW) 48.62 and under the provision of the Washington Administrative Code (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

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 \$17,108,821 and \$5,855,986 at December 31, 2017 and 2016.

By far, the largest portion of the HCP's assets reflects cash and investments (82% - \$35,726,978 of \$43,489,941 as of December 31, 2017, and 81% - \$27,359,713 of \$33,791,126 as of December 31, 2016). 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 \$15,509,000 and \$17,777,000 at December 31, 2017 and 2016, respectively.

HCP – NET POSITION

	12/31/2017	12/31/2016
Current assets	\$ 43,489,941	\$ 33,791,126
Total assets	<u>43,489,941</u>	<u>33,791,126</u>
Current liabilities	26,381,120	27,935,140
Total liabilities	<u>26,381,120</u>	<u>27,935,140</u>
Unrestricted	17,108,821	5,855,986
Net position	<u>17,108,821</u>	<u>5,855,986</u>
Total net position and liabilities	<u>\$ 43,489,941</u>	<u>\$ 33,791,126</u>

The unrestricted net position, totaling \$17,108,821 and \$5,855,986 as of December 31, 2017 and 2016, respectively, may be used to meet the HCP's ongoing obligations to creditors.

Changes in Net Position

The HCP net position increased \$11,252,835 and \$624,362 in 2017 and 2016, respectively. The key element of this increase may be attributed to claim activity being slightly lower than originally projected for fiscal year 2017 and 2016.

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

HCP – CHANGES IN NET POSITION

	2017 ACTIVITIES	2016 ACTIVITIES
Operating revenues		
Member contributions	\$ 212,908,321	\$ 207,177,481
Total operating revenues	212,908,321	207,177,481
Operating expenses		
Claims expense	185,862,059	190,656,460
Administrative services only fees	10,659,496	10,386,866
Reinsurance and stop loss premiums and fees	636,571	1,362,396
Administrative expenses	4,741,119	4,330,808
Total operating expenses	201,899,245	206,736,530
Nonoperating revenues		
Investment income	243,759	183,411
Total Nonoperating revenues	243,759	183,411
Income	11,252,835	624,362
Change in net position	\$ 11,252,835	\$ 624,362

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

	December 31,	
	2017	2016
ASSETS		
Cash and cash equivalents	\$ 11,636,579	\$ 8,297,694
Investments, at fair value	24,003,266	19,000,498
Receivables		
Due from Association of Washington Cities Employee Benefit Trust	5,586,834	4,725,144
Prescription drug rebate receivable	1,566,687	917,880
Member contributions receivable	609,442	788,389
Accrued interest	87,133	61,521
Total assets	43,489,941	33,791,126
LIABILITIES		
Accounts payable for administrative expenses	495,417	427,173
Accounts payable for transitional reinsurance fee	-	647,461
Accounts payable for administrative services only fees	234,887	142,267
Accounts payable claims	8,940,595	7,364,392
Incurred but not paid	15,509,000	17,777,000
Unearned revenue	1,201,221	1,576,847
Total liabilities	26,381,120	27,935,140
NET POSITION AVAILABLE FOR PLAN BENEFITS	\$ 17,108,821	\$ 5,855,986

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

	Years Ended December 31,	
	2017	2016
OPERATING REVENUES		
Contributions		
Member contributions	\$ 212,908,321	\$ 207,177,481
TOTAL OPERATING REVENUES	212,908,321	207,177,481
OPERATING EXPENSES		
Claims expense	185,862,059	190,656,460
Administrative services only fees	10,659,496	10,386,866
Reinsurance and stop loss premiums and fees	636,571	1,362,396
Administrative expenses	4,741,119	4,330,808
TOTAL OPERATING EXPENSES	201,899,245	206,736,530
OPERATING INCOME	11,009,076	440,951
NONOPERATING REVENUES		
Investment income	243,759	183,411
TOTAL NONOPERATING REVENUES	243,759	183,411
CHANGE IN NET POSITION	11,252,835	624,362
TOTAL NET POSITION, beginning of year	5,855,986	5,231,624
TOTAL NET POSITION, end of year	\$ 17,108,821	\$ 5,855,986

