

**EVERETT SCHOOL EMPLOYEE  
BENEFIT TRUST**

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**INDEPENDENT AUDITOR'S REPORT  
and  
FINANCIAL STATEMENTS**

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**FOR THE YEAR ENDED JUNE 30, 2014**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Everett School Employee Benefit Trust

We have audited the accompanying financial statements of Everett School Employee Benefit Trust (a nonprofit trust), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 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.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Everett School Employee Benefit Trust as of June 30, 2014, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis of Accounting**

We draw attention to Note 2 of the financial statements, which describes the change in basis of accounting. In Prior years the trust reported on the modified cash basis of accounting, effective July 1, 2013 the trust adopted accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

TOYER, DIETRICH & ASSOCIATES CPAs  
October 10, 2014

# EVERETT SCHOOL EMPLOYEE BENEFIT TRUST

## Statement of Financial Position

As of June 30, 2014

### Assets

Cash and Cash Equivalents		\$ 3,042,435
Investments at Fair Value		
Government Obligations	\$ 1,434,815	
Corporate Obligations	<u>3,554,800</u>	
Total Investments at Fair Value		4,989,615
Premiums Receivable		15,349
Prepaid Expense		<u>2,916</u>
Total Assets		<u>\$ 8,050,315</u>

### Liabilities

Accounts Payable	\$ 24,613	
Deferred Revenue - Cobra Premiums	2,163	
Deferred Revenue - Premiums	<u>1,942,929</u>	
Total Liabilities		\$ 1,969,705

### Net Assets

Unrestricted - Available for Benefits	<u>6,080,610</u>	
Total Liabilities and Net Assets		<u>\$ 8,050,315</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

# EVERETT SCHOOL EMPLOYEE BENEFIT TRUST

Statement of Activities  
For the Year Ended June 30, 2014

## Unrestricted Net Assets

### Unrestricted Revenue and Gains

Employer Contributions	\$ 17,478,805	
Employee Contributions	5,280,815	
Investment Earnings	53,625	
Net Appreciation in Market Value of Investments	<u>(13,029)</u>	
Total Unrestricted Revenue and Gains		\$22,800,216

### Expenses

Program Services		
Employee Benefits	22,507,882	
Wellness Program	<u>193,430</u>	
Total Program Services	22,701,312	
Supporting Services		
Administrative Expenses	<u>145,809</u>	
Total Expenses		<u>22,847,121</u>

Increase/(Decrease) in Unrestricted Net Assets	(46,905)
Increase/(Decrease) Temporary Restricted Net Assets	-
Increase/(Decrease) Permanently Restricted Net Assets	<u>-</u>
Increase/(Decrease) in Net Assets	(46,905)

Net Assets at Beginning of Year	<u>6,127,515</u>
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Net Assets at the End of Year	<u>\$ 6,080,610</u>
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THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

# EVERETT SCHOOL EMPLOYEE BENEFIT TRUST

## Statement of Functional Expenses For the Year ended June 30, 2014

	Program Services		Supporting Services	
	Employee Benefits	Wellness Program	Administrative	Total
Claims	\$ (2,232)			\$ (2,232)
Premiums	22,499,734			22,499,734
Prescriptions paid	(72)			(72)
Adjustment to IBNP Claims	(25,000)			(25,000)
Alere Wellbeing	1,230			1,230
Magellan Behavior	28,712			28,712
HealthForce		\$ 38,475		38,475
Weight Watchers	5,510			5,510
Administrative			\$ 21,897	21,897
Audit Fee			8,950	8,950
Bank Fees			4,986	4,986
Investment Fees			6,567	6,567
Legal Fees			33,069	33,069
Liability Insurance			6,494	6,494
Miscellaneous Expenses			11	11
Office and Printing Expenses			159	159
Wellness Program Salary		95,482		95,482
Wellness Program Expenses		59,067		59,067
Wellness Grant Expenses		406		406
Consultant Fees (Net)			49,092	49,092
Investment Consultant Fee			14,584	14,584
Total Expenses	<u>\$ 22,507,882</u>	<u>\$ 193,430</u>	<u>\$ 145,809</u>	<u>\$ 22,847,121</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

