



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

December 21, 2023

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 financial statements of the Association of Washington Cities Employee Benefit Trust Health Care Program for the fiscal year ended December 31, 2022 and 2021. The Group contracted with the CPA firm for this audit and requested that we accept it 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,

Pat McCarthy, State Auditor
Olympia, WA

Americans with Disabilities

In accordance with the Americans with Disabilities Act, we will make this document available in alternative formats. For more information, please contact our Office at (564) 999-0950, TDD Relay at (800) 833-6388, or email our webmaster at webmaster@sao.wa.gov.



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, 2022 and 2021



MOSSADAMS

Table of Contents

	Page
Report of Independent Auditors	1
Management's Discussion and Analysis	4
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Notes to Financial Statements	12
Required Supplementary Information	
Reconciliation of Claims Liabilities by Type of Contract	23
Ten-Year Claims Development Information	24
Supplemental and Other Information	
List of Participating Members (Unaudited)	27
Schedule of Expenses	33
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34

Report of Independent Auditors

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Association of Washington Cities Employee Benefit Trust Health Care Program, a component of the Association of Washington Cities Employee Benefit Trust ("the HCP") as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the HCP's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position the Association of Washington Cities Employee Benefit Trust Health Care Program as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards (Government Auditing Standards)*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the HCP and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter – Reporting Entity

The financial statements present only the HCP, and do not purport to, and do not, present fairly the financial position of the Association of Washington Cities Employee Benefit Trust as of December 31, 2022 and 2021 the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 HCP's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and risk pools information as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplemental and Other Information

Our audit was conducted for the purpose of forming opinion on the financial statements that collectively comprise the Association of Washington Cities Employee Benefit Trust Health Care Program's basic financial statements. The schedule of participating members and schedule of expenses are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information in the schedule of expenses has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of schedule of expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2023, on our consideration of the Association of Washington Cities Employee Benefit Trust Health Care Program'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 solely 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 the effectiveness of the Association of Washington Cities Employee Benefit Trust Health Care Program's 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 Association of Washington Cities Employee Benefit Trust Health Care Program's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Tacoma, Washington
September 27, 2023

Management's Discussion and Analysis

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, 2022 and 2021. 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.

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 members are made up of cities, towns, and other local governmental entities throughout the state of Washington. The HCP's general objectives are to provide quality medical, dental, and vision coverage to its members in an efficient and cost-effective manner through timely information, technical assistance, member education, and advocacy.

Financial Highlights

- The assets of the HCP exceeded its liabilities at the close of 2022 and 2021 by \$55,939,380 and \$45,713,238, respectively (*net position*).
- As of December 31, 2022 and 2021, the actuarial estimate for claims Incurred but Not Paid (IBNP) is \$25,429,000 and \$21,532,000, respectively.

Overview of the Financial Statements

The discussion and analysis are 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 required supplementary and other supplemental 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 year. 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.

Association of Washington Cities Employee Benefit Trust

Health Care Program

Management's Discussion and Analysis

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.

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 \$55,939,380 and \$45,713,238 at December 31, 2022 and 2021, respectively.

By far the largest portion of the HCP's assets reflects cash and investments (70% - \$65,233,870 of \$93,045,094 as of December 31, 2022, and 80% - \$64,145,888 of \$80,616,135 as of December 31, 2021). 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 \$25,429,000 and \$21,532,000 at December 31, 2022 and 2021, respectively.

HCP – NET POSITION

	December 31,	
	2022	2021
Total assets	\$ 93,045,094	\$ 80,616,135
Total liabilities	37,105,714	34,902,897
Net position available for benefits	\$ 55,939,380	\$ 45,713,238

The net position, totaling \$55,939,380 and \$45,713,238 as of December 31, 2022 and 2021, respectively, may be used to meet the HCP's ongoing obligations to creditors. Total assets increased approximately \$12.4 million from 2021 to 2022, this increase is primarily due to an increase in the amount due from the Association of Washington Cities Employee Benefit Trust of approximately \$7.3 million and a stop loss receivable of \$3 million. Total liabilities increased approximately \$2.2 million in 2022, this increase is primarily due to an increase in the incurred but not paid claims liability of \$3.9 million.

Association of Washington Cities Employee Benefit Trust

Health Care Program

Management's Discussion and Analysis

Changes in Net Position

The HCP net position increased \$10,226,142 and decreased \$791,712 in 2022 and 2021, respectively. The key element of these changes is attributed to changes in claim activity.