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

	Years Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	\$ 212,711,642	\$ 207,571,406
Cash payments for claims	(186,553,856)	(187,463,464)
Cash payments for administrative service only fees	(10,566,876)	(10,392,058)
Cash payments for reinsurance and stop loss premiums and fees	(1,284,032)	(1,797,460)
Cash payments for operating expenses	(5,321,682)	(5,054,549)
Net cash flows from operating activities	8,985,196	2,863,875
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in due to/from the Trust	(861,690)	(1,503,359)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(7,002,768)	(17,000,411)
Sale of investments	2,000,000	17,000,000
Interest income	218,147	164,448
Net cash flows from investing activities	(4,784,621)	164,037
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,338,885	1,524,553
CASH AND CASH EQUIVALENTS, beginning of year	8,297,694	6,773,141
CASH AND CASH EQUIVALENTS, end of year	\$ 11,636,579	\$ 8,297,694

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

	Years Ended December 31,	
	2017	2016
RECONCILIATION OF OPERATING INCOME TO		
NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 11,009,076	\$ 440,951
Adjustments to reconcile operating income		
to net cash flows from operating activities		
Increase in prescription drug rebate receivable	(648,807)	(525,057)
Decrease (increase) in member contribution receivable	178,947	(788,389)
Increase in claims payable	1,576,203	2,234,996
Decrease in transitional reinsurance fee payable	(647,461)	(435,064)
Increase (decrease) in administrative		
fees only payable	92,620	(5,192)
Increase (decrease) in accounts payable for		
expenses	68,244	(198,684)
Increase (decrease) in unearned revenue	(375,626)	1,182,314
Increase (decrease) in incurred but not paid (IBNP)	(2,268,000)	958,000
Net cash flows from operating activities	<u>\$ 8,985,196</u>	<u>\$ 2,863,875</u>

Association of Washington Cities Employee Benefit Trust

Health Care Program

Notes to Financial Statements

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, 2017 and 2016, 261 and 258 members participated in the HCP, respectively.

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 \$1,000,000 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 accordance 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

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, 2017 and 2016, respectively, \$11,938,352 and \$6,380,601 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 2017 policy year:

Insurance Company	Type of Coverage	Individual Deductible	Aggregate
Life Map	Regence BlueShield Excess Loss, Medical, Vision, RX	\$ 1,500,000	200% of expected claims
Companion Life Insurance Company	Group Health / Kaiser Permanente Excess Loss, Medical, RX	\$ 1,000,000	200% of expected claims

Association of Washington Cities Employee Benefit Trust

Health Care Program

Notes to Financial Statements

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

The following shows the stop loss policies in effect during the 2016 policy year:

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 Financial	Group Health Excess Loss, Medical, RX	\$ 750,000	200% of expected claims

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.

Association of Washington Cities Employee Benefit Trust

Health Care Program

Notes to Financial Statements

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

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.

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.

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, 2017 and 2016.

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, 2017 and 2016:

Fair Value Measurement at December 31, 2017				
	Level 1	Level 2	Level 3	Total
U.S. treasury and agency securities	\$ -	\$ 24,003,266	\$ -	\$ 24,003,266
Total assets at fair value	\$ -	\$ 24,003,266	\$ -	\$ 24,003,266
Fair Value Measurement at December 31, 2016				
	Level 1	Level 2	Level 3	Total
U.S. treasury and agency securities	\$ -	\$ 19,000,498	\$ -	\$ 19,000,498
Total assets at fair value	\$ -	\$ 19,000,498	\$ -	\$ 19,000,498

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

Note 2 – Deposits and Investments (continued)

As of December 31, 2017, the HCP had the following investments:

Investments	Maturities	Face Values December 31, 2017	Fair Values December 31, 2017
FED HOME LN MTG CORP	7/27/2018	\$2,000,000	\$2,246,516
FED FARM CREDIT BK	1/7/2019	\$2,000,000	\$1,983,020
FED HOME LN BK	7/11/2019	\$2,000,000	\$1,976,500
FED HOME LN MTG CORP	3/30/2018	\$1,000,000	\$998,970
FED HOME LN MTG CORP	6/29/2018	\$1,000,000	\$997,100
FED HOME LN MTG CORP	7/27/2018	\$1,000,000	\$996,600
FED HOME LN BK SER 0002	11/27/2020	\$1,000,000	\$996,170
FED HOME LN MTG CORP	8/24/2018	\$1,000,000	\$996,050
FED HOME LN MTG CORP	2/16/2021	\$1,000,000	\$993,140
FED HOME LN BK	7/13/2020	\$1,000,000	\$991,890
FED HOME LN MTG CORP	3/29/2022	\$1,000,000	\$991,580
FED HOME LN MTG CORP	9/21/2020	\$1,000,000	\$989,640
FED HOME LN MTG CORP	4/26/2019	\$1,000,000	\$989,450
FED HOME LN MTG CORP	6/29/2022	\$1,000,000	\$987,530
FED NATL MTG ASSN	11/26/2019	\$1,000,000	\$985,630
FED NATL MTG ASSN	11/25/2019	\$1,000,000	\$985,180
FED NATL MTG ASSN	9/30/2019	\$1,000,000	\$984,310
FED HOME LN MTG CORP	6/29/2022	\$1,000,000	\$984,290
FED HOME LN MTG CORP	11/25/2020	\$1,000,000	\$983,140
FED NATL MTG ASSN	2/25/2021	\$1,000,000	\$982,010
FED HOME LN MTG CORP	8/25/2021	\$1,000,000	\$964,550