# EVERETT SCHOOL EMPLOYEE BENEFIT TRUST

## Statement of Cash Flows For the Year Ended June 30, 2014

Cash Flows From Operating Activities		
Increase/(Decrease) in Net Assets	\$ (46,905)	
Adjustments to Reconcile Increase/(Decrease) in Net Assets to Net		
Cash Provided by Operating Activities:		
Unrealized (Gain)/Loss on Investments	13,029	
(Increase) Decrease in Operating Assets		
Premiums Receivable	(15,349)	
Prepaid Expense	(2,916)	
Increase (Decrease) in Operating Liabilities		
Estimated Claims Payable	(25,000)	
Accounts Payable	24,613	
Deferred Revenue - Cobra Premiums	2,163	
Deferred Revenue - Premiums	<u>108,680</u>	
Net Cash Provided by Operating Activities		\$ 58,315
Cash Flows From Investing Activities		
Government Obligations, net	508,629	
Corporate Obligations, net	<u>(580,829)</u>	
Net Cash Used by Investing Activities		(72,200)
Cash Flows From Financing Activities		
Net Cash Provided by Financing Activities		<u>-</u>
Net Increase(Decrease) in Cash and Cash Equivalents		(13,885)
Beginning Cash and Cash Equivalents		<u>3,056,320</u>
Ending Cash and Cash Equivalents		<u>\$ 3,042,435</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

# EVERETT SCHOOL EMPLOYEE BENEFIT TRUST

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### NOTE 1: NATURE OF ORGANIZATION

#### Description of the Plan

The following description of the Everett School District Employee Benefit Trust (Trust) provides only general information. Participants should refer to the Plan Agreement for a complete description of the Plan's provisions.

#### General

The Trust provides health and death benefits covering substantially all active employees. The Trust is an agreement with the Everett Education Association and the Everett School District. The Trust is a governmental plan and is not subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

#### Benefits

The Trust provides medical, pharmacy, vision and dental benefits to eligible employees and their covered dependents as specified by the Trust. The Trust also offers life, accidental death and dismemberment, voluntary term life, long-term disability, short-term disability, long-term care and an employee assistance program. The trust has also incorporated a comprehensive wellness program to promote healthy lifestyles and reduce medical plan costs.

District employees who work a full-time equivalency (FTE) of .33 or greater and their dependents are eligible for medical and dental benefits. Until December 31, 2011 substantially all medical benefits provided under the Trust were self-funded through the trust and benefit claims were administered by Healthcare Management Administrators. The Plan paid premiums to Sun Life, an insurance provider to provide stop-loss coverage for medical claims incurred which exceed specified benefit amounts. At their option, participants may alternatively elect medical coverage under group insurance contracts with Group Health Cooperative of Puget Sound or United Healthcare. Beginning January 1, 2012 the Trustees elected to discontinue self-funding of medical benefits and selected plans through the Washington Education Association insured by Premiera Blue Cross to provide participants with a selection of medical insurance plans. Dental benefits are currently underwritten by Washington Dental Service and Willamette Dental. Long-term care benefits, underwritten by Unum, and other voluntary benefits are available to employees on a self-pay basis.

Life insurance benefits are provided under group insurance contracts with Metropolitan Life and are available to any eligible employee who works at least 17 ½ hours per week. Long-term disability benefits are currently underwritten by Standard Insurance and are available to all employees with an FTE of .75 or greater.

#### Contributions

Public school districts receive designated funds from the State to be used for employee health care benefits. These designated funds are determined as an amount as specified by the state per month per FTE for employees that meet the states' specific definition. The Everett Public School District contribution to the Trust each month is the same specified amount per month per FTE for all employees of the district for that month.

