EGYPTIAN AREA SCHOOLS
EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

TABLE OF CONTENTS

	Page
Independent's Auditor's Report	1-3
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Audit Standards*	4-5
Management's Discussion and Analysis	6-10
Basic Financial Statements	
Statements of Net Position	12
Statements of Revenue, Expenses, and Changes in Net Position	13
Statements of Cash Flows	14-15
Notes to Financial Statements	16-25
Required Supplemental Information	
Claims Development Information	27
Statement of Reconciliation of Unpaid Claims and Claim Adjustment Expense Liability	28

Independent Auditor's Report

To the Board of Managers
of Egyptian Area Schools
Employee Benefit Trust
Belleville, Illinois

Report on the Financial Statements

We have audited the accompanying financial statements of Egyptian Area Schools Employee Benefit Trust as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Egyptian Area Schools Employee Benefit Trust'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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 judgement, 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 Trust'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 Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Egyptian Area Schools Employee Benefit Trust as of June 30, 2018 and 2017, and the respective changes in financial position and its cash flows, thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Claims Development Information and Statement of Reconciliation of Unpaid Claims and Claim Adjustment Expense Liability on pages 6-10, 27 and 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2019, on our consideration of Egyptian Area Schools Employee Benefit Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Egyptian Area Schools Employee Benefit Trust'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 Egyptian Area Schools Employee Benefit Trust's internal control over financial reporting and compliance.

Rice Sullivan, LLC

Swansea, Illinois
January 15, 2019

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Managers
of Egyptian Area Schools
Employee Benefit Trust
Belleville, Illinois

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 Egyptian Area Schools Employee Benefit Trust, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Egyptian Area Schools Employee Benefit Trust's basic financial statements and have issued our report thereon dated January 15, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Egyptian Area Schools Employee Benefit Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Egyptian Area Schools Employee Benefit Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Egyptian Area Schools Employee Benefit Trust'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 trust's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Egyptian Area Schools Employee Benefit Trust'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the trust'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 trust's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Rice Sullivan, LLC

Swansea, Illinois
January 15, 2019

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST

Management's Discussion and Analysis (M D & A)

June 30, 2018

Using this Annual Report

This annual report includes the following parts:

- Management's Discussion and Analysis;
- Basic Financial Statements, including the Statements of Net Position, Statements of Revenue, Expenses and Changes in Net Position, and Statements of Cash Flows;
- Notes to the Financial Statements;
- Required Supplementary Information.

This management's discussion and analysis provides a review of the Trust's financial condition and operating results for its fiscal years ending June 30, 2018 and 2017.

Basic Financial Statements

The Statements of Net Position present information regarding all of the Trust's assets and liabilities, with the difference between the two being reported as Net Position. Over time, increases or decreases in Net Position may provide a useful indicator regarding how the Trust is meeting the needs and expectations of its members.

The Statements of Revenue, Expenses and Changes in Net Position present the financial results of the Trust. This statement presents information showing how the Trust's Net Position changed during the most recent fiscal year. The Trust utilizes enterprise fund accounting and thus uses the accrual method of accounting. All changes in Net Position are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenue and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. loss and loss adjustment expenses, accrued investment income and reinsurance premiums payable).

The Statements of Cash Flows present the sources and uses of cash from operating activities, financing activities, and investing activities. This statement ends with the cash in the statements of net position. A reconciliation of operating income to cash provided by the operating activities is also presented.

The basic financial statements begin on page 12.

Notes to the Financial Statements

The notes provide additional information that is integral to a full understanding of the financial information presented in the financial statements. The notes to the financial statements begin on page 16.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this financial report also presents certain required supplementary information regarding the Trust's ten-year claims development history. Setting member contribution rates today to cover the assumed risk of possible future loss occurrences is largely guided by claim development. Analysis of trends in claims development indicates whether losses are increasing, decreasing, or remain constant. Required supplementary information is located on pages 27-28.