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

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

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 \$24,003,266 and \$19,000,498 in debt securities and obligations of the U.S. Treasury is held at the Federal Reserve as of December 31, 2017 and 2016, 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, 2017 and 2016 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, 2017 and 2016:

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

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:

	Years Ended December 31,	
	2017	2016
Administrative	\$ 2,386,370	\$ 2,189,388
Personnel costs	1,061,635	927,676
Member education and training	57,085	65,880
Staff travel	32,266	34,417
Postage	23,677	28,754
E&O and cyber liability insurance	21,900	24,071
Consultants	21,206	-
Communications and marketing	20,510	22,912
Publication and dues	11,130	11,242
Board and committee expense	11,011	18,368
Other	149	729
State risk manager expense	-	11,654
Total	<u>\$ 3,646,939</u>	<u>\$ 3,335,091</u>

Services payable to AWC were \$394,419 and \$318,222 at December 31, 2017 and 2016, respectively.

During 2017 and 2016, 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, 2017, the Trust owed the HCP \$5,586,834 and as of December 31, 2016, the Trust owed the HCP \$4,725,144 for these routine transactions.

Association of Washington Cities Employee Benefit Trust

Health Care Program

Notes to Financial Statements

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 adjustment expenses, both allocated and unallocated. The following represents changes in those aggregate liabilities for the HCP:

	Years Ended December 31,	
	2017	2016
Unpaid claims and claim adjustment expenses at beginning of year	\$ 25,141,392	\$ 21,948,396
Incurred claims and claim adjustment expenses		
Provision for insured events of the current year	185,862,059	190,656,460
Increases in provision for uninsured events of prior years	-	-
Total incurred claims and claim adjustment expenses	211,003,451	212,604,856
Payments for claims and claims adjustment expenses		
Attributable to insured events of the current year	(161,412,464)	(165,515,068)
Attributable to insured events of prior years	(25,141,392)	(21,948,396)
Total payments	(186,553,856)	(187,463,464)
Total unpaid claims and claim adjustment expenses at the end of the year	24,449,595	25,141,392
Unallocated loss adjustment expense/claims reserve at the end of the year	-	-
Total claims reserves at the end of the year	\$ 24,449,595	\$ 25,141,392

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

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, 2017 and 2016, the actuarially determined amount for the Incurred But Not Paid (IBNP) is \$15,509,000 and \$17,777,000, respectively.

Required Supplementary Information

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 2017 for the HCP's three types of contracts: medical, dental, and vision health care benefits.

	Medical 2017	Dental 2017	Vision 2017	Total
Unpaid claims and claim adjustment expenses at beginning of year	\$ 23,993,091	\$ 811,459	\$ 336,842	\$ 25,141,392
Incurring claims and claim adjustment expenses:				
Provision for insured events of the current year	170,838,892	12,977,236	2,045,931	185,862,059
Increases in provision for uninsured events of prior years	-	-	-	-
Total incurred claims and claim adjustment expenses	194,831,983	13,788,695	2,382,773	211,003,451
Payments for claims and claims adjustment expenses:				
Attributable to insured events of the current year	(147,650,170)	(12,040,313)	(1,721,981)	(161,412,464)
Attributable to insured events of prior years	(23,993,091)	(811,459)	(336,842)	(25,141,392)
Total payments	(171,643,261)	(12,851,772)	(2,058,823)	(186,553,856)
Total unpaid claims and claim adjustment expenses at the end of the year	\$ 23,188,722	\$ 936,923	\$ 323,950	\$ 24,449,595

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

Association of Washington Cities Employee Benefit Trust

Health Care Program

Required Supplementary Information

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 fourth year for self-funding, the information within this table is limited to four years. The rows of the table are defined as follows:

1. 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.
2. This line shows each year's other operating costs of the HCP including overhead and claims expense not allocable to individual claims.
3. 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).
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 claim year.
6. 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.)
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 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)									
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1. Required contribution and investment revenue:										
Earned	-	-	-	-	-	-	200,520	211,528	207,361	212,962
Ceded	-	-	-	-	-	-	465	577	661	582
Net earned	-	-	-	-	-	-	200,055	210,951	206,700	212,380
2. Unallocated expenses	-	-	-	-	-	-	15,124	15,343	15,419	15,455
3. Estimated claims and expenses, end of policy year:										
Earned	-	-	-	-	-	-	183,521	191,395	191,874	191,574
Ceded	-	-	-	-	-	-	610	-	-	-
Net earned	-	-	-	-	-	-	182,911	191,395	191,874	191,574
4. Net paid (cumulative) as										
End of policy year	-	-	-	-	-	-	167,722	177,420	176,425	178,291
One year later	-	-	-	-	-	-	182,333	191,149	189,371	
Two years later	-	-	-	-	-	-	182,246	191,351		
Three years later	-	-	-	-	-	-	182,194			
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	191,574
One year later	-	-	-	-	-	-	181,728	190,890	189,297	
Two years later	-	-	-	-	-	-	181,636	191,351		
Three years later	-	-	-	-	-	-	181,584			
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	-	-	-	-	-	-	(1,327)	(45)	(2,578)	-

Supplementary and Other Information

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

List of Participating Members

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
Cascade Water Alliance
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

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

List of Participating Members (continued)

Columbia County Public Transportation

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

Fort Worden Public Development Authority

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

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

List of Participating Members (continued)

City of Harrington
City of Hoquiam
Housing Authority of the City of Pasco/Franklin Co
Town of Hunts Point
I-COM 9-1-1
City of Ilwaco
Town of Index
Town of Ione
City of Issaquah
City of Kahlotus
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 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
Mason County Emergency Communications
City of Maple Valley
City of Marysville
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

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

List of Participating Members (continued)

City of Monroe
City of Montesano
City of Morton
City of Moses Lake
City of Mount Vernon
City of Mountlake Terrace
City of Moxee
City of Mukilteo
Mukilteo Water and Wastewater District
City of Napavine
Town of Nespelem
City of Newcastle
City of Newport
City of Nooksack
NORCOM 911
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
City of Omak
Olympic Region Clean Air Agency
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

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

List of Participating Members (continued)

City of Raymond
Town of Reardan
City of Republic
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
Seattle Southside Regional Tourism Authority
City of Sedro-Woolley
City of Sequim
City of Shelton
City of Shoreline
Si View Metropolitan Park District
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 Co Emp/Trng Cnsrtm (WorkForce Central)
Tacoma-Pierce County Health Department
Thurston 9-1-1 Communications
City of Tekoa
City of Tenino

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

List of Participating Members (continued)

City of Tieton
Timberland Regional Library
City of Toledo
City of Tonasket
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
City of Waitsburg
City of Walla Walla
Walla Walla Valley MPO/SRTPO
City of Wapato
City of Warden
Washington State Convention Center
City of Washougal
Town of Waterville
Washington Cities Insurance Authority
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
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

Schedule of Expenses

	Years Ended December 31,	
	2017	2016
CONTRACTED SERVICES		
Administration (AWC)	\$ 3,448,436	\$ 3,117,064
Administration (NWA)	473,011	474,720
Consultant services	364,469	214,952
Legal fees	41,671	76,632
Audit fees	31,204	30,106
Custodial fees	4,825	4,562
TOTAL CONTRACTED SERVICES	4,363,616	3,918,036
GENERAL AND ADMINISTRATIVE EXPENSES		
Postage	59,798	81,195
Member education/training	61,187	67,560
Publication and dues	64,709	66,237
Printing and publications	49,364	46,066
Travel and training	37,984	39,478
Communications and marketing	39,191	25,114
Board E&O, fiduciary insurance, HIPAA security	23,624	24,071
State risk manager fee	23,307	23,307
Board & officer expense/training	9,216	22,066
Advisory committee	9,123	17,678
TOTAL GENERAL AND ADMINISTRATIVE EXPENSES	377,503	412,772
CLAIMS EXPENSES		
Claims expense	185,862,059	190,656,460
ASO fees	10,659,496	10,386,866
TOTAL CLAIMS EXPENSES	196,521,555	201,043,326
FEES AND STOP LOSS INSURANCE		
ACA reinsurance	54,292	701,190
Stop loss insurance	582,279	661,206
TOTAL FEES AND STOP LOSS INSURANCE	636,571	1,362,396
TOTAL OPERATING EXPENSES	\$ 201,899,245	\$ 206,736,530

