

Financial Statements
September 30, 2013

**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 years ended September 30, 2013, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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, 2013, 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 Matters*Required Supplementary Information*

Management has omitted the management's discussion and analysis that the accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2013 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 reports 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.

Boise, Idaho
December 10, 2013

City of Caldwell Employee Benefit Plan Trust
Statement of Net Position
September 30, 2013

Assets		
Cash		<u>\$ 868,757</u>
Total assets		<u>868,757</u>
Liabilities		
Accounts payable		72,005
Health claims incurred but not reported		<u>154,324</u>
Total liabilities		<u>226,329</u>
Net Position		<u><u>\$ 642,428</u></u>

City of Caldwell Employee Benefit Plan Trust
Statement of Changes in Net Position
Year Ended September 30, 2013

Contributions	
Employer	\$ 2,529,252
Employees	191,768
COBRA	<u>45,169</u>
Total contributions	<u>2,766,189</u>
Other Income	
Rebates	<u>8,787</u>
Total other income	<u>8,787</u>
Deductions	
Insurance claim benefits	1,915,648
Change in IBNR	(22,759)
Administrative expenses	<u>681,636</u>
Total deductions	<u>2,574,525</u>
Changes in Net Position	200,451
Net Position, Beginning of Year	<u>441,977</u>
Net Position, End of Year	<u><u>\$ 642,428</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 Plan Agreement 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 a retiree 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 premium.

Self-Insured

All Plan benefits are self-insured. Blue Cross 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 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.

Contributions

The coverage's are funded through contributions from the City, participating employees and retired 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.

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

Other

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.

Impact of Recently Issued Accounting Principles

Recently Issued and Adopted Accounting Pronouncements

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASBS No. 62 incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This Statement is effective for periods beginning after December 15, 2011 and was implemented in fiscal year 2013. The adoption of GASBS No. 62 did not have any impact on the Plan's financial statements.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. GASBS No. 63 provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The statement of net assets is renamed the statement of net position and includes the following elements: assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. This Statement is effective for periods beginning after December 15, 2011, and was implemented in fiscal year 2013. The financial statements were modified to reflect the changes in this statement.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared using the accrual basis of accounting.

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.

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 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.

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.

Premiums paid by the Plan are recorded as administrative expenses in the accompanying statement of changes in net position.

Insurance Premiums

The Plan is insured by Blue Cross of Idaho against specific excess losses greater than \$60,000 and aggregate excess losses based on a set factor multiplied by the number of enrollees over twelve months.

Expenses

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

Note 3 - Estimated Health Claims Incurred but Not Reported

Health claims incurred but not reported are estimated by an actuary based on historical claims experience and industry accepted actuarial methods and assumptions. 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.

Note 4 - Funding Policy

The City's policy is to make sufficient contributions to the Plan to pay the total claim obligations paid 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 b) above and therefore the Plan is compliant with statutorily mandated reserve requirements.

Other Supplementary Information
September 30, 2013

**City of Caldwell Employee Benefit
Plan Trust**

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, 2013, and the related notes to the financial statements, which collectively comprise Plan's basic financial statements, and have issued our report thereon dated December 10, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Caldwell Employee Benefit Plan Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Caldwell Employee Benefit Plan Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Caldwell Employee Benefit Plan Trust'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 deficiencies described in the accompanying schedule of findings and responses to be a material weakness: 2013-1.

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*.

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

Boise, Idaho
December 10, 2013

Material Weakness

2013-1

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:

A material cash to accrual adjustment was necessary to properly prepare the financial statements and the auditor had to ensure adjustment amounts were presented in the financial statements.

Cause:

Claims paid on the final day of the year are a liability of the Plan for the year ended September 30, 2013 but were not accrued to the report period 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:

XXXX

Corrective Action Plan (CAP)

Action Planned in Response to Finding:

XXXX

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 monitor.