HCP – Changes in Net Position

	Year Ended December 31,	
	2022	2021
Operating revenues	\$ 241,864,673	\$ 224,320,727
Operating expenses	230,360,516	224,947,086
Nonoperating revenues (expenses)	(1,278,015)	(165,353)
Change in net position	<u>\$ 10,226,142</u>	<u>\$ (791,712)</u>

Operating expenses increased by approximately \$5.4 million, which is primarily due to an increase of \$4.8 million in claims expense.

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. During 2022, the market conditions declined, resulting in investment losses.

Request 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

Financial Statements

Association of Washington Cities Employee Benefit Trust
Health Care Program
Statements of Net Position
December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Cash and cash equivalents	\$ 25,356,100	\$ 23,261,423
Investments, at fair value	<u>39,782,767</u>	<u>40,834,734</u>
Receivables		
Due from Association of Washington Cities		
Employee Benefit Trust	21,585,355	14,257,789
Prescription drug rebate	2,251,749	1,500,423
Member contributions	756,671	352,456
Stop loss	3,093,687	-
Other	-	200,817
Accrued interest	<u>95,003</u>	<u>49,731</u>
Total receivables	<u>27,782,465</u>	<u>16,361,216</u>
Other assets	<u>123,762</u>	<u>158,762</u>
Total assets	<u>93,045,094</u>	<u>80,616,135</u>
LIABILITIES		
Accounts payable claims	7,484,480	10,765,240
Incurred but not paid (IBNP)	25,429,000	21,532,000
Accounts payable for administrative expenses	807,614	394,231
Accounts payable for administrative services only fees	104,593	55,390
Unearned revenue	<u>3,280,027</u>	<u>2,156,036</u>
Total liabilities	<u>37,105,714</u>	<u>34,902,897</u>
NET POSITION AVAILABLE FOR PLAN BENEFITS	<u><u>\$ 55,939,380</u></u>	<u><u>\$ 45,713,238</u></u>

See accompanying notes.

Association of Washington Cities Employee Benefit Trust
Health Care Program
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2022 and 2021

	2022	2021
OPERATING REVENUES		
Member contributions	\$ 241,813,908	\$ 224,320,727
Registration fees and sponsorships	50,765	-
Total operating revenues	<u>241,864,673</u>	<u>224,320,727</u>
OPERATING EXPENSES		
Claims expense	209,878,942	205,065,381
Administrative services only fees	12,316,328	12,352,397
Reinsurance and stop loss premiums and fees	2,014,855	1,475,543
Administrative expenses	<u>6,150,391</u>	<u>6,053,765</u>
Total operating expenses	<u>230,360,516</u>	<u>224,947,086</u>
OPERATING INCOME (LOSS)	<u>11,504,157</u>	<u>(626,359)</u>
NONOPERATING EXPENSES		
Investment expenses	<u>(1,278,015)</u>	<u>(165,353)</u>
CHANGE IN NET POSITION AVAILABLE FOR BENEFITS	10,226,142	(791,712)
TOTAL NET POSITION, beginning of year	<u>45,713,238</u>	<u>46,504,950</u>
TOTAL NET POSITION, end of year	<u><u>\$ 55,939,380</u></u>	<u><u>\$ 45,713,238</u></u>

See accompanying notes.

Association of Washington Cities Employee Benefit Trust
Health Care Program
Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from members	\$ 239,691,579	\$ 225,821,056
Cash payments for claims	(209,262,702)	(194,033,547)
Cash payments for administrative service only fees	(12,267,125)	(13,441,334)
Cash payments for reinsurance and stop loss premiums and fees	(2,014,855)	(1,475,543)
Cash payments for operating expenses	(6,453,334)	(6,517,895)
Net cash flows from operating activities	<u>9,693,563</u>	<u>10,352,737</u>
CASH FLOWS USED IN FINANCING ACTIVITIES		
Net decrease in due to/from the Trust	<u>(7,327,566)</u>	<u>(7,901,280)</u>
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES		
Purchase of investments	(27,436,197)	(35,530,974)
Sale of investments	27,164,877	35,758,446
Investment income	-	213,000
Net cash flows from (used in) investing activities	<u>(271,320)</u>	<u>440,472</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,094,677	2,891,929
CASH AND CASH EQUIVALENTS, beginning of year	<u>23,261,423</u>	<u>20,369,494</u>
CASH AND CASH EQUIVALENTS, end of year	<u><u>\$ 25,356,100</u></u>	<u><u>\$ 23,261,423</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES		
Operating income (loss)	\$ 11,504,157	\$ (626,359)
Adjustments to reconcile operating income to net cash flows from operating activities		
Increase in prescription drug rebate receivable	(751,326)	(272,890)
Decrease (increase) in member contribution receivable	(404,215)	223,376
Decrease in stop loss receivable	(3,093,687)	1,436,572
Increase in other receivable	200,817	(200,817)
Increase in other assets	35,000	(133,820)
Increase (decrease) in claims payable	(3,280,760)	5,368,834
Increase (decrease) in administrative fees only payable	49,203	(1,088,937)
Decrease in accounts payable for expenses	413,383	(57,420)
Increase in unearned revenue	1,123,991	41,198
(Decrease) increase in incurred but not paid (IBNP)	<u>3,897,000</u>	<u>5,663,000</u>
Net cash flows from operating activities	<u><u>\$ 9,693,563</u></u>	<u><u>\$ 10,352,737</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS		
Unrealized loss on investments	<u><u>\$ (1,323,287)</u></u>	<u><u>\$ (370,130)</u></u>