Overview

The Egyptian Area Schools Employee Benefit Trust (Trust) is a joint insurance pool operating under authority of the Illinois Intergovernmental Cooperation Act, 5 ILCS 220/6. Participation in the Trust is open to public school districts and regional offices of education in the State of Illinois. The Trust allows participating employers to jointly insure and self-insure and pool their funds and risks to provide comprehensive health benefits for employees on a collective basis. Dental, vision and life insurance benefits are offered on a fully insured basis. Medical and prescription drug coverage is provided on a self-insured basis. The Trust is controlled by a Board of Managers comprised of one representative from each participating employer.

By pooling their funds and risks, participating employers are able to provide cost-effective benefit programs uniquely designed to meet the needs of public school employees.

Administration

The Trust contracts with third party administrators and other service providers to administer the Trust. For many years, through August 31, 2017, the third party administrator was Meritain Health. Meritain provided comprehensive administrative services for the Trust, including member enrollment, billing and collection of contributions from participating employers, adjudication and payment of medical claims, liaison with insurers and other service providers, and financial administration. Effective September 1, 2017, the Board of Managers retained HealthSCOPE Benefits to replace Meritain for all administrative services previously provided by Meritain. Meritain continued through September 30, 2018, to process and pay medical claims incurred prior to September 1, 2017.

In December 2018 the Board of Managers voted to contract with Blue Cross Blue Shield of Illinois (BCBSIL) for its provider network and claims administration services effective March 1, 2019. BCBSIL will handle adjudication and payment of medical claims incurred on or after March 1, 2019. HealthSCOPE will continue to manage member enrollment, billing and collection of contributions from participating employers, provide financial administration services and act as liaison with insurers and other service providers. HealthSCOPE will also continue to process and pay medical claims incurred prior to March 1, 2019.

Financial Overview and Highlights

The analysis below presents a comparison of the Trust's current year financial position with the prior year.

	2018	2017
Assets		
Cash and cash equivalents	$16,997,376	$ 4,563,319
Investment securities – At fair value	6,312,206	4,033,736
Prescription drug rebates	2,987,896	2,369,348
Other assets	354,791	75,934
Total assets	26,652,269	11,042,337
Liabilities		
Deferred contribution revenue	3,255,290	3,378,490
Claims and claim adjustment expense reserves	20,800,000	13,000,000
Accounts payable and accrued expenses	164,566	100,010
Total liabilities	24,219,856	16,478,500
Net Position – Unrestricted	$ 2,432,413	$ (5,436,163)

Approximately 88% in 2018 and 78% in 2017 of total assets consist of cash, cash equivalents and investments. The Trust invests only in U.S. government and agency securities, certificates of deposits and money market funds. The only other sizeable assets at June 30, 2018 and June 30, 2017 were prescription drug rebate receivables.

Deferred contribution revenue represents amounts pre-paid by employers for contributions due for the following year. The claims reserve is the estimated amount required for incurred but unpaid claims, including claims received and not paid and claims incurred but not yet submitted. The claims reserve is determined and certified by the Trust's actuary in conformance with the relevant standards of practice promulgated by the Actuarial Standards Board. The actuary increased the claims reserve by $7.8 million, from $13 million at June 30, 2017 to $20.8 million at June 30, 2018, to account for an increase in payment lag resulting from a change in reimbursement methodology which caused substantial delays in paying claims and a very large number of claim adjustments following the move to HealthSCOPE. The decision to move to the BCBSIL provider network is expected to eliminate these issues and restore claim payments to historical patterns.

At June 30, 2018 the Trust had 8,627 covered employees and retirees and a total of 14,926 covered members, including dependents. At June 30, 2017, the Trust had 8,701 covered employees and retirees and a total of 15,036 covered members, including dependents.

The net position improved by $7,868,576 from June 30, 2017 to June 30, 2018.

The following table shows the major components of income from operations for the current year compared with the prior year.

