

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Financial Statements

For the Years Ended December 31, 2019 and 2018

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Independent Auditor's Report

**To the Cities' Municipal Employees' Benefit Trust Committee
Municipal Employees' Benefit Trust
Bellevue, Washington**

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Municipal Employees' Benefit Trust (the Trust), which comprise the statements of net position as of December 31, 2019 and 2018, and the related statements of changes net position for the years then ended, and the related notes to the financial statements.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Trust as of December 31, 2019 and 2018, and the changes in net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter - Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-4 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 operation, 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 Matter - Trust Financial Statements

The accompanying financial statements are those of the Trust, which is established under the employee retirement benefit plans (the Plans) of certain entities in the State of Washington as described in Note 1. These financial statements do not purport to present the net position available for benefits of the individual Plans and do not contain disclosures necessary for a fair presentation of the net position available for benefits of the individual Plans in accordance with accounting principles generally accepted in the United States of America.

Clark Nuber P.S.

Certified Public Accountants
August 12, 2020

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Management's Discussion and Analysis For the Years Ended December 31, 2019 and 2018

The following is an analysis and overview of the financial activities of the Municipal Employees' Benefit Trust (the "Trust") during the years ended December 31, 2019 and 2018. This analysis should be read in conjunction with the accompanying financial statements and the related notes which follow this section.

Overview of the Financial Statements

The following is intended to serve as an introduction to the Trust's financial statements. The basic financial statements contained in this report are described below:

- Statements of net position is a point in time snapshot of account balances at year-end. It reports the assets available for future benefit payments and any current liabilities that are owed as of the statement date.
- Statements of changes in net position displays the effect of transactions that occurred during the year [additions - deductions = net increase (decrease) in net position]. This net increase (decrease) in net position reflects the change in the net assets value of the statements of net position from the prior year to the current year.
- Notes to financial statements are an integral part of the financial statements and provide additional information that is essential for a comprehensive understanding of the data provided in the financial statements. These notes describe the accounting and administrative policies under which the Trust operates and provide additional levels of detail for selected financial statement items.

Net Position

The table below provides a summary of asset and liabilities as of December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Investments at fair value	\$ 877,436,642	\$ 746,905,424	\$ 801,495,851
Receivables	10,932,835	11,449,157	10,649,683
Liabilities	<u>(380,087)</u>	<u>(444,612)</u>	<u>(520,357)</u>
Net Position	<u>\$ 887,989,390</u>	<u>\$ 757,909,969</u>	<u>\$ 811,625,177</u>

Changes in Net Position

The table below provides a summary of the changes in net position and reflects the activities of the Trust for the years ended December 31:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Additions:			
Employer contributions	\$ 20,787,311	\$ 20,251,062	\$ 18,899,497
Employee contributions (includes rollovers)	24,215,117	22,953,648	22,403,718
Net investment earnings	<u>143,726,864</u>	<u>(37,690,749)</u>	<u>104,080,492</u>
Total Additions	<u>\$ 188,729,292</u>	<u>\$ 5,513,961</u>	<u>\$ 145,383,707</u>

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Management's Discussion and Analysis For the Years Ended December 31, 2019 and 2018

Changes in Net Position - Continued

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Deductions:			
Benefits paid and insurance premiums	\$ 56,712,212	\$ 57,101,946	\$ 48,374,622
Administrative expenses	<u>1,937,659</u>	<u>2,127,223</u>	<u>2,311,353</u>
Total Deductions	<u>\$ 58,649,871</u>	<u>\$ 59,229,169</u>	<u>\$ 50,685,975</u>
Net Increase (Decrease)	<u>\$ 130,079,421</u>	<u>\$ (53,715,208)</u>	<u>\$ 94,697,732</u>