See accompanying notes.

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). An affiliated organization, the Association of Washington Cities (AWC) owns the offices occupied by the HCP and performs various administrative services for the HCP. The HCP is governed by a separate Board of Directors. 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, 2022 and 2021, 263 and 261 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/Asuris Northwest Health and Kaiser Permanente members.

The HCP financial statements include only the Association of Washington Cities Employee Benefit Trust Health Care 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*, and 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 such as claims that have been incurred but not paid (IBNP), 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.

Association of Washington Cities Employee Benefit Trust

Health Care Program

Notes to Financial Statements

Cash and cash equivalents – The HCP considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Treasury bills are considered highly liquid investments with the intent to be used within three months or less from the time of purchase and are reported as cash and cash equivalents in the financial statements.

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 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 trends, 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.

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 IBNP estimate 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 BlueShield/Asuris Northwest Health 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.

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 HCP reports a receivable for stop loss recovery amounts expected to be received subsequent to year end that relate to current year claims. The individual and aggregate stop loss limits are negotiated annually based on the size of the group.

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

The following shows the stop loss policies in effect during the 2022 policy year:

Insurance Company	Type of Coverage	Individual Deductible	Aggregate
United States Fire Insurance Company	Regence BlueShield/Asuris Northwest Health Excess Loss, Medical, Vision, Rx	\$ 1,500,000	200% of expected claims
United States Fire Insurance Company	Kaiser Permanente Excess Loss, Medical, Rx	\$ 1,500,000	200% of expected claims

The following shows the stop loss policies in effect during the 2021 policy year:

Insurance Company	Type of Coverage	Individual Deductible	Aggregate
Commencement Bay Risk Management	Regence BlueShield/Asuris Northwest Health Excess Loss, Medical, Vision, Rx	\$ 1,500,000	200% of expected claims
Companion Life Insurance Company	Kaiser Permanente Excess Loss, Medical, Rx	\$ 1,000,000	200% of expected claims

Stop loss recoveries are netted against claims expense on the statement of changes in net assets available for benefits and were approximately \$4,094,000 and \$730,000 for the years ended December 31, 2022 and 2021, respectively.

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 for the subsequent year.

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.

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

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 – Investments

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.

As permitted by state law, investments of the HCP's funds are in U.S. Government agency securities as allowed by Chapter 39.59 RCW. All cash and cash equivalents are insured and registered or held by the HCP or its agent in the HCP's name.

The framework for measuring fair value provides a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

The three levels of the fair value hierarchy are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the HCP has the ability to access.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Association of Washington Cities Employee Benefit Trust

Health Care Program

Notes to Financial Statements

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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2022 and 2021.

U.S. government agency securities – Included in U.S. government agency securities are treasury notes and other U.S. government agency and asset-backed securities. U.S. treasury notes are valued using the face value of the note, which is considered level 1. The remaining securities are valued using various inputs which are derived from observable data, which are considered level 2.

The following table discloses, by level, the HCP's investments at fair value as of December 31, 2022 and 2021:

Fair Value Measurement at December 31, 2022				
	Level 1	Level 2	Level 3	Total
U.S. Government agency securities	\$ 18,335,099	\$ 21,447,668	\$ -	\$ 39,782,767
Total investments at fair value	<u>\$ 18,335,099</u>	<u>\$ 21,447,668</u>	<u>\$ -</u>	<u>\$ 39,782,767</u>
Fair Value Measurement at December 31, 2021				
	Level 1	Level 2	Level 3	Total
U.S. Government agency securities	\$ 22,803,088	\$ 18,031,646	\$ -	\$ 40,834,734
Total investments at fair value	<u>\$ 22,803,088</u>	<u>\$ 18,031,646</u>	<u>\$ -</u>	<u>\$ 40,834,734</u>

