



Financial Statements
September 30, 2014

City of Caldwell Employee Benefit Plan Trust

City of Caldwell Employee Benefit Plan Trust

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Independent Auditor's Report

To the Board of Trustees
City of Caldwell Employee Benefit Plan Trust
Caldwell, Idaho

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Caldwell Employee Benefit Plan Trust (the Plan), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Plan'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 audit. We conducted our audit 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 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 Plan'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 Plan'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 the City of Caldwell Employee Benefit Plan Trust as of September 30, 2014, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 24, 2014, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Plan's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Boise, Idaho
December 24, 2014

Trustees of the City of Caldwell Employee Benefit Plan Trust offer readers of these financial statements this narrative overview and analysis of the financial transactions and affairs of the Trust for the fiscal year ended September 30, 2014.

This report has been prepared in compliance with Idaho Code Section 41-4011 in which “within ninety (90) days after close of a fiscal year of the plan, the trustee shall prepare an annual statement in writing summarizing the financial transactions of the trust fund for such fiscal year and the financial condition of the trust at the end of such year in accordance with the requirements of this chapter and with generally accepted accounting principles”. The independent audit firm of Eide Bailly LLP completed the 2014 fiscal year audit. This audit is available in the office of the City Clerk, 411 Blaine Street, Caldwell, Idaho.

This audit report presents a Statement of Net Position and a Statement of Changes in Net Position. Total plan contributions and other revenues reduced by total deductions yield the change in net position which determines if plan funding adequately covers plan deduction each year. Over time, the Statement of Net Position measures the financial health of the plan. Net position is simply assets minus liabilities. The results of the 2014 fiscal year audit for the Trust are included within the financial statements, footnotes and audit opinion presented in this annual report.

FINANCIAL HIGHLIGHTS

- **Statement of Net Position:** Assets of the Trust exceeded its liabilities at September 30, 2014 resulting in net position of \$1,200,413 compared to prior year net position of \$642,428. Net position is made up entirely of cash.
- **Statement of Changes in Net Position:** At of September 30, 2014, trust contributions and other revenues totaled \$2,967,862 compared to prior year contributions of \$2,774,946. Trust deductions at September 30, 2014 totaled \$2,409,877 compared to prior year deductions of \$2,574,525. Current year changes in net position totaled \$557,985 compared to prior year changes in net position of \$200,451.
- **Reserves and Surplus:** The plan is required to maintain reserves in an amount as certified by a qualified actuary as being necessary for payment of claims liability and the equivalence of three (3) months of contributions for the current plan year. Claims liability certified by the actuary total \$183,774 while three (3) months of contributions for the current plan year total \$632,313. As of September 30, 2014, plan reserves & surplus (net position) is \$1,200,413 which is sufficient to cover approximately 50% of annual deductions and provides a surplus of \$568,100. A net position equal to 100% of annual plan deductions is the expectation of plan Trustees.

CURRENTLY KNOWN FACTS AND DECISIONS

Background

The City of Caldwell Employee Health Trust Plan was established April 1, 2008 as a self-funded plan and is registered with the State of Idaho Department of Insurance # 3926.

The Trust provides payment of "Eligible Expenses" incurred by plan participants for medical, dental, pharmacy, vision and other expenses incurred in the administration of the plan.

As of September 30, 2014 the plan covered 689 eligible participants and dependents.

Trustees meet once each quarter and include: ElJay Waite, Monica Jones; Ex-Officio Councilman Rob Hopper.

Initiatives & Activities

- Trustees negotiated a two-year contract with Regence BlueShield effective October 1, 2013. This renewal reduced annual reinsurance and administrative costs by \$78,887, which represents a 13% reduction.
- Plan contribution rates increased 5% in 2014 in anticipation of increasing health care costs.
- Medical claims and accruals are down by \$73,923, which is a 3.9% reduction from last year with only one reported claim over \$75,000. There were three (3) reported claims over \$75,000 in the prior year. Reinsurance and administrative expenses are down by \$90,725, which represents a 13.3% reduction. Contributions from all sources increased by \$180,239, which represents a 7% increase over prior year. Overall, contributions and other revenues exceeded deductions (change in net position) by \$557,985 as of September 30, 2014.
- Upon the recommendation of plan trustees, the City of Caldwell provides a Fitness Reimbursement Program and a Wellness Incentive Plan that promotes and encourages employees to be active and maintain healthy lifestyles. There was an increase in participation in the City's Wellness Incentive program from 62% in 2013 to 81% in 2014. Trustees believe that wellness initiatives will lower future medical expenses by eliminating many preventable illnesses and diseases.
- The Trustees continue to promote wellness programs, such as Specialty Select Prescription Plan, annual physicals, and annual dental checkups.
- Future initiatives to be introduced to the city include: promoting additional wellness measures, providing education to assist employees in managing their health and promoting healthy eating and exercise programs.
- Contracts with health care providers under the Trust meet or exceed requirements placed on health care plans under the Affordable Health Care Act.