Financial Highlights and Analysis

- The Trust's net position on December 31, 2019 was \$888 million. Net position increased by \$130.1 million (17.2%) during 2019 primarily due to investment gains. Favorable market conditions contributed to 2019 investment gains. Investment performance can vary from year to year depending on the market of the portfolio. With the help of the Trust's investment advisor, the investment advisory committee, and the trust committee, investment performance continues to be carefully monitored and investment replacements are made, when appropriate.
- The Trust's net position on December 31, 2018 was \$757.9 million. Net position decreased by \$53.7 million (6.6%) during 2018 primarily due to investment losses and increases in benefits paid to participants.
- In 2019, employer contributions increased by \$536,000 (2.6%) compared to 2018. In 2018, employer contributions increased by \$1.4 million (7.2%) compared to 2017.
- In 2019, employee contributions (including rollovers) increased by \$1.5 million (6.5%) compared to 2018. In 2018, employee contributions (including rollovers) increased by \$550,000 (2.5%) compared to 2017.
- Net investment income was \$143.7 million in 2019 compared to net investment losses of \$37.7 million in 2018 and net investment income of \$104.1 million in 2017.
- Benefits paid to participants decreased by \$446,000 (0.8%) in 2019 compared to 2018. Benefits paid to participants increased by \$8.6 million (18.6%) in 2018 compared to 2017. Benefits paid to participants can vary from year to year depending on the number of participants who terminate employment, the timing of when they elect to take a distribution, and the value of their account balance.
- Insurance premiums did not significantly change from 2018 or 2017. The decrease in administrative expenses in 2019 and 2018 are due to reductions in asset management fees.

Requests for Information

If you have questions about this report or need additional information, please contact the City of Bellevue's Senior Retirement Analyst at P.O. Box 90012, Bellevue, WA 98009.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

**Statements of Net Position
December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Assets:		
Investments at fair value-		
Mutual funds	\$ 660,117,375	\$ 556,840,214
Collective trust fund	122,579,885	106,575,398
Common and preferred stocks	91,650,975	80,856,941
Money market funds and cash	<u>3,088,407</u>	<u>2,632,871</u>
Total investments at fair value	877,436,642	746,905,424
Receivables-		
Employer contributions	173,864	388,636
Employee contributions	189,000	349,597
Accrued investment income	1,002,760	998,462
Notes receivable from participants	<u>9,567,211</u>	<u>9,712,462</u>
Total receivables	<u>10,932,835</u>	<u>11,449,157</u>
Total Assets	888,369,477	758,354,581
Liabilities:		
Accrued administrative fees	<u>380,087</u>	<u>444,612</u>
Total Liabilities	380,087	444,612
Net Position	<u>\$ 887,989,390</u>	<u>\$ 757,909,969</u>

See accompanying notes.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

**Statements of Changes in Net Position
For the Years Ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Contributions and Investment Returns:		
Contributions-		
Employer	\$ 20,787,311	\$ 20,251,062
Employee	24,169,892	22,690,325
Rollovers	45,225	263,323
	<u>45,002,428</u>	<u>43,204,710</u>
Investment income (loss)-		
Interest	519,925	430,098
Dividends	24,929,747	20,634,256
Net appreciation (depreciation) in fair value of investments	118,277,192	(58,755,103)
	<u>143,726,864</u>	<u>(37,690,749)</u>
Net investment income (loss)		
	<u>143,726,864</u>	<u>(37,690,749)</u>
Total Contributions and Investment Returns	188,729,292	5,513,961
Deductions:		
Benefits paid to participants	54,556,741	55,002,356
Insurance premiums	2,155,471	2,099,590
Administrative expenses	1,937,659	2,127,223
	<u>58,649,871</u>	<u>59,229,169</u>
Total Deductions	58,649,871	59,229,169
Net Increase (Decrease) in Net Position	130,079,421	(53,715,208)
Net Position:		
Beginning of year	757,909,969	811,625,177
End of Year	<u>\$ 887,989,390</u>	<u>\$ 757,909,969</u>

See accompanying notes.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

Note 1 - Overview/Description of the Trust

The following description of the Municipal Employees' Benefit Trust (the Trust) is provided for general information purposes only. More complete information regarding the Trust's provisions may be found in the Trust document and individual entity plan documents.

