

EVERETT SCHOOL EMPLOYEE
BENEFIT TRUST

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INDEPENDENT AUDITOR'S REPORT
and
FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2016

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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, 2016, 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

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 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, 2016, 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.

TOYER, DIETRICH & ASSOCIATES CPAs
October 7, 2016

EVERETT SCHOOL EMPLOYEE BENEFIT TRUST

Statement of Financial Position

As of June 30, 2016

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Assets

Cash and Cash Equivalents		\$ 2,321,051
Marketable Securities		
Government Obligations	\$ 1,874,601	
Corporate Obligations	<u>3,304,935</u>	
Total Marketable Securities		5,179,536
Premiums Receivable		2,636
Prepaid Expense		<u>2,917</u>
Total Current Assets		<u>7,506,140</u>
Total Assets		<u>\$ 7,506,140</u>

Liabilities

Accounts Payable	\$ 14,108	
Deferred Revenue - Cobra Premiums	7,719	
Deferred Revenue - Premiums	<u>2,097,241</u>	
Total Current Liabilities		\$ 2,119,068

Net Assets

Unrestricted - Available for Benefits	5,387,072
Increase/(Decrease) Temporary Restricted Net Assets	-
Increase/(Decrease) Permanently Restricted Net Assets	<u>-</u>
Total Net Assets	<u>5,387,072</u>
Total Liabilities and Net Assets	<u>\$ 7,506,140</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, 2016

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Unrestricted Net Assets Unrestricted Revenue and Gains

Employer Contributions	\$ 18,900,662
Employee Contributions	5,816,996
Investment Earnings	85,336
Net Realized Gain(Loss) on Marketable Securities	<u>(4,552)</u>

Total Unrestricted Revenue and Gains \$ 24,798,442

Expenses

Program Services	
Employee Benefits	25,003,436
Wellness Program	<u>118,278</u>
Total Program Services	25,121,714
Supporting Services	
Administrative Expenses	<u>138,511</u>

Total Expenses 25,260,225

Increase/(Decrease) in Unrestricted Net Assets from Operations (461,783)
Net Unrealized Gain(Loss) on Marketable Securities 33,655

Increase/(Decrease) in Unrestricted Net Assets (428,128)
Increase/(Decrease) Temporary Restricted Net Assets -
Increase/(Decrease) Permanently Restricted Net Assets -

Increase/(Decrease) in Net Assets (428,128)

Net Assets at Beginning of Year 5,815,200

Net Assets at the End of Year \$ 5,387,072

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, 2016

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	Program Services		Supporting Services	
	Employee Benefits	Wellness Program	Administrative	Total
Premiums	\$ 24,957,338	\$ -	\$ -	\$ 24,957,338
Prescriptions paid	-	-	-	-
Alere Wellbeing	411	-	-	411
Magellan Behavior	37,976	-	-	37,976
HealthForce	-	-	-	-
Weight Watchers	7,711	-	-	7,711
Administrative	-	-	21,723	21,723
Audit Fee	-	-	9,465	9,465
Bank Fees	-	-	5,402	5,402
Investment Fees	-	-	7,101	7,101
Legal Fees	-	-	22,656	22,656
Liability Insurance	-	-	6,946	6,946
Miscellaneous Expenses	-	-	13	13
Office and Printing Expenses	-	-	197	197
Wellness Program Salary	-	104,272	-	104,272
Wellness Program Expenses	-	14,006	-	14,006
Wellness Grant Expenses	-	-	-	-
Consultant Fees (Net)	-	-	47,508	47,508
Investment Consultant Fee	-	-	17,500	17,500
Total Expenses	<u>\$ 25,003,436</u>	<u>\$ 118,278</u>	<u>\$ 138,511</u>	<u>\$ 25,260,225</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

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Statement of Cash Flows For the Year Ended June 30, 2016

