SCHOOL CAFETERIA EMPLOYEES UNITE HERE LOCAL NO. 634 HEALTH AND WELFARE TRUST FUND

FINANCIAL STATEMENTS

AUGUST 31, 2020

SCHOOL CAFETERIA EMPLOYEES UNITE HERE LOCAL NO. 634 HEALTH AND WELFARE TRUST FUND

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AUGUST 31, 2020 AND 2019

CONTENTS

Novak | Francella
LLC | CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Participants and Trustees of the
School Cafeteria Employees UNITE HERE
Local No. 634 Health and Welfare Trust Fund

We have audited the accompanying financial statements of the School Cafeteria Employees UNITE HERE Local No. 634 Health and Welfare Trust Fund (the Plan), which comprise the statements of net assets available for benefits and of benefit obligations as of August 31, 2020 and 2019, and the related statements of changes in net assets available for benefits and of changes in benefit obligations 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 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.

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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 status of the School Cafeteria Employees UNITE HERE Local No. 634 Health and Welfare Trust Fund as of August 31, 2020 and 2019, and the changes in its financial status for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Novak Francella LLC

Bala Cynwyd, Pennsylvania
January 21, 2021

School Cafeteria Employees UNITE HERE
Local No. 634 Health and Welfare Trust Fund

Statements of Net Assets Available For Benefits

August 31, 2020 and 2019

	2020	2019
Assets		
Investments - at fair value		
United States Government and Government Agency obligations	$ 1,216	$ 1,304,453
Corporate obligations	506,127	-
Money market mutual fund	428,429	159,836
Common stock	637,579	460,792
Total investments	1,573,351	1,925,081
Cash	236,614	51,148
Prescription rebate receivable	142,688	59,543
Accrued investment income	3,230	5,242
Prepaid vision premium	19,013	10,349
Prepaid expenses	31,723	8,799
Total assets	2,006,619	2,060,162
Liabilities and Net Assets		
Liabilities		
Accrued administrative expenses	15,535	21,624
Total liabilities	15,535	21,624
Net assets available for benefits	$ 1,991,084	$ 2,038,538

See accompanying notes to financial statements.

School Cafeteria Employees UNITE HERE
Local No. 634 Health and Welfare Trust Fund

Statements of Changes in Net Assets Available For Benefits

Years Ended August 31, 2020 and 2019

	2020	2019
Additions		
Investment income		
Net appreciation in		
fair value of investments	$ 12,434	$ 25,634
Interest and dividends	33,905	36,357
	46,339	61,991
Less: investment expenses	(7,240)	(9,248)
Investment income - net	39,099	52,743
Employer contributions	1,881,945	1,733,055
Participants' COBRA contributions	639	2,262
Other income	12	346
Total additions	1,921,695	1,788,406
Deductions		
Benefits paid to or for participants		
Insured		
City clinic	60,000	60,000
Self-insured		
Prescription (net of rebates)	1,243,713	1,099,180
Dental	216,973	275,812
Vision	115,844	130,919
Orthotics	12,865	25,165
Guardian Nurses	5,250	5,250
Wigs	222	551
Total benefits	1,654,867	1,596,877
Administrative expenses		
School Cafeteria Employees Union Local 634	28,400	32,400
Third-party administration	110,160	94,495
Third-party administration - dental	-	16,800
Prescription administration fee	71,511	70,387

See accompanying notes to financial statements.

	2020	2019
Administrative expenses (continued)		
Legal fees	$ 28,704	$ 37,796
Accounting fees and payroll compliance examinations	22,557	17,300
Health fair	17,868	17,606
Consulting fees	12,000	12,000
Insurance	4,524	4,751
Office supplies	-	73
Printing	1,750	7,302
Dues and subscriptions	1,065	1,300
Bank charges	480	217
ACA reporting fees	85	81
PCORI fees	6,178	6,209
Stop Loss insurance premiums	9,000	-
Total administrative expenses	314,282	318,717
Total deductions	1,969,149	1,915,594
NET DECREASE	(47,454)	(127,188)
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of year	2,038,538	2,165,726
End of year	$ 1,991,084	$ 2,038,538

See accompanying notes to financial statements.

School Cafeteria Employees UNITE HERE
Local No. 634 Health and Welfare Trust Fund

Statements of Benefit Obligations

August 31, 2020 and 2019

	2020	2019
Amounts currently payable to or for participants, beneficiaries, and dependents		
Claims payable and incurred but not reported	$ 121,263	$ 103,233

See accompanying notes to financial statements.