FINANCIAL STATEMENTS

The financial statements of the Agency have been prepared in conformity with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

City of Caldwell Employee Benefit Plan Trust
Statement of Net Position
September 30, 2014

Assets		
Cash		<u>\$ 1,423,978</u>
Total assets		<u>1,423,978</u>
Liabilities		
Claims payable		39,791
Health claims incurred but not reported		<u>183,774</u>
Total liabilities		<u>223,565</u>
Net Position		<u><u>\$ 1,200,413</u></u>

City of Caldwell Employee Benefit Plan Trust
Statement of Changes in Net Position
Year Ended September 30, 2014

Additions	
Contributions	
Employer	\$ 2,728,039
Employees	198,152
COBRA	<u>20,237</u>
Total contributions	2,946,428
Rebates	<u>21,434</u>
Total additions	<u>2,967,862</u>
Deductions	
Insurance claim benefits	1,789,516
Change in IBNR	29,450
Administrative expenses	<u>590,911</u>
Total deductions	<u>2,409,877</u>
Net Change in Net Position	557,985
Net Position, Beginning of Year	<u>642,428</u>
Net Position, End of Year	<u><u>\$ 1,200,413</u></u>

Note 1 - Plan Description

The following description of the City of Caldwell Employee Benefit Plan Trust (the Plan) provides only general information. The Trust Agreement and Summary Plan Documents should be referred to for a more complete description of the Plan's provisions.

General

The Plan provides optional health care benefits to all full-time employees of the City of Caldwell (the City) who regularly work at least 32 hours per week, their dependents, or Cobra eligible participants from the City. Coverage commences on the first day of the month following a thirty-day waiting period.

Benefits

Medical and dental coverage is available to participants of the Plan. Medical coverage includes prescription drugs and vision coverage. Full time employees separated from the City may continue their coverage under the Plan for a fixed monthly contribution.

Self-Insured

All Plan benefits are self-insured. Regence Blue Shield of Idaho (contract administrator) and Delta Dental of Idaho (contract administrator), selected by the Plan Trustees, administers the benefits and receives a fee per covered employee for processing and paying benefit claims. Despite the Plan's utilization of third-party claim's processors, ultimate responsibility for payments to providers and participants is retained by the Plan.

The Plan utilizes a pharmacy benefit manager which periodically makes quarterly refunds to the Plan based on the Plan's actual utilization pattern of specific drugs.

All administrative fees and expenses are paid by the City through contributions to the Plan. Certain managerial and administrative services performed by the City are provided to the Plan without charge. In future years, the Plan may be charged an administrative fee for administrative services performed by the City.

Insurance Premiums

The Plan is insured by Regence BlueShield of Idaho against specific excess losses greater than \$75,000 and aggregate excess losses based on a set factor multiplied by the number of enrollees over twelve months.

Contributions

The coverage's are funded through contributions from the City, participating employees and other past employees under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) which related to the continuation of coverage under group health plans. Plan trustee's set funding requirements each year. City Council determines city and employee contribution rates to meet funding requirements.

Employee contributions were set by City Council. Approved employee contributions shall not exceed 15% of the additional contribution for dependent coverage over the base rate for employee coverage.

Plan Termination

Although the City has expressed no intent to do so, the Plan gives the City the right to terminate the Plan at any time. In the event of termination, the Plan's net assets would be paid out, as directed by the City, after providing for unpaid claims and expenses.

Recently Issued and Adopted Accounting Pronouncements

Beginning in fiscal year 2014, the Plan implemented GASB Statement No. 65 - *Items Previously Reported as Assets and Liabilities*, which clarifies the use of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. This statement requires certain items which were previously reported as assets and liabilities to be reported as deferred outflows of resources, deferred inflows of resources and as revenues or expenditures. The adoption of GASBS No. 65 did not have any impact on the Plan's financial statements.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The accounting and reporting policies of the Plan included in the accompanying financial statements conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Government Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units*.

The Plan is accounted for and reported as a fiduciary fund using the accrual basis of accounting. Under this method, revenues are recognized when they are earned, and expenses are recognized when they are incurred. The statements of net position and the statement of changes in net position display information about the Plan.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Significant estimates used in preparing these financial statements include those assumed in determining the incurred, but not reported claims liability. It is at least reasonably possible that the significant estimates used will change within the next year.

Cash and Cash Equivalents

Cash and cash equivalents represents cash and money market accounts on hand and in banks.

Prescription Rebates

Prescription rebates are recorded as revenue when received.