	2018	2017
Operating Revenue		
Member contributions	$99,813,300	$93,161,121
Total operating revenue	99,813,300	93,161,121
Operating Expenses		
Claims paid by Trust (net of refunds)	67,632,815	73,407,634
Insurance premiums	8,845,900	19,340,727
Change in claims reserve	7,800,000	500,000
Administrative fees and expenses	7,705,506	6,526,021
Total operating expenses	91,984,221	99,774,382
Operating Income (Loss)	7,829,079	(6,613,261)
Nonoperating Revenue (Expenses)		
Investment earnings – Interest and dividends	83,225	86,810
Net realized and unrealized gains (losses) on investments	(43,728)	(85,724)
Total nonoperating revenue (expenses)	39,497	1,086
Change in Net Position	$ 7,868,576	$ (6,612,175)

The Trust purchases excess loss reinsurance from Aetna Life Insurance Company to mitigate the risk of extremely large claims for individual participants. Aetna will reimburse the Trust to the extent that claims paid on behalf of an individual participant exceed $600,000, after the aggregate amount of claims over $600,000 for one or more individuals exceeds $400,000. Reinsurance premiums totaled $538,953 and $634,451 for the years ended June 30, 2018 and June 30, 2017, respectively. The Trust was not eligible for reimbursement under the excess loss policy for either year.

All investments maintained by the Trust are reported at fair market value (marked to market). Annual changes in these values are recognized in the statements of revenue, expenses and changes in net position as net realized and unrealized gains (losses) on investments. Net realized and unrealized gains (losses) on investments totaled ($43,728) and ($85,724) for the years ended June 30, 2018 and June 30, 2017, respectively.

Total operating expenses of the Trust decreased by $7,790,161. The decrease is primarily due to the decision to discontinue insuring a portion of medical benefits for some employer groups through American Public Life Insurance Company (APL) effective August 31, 2017.

Economic Factors and Next Year's Rates

Participating employer contribution rates are established in May each year and effective for the 12-month period beginning September 1. Through most of the Trust's history, employer contribution rates were uniform for all participating employers, varying only by covered family

members and the benefit plans selected. In 2017, the Board of Managers engaged in an extensive analysis of ways to improve the Trust's funded status in view of changes in the commercial health insurance markets. The insurance markets have become increasingly competitive while school districts are under severe budget constraints. While the uniform rate structure worked well for the Trust for over 30 years, in the current environment participating employers with the best claims experience are being targeted by commercial insurers offering better premium rates, risking the loss of the Trust's best performing employer groups. At the same time, community rating rules that require insurers to offer guaranteed issue policies without underwriting to small employer groups create an opportunity for some small groups with very poor experience to obtain cheaper coverage outside the Trust despite adverse claims experience.

The Board analyzed the 5-year loss ratios for each participating employer and determined that some employers have consistently had superior loss ratios while others have consistently had very poor performance over the five-year period. This is in part due to the demographics of an employer's covered employees and dependents, but a more significant factor is the considerable variation in health costs in different geographic areas around the State of Illinois. Costs in metro areas with significant competition among health care providers are substantially lower than costs in outstate areas with very limited competition.

In view of this analysis, the Board decided to adopt a new rate structure in 2017. Instead of uniform rates for all employers, an employer's loss ratio over the recent 2.5-year period, excluding shock claims, was taken into account as one factor in setting premium rate increases effective September 1, 2017. The same methodology was used in setting premium rate increases effective September 1, 2018. Participating employers still benefit from pooling their risks and low overhead costs possible with a larger group. The objective is to make the Trust the most cost-effective solution for all participating employers relative to the alternatives available to them in the insurance market place. The Board believes this change in structure is essential to retaining good performing employer groups and attracting new groups for the long term success of the Trust. The decision to move to the BCBSIL provider network in 2019 is expected to further stabilize the Trust and attract new groups.

Contacting the Trust's Management

This financial report is intended to provide participating employers with a general overview of the Trust's finances and accountability for the revenue the Trust receives. Additional information regarding the Trust can be found on the Trust's website at www.egtrust.org. If you have questions about this report or need additional financial information, please contact:

Tom Dahncke: 618-791-5541
Leo Hefner: 618-973-8221
c/o HealthSCOPE Benefits
2350 S. 7th Street #100
St. Louis, MO 63104