General - The Trust was created to manage the assets of the defined contribution retirement plans (the Plans) of certain entities in the State of Washington, which currently includes the cities of Bellevue, Edmonds, Federal Way, Kirkland, Mill Creek, Redmond, Woodinville and the North East King County Regional Public Safety Communication Agency (NORCOM) (collectively, the Cities). Each entity has an individual plan document, which governs its participation, contributions and disbursements. Each of the Cities withdrew from, or elected not to participate in, coverage under the Federal Old Age, Survivors, Disability and Health Insurance Act (Social Security). In lieu of such coverage, the Cities created the Plans, whereby both the employee and employer make contributions to the Plans to provide retirement, survivor and disability benefits otherwise provided by Social Security. The Trust is comprised of two levels of Social Security replacement. Regular employees participate in MEBT I with benefits invested primarily in a pooled balanced fund. Those participants nearing retirement may choose to invest in a short-term investment fund. Partially benefiting employees who are not eligible for PERS or LEOFF participate in MEBT II with benefits invested in a short-term investment fund. The Trust and Plans are not subject to the provisions of the Employee Retirement Income Security Act of 1974.

The Plans' Administration and Trustee - The Trust is administered by the Cities' Municipal Employees' Benefit Trust Committee (the Committee), which is appointed by the Bellevue City Manager. The Plans' investments are held under a trust agreement with Broadridge Matrix Trust Company (Broadridge Matrix). An Investment Advisory Committee (IAC), which consists of a member from each of the Cities, provides advice to the Committee on the Trust's investment activities. All members are voting members of the IAC if their entity has five or more years of membership in the Trust. A minimum of five IAC members need to be present to vote on a recommendation to be considered by the Trust. Each entity participating in the Trust has its own committee with the authority to amend their plan. There were 5,805 and 5,791 Trust participants on December 31, 2019 and 2018, respectively.

Eligibility - In each entity, all regular (40 hours per week) and part-time (20 hours per week) employees are immediately eligible upon the date of employment. With the exception of Edmonds, Federal Way, Woodinville and NORCOM, all temporary (hourly) employees are also eligible when hired. Bellevue and Redmond PERS hourly/partially benefited employees are not eligible. Effective January 1, 2019, Kirkland hourly employees were no longer eligible and instead allowed to participate in Social Security.

Contributions - The Plans generally provide that the employers make contributions equal to those that would be required had the Cities not withdrawn from or elected not to participate in Social Security. Employer contributions to the Plans, which are made according to each entity's Plan, are used to pay administrative expenses, operating costs and other employee benefits, including disability coverage for employees and survivor benefits to beneficiaries.

The Plans also require that the employees contribute 100% of the amount that would be required for Social Security, except for Bellevue, Kirkland and Redmond MEBT I employees, whose contributions to the Plans are optional. Depending on the individual entity's Plan, employees may make their contributions on a before or after tax basis. Additionally, depending on the individual entity's Plan, these employees may elect to make additional voluntary contributions to the Plans on a before or after tax basis, subject to certain conditions and restrictions, as defined in the Plans' documents and subject to certain requirements set forth by the Internal Revenue Code (IRC).

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

Note 1 - Continued

Participant Accounts - Each participant's account is credited with the participant's contribution and an allocation of (a) the respective entity's contribution, net of expenses and insurance premiums, (b) forfeitures of terminated participants' nonvested accounts and (c) Trust earnings or losses, participant fees or other listed items. Trust earnings or losses are reflected in each participant's account based on the daily change in the Trust's unit value. The benefit to which a participant is entitled is limited to the participant's vested account balance.

Vesting - Employee contributions to the Trust are fully vested at all times. Employer contributions are vested as follows for each entity:

Bellevue - Employer contributions are subject to a three-year graded vesting schedule.

Edmonds and Mill Creek - Employer contributions vest at 10% at the end of twelve months of participation and then at 1.25% for each additional month of participation. Employees become fully vested after seven years of participation.

Federal Way - Employer contributions vest at 20% per year and become fully vested after five years of service.

Kirkland, Redmond and NORCOM - Employer contributions vest at 20% after twelve months and at 1.66% for each additional month. Employees become fully vested after five years of service. Prior to 2019, employer contributions at Kirkland were subject to the same vesting schedule as Edmonds and Mill Creek.

Woodinville - Employer contributions are 100% vested at all times.

Forfeitures - Forfeitures become part of an unallocated account within each Plan, which is allocated to the Plans' respective participants on a periodic basis based on a prescribed formula related to employer contributions. Total forfeitures allocated in 2019 and 2018 were approximately \$565,000 and \$671,000, respectively.