Association of Washington Cities Employee Benefit Trust

Health Care Program

Notes to Financial Statements

As of December 31, 2022, the HCP had the following investments:

Investments	Maturities	Face Values December 31, 2022	Fair Values December 31, 2022
FED HOME LN BK	3/23/2026	\$587,520	\$584,927
FED HOME LN BK	3/17/2025	1,000,000	915,130
FEDERAL HOME LOAN BANK	12/9/2024	645,942	647,010
FED HOME LN BK	9/29/2026	500,000	441,035
FEDERAL HOME LOAN BANK	6/14/2024	801,216	800,968
FED HOME LN MTG CORP POOL #ZS7541	10/1/2031	112,315	99,730
FED HOME LN MTG CORP POOL #SB0381	7/1/2032	133,794	119,156
FED HOME LN MTG CORP POOL #SB8500	7/1/2035	304,748	263,911
FED HOME LN MTG CORP POOL #SB8506	2/1/2036	302,934	259,473
FED FARM CREDIT BK	8/10/2023	499,625	486,985
FED FARM CREDIT BK	10/5/2023	749,438	723,533
FED FARM CREDIT BK	10/15/2024	499,625	462,770
FED FARM CREDIT BK	11/4/2024	998,850	924,980
FED FARM CREDIT BK	4/21/2025	999,500	908,570
FED FARM CREDIT BK	5/6/2025	800,000	730,632
FED FARM CREDIT BK	11/23/2026	450,410	442,765
FEDERAL FARM CREDIT BANK	3/6/2024	650,195	640,965
FEDERAL FARM CREDIT BANK	11/18/2024	498,100	499,380
FED HOME LN MTG CORP POOL #RD5039	10/1/2030	250,209	222,505
FED HOME LN MTG CORP	10/27/2025	292,744	291,584
FED HOME LN MTG CORP	10/22/2025	391,918	390,395
FED HOME LN MTG CORP	11/25/2024	1,000,000	921,950
FED NATL MTG ASSN	12/16/2024	750,000	690,240
FED NATL MTG ASSN	7/25/2023	139,237	139,657
FANNIEMAE-ACES	4/25/2023	15,073	14,898
FED NATL MTG ASSN	6/25/2024	399,081	399,212
FEDERAL NATIONAL MORTGAGE ASSN	8/25/2024	197,352	196,027
FANNIEMAE-ACES	6/25/2025	207,455	189,365
FANNIEMAE-ACES	7/25/2024	31,152	31,369
FED HOME LN MTG CORP	1/25/2023	448,807	433,686
FED HOME LN MTG CORP	2/25/2023	796,037	760,284
FED HOME LN MTG CORP	4/25/2023	229,667	225,963
FED HOME LN MTG CORP	4/25/2023	230,983	231,297
FED HOME LN MTG CORP	5/25/2023	323,267	313,873
FED HOME LN MTG CORP	7/25/2023	419,094	396,064
FHLMC MULTIFAMILY STRUCTURED P	8/25/2023	216,527	209,748
FED NATL MTG ASSN POOL #BM4151	6/1/2032	125,535	111,908
FEDL NATL MTGE ASSN POOL #BM4155	8/1/2032	424,875	428,837
FEDL NATL MTGE ASSN POOL #CA4266	10/1/2034	387,801	388,949
FEDL NATL MTGE ASSN POOL #CA4261	10/1/2034	382,601	383,730
FED NATL MTG ASSN POOL #CA7470	10/1/2035	368,837	317,088
FED NATL MTG ASSN POOL #FM1161	1/1/2033	120,934	107,546
FEDL NATL MTGE ASSN POOL #FM3090	4/1/2035	435,378	432,404
FEDL NATL MTGE ASSN POOL #FS2505	1/1/2037	433,950	434,471
FEDL NATL MTGE ASSN POOL #FS2729	1/1/2037	334,243	334,324
FEDL NATL MTGE ASSN POOL #FS2822	11/1/2034	754,060	743,435
FEDL NATL MTGE ASSN POOL #FS2823	2/1/2034	110,559	111,418
FEDL NATL MTGE ASSN POOL #FS2932	1/1/2037	383,893	383,972
FEDL NATL MTGE ASSN POOL #FS3004	3/1/2036	208,256	210,990
FED NATL MTG ASSN POOL #MA2739	9/1/2031	86,151	76,805
FREDDIE MAC - SLST	9/25/2030	290,054	250,059
GOVT NATL MTG ASSN II POOL #785476	3/20/2071	313,983	306,287
GOVERNMENT NATIONAL MORTGAGE ASSN	1/20/2072	414,628	414,022
US TREASURY NOTE	1/31/2023	100,056	100,020
US TREASURY NOTE	3/15/2024	249,521	237,003
US TREASURY NOTE	5/15/2024	5,134,691	4,851,938
US TREASURY NOTE	5/31/2023	2,764,029	2,730,377
US TREASURY NOTE	10/15/2024	1,809,725	1,755,676
US TREASURY NOTE	10/31/2023	365,708	365,299
UNITED STATES TREASURY NOTES	5/15/2025	7,897,675	8,193,756
UNITED STATES TREASURY NOTES	7/31/2024	104,516	102,416
			<u>\$39,782,767</u>