BASIC FINANCIAL STATEMENTS

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
Current Assets		
Cash and cash equivalents	$ 16,997,376	$ 4,563,319
Investment securities - At fair value	6,312,206	4,033,736
Member contributions receivable	173,703	2,871
Other receivable	147,509	54,620
Prescription drug rebates	2,987,896	2,369,348
Accrued investment income	27,564	12,280
Total current assets	26,646,254	11,036,174
Other Assets		
Prepaid insurance	6,015	6,163
Total other assets	6,015	6,163
Total assets	26,652,269	11,042,337
Current Liabilities		
Accounts payable and accrued expenses	164,566	100,010
Claims and claim adjustment expense reserves	20,800,000	13,000,000
Deferred contribution revenue	3,255,290	3,378,490
Total liabilities	24,219,856	16,478,500
Net Position - Unrestricted	$ 2,432,413	$ (5,436,163)

See Notes To Financial Statements.

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Operating Revenue		
Member contributions	$ 99,813,300	$ 93,161,121
Total operating revenue	99,813,300	93,161,121
Operating Expenses		
Claims paid by Trust (net of refunds)	67,632,815	73,407,634
Change in claims reserve	7,800,000	500,000
Total claims and claim adjustment expenses	75,432,815	73,907,634
Group insurance premiums	6,148,797	5,571,160
APL premium expense	2,470,356	13,769,567
Tethered group payments	226,747	-0-
Member services	386,426	1,840,430
Administrative fees	2,771,108	2,374,431
PPO network expense	2,622,905	1,354,738
Audit fees	34,577	36,182
Actuarial fees	32,905	45,683
Legal fees	280,611	208,965
Other consulting fees	963,689	213,796
Bank trust fees	20,302	25,360
Rx consulting	489,738	35,634
Insurance	9,171	9,245
TRP fees	-0-	278,721
Chairman reimbursement - administration	3,600	3,600
Miscellaneous	84,484	93,120
Bank charges	5,990	6,116
Total operating expenses	91,984,221	99,774,382
Operating Income (Loss)	7,829,079	(6,613,261)
Nonoperating Revenue (Expenses)		
Investment earnings - Interest and dividends	83,225	86,810
Net realized and unrealized gains (losses) on investments	(43,728)	(85,724)
Total nonoperating revenue (expenses)	39,497	1,086
Change in Net Position	7,868,576	(6,612,175)
Net Position - Beginning of year	(5,436,163)	1,176,012
Net Position - End of year	$ 2,432,413	$ (5,436,163)

See Notes To Financial Statements.

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities		
Cash received from members	$ 99,519,268	$ 93,306,682
Cash received from reinsurance recoveries	-0-	-0-
Cash paid for claims	(70,502,402)	(85,728,382)
Cash paid for group insurance premiums	(6,148,797)	(5,571,160)
Cash paid for reinsurance premiums	(538,953)	(634,451)
Cash paid for administrative and general expenses	(7,640,802)	(6,450,453)
Net cash provided by (used in) operating activities	14,688,314	(5,077,764)
Cash Flows from Investing Activities		
Investment income received	67,941	100,445
Purchase of investments	(7,313,241)	(126,970)
Proceeds from sales and maturities of investments	4,991,043	4,790,695
Net cash provided by (used in) investing activities	(2,254,257)	4,764,170
Net Increase (Decrease) in Cash and Cash Equivalents	12,434,057	(313,594)
Cash and Cash Equivalents - Beginning of year	4,563,319	4,876,913
Cash and Cash Equivalents - End of year	$ 16,997,376	$ 4,563,319

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
A reconciliation of operating income to net cash provided by operating activities is as follows:		
Operating income	$ 7,829,079	$ (6,613,261)
Adjustments to reconcile operating income to net cash from operating activities:		
(Increase) decrease in assets:		
Member contributions receivable	(170,832)	695
Other receivable	(92,889)	(40,253)
Prescription drug rebates	(618,548)	854,621
Prepaid insurance	148	1
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	64,556	75,567
Claims and claim adjustment expense reserves	7,800,000	500,000
Deferred contribution revenue	(123,200)	144,866
Net cash provided by (used in) operating activities	$ 14,688,314	$ (5,077,764)
Supplemental Disclosure of Cash Flow Information -		
Noncash investing activities - Net unrealized gains (losses) and amortization on investments	$ 28,882	$ (70,013)

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1. Nature of Business and Significant Accounting Policies

The following description of the Egyptian Area Schools Employee Benefit Trust (the Trust) provides only general information. Participants should refer to the plan and plan documents for a complete description of the plan's provisions.