School Cafeteria Employees UNITE HERE
Local No. 634 Health and Welfare Trust Fund

Statements of Changes in Benefit Obligations

Years Ended August 31, 2020 and 2019

	2020	2019
Amounts currently payable to or for participants, beneficiaries, and dependents		
Balance at beginning of year	$ 103,233	$ 81,916
Increase during the year attributable to changes in claims payable and incurred but not reported	18,030	21,317
Balance at end of year	$ 121,263	$ 103,233

See accompanying notes to financial statements.

NOTE 1. DESCRIPTION OF PLAN

The following brief description of the School Cafeteria Employees UNITE HERE Local No. 634 Health and Welfare Trust Fund (the Plan) is provided for general information purposes only. Participants should refer to the summary plan description for more complete information.

The Plan provides health benefits to eligible members of the School Cafeteria Employees Union Local 634 (the Local) which represents members employed by the Philadelphia area school district. The administrator of the Plan is its labor and management Board of Trustees.

Benefits are funded through employer contributions. Employer contributions are determined by a collective bargaining agreement.

The Plan provides medical, dental, prescription, vision, wig, and death benefits. The type and amount of benefits are dependent upon the employee's designated status.

In July 2004, the Plan entered into an agreement with Louis P. Mattucci & Associates to provide dental coverage for eligible participants and their dependents. The services provided and the limitations on those services are described in the summary plan description.

In July 2004, the Plan entered into an agreement with Vision Benefits of America to provide vision coverage for eligible participants and their dependents. The services provided and the limitations on those services are described in the summary plan description.

In June 2009, the Plan entered into an agreement with Health Advocate, Inc. to provide administrative and informational services to members. The services provided and the limitations on those services are described in the summary plan description.

In November 2009, the Plan entered into an agreement with Dr. Elliot Diamond to provide orthotics benefits on a self-insured basis to eligible participants. The services provided and the limitations on these benefits are described in the summary plan description.

In September 2011, the Plan entered into an agreement with the City of Philadelphia through its Health Centers to provide those participants who do not have medical insurance, basic and specialty health care services on behalf of the Plan on a self-insured basis to eligible participants. The services provided and the limitations on those services are described in the summary plan description.

NOTE 1. DESCRIPTION OF PLAN (continued)

In July 2012, the Plan entered into an agreement that provides wigs to participants that are suffering hair loss due to cancer treatments or hair-loss disease. The services provided and the limitations on those services are described in the summary plan description.

In January 2013, the Plan entered into agreement with Guardian Nurses that provides healthcare advocacy and care management services to members. The services provided and the limitations on those services are described in the summary plan description.

In July 2018, the Plan entered into an agreement with Benecard to process prescription claims on behalf of the Plan on a self-insured basis to eligible participants. The services provided and the limitations on those services are described in the summary plan description.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The accompanying financial statements are prepared using the accrual basis of accounting.

Investments and Income Recognition - Investments in common stock, United States Government and Government Agency obligations, and corporate obligations are carried at fair value as provided by the investment custodian, which generally represents quoted market prices as of the last business day of the year. The money market mutual fund is carried at cost which approximates fair value. Purchases and sales of securities 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 includes the Plan's gains and losses on investments bought and sold as well as held during the year.

Funding Policy and Revenue Recognition - The Plan is funded by contributions from the School District of Philadelphia under the terms of a collective bargaining agreement (CBA). Employer contributions are accounted for as exchange transactions. The contributions are due on a monthly basis from September to June. It is the policy of the Trustees to pursue monies due.

Self-Insured Claims - Vision, prescription, dental, orthotics, and death benefits are self-insured. Self-insured claims paid during September 2020 and 2019, applicable to the years ended August 31, 2020 and 2019, respectively, have been recorded as claims payable. Additional self-insured claims incurred but not reported, applicable to the years ended August 31, 2020 and 2019, have been estimated based upon experience.

Claims Incurred but not Reported - Plan obligations at August 31 for claims incurred but not reported are estimated based on claims data provided by the Plan's third-party claims administrators. These amounts are paid by the Plan only if claims are submitted and approved for payment.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Stop Loss Coverage - The Plan has entered into a stop-loss insurance arrangement with Rx Reins in an effort to limit its exposure for self-insured benefits (individuals participant claims over a specific dollar amount, as well as its aggregate exposure for all claims). The Plan paid $9,000 for stop-loss insurance for the year ended August 31, 2020.