Association of Washington Cities Employee Benefit Trust

Health Care Program

Notes to Financial Statements

As of December 31, 2021, the HCP had the following investments:

Investments	Maturities	Face Values December 31, 2021	Fair Values December 31, 2021
US TREASURY NOTE	5/31/2023	\$11,345,538	\$11,284,489
US TREASURY NOTE	5/15/2024	5,264,179	5,212,965
US TREASURY NOTE	2/28/2022	4,093,814	4,046,706
US TREASURY NOTE	3/15/2024	2,180,818	2,158,889
FED HOME LN MTG CORP	2/25/2023	1,155,703	1,135,400
FED HOME LN BK	3/17/2025	1,000,000	986,280
FED HOME LN MTG CORP	11/25/2024	1,000,000	984,440
FED FARM CREDIT BK	11/4/2024	998,850	984,130
FED FARM CREDIT BK	4/21/2025	999,500	983,640
FED FARM CREDIT BK	5/6/2025	800,000	789,272
FED FARM CREDIT BK	10/5/2023	749,438	745,523
FED NATL MTG ASSN	12/16/2024	750,000	741,165
FED HOME LN MTG CORP	10/25/2022	623,792	615,358
FANNIEMAE-ACES	4/25/2023	529,907	532,588
FED FARM CREDIT BK	8/10/2023	499,625	497,360
FED HOME LN BK	9/29/2026	500,000	493,775
FED FARM CREDIT BK	10/15/2024	499,625	492,155
FHLMC MULTIFAMILY STRUCTURED P	8/25/2022	479,553	478,723
FED HOME LN MTG CORP POOL #RC1498	8/1/2035	477,675	471,898
FHLMC MULTIFAMILY STRUCTURED P	3/25/2022	456,818	453,527
GOVT NATL MTG ASSN II POOL #785476	3/20/2071	438,049	435,886
FED NATL MTG ASSN POOL #CA7470	10/1/2035	433,565	429,940
FED NATL MTG ASSN POOL #FM1660	8/1/2032	418,604	414,280
FED HOME LN MTG CORP	7/25/2023	419,094	411,936
FED HOME LN MTG CORP	1/25/2023	414,009	407,788
FED HOME LN MTG CORP	8/25/2022	409,938	403,628
FED HOME LN MTG CORP POOL #SB8500	7/1/2035	368,102	361,026
FED HOME LN MTG CORP POOL #SB8506	2/1/2036	357,978	353,339
FED HOME LN MTG CORP POOL #RC1546	9/1/2035	351,301	349,839
FREDDIE MAC - SLST	9/25/2030	361,170	348,905
FED HOME LN MTG CORP POOL #RD5039	10/1/2030	322,667	318,495
FED NATL MTG ASSN POOL #FM4965	12/1/2035	292,452	288,166
FANNIEMAE-ACES	6/25/2025	260,502	260,446
FED HOME LN MTG CORP	9/25/2024	242,719	236,522
FED NATL MTG ASSN	12/27/2022	199,887	198,368
FED HOME LN MTG CORP POOL #J32743	9/1/2030	182,643	180,894
FED HOME LN MTG CORP POOL #SB0381	7/1/2032	171,724	170,128
FED HOME LN MTG CORP	5/25/2023	168,444	165,075
FANNIEMAE-ACES	10/25/2022	161,597	161,169
FED NATL MTG ASSN POOL #FM1161	1/1/2033	162,073	160,165
FED NATL MTG ASSN POOL #BM4151	6/1/2032	158,826	157,215
FED HOME LN MTG CORP POOL #ZS7541	10/1/2031	145,478	144,047
FED NATL MTG ASSN POOL #MA2739	9/1/2031	110,306	109,227
US TREASURY NOTE	1/31/2023	100,056	100,039
FANNIEMAE-ACES	2/25/2023	96,032	95,833
FANNIEMAE-ACES	5/25/2022	72,622	72,323
FHLMC MULTIFAMILY STRUCTURED P	1/25/2022	11,866	11,772

\$40,834,734

Custodial credit risk – This risk demonstrates that in the 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 investments of \$39,782,767 and \$40,834,734 in debt securities and obligations of the U.S. Treasury are held at the Federal Reserve as of December 31, 2022 and 2021, respectively, there is limited exposure to custodial credit risk.