General - The Trust was formed on January 1, 1984 as a result of an agreement to provide health and dental care, and death benefits for eligible employees and their dependents. The Trust is a joint insurance pool that offers medical benefits to participating school districts in the State of Illinois administered by the Board of Managers of the Trust. The Trust Agreement establishing the Plan and Trust provides that contribution requirements are established and may be amended by the Board of Managers of the Trust. The Board of Managers of the Trust sets the contribution rates each year based on an actuarial valuation.

Benefits - Health costs incurred by participants and their dependents are partially covered by a stop-loss insurance policy detailed in Note 5 maintained by the Trust. Most health costs and prescription benefits are self-funded. Life, accidental death and dismemberment, vision and dental coverages are provided through group insurance contracts for active participants. The vision and dental insurance are voluntary products, elected separately by each participating employee.

To become initially eligible for benefits, a participant must have been employed by a contributing employer and be a full-time employee working at least 20 hours a week or the minimum hours set by the participating employer, if less.

Continuation of health care benefits to persons, who would otherwise lose those benefits due to certain events, as mandated by COBRA (Consolidated Omnibus Budget Reconciliation Act), was adopted by the Trust on July 1, 1986.

Termination Priorities - It is the intent of the Board of Managers to continue the Trust in full force and effect. However, in the unlikely event of termination and in order to safeguard against any unforeseen contingencies, the right to discontinue the Trust is reserved to the Board of Managers. In the event of termination, the Board of Managers shall first satisfy or make provisions to satisfy the obligations of the Trust. Any remaining assets will be distributed in such a manner as will, in the opinion of the Board of Managers, bring about the purpose of the Trust. Termination shall not permit any part of the Trust to be used for or diverted to purposes other than the exclusive benefit of the participants.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Districts may require their employees and/or retirees to pay some or all of the required contributions.

The only additional assessment to each district is a withdrawal liability that is charged to any member district leaving the Trust at a time when the Trust experiences a deficit fund balance. The number of active employees and retirees enrolled in the Trust at June 30, 2018 and 2017 was 8,627 and 8,701 with a total enrollment including dependents of 14,926 and 15,036, respectively. The enrolled participants at June 30, 2018 and 2017 include retirees receiving benefits totaling 148 and 123, respectively.

The accompanying basic financial statements are presented using the full accrual method of accounting in conformity with accounting principles generally accepted in the United States of America as applicable to governmental entities.

The Trust distinguishes operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services in connection with the Trust's principal ongoing operations. The principal operating revenue relates to member contributions. Operating expenses include claims and claim adjustment expenses and general and administrative expenses. All revenue and expenses not meeting this definition are reported as non-operating.

The Trust contracts with a third party administrator (TPA) to serve as the administrator of the Trust. Effective September 1, 2017, the Board of Managers retained HealthSCOPE Benefits to replace Meritain Health (an Aetna Company) for all administrative services previously provided by Meritain Health. Health claims of active and retired participants, dependents, and beneficiaries are processed by the third party administrator, but the responsibility for payments to participants and providers is retained by the Trust.

Cash Equivalents – Cash equivalents are liquid assets maturing no more than three months from purchase date and include money market investment pools.

Investments – Investments are stated at fair value, based on quoted market prices. Investment income is recognized when earned.

Investment Earnings – Investment earnings, including changes in fair value of investments, are recognized as nonoperating revenue (expenses) in the statement of revenue, expenses, and changes in net position.

Member Contributions Receivable – Member contributions receivable represent amounts due from members of the Trust and are considered collectible. Accordingly, the Trust has no allowance for doubtful accounts for financial reporting purposes.