Temporary/Hourly/Partially Benefited Employees - The Plans (except for the Plans of Edmonds, Federal Way, Woodinville and NORCOM) allow participation by temporary/hourly/partially benefited employees of the Cities. The part of the Plan for the temporary/hourly/partially benefited employees is commonly referred to as MEBT II with benefits invested in a short-term investment fund. Edmonds, Federal Way, Woodinville and NORCOM temporary/hourly employees are covered by Social Security. Effective January 1, 2019, Kirkland hourly employees were no longer eligible for MEBT II and instead allowed to participate in Social Security.

Benefit Payments - The Plans provide that participants may make withdrawals of basic and extra after tax contributions, subject to certain conditions and limitations outlined in the Plans' documents. In addition, the Plans provide that in the event of hardship (as defined in the Plans' documents), participants may make withdrawals from their before or after tax contributions, subject to certain limitations and restrictions. Upon termination of service, death, disability or retirement, participants or their beneficiaries may elect to receive their vested account balances in a lump-sum distribution, in monthly, quarterly, or annual installments, or in annuity payments as determined by provisions of the Plans.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

Note 1 - Continued

Notes Receivable From Participants - Bellevue, Federal Way, Kirkland and Redmond allow participants to obtain loans of up to 50% of their vested account balances, not to exceed \$50,000. The interest rate charged on loans is equal to the prime rate for the city of Federal Way and the prime rate plus 1.0% for the cities of Bellevue, Kirkland and Redmond.

Insurance Premiums - Most of the Cities have purchased survivor and disability insurance coverage for plan participants. The insurance carrier, The Standard Insurance Company, provides surviving beneficiaries with coverage in the event of death, and disabled participants with coverage in the event of a disabling condition, as described in such policy.

The premiums for these policies, with the exception of life insurance premiums at Edmonds and Woodinville, are deducted from the Cities overall contributions to the Plans, with the remainder deposited into the Trust. The cities of Edmonds, Woodinville and NORCOM replaced survivor insurance with term life insurance, which is wholly or partially paid by the employees on an after-tax basis.

Plan Termination - Although the Cities have no intent to do so, they have the right to reduce, suspend or completely discontinue contributions to the Plans. Upon such action by any participating entity, participant accounts related to that entity would become fully vested.

Investment Policy - The Committee has established an Investment Policy Statement. The approved target asset allocation of the Trust is as follows at December 31:

	<u>2019</u>	<u>2018</u>
Equities - domestic	32.45%	34.0%
Equities - international	20.30%	21.0%
Equities - emerging markets	5.25%	3.0%
Fixed income	31.00%	31.0%
Liquid alternatives	10.00%	10.0%
Cash equivalents	1.00%	1.0%

For any month-end allocation varying more than 20% from the target percentages, the Chair of the Committee may instruct the trustee to sell assets from the asset class in question, sufficient to bring that asset class back to within a 10% deviation from its target, and allocate to the other asset classes to bring those asset classes back towards their targets. A rebalance is not required if the allocation returns within the target percentages prior to rebalancing.

Note 2 - Significant Accounting Policies

Basis of Accounting - The accompanying financial statements are maintained on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

Note 2 - Continued

Use of Estimates - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Payment of Benefits - Benefit payments are recorded when paid. There was approximately \$920,000 and \$495,000 allocated to the accounts of persons who have elected to withdraw from the plan but have not yet been paid at December 31, 2019 and 2018, respectively.

Investment Valuation and Income Recognition - The Trust's investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Purchases and sales are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation or depreciation in the fair value of investments represents the change in fair value from the beginning to the end of the Trust's fiscal year or from the date of purchase to the end of the Trust's fiscal year, if purchased during the current year, plus realized gains and losses.

Notes Receivable From Participants - Notes receivable from participants are measured at their unpaid principal balance. Accrued but unpaid interest, if any, would not have a material impact on the Plan's financial statements. If a participant ceases to make loan repayments and the plan administrator deems the participant loan to be in default, the participant loan balance is reduced and a benefit payment is recorded.

Administrative Expenses - Several of the investment funds held by the Trust are subject to fees based on a percentage of invested assets, as disclosed in the fund's prospectus. All such fees are charged directly against the fund's investment performance and, therefore, are not separately disclosed in the accompanying financial statements. Costs for administering the Trust are paid by the Trust's assets. Transaction based fees for loans and distributions are charged directly to participant accounts.