Association of Washington Cities Employee Benefit Trust

Health Care Program

Notes to Financial Statements

For the HCP's cash balances, 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 cash 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, 2022 and 2021, \$24,530,989 and \$22,557,912, respectively, of the HCP's bank balances were exposed 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. Government agencies and certain other U.S. Government sponsored corporations, certificates of deposit, and other evidence 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, 2022 and 2021, 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, 2022 and 2021:

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.

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 IBNP 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.

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

Note 6 – Related Party Transactions

An affiliated organization, AWC, owns the offices occupied by the HCP and performs various administrative services for the HCP. The HCP is billed monthly for the costs of these services and has reimbursed the AWC for the following expenses:

	<u>2022</u>	<u>2021</u>
Administrative	\$ 2,782,334	\$ 2,706,675
Personnel costs	1,275,203	1,328,022
Member education and training	129,856	118,723
E&O and cyber liability insurance	-	59,495
Publication and dues	29,033	16,614
Staff travel	41,932	16,491
Miscellaneous	-	14,847
Communications and marketing	20,989	11,905
Consultants	280	-
Postage	17,998	5,917
Printing	188	266
Board and committee expense	<u>22,595</u>	<u>184</u>
Total	<u><u>\$ 4,320,408</u></u>	<u><u>\$ 4,279,139</u></u>

Services payable to AWC were \$386,137 and \$383,190 at December 31, 2022 and 2021, respectively.

During 2022 and 2021, 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, 2022 and 2021, the Trust owed the HCP \$21,585,355 and \$14,257,789, respectively, which is included as receivable on the statement of net position.

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

	<u>2022</u>	<u>2021</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 32,297,240	\$ 21,265,406
Incurred claims and claim adjustment expenses		
Provision for insured events of the current year	<u>209,878,942</u>	<u>205,065,381</u>
Total incurred claims and claim adjustment expenses	<u>242,176,182</u>	<u>226,330,787</u>
Payments for claims and claims adjustment expenses		
Attributable to insured events of the current year	(176,965,462)	(172,768,141)
Attributable to insured events of prior years	<u>(32,297,240)</u>	<u>(21,265,406)</u>
Total payments	<u>(209,262,702)</u>	<u>(194,033,547)</u>
Total unpaid claims and claim adjustment expenses at the end of the year	<u><u>\$ 32,913,480</u></u>	<u><u>\$ 32,297,240</u></u>

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, 2022 and 2021, the actuarially determined amount for the IBNP is \$25,429,000 and \$21,532,000, respectively.

Note 9 – Risks and Uncertainties

The actuarial present value of benefit obligations and IBNP is reported based on certain assumptions pertaining to interest rates, health care inflation rates, employee demographics, and claims payment history, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near-term would be material to the financial statements.

Required Supplementary Information

Association of Washington Cities Employee Benefit Trust
Health Care Program
Required Supplementary Information
December 31, 2022

Reconciliation of Claims Liabilities by Type of Contract

The schedule below presents the changes in the claims liabilities for December 31, 2022, for the HCP's three types of contracts: medical, dental, and vision health care benefits.

	Medical 2022	Dental 2022	Vision 2022	Total
Unpaid claims and claim adjustment expenses at beginning of year	\$ 31,174,494	\$ 802,329	\$ 320,417	\$ 32,297,240
Incurred claims and claim adjustment expenses				
Provision for insured events of the current year	193,271,339	14,595,060	2,012,543	209,878,942
Total incurred claims and claim adjustment expenses	224,445,833	15,397,389	2,332,960	242,176,182
Payments for claims and claims adjustment expenses				
Attributable to insured events of the current year	(161,525,009)	(13,763,987)	(1,676,466)	(176,965,462)
Attributable to insured events of prior years	(31,174,494)	(802,329)	(320,417)	(32,297,240)
Total payments	(192,699,503)	(14,566,316)	(1,996,883)	(209,262,702)
Total unpaid claims and claim adjustment expenses at the end of the year	\$ 31,746,330	\$ 831,073	\$ 336,077	\$ 32,913,480

The schedule below presents the changes in the claims liabilities for December 31, 2021, for the HCP's three types of contracts: medical, dental, and vision health care benefits.