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Claims and Claim Adjustment Expense Reserves – Claims and claim adjustment expense reserves represent the estimated liability for unpaid claims and related claim expenses from reported claims and claims incurred but not reported. Claims reserve is actuarially calculated and based on the historical paid claim development of the Trust. Claims payable and currently due for participants are not tracked separately. Claims that have been received but not processed are included in the claims reserve. The incurral date for a claim is defined to be the date of service of the claim. Paid claims are sorted by incurred date. Factors based on the Trust's claim development are applied to projected total incurred claims for each month. The liability is then the sum over all months of the excess of total estimated incurred claims for a month over the payments made. Since claim payments for the most recent month are not large enough to produce credible claim estimates using claim development factors, the incurred claim estimate for the most recent few months is based on alternative methods, such as trends or average claims per member per month. Changes to estimates are currently reflected in the statement of revenue, expenses, and changes in net position.

Membership Contributions – Member contributions are recognized under the accrual method of accounting and follow the provisions of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues.* Each of the 129 participating school districts contribute premiums based on the coverages requested by their employees. Member contributions are developed annually with assistance from the trusts actuary and reflect the amount to be contributed by members for payment of incurred claims, reinsurance expenses and related operating expenses. The contribution rates are adjusted annually on the 1st day of September of each trust year.

Use of Estimates – Management has made a number of estimates and assumptions, relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities, as of the statement of net position date and the amounts of revenue and expenses during the reporting period, in order to prepare these basic financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

Tax Status – The Trust is comprised of public school districts and is exempt from Federal and State income taxes. Management believes that the Trust continues to operate in a manner whereby it continues to be tax exempt.

Reclassifications - Certain reclassifications have been made to prior year financial statements in order for them to be in conformity with the current year presentation.

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 2. Deposits and Investments

The Trust designated Regions Bank and Regions Morgan Keegan Trust for the deposit of its funds and handling the investments for the Trust.

Deposits and investments are reported in the basic financial statements for June 30, 2018 as follows:

	Cash and Cash Equivalents	Investment Securities
Deposits – Cash	$ 15,507,399	$ -0-
Investments:		
Money market investment pools	1,489,977	-0-
U.S. Government obligations	-0-	3,157,007
Mortgage backed securities	-0-	1,993,361
Certificates of deposits	-0-	1,161,838
Total investments	1,489,977	6,312,206
Total	$ 16,997,376	$ 6,312,206

Deposits and investments are reported in the basic financial statements for June 30, 2017 as follows:

	Cash and Cash Equivalents	Investment Securities
Deposits – Cash	$ 2,798,784	$ -0-
Investments:		
Money market investment pools	1,764,535	-0-
U.S. Government obligations	-0-	4,015,360
Mortgage backed securities	-0-	18,376
Total investments	1,764,535	4,033,736
Total	$ 4,563,319	$ 4,033,736

Note 2. Deposits and Investments (Continued)

The Trust's cash and investments are subject to several types of risk, which are examined in more detail below.

Custodial Credit Risk of Bank Deposits – The Trust maintains balances in its deposit accounts to adequately cover current operating and claims payment expenses. At June 30, 2018 and 2017, the Trust had $15,257,399 and $2,548,784, respectively, of checking account deposits that were uninsured and uncollateralized.

Custodial credit risk is the risk that, in the event of a bank failure, the Trust's deposits may not be returned to it. The Trust's financial instruments that are exposed to concentrations of credit risk consist primarily of cash. The Trust places its cash with a high credit quality institution. At times such deposits may be in excess of the FDIC insurance limit.

Interest Rate Risk – Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates.

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

At June 30, 2018, the Trust had the following weighted average maturities of debt securities by investment type:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Government obligations	$ 3,157,007	2.19
Mortgage backed securities	1,993,361	2.57
Certificates of deposits	1,161,838	3.11

Note 2. Deposits and Investments (Continued)

At June 30, 2017, the Trust had the following weighted average maturities of debt securities by investment type:

Investment Type	Fair Value	Weighted Average Maturity (Years)
U.S. Agencies and pass-throughs	$4,033,736	1.80

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligations. In accordance with the Trust's investment policy, the Trust may invest in obligations of the U.S. Government and its Agencies.

At June 30, 2018 and 2017, the credit quality ratings of debt securities by investment type are as follows:

Investment Type-Rating	Fair Value 2018	Fair Value 2017
U.S. Agencies and pass-throughs:		
AAA	$ 5,150,368	$ 4,015,360
Not rated	1,161,838	18,376
Total	$ 6,312,206	$ 4,033,736

The rating organizations used by the Trust to rate its investments were Moody's and Standard and Poor's.