Subsequent Events - The Cities have evaluated subsequent events through August 12, 2020, the date on which the financial statements were available to be issued.

Note 3 - Fair Value Measurements

U.S. GAAP provides the framework for measuring fair value. That framework provides a fair value 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).

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

Note 3 - Continued

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

Level 1 - Unadjusted quoted prices available in active markets for identical assets or liabilities;

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or

Level 3 - Unobservable inputs that are significant to the fair value measurement.

A financial instrument's level within the fair value hierarchy is based upon the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2019 and 2018.

Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily Net Asset Value (NAV) and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Collective Trust Fund - Valued at the NAV of units of a bank collective trust. The NAV, as provided by the fund's trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Participant transactions (purchases and sales) may occur daily.

Common and Preferred Stocks - Valued at the closing price reported on the active market on which the individual securities are traded.

Money Market Funds and Cash - Money market funds are valued at cost plus accrued interest, which approximates fair value. Cash is valued at cost, which approximates fair value.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

**Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018**

Note 3 - Continued

The following tables set forth by level, within the fair value hierarchy, the Trust's assets at fair value as of December 31:

	Fair Value Measurements as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 660,117,375	\$ -	\$ -	\$ 660,117,375
Common and preferred stocks	91,650,975			91,650,975
Money market funds and cash	3,088,407			3,088,407
Total Assets in the Fair Value Hierarchy	\$ 754,856,757	\$ -	\$ -	754,856,757
Investments measured at NAV ^(a)				122,579,885
Total Investments at Fair Value				\$ 877,436,642

	Fair Value Measurements as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 556,840,214	\$ -	\$ -	\$ 556,840,214
Common and preferred stocks	80,856,941			80,856,941
Money market funds and cash	2,632,871			2,632,871
Total Assets in the Fair Value Hierarchy	\$ 640,330,026	\$ -	\$ -	640,330,026
Investments measured at NAV ^(a)				106,575,398
Total Investments at Fair Value				\$ 746,905,424

(a) Investments that were measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of net assets.

The following sets forth additional disclosures of the Trust's investments, whose fair value is estimated using NAV per share (or its equivalent), as of December 31:

	2019 Fair Value	2018 Fair Value	Redemption Frequency	Redemption Notice Period
Collective trust fund- State Street S&P 500 Flagship Fund ^(b)	\$ 122,579,885	\$ 106,575,398	Daily	None

(b) The investment objective of the fund is to approximate as closely as practicable, before expenses, the performance of the S&P 500 Index over the long term. There were no unfunded commitments at December 31, 2019 and 2018.

MUNICIPAL EMPLOYEES' BENEFIT TRUST

Notes to Financial Statements For the Years Ended December 31, 2019 and 2018

Note 4 - Investments

Investment securities are exposed to various risks that can affect the value of the Trust's investments such as interest rate risk, credit risk, foreign currency risk, and concentration risk. The Trust invests in mutual funds, common and preferred stocks, and a collective trust fund. Common and preferred stocks and funds that have underlying holdings in equity securities respond to such factors as economic conditions, individual company earnings performance, and market liquidity, while underlying holdings in debt securities are particularly sensitive to credit risk and changes in interest rates.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a failure by a financial institution or a bank, the Trust may not be able to recover the value of its investments that are in the possession of an outside party. The Trust mitigates custodial credit risk by having its investments registered in the Trust's name.

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. As of December 31, 2019, the following investments represent 5% or more of the Trust's net position and are subject to interest rate risk:

Investment	Fair Value	Investment Maturities (in years)			
		0 - 3	3 - 5	5 - 10	>10
Fixed Income Mutual Funds-					
Double Line Total Return	\$ 50,119,009	\$ 20,273,139	\$ 17,987,713	\$ 10,489,908	\$ 1,368,249
PGIM Total Return Bond	51,322,556	11,783,659	12,661,275	17,552,314	9,325,308
PIMCO Income Fund	50,853,097		31,528,920	15,764,460	3,559,717
PIMCO Total Return	50,556,079	33,872,573	3,538,925	13,144,581	
	\$ 202,850,741	\$ 65,929,371	\$ 65,716,833	\$ 56,951,263	\$ 14,253,274

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely impact fair value of an investment. The Trust's currency risk exposures primarily reside within the non-U.S. equity and fixed income investment holdings. The Trust expects these fund managers to maintain adequately diversified portfolios to limit foreign currency risk.