Employees contribute specified amounts depending on their choices of coverage and dependent elections. The contributions are determined annually by the trustees for full-time and less than full-time status employees.



# EVERETT SCHOOL EMPLOYEE BENEFIT TRUST

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

### Trust termination

The trust agreement shall continue in existence until such time as it is terminated by the District, Association, or both, upon written notice delivered to the Trustees and the other party. The Trustees, upon receipt of any direction from the District and Association upon termination, shall be under no duty to inquire into the propriety or validity thereof. Unless sooner terminated as provided above, the trust agreement and the Trust created hereby shall continue for such time as the benefits hereunder are to be provided and as long thereafter as may be necessary for liquidation and distribution of the assets of the Fund. Upon termination of the Trust for any reason, the Trustees shall make such distributions as they deem appropriate, after reserving from the assets of the Fund such amount as they reasonably shall deem necessary to provide for any sums chargeable against the Fund for which Trustees may be liable, or for payment of expenses in connection with the settlement of their accounts or otherwise, except the assets of the Fund upon such termination shall be used solely for providing benefits to participants and their dependents and beneficiaries and no part of the net earnings of the Fund shall inure, other than by payment of benefits, to the benefit of any private shareholder or individual.

## **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES**

### Method of Accounting

The financial statements of the Trust in prior years were prepared on the modified cash basis of accounting. Under this method, contributions and realized investment gains and losses are recognized when received and expenses are recognized when paid. Unrealized changes in the market value of investments are recognized when the Trust is valued at the end of any period. A benefit obligation is recorded to recognize the estimated liability for claims incurred but not reported, as determined by the Trust's actuary based on prior claim data and recent enrollment patterns. The Trust has elected to change accounting methods to generally accepted accounting principles effective July 1, 2013, contributions and investment earnings are recognized when earned and expenses are recognized when a liability is incurred. The effect of this change is a reduction of Net Asset on July 1, 2013 from \$7,961,764 as determined using the modified cash basis of accounting to \$6,127,515.

The Trust's investments are stated at fair value. Securities traded on the national securities exchange are valued at the last reported sales price on the last business day of the Trust year. Listed securities for which no sale was reported on that date are valued at the average of the last reported bid and asked prices.

### Trust benefits

Post retirement benefits to retirees and their beneficiaries and dependents are provided by the State, consequently, no liability related to such estimated future benefits are provided in these financial statements.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Estimated Claims Payable

A liability of \$25,000 was recognized on the June 30, 2013 financial statement for unpaid and potential unreported claims incurred prior to January 1, 2012 during the period when the Trust was self insured. Based on current experience with these claims the Board has determined that no additional claims are expected as of June 30, 2014, no liability is recognized as of June 30, 2014.

# **EVERETT SCHOOL EMPLOYEE BENEFIT TRUST**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014**

### **NOTE 3: TAX STATUS**

The trust established under the Plan to hold the Trust's assets is qualified pursuant to Section 501(c)(9) of the Internal Revenue Code, and accordingly, the Trust's net investment income is exempt from income taxes. The District obtained a favorable tax determination letter from the Internal Revenue Service and the District believes that the Trust, as amended, continues to qualify and to operate as designated.

### **NOTE 4: CONCENTRATIONS OF RISK**

The Trust's assets consist primarily of financial instruments including U.S. government and agency securities and certificates of deposit. The financial instruments may subject the Plan to concentrations of risk as, from time to time, cash balances exceed amounts insured by Federal Deposit Insurance Corporation, market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to change in market values.

### **NOTE 5: PARTIES IN INTEREST**

Everett School District employees provide certain accounting and administrative services to the Plan for which nominal fees are charged.

### **NOTE 6: SUBSEQUENT EVENTS**

In accordance with ASC 855, the Everett School Benefit Trust evaluated subsequent events through October 10, 2014, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.