Payments for Benefits

Claim payments are recorded when paid by the third-party claims processor. Amounts due to claims processors that have yet to be reimbursed by the Plan are recorded as claims payable in the accompanying statement of net position.

Re-insurance premiums paid by the Plan are recorded as administrative expenses in the accompanying statement of changes in net position.

Expenses

Expenses of administering the Plan are the responsibility of the Plan.

Note 3 - Cash Equivalents

Deposit and Investment Policies

The City of Caldwell Employee Benefit Plan Trust Agreement allows investments in securities that are legal for investment of Plan funds under Idaho Code 50-1013 and Idaho Code 41-4009 and authorized in writing by a Trustee.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover the value of its deposits or collateral securities that are in the possession of an outside party. Cash assets are insured by Federal Depository Insurance Corporation up to \$250,000 and collateralized for any additional amounts. As of September 30, 2014, the bank balance was \$1,423,978, of which \$250,000 was covered by FDIC and \$1,173,978 was collateralized by a letter of credit from the Federal Home Loan Bank of Cincinnati held by U. S. Bank and assigned to the City of Caldwell for \$7,500,000.

Note 4 - Estimated Health Claims Incurred but Not Reported

Health claims incurred but not reported (IBNR) are claims that have occurred but are not settled and claims incurred but not reported. The liability is actuarially estimated based on historical claims experience and industry accepted actuarial methods and assumptions. The estimate is prepared by an independent actuarial firm, based on historical claims experience, plan enrollment, and processing lag times. Claims payable includes additional amounts separate from the incurred but not reported estimate as the claims payable relates to benefit payments known and processed by the contract administrator which are to be paid from the Plan following fiscal year-end. All unpaid claims as of September 30, 2014, are expected to be resolved in the subsequent year.

Changes in the unpaid health claims incurred but not reported in the year ended September 30, 2014 were:

<u>Fiscal Year</u>	<u>Balance October 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claims Payments</u>	<u>Balance September 30</u>
2014	\$ 154,324	\$ 1,818,966	\$ 1,789,516	\$ 183,774

Note 5 - Funding Policy

The City's policy is to make sufficient contributions to the Plan to pay the total claim obligations incurred during the plan year. As required by State of Idaho code, the Plan is required to maintain a surplus of at least a) the equivalence of three months of contributions for the current plan year; or b) 110% of the difference between the total dollar aggregate stop-loss attachment point plus costs of operation and the total dollar expected contributions for the current plan year. Net position at year end exceeds the requirement listed in a) above and therefore the Plan is compliant with statutorily mandated reserve requirements.



Other Information
September 30, 2014

City of Caldwell Employee Benefit Plan Trust



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 Trustees
City of Caldwell Employee Benefit Plan Trust
Caldwell, Idaho

We have audited, 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, the financial statements of City of Caldwell Employee Benefit Plan Trust (the Plan) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Plan's basic financial statements, and have issued our report thereon dated December 24, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness: 2014-A.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan'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*.

The Plan's Response to Findings

The Plan's responses to the findings identified in our audit are described in the schedule of findings and responses. The Plan's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Plan'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 Plan's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Boise, Idaho
December 24, 2014

Material Weakness

2014-A

Criteria:

Management should have an internal control system in place designed to provide for the preparation of the financial statements to be audited. This includes the ability to prepare the statement of net position and changes in net position and related footnotes. It also includes the ability to determine cash to accrual entries necessary for closing the financial period.

Condition:

The Plan does not have sufficient internal controls in place to provide for accrual basis financial statements to be audited without adjustment by the auditors. This circumstance is not unusual in an entity of this size.

Effect:

The absence of controls over the preparation of the financial statements increases the possibility that a misstatement of the financial statements could occur and not be prevented, or detected and corrected, by the Plan's internal controls.

Cause:

Claims due and payable on the final day of the year are a liability of the Plan but were not accrued as the cash was not paid to the claims processor until the subsequent period.

Recommendation:

A process should be put in place to ensure claims expense and claims payable cut off is considered at financial close for the fiscal year end.

Management's Response:

Paid claims are scheduled and monitored weekly. Staff forgot to check the report and record the accrual before the audit began. Staff has been trained on timely recording of year-end accruals. Management intends to train staff in the preparation of financial statements and eliminate this material weakness in future years.

Corrective Action Plan (CAP)

Action Planned in Response to Finding:

New staff has been trained on timely recording of year-end accruals. Deputy Treasurer will be trained in financial statement preparation before year-end.

Explanation of Disagreement:

None

Planned Completion for Corrective Action:

Management intends to complete corrective action before the end of the fiscal year.

Plan to Monitor Completion of Corrective Action:

Management will review year-end accruals before the audit begins each year.