Credit Risk - Credit risk exists when there is a possibility that the issuer or other counterparty to an investment may be unable to fulfill its payments on a security under the original term. As of December 31, 2019, the following investments represent 5% or more of the Trust's net position and are subject to credit risk:

Investment	Fair Value	Ratings						
		AAA	AA	A	BBB	BB	Below BB	Not Rated
Fixed Income Mutual Funds-								
Double Line Total Return	\$ 50,119,009	\$ 33,584,748	\$ 571,357	\$ 1,633,880	\$ 1,002,380	\$ 626,488	\$ 4,014,532	\$ 8,685,624
PGIM Total Return Bond	51,322,556	20,703,519	3,546,389	7,559,813	10,100,279	3,582,314	2,201,738	3,628,505
PIMCO Income Fund	50,853,097	19,245,859	2,819,368	3,867,440	4,713,792	4,911,549	15,295,089	
PIMCO Total Return	50,556,079	28,174,521	4,375,048	5,147,647	8,033,490	2,255,852	2,569,521	
	\$202,850,741	\$101,708,647	\$ 11,312,162	\$ 18,208,780	\$ 23,849,941	\$ 11,376,203	\$ 24,080,880	\$ 12,314,129

MUNICIPAL EMPLOYEES' BENEFIT TRUST

**Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018**

Note 4 - Continued

Concentrations - The following investments represent 5% or more of the Trust's net position as of December 31:

	<u>2019</u>	<u>2018</u>
State Street S&P 500 Fund	\$ 122,579,885	\$ 106,575,398
John Hancock International Growth Fund	71,404,407	57,433,435
MFS International Value Fund	70,760,466	58,677,306
Fidelity Mid Cap Index Fund	55,815,163	40,488,685
PGIM Total Return Bond Fund	51,322,556	47,256,516
PIMCO Income Fund	50,853,097	47,598,667
PIMCO Total Return Fund	50,556,079	47,670,657
Double Line Total Return Fund	50,119,009	47,664,242
American Funds New World Fund	44,797,924	*

* did not exceed 5% of the Trust's net position

Note 5 - Relative Share of the Trust Assets

The relative share of the Trust's assets for each entity is as follows at December 31:

	<u>2019</u>	<u>2018</u>
Bellevue	47.2%	47.5%
Redmond	19.4%	19.5%
Kirkland	15.8%	15.5%
Federal Way	7.3%	7.4%
Edmonds	7.1%	7.1%
NORCOM	1.3%	1.2%
Mill Creek	1.2%	1.1%
Woodinville	0.7%	0.7%
	<u>100.0%</u>	<u>100.0%</u>

Note 6 - Administrative Expenses

The administrative expenses charged directly to the Trust consist of the following for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Trustee and recordkeeper	\$ 557,436	\$ 489,975
Legal and accounting	122,034	116,975
Asset management and other	1,258,189	1,520,273
	<u>\$ 1,937,659</u>	<u>\$ 2,127,223</u>

MUNICIPAL EMPLOYEES' BENEFIT TRUST

**Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018**

Note 6 - Continued

Administrative expenses as a percentage of average net assets are as follows for the years ended December 31:

	<u>2019</u>	<u>2018</u>
Trustee and recordkeeper	0.07%	0.06%
Legal and accounting	0.01%	0.01%
Asset management and other	<u>0.15%</u>	<u>0.20%</u>
	<u>0.23%</u>	<u>0.27%</u>

Note 7 - Federal Income Taxes

Each entity has received a determination letter from the Internal Revenue Service (IRS) stating that its Plan qualifies for exemption from taxation. The Plans have been amended since receiving the latest determination letter; however, the Plan's administrators believe the Plans are designed in compliance with the applicable requirements of the IRC and are being operated as designed. Therefore, no provision for income taxes has been made in the accompanying financial statements.

The Plans are subject to audits by the IRS for certain tax periods based on applicable laws and regulations; however, there are currently no audits for any tax periods in progress.