Note 2. Deposits and Investments (Continued)

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Trust places no limit on the amount it may invest in any one issuer.

At June 30, 2018, the Trust had investments in issuers greater than 5 percent of total investments as follows:

U.S. Government Obligations	$ 3,157,007	50%
Certificates of Deposits	1,161,838	18
Federal National Mortgage Association	978,053	16
Federal Farm Credit Bank	525,426	8
Federal Home Loan Bank	489,882	8
Total	$ 6,312,206	100%

At June 30, 2017, the Trust had investments in issuers greater than 5 percent of total investments as follows:

Federal Home Loan Mortgage Corporation	$1,558,701	39%
Federal Home Loan Bank	1,161,371	29
Federal National Mortgage Association	1,313,664	32
Total	$4,033,736	100%

Foreign Currency Risk

Foreign currency risk is the risk that an investment denominated in the currency of a foreign country could reduce its U.S. dollar value, as a result of changes in foreign currency exchange rates. The Trust had no foreign currency risk as of June 30, 2018.

Note 3. Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the basic financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Trust has the ability to access.

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 3. Fair Value Measurements (Continued)

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. No Level 2 inputs were available to the Trust.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset. No Level 3 inputs were available to the Trust.

The following table present information about the Trust's assets measured at fair value on a recurring basis as of June 30, 2018 and 2017:

Assets Measured at Fair Value on a Recurring Basis at June 30, 2018

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Balance at June 30, 2018
U.S. Government obligations	$ 3,157,007	$ 3,157,007
Mortgage backed Securities	1,993,361	1,993,361
Certificates of deposits	1,161,838	1,161,838
Total assets	$ 6,312,206	$ 6,312,206

Assets Measured at Fair Value on a Recurring Basis at June 30, 2017

Description	Quoted Prices in Active Markets for Identical Assets (Level 1)	Balance at June 30, 2017
U.S agencies and pass throughs	$ 4,033,736	$ 4,033,736
Total assets	$ 4,033,736	$ 4,033,736

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

Note 4. Claims and Claim Adjustment Expense Reserves

For known claims existing at June 30, the reserves are established based on known facts. For incurred but not reported reserves at year-end, estimates are based on a variety of actuarial and statistical techniques that reflect recent settlements, past claim experience, claim frequency and severity, and other economic factors. A provision for inflation in the calculation of estimated future claim costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Consistent with industry practices, adjustments to claims reserves are charged to expense in the periods in which the adjustments are made.

The following represents changes in claims and claim adjustment expense reserves for the fiscal years ended June 30, 2018 and 2017:

	2018	2017
Unpaid Claims and Claim Adjustment Expense Liability - Beginning of Year	$13,000,000	$12,500,000
Incurred Claims and Claim Adjustment Expenses		
Provision for insured events of the current fiscal year	83,140,109	84,314,313
Rx net refunds	(2,256,700)	(2,390,409)
Lag adjustments to Medical claims	-0-	(68,967)
APL Claim reimbursement	(3,404,402)	(7,293,972)
Change in provision for insured events of prior fiscal years	(623,698)	(653,331)
Total incurred claims and claim adjustment expense	76,855,309	73,907,634
Payments		
Claims and claim adjustment expenses attributable to		
Insured events of the current fiscal year	62,483,087	71,372,366
Rx net refunds	(2,256,700)	(2,390,409)
Lag adjustments to Medical claims	-0-	(68,967)
APL Claim reimbursement	(3,404,402)	(7,293,972)
Claims and claim adjustment expenses attributable to		
Insured events of the prior fiscal year	12,233,324	11,788,616
Total payments	69,055,309	73,407,634
Unpaid Claims and Claim Adjustment Expense Liability – End of Year	$20,800,000	$13,000,000

Reserves for claims and claim adjustment expenses attributable to covered events in prior years changed as a result of re-estimation of unpaid claims and claim adjustment expenses. This change is generally a result of ongoing analysis of recent loss development trends. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