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Cash Flows From Operating Activities		
Increase/(Decrease) in Net Assets	\$ (428,128)	
Adjustments to Reconcile Increase/(Decrease) in Net Assets to Net		
Cash Provided by Operating Activities:		
Realized (Gain)/Loss on Investments	4,552	
Unrealized (Gain)/Loss on Investments	(33,655)	
(Increase) Decrease in Operating Assets		
Premiums Receivable	(1,876)	
Prepaid Expense	(1)	
Increase (Decrease) in Operating Liabilities		
Accounts Payable	(4,083)	
Deferred Revenue - Cobra Premiums	(2,020)	
Deferred Revenue - Premiums	94,305	
Net Cash Provided(Used) by Operating Activities		\$ (370,906)
Cash Flows From Investing Activities		
Government Obligations, net	371,705	
Corporate Obligations, net	(676,280)	
Net Cash Provided(Used) by Investing Activities		(304,575)
Cash Flows From Financing Activities		
Net Cash Provided by Financing Activities		-
Net Increase(Decrease) in Cash and Cash Equivalents		(675,481)
Beginning Cash and Cash Equivalents		<u>2,996,532</u>
Ending Cash and Cash Equivalents		<u>\$ 2,321,051</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, 2016

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NOTE 1: NATURE OF ORGANIZATION

Description of the Plan

The following description of the Everett School 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. At their option, participants may alternatively elect medical coverage under group insurance contracts with Group Health Cooperative of Puget Sound or United Healthcare. 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 Metropolitan Life 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.

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

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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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 are prepared on the accrual basis of accounting. Under the accrual basis of accounting, contributions and investment earnings are recognized when earned and expenses are recognized when a liability is incurred.

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.

Cash and Cash Equivalents

Cash and cash equivalent include cash on hand, demand deposits with banks and all highly liquid investments with original maturities of three months or less.

Marketable Securities

The Company's investments in debt securities are classified as available-for-sale. Available-for-sale securities are recorded at fair value on the balance sheet, with the change in fair value during the period excluded from earnings and recorded as a component of other comprehensive income until realized unless management estimates the decline in fair market to be other than temporary. Declines in fair market value that are other than temporary are included in earnings. Realized gains and losses, determined on the basis of the cost of specific securities sold, are included in earnings.

The investments are reviewed annually for impairment by management. No impairments were recognized by the Company during the year ended June 30, 2016.

Fair Value of Financial Instruments

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, *Fair Value Measurement*, defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

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FASB ASC 820 specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs). In accordance with FASB ASC 820, the following summarizes the fair value hierarchy:

Level 1 Inputs – Unadjusted quoted market prices for identical assets and liabilities in an active market that the Company has the ability to access.

Level 2 Inputs – Inputs, other than the quoted prices in active markets that are observable either directly or indirectly.

Level 3 Inputs – Inputs based on prices or valuation techniques that are both unobservable and significant to the overall fair value measurements.

The Trust identified only Marketable Securities (a Level 1 asset) as assets or liabilities that are required to be present at fair value on a recurring basis. Carrying values of non-derivative financial instruments, including cash, premiums receivable, prepaid expense, accounts payable and deferred premiums approximated their fair values due to the short maturity of these financial instruments.

Premiums Receivable

The Trust extends Cobra benefits to former employees. The balance receivable represents amounts owed to the trust from these former employees that have signed up for Cobra benefits.

Deferred Revenue

The Trust receives payments from the District and former employees that have signed up for Cobra benefits, for benefits to be provided in a future period.

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.

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 Trust to concentrations of risk as, from time to time, cash balances exceed amounts insured by Federal Deposit Insurance Corporation. Market value of securities is dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to change in market values.

Parties in Interest

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

Subsequent Events

In accordance with ASC 855, the Everett School Employee Benefit Trust evaluated subsequent events through October 7, 2016, the date these financial statements were available to be

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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2016

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issued. There were no material subsequent events that required recognition or additional disclosure in these financial statements.

NOTE 3: CASH AND CASH EQUIVALENTS

The Trust maintains its cash balances in one financial institution. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. At June 30, 2016 the Trust's uninsured cash balances totaled \$2,071,050.

NOTE 4: INVESTMENTS AT FAIR VALUE

Marketable securities have been classified according to management's intent as available for sale. The cost of securities and their approximate fair values are as follows:

	<u>Cost</u>	<u>Unrealized Gain(Loss)</u>	<u>Fair Value</u>
Government Obligations	\$1,895,881	\$(21,280)	\$1,874,601
Corporate Obligations	<u>3,250,000</u>	<u>54,935</u>	<u>3,304,935</u>
Total	<u>\$5,145,881</u>	<u>\$ 33,655</u>	<u>\$5,179,536</u>