	Medical 2021	Dental 2021	Vision 2021	Total
Unpaid claims and claim adjustment expenses at beginning of year	\$ 19,875,789	\$ 1,045,884	\$ 343,733	\$ 21,265,406
Incurred claims and claim adjustment expenses				
Provision for insured events of the current year	189,909,646	13,142,525	2,013,210	205,065,381
Total incurred claims and claim adjustment expenses	209,785,435	14,188,409	2,356,943	226,330,787
Payments for claims and claims adjustment expenses				
Attributable to insured events of the current year	(158,735,152)	(12,340,196)	(1,692,793)	(172,768,141)
Attributable to insured events of prior years	(19,875,789)	(1,045,884)	(343,733)	(21,265,406)
Total payments	(178,610,941)	(13,386,080)	(2,036,526)	(194,033,547)
Total unpaid claims and claim adjustment expenses at the end of the year	\$ 31,174,494	\$ 802,329	\$ 320,417	\$ 32,297,240

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

Association of Washington Cities Employee Benefit Trust
Health Care Program
Required Supplementary Information
December 31, 2022

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 10 years. Since this is the ninth year for self-funding, the information within this table is limited to nine 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 10 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 10 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, 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 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
December 31, 2022

ASSOCIATION OF WASHINGTON CITIES EMPLOYEE BENEFIT TRUST										
HEALTH CARE PROGRAM (in thousands)										
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
1. Required contribution and investment revenue:										
Earned	-	200,520	211,528	207,361	212,962	207,155	222,925	216,680	224,155	240,536
Ceded	-	465	577	661	582	610	906	1,145	1,396	1,933
Net earned	-	200,055	210,951	206,700	212,380	206,545	222,019	215,535	222,759	238,603
2. Unallocated expenses	-	15,124	15,343	15,419	15,455	15,260	15,999	15,783	15,783	18,549
3. Estimated claims and expenses, end of policy year:										
Earned	-	183,521	192,639	191,874	191,574	188,430	207,756	181,604	198,050	208,755
Ceded	-	610	-	-	-	8,656	6,944	218	730	(4,094)
Net earned	-	182,911	192,639	191,874	191,574	179,774	200,812	181,386	197,320	212,849
4. Net paid (cumulative) as										
End of policy year	-	167,722	178,271	177,343	178,291	167,620	186,653	170,883	183,093	188,840
One year later	-	182,333	191,149	189,371	190,169	183,669	199,229	186,187	197,915	
Two years later	-	182,246	191,351	189,354	190,024	183,538	199,025	186,842		
Three years later	-	182,194	191,244	189,140	189,966	183,608	199,000			
Four years later	-	182,149	191,244	190,717	189,966	183,608				
Five years later	-	182,149	191,191	190,717	189,966					
Six years later	-	182,149	191,191	190,717						
Seven years later	-	182,149	191,191							
Eight years later	-	182,149								
Nine years later	-									
5. Reestimated ceded claims and expenses	-	610	-	-	-	8,656	6,944	218	730	4,094
6. Reestimated net incurred claims and expenses										
End of policy year	-	182,911	191,395	191,874	191,574	179,774	200,812	181,386	197,320	204,661
One year later	-	181,728	190,890	189,297	190,224	183,669	199,201	186,297	198,087	
Two years later	-	181,636	191,351	189,354	190,024	183,538	199,025	186,842		
Three years later	-	181,584	191,244	189,140	189,966	183,608	199,000			
Four years later	-	182,149	191,244	190,717	189,966	183,608				
Five years later	-	182,149	191,191	190,717	189,966					
Six years later	-	182,146	191,191	190,717						
Seven years later	-	181,539	191,191							
Eight years later	-	182,149								
Nine years later	-									
7. Increase (decrease) in estimated net incurred claims and expenses from end of policy year	-	(762)	(1,448)	(1,158)	(1,608)	3,834	(1,812)	5,456	768	-

See report of independent auditors.

Supplemental and Other Information

Association of Washington Cities Employee Benefit Trust
Health Care Program
Supplemental and Other Information
December 31, 2022

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-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 Chehalis
City of Chelan
City of Cheney
City of Chewelah
City of Clarkston
City of Cle Elum
City of Clyde Hill
City of Colfax
City of College Place
Town of Colton
Columbia County Public Transportation
City of Colville
Town of Conconully

Association of Washington Cities Employee Benefit Trust
Health Care Program
Supplemental and Other Information
December 31, 2022

List of Participating Members (continued)

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 Darrington
City of Davenport
City of Dayton
City of Deer Park
City of Des Moines
Des Moines Pool Metropolitan Park District
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
City of Hoquiam
Housing Authority of the City of Pasco/Franklin Co

Association of Washington Cities Employee Benefit Trust
Health Care Program
Supplemental and Other Information
December 31, 2022