Note 5. Stop-Loss Insurance

The Trust uses reinsurance to reduce its exposure to large specific and aggregate losses. These agreements permit recovery of a portion of its claims from reinsurers, although they do not discharge the Trust's primary liability for such payments. An agreement is in effect with Aetna Life Insurance Company of Connecticut for excess loss reinsurance. Under that agreement the reimbursement was for benefits paid on behalf of an individual participant in excess of $600,000, with an aggregating specific stop loss amount of $400,000. Premiums ceded to reinsurance carriers during the years ended June 30, 2018 and 2017 were $538,953 and $634,451, respectively. The proceeds from the reinsurance policy for years ended June 30, 2018 and 2017 were $0 and $0, respectively.

Note 6. Administrative Fees

The third party administrator (TPA) earns a fee as Administrator of the Trust through an agreement with the Board of Managers of the Trust. The agreement provides that the TPA is responsible for billing member employers, processing claims and performing other administrative duties. Administrative fees for the years ended June 30, 2018 and 2017 were $2,771,108 and $2,374,431, respectively.

Note 7. Subsequent Events

The Trust evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. The Trust has determined that there were no events that occurred that require additional disclosure. Subsequent events have been evaluated through January 15, 2019, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL INFORMATION

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

CLAIMS DEVELOPMENT INFORMATION
FISCAL AND POLICY YEARS ENDED JUNE 30 (UNAUDITED)
(IN THOUSANDS OF DOLLARS)

	2014	2015	2016	2017	2018
1) Required contribution and investment revenue:					
Earned	91,066	86,496	83,693	93,182	99,853
Ceded	5,203	5,407	6,896	19,340	8,846
Net earned	85,863	81,089	76,797	73,842	91,007
2) Unallocated expenses	513	1,584	957	679	1,822
3) Estimated claims and expenses, end of policy year					
Incurred	84,906	81,137	75,688	79,477	81,213
Ceded	184	297	178	-0-	-0-
Net incurred	84,722	80,840	75,510	79,477	81,213
4) Paid (cumulative) as of:					
End of policy year	70,898	75,778	61,676	63,856	59,079
One year later	76,240	81,711	73,188	75,937	
Two years later	76,266	81,744	73,340		
Three years later					
5) Reestimated ceded claims and expenses	184	297	178	-0-	-0-
6) Reestimated incurred claims:					
End of policy year	84,722	80,840	75,510	79,477	81,213
One year later	76,240	81,711	73,188	75,937	
Two years later	76,266	81,744	73,340	-0-	
Three years later	-0-	-0-	-0-		
7) Increase in estimated incurred claims	(8,456)	904	(2,322)	(3,540)	-0-

See Notes To Financial Statements.

EGYPTIAN AREA SCHOOLS EMPLOYEE BENEFIT TRUST
BELLEVILLE, ILLINOIS

STATEMENT OF RECONCILIATION OF UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSE LIABILITY
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
Unpaid Claims and Claim Adjustment Expense Liability - Beginning of Year	$ 13,000,000	$ 12,500,000
Incurred claims and claim adjustment expenses:		
Provision for insured events of the current fiscal year	83,140,109	84,314,313
Rx net refunds	(2,256,700)	(2,390,409)
Lag adjustments to medical claims	-	(68,967)
APL claim reimbursement	(3,404,402)	(7,293,972)
Change in provision for insured events of prior fiscal years	(623,698)	(653,331)
Total Incurred Claims and Claim Adjustment Expense	76,855,309	73,907,634
Payments		
Claims and claim adjustment expenses attributable to insured events of the current fiscal year	62,483,087	71,372,366
Rx net refunds	(2,256,700)	(2,390,409)
Lag adjustments to medical claims	-	(68,967)
APL claim reimbursement	(3,404,402)	(7,293,972)
Claims and claim adjustment expenses attributable to insured events of the prior fiscal year	12,233,324	11,788,616
Total Payments	69,055,309	73,407,634
Unpaid Claims and Claim Adjustment Expense Liability - End of year	$ 20,800,000	$ 13,000,000

See Notes to Financial Statements.