NOTE 3. RELATED PARTY TRANSACTIONS

The Plan reimburses School Cafeteria Employees Union Local 634 $2,700 per month for the cost of administrative services and office expenses. During the years ended August 31, 2020 and 2019, the Plan reimbursed the Local $28,400 and $32,400, respectively.

NOTE 4. TAX STATUS

The Plan obtained its latest determination letter dated January 1999, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements under Section 501(c)(9) of the Internal Revenue Code and was, therefore, exempt from Federal income taxes. The Plan has been amended since receiving the determination letter. The Plan's Trustees and the Plan's counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

Accounting principles generally accepted in the United States of America require Plan management to evaluate tax positions taken by the Plan and recognize a tax liability if the Plan has taken an uncertain position that, more likely than not, would not be sustained upon examination by the U.S. Federal, state, or local taxing authorities. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Typically, plan tax years will remain open for three years; however, this may differ depending upon the circumstances of the Plan.

NOTE 5. PRIORITIES UPON TERMINATION

It is the intent of the Trustees to continue the Plan in full force and effect; however, to safeguard against any unforeseen contingencies, the right to discontinue the Plan is reserved to the Trustees. In the event of termination, the Trustees shall first satisfy or make provisions to satisfy the obligations of the Plan. Any remaining Plan assets will be distributed in such manner as will, in the opinion of the Trustees, bring about the purpose of the Plan. Termination shall not permit any part of the Plan to be used for or diverted to purposes other than the exclusive benefit of the participants.

NOTE 6. FAIR VALUE MEASUREMENTS

The framework for measuring fair value 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). The three levels of the fair value hierarchy are described as follows:

Basis of Fair Value Measurement:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 - Inputs to the valuation methodology include: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following table presents information about the Plan's assets measured at fair value as of August 31, 2020:

	Fair Value Measurements at August 31, 2020			
	Total	Level 1	Level 2	Level 3
United States Government and Government Agency obligations	$ 1,216	$ -	$ -	$ 1,216
Corporate obligations	506,127	-	506,127	-
Money market mutual fund	428,429	428,429	-	-
Common stock	637,579	637,579	-	-
	$ 1,573,351	$ 1,066,008	$ 506,127	$ 1,216

NOTE 6. FAIR VALUE MEASUREMENTS (continued)

The following table presents the changes in assets classified in Level 3 of the fair value hierarchy for the year ended August 31, 2020:

	Level 3 Fair Value Measurements August 31, 2020
	US Gov't and Gov't Agency Obligations
Beginning balance	$ 2,883
Unrealized losses	(35)
Realized gains	-
Sales	(1,632)
Ending balance	$ 1,216

Certain securities are included at level 3 due to the fact that they are small lot sizes and are difficult to sell. These securities are valued at fair value as provided by the investment custodian which generally represents quoted market prices as of the last business day of the year.

The availability of observable market data is monitored to assess the appropriate classification of financial instruments within the fair value hierarchy. Changes in economic conditions or model-based valuation techniques may require the transfer of financial instruments from one fair value level to another. In such instances, the transfer is reported at the beginning of the period.

For the years ended August 31, 2020 and 2019 there were no transfers in or out of levels 1, 2, or 3.

The following table presents information about the Plan's assets measured at fair value as of August 31, 2019:

	Fair Value Measurements at August 31, 2019			
	Total	Level 1	Level 2	Level 3
United States Government and Government Agency obligations	$ 1,304,453	$ -	$ 1,301,570	$ 2,883
Corporate obligations	-	-	-	-
Money market mutual fund	159,836	159,836	-	-
Common stock	460,792	460,792	-	-
	$ 1,925,081	$ 620,628	$ 1,301,570	$ 2,883

NOTE 7. RISKS AND UNCERTAINTIES

The Plan's investments include equities as well as United States Government and Government Agency obligations, and corporate obligations. Investments are exposed to various risks such as economic, interest rate, market and sector risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Net Assets Available for Benefits.

NOTE 8. NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, FASB issued ASU 2014-09 - Revenue from Contracts with Customers (Topic 606). The objective of the disclosure requirements in this Topic is for an entity to disclose sufficient information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In accordance with the modified retrospective approach, the comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. Adoption of the ASU did not have a material effect on the financial statements.

NOTE 9. SUBSEQUENT EVENTS

The Board of Trustees and management have evaluated subsequent events through January 21, 2021, the date the financial statements were available to be issued, and they have been evaluated in accordance with relevant accounting standards.