List of Participating Members (continued)

Housing Authority of Okanogan County
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
King County Regional Homelessness Authority
Kitsap Regional Library
Kitsap Transit
City of La Center
Town of La Conner
City of Lacey
Lacey Fire District
Town of LaCrosse
Lake Chelan Airport
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
City of Maple Valley
City of Marysville
Mason County Emergency Communications
Mason Transit Authority
City of McCleary
City of Medical Lake
City of Medina
City of Mercer Island
City of Mesa
Town of Metaline Falls
City of Mill Creek
City of Millwood
City of Milton
City of Monroe

Association of Washington Cities Employee Benefit Trust
Health Care Program
Supplemental and Other Information
December 31, 2022

List of Participating Members (continued)

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
City of Newcastle
City of Newport
City of Nooksack
NORCOM 911
City of Normandy Park
City of North Bend
City of North Bonneville
Northeast Tri County Health District
Northwest Clean Air Agency
City of Oak Harbor
Town of Oakesdale
City of Oakville
City of Ocean Shores
Town of Odessa
City of Okanogan
Okanogan County Transit Authority (TranGO)
City of Olympia
Olympic Region Clean Air Agency
City of Omak
City of Oroville
City of Orting
City of Pacific
City of Palouse
City of Pateros
Town of Pe Ell
Pierce County Library System
Pierce County Transit
City of Pomeroy
City of Port Angeles
City of Port Orchard
City of Port Townsend
City of Pullman
City of Rainier

Association of Washington Cities Employee Benefit Trust
Health Care Program
Supplemental and Other Information
December 31, 2022

List of Participating Members (continued)

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

Association of Washington Cities Employee Benefit Trust
Health Care Program
Supplemental and Other Information
December 31, 2022

List of Participating Members (continued)

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
City of Vader
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
West Plains Airport Area PDA
City of West Richland
Whatcom Council of Governments
Whatcom Transportation Authority
City of White Salmon
Whitworth Water District
Town of Wilbur
Town of Winthrop
City of Woodinville
Woodinville Water District
Town of Woodway
Tacoma-Pierce Co Emp/Trng Cnsrtm (WorkForce Central)
Town of Yacolt
Yakima Valley Emergency Management
Yakima Valley Conference of Governments
Town of Yarrow Point
City of Yelm

Association of Washington Cities Employee Benefit Trust
Health Care Program
Supplemental and Other Information
December 31, 2022

Schedule of Expenses

	2022	2021
CONTRACTED SERVICES		
Administration (Association of Washington Cities)	\$ 4,138,424	\$ 4,006,554
Administration (Outsourced Trust Administration)	1,054,412	1,038,577
Consultant services	253,662	353,128
Legal fees	49,332	144,709
Audit fees	23,569	33,878
	<u>5,519,399</u>	<u>5,576,846</u>
GENERAL AND ADMINISTRATIVE EXPENSES		
Member education/training	262,171	161,351
Postage	78,079	70,313
Program expenses	-	60,599
Board E&O, fiduciary insurance, HIPAA security	88,571	65,503
Publication and dues	50,608	31,343
Printing and publications	37,424	27,546
Communications and marketing	26,134	23,010
State risk manager fee	4,360	18,661
Travel and training	37,649	13,334
Other	5,142	3,689
Board and officer expense/training	19,984	1,353
Advisory committee	20,870	217
	<u>630,992</u>	<u>476,919</u>
CLAIMS EXPENSES		
Claims expense	209,878,942	205,065,381
Administrative services only fees	12,316,328	12,352,397
	<u>222,195,270</u>	<u>217,417,778</u>
FEES AND STOP LOSS INSURANCE		
ACA reinsurance	82,139	79,461
Stop loss insurance	1,932,716	1,396,082
	<u>2,014,855</u>	<u>1,475,543</u>
TOTAL OPERATING EXPENSES	<u><u>\$ 230,360,516</u></u>	<u><u>\$ 224,947,086</u></u>

Report of Independent Auditors 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*

The Board of Trustees

Association of Washington Cities Employee Benefit Trust Health Care Program

We have audited, in accordance with the 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 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), which comprise the statement of net position as of December 31, 2022, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Association of Washington Cities Employee Benefit Trust Health Care Program's basic financial statements, and have issued our report thereon dated September 27, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the HCP's internal control over financial reporting (internal control) as a basis for designing 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 HCP's internal control. Accordingly, we do not express an opinion on the effectiveness of the HCP'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 entity'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 were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Association of Washington Cities Employee Benefit Trust Health Care Program's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Moss Adams LLP".

Tacoma, Washington
September 27, 2023

