

NY44 HEALTH BENEFITS PLAN TRUST

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2014 and 2013

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LAURITO-BAHGAT

Certified Public Accountants, P.C.

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Providing the Tools for Financial Success

Sham Dean Bahgat, CPA
Louann Laurito-Bahgat, CPA

INDEPENDENT AUDITOR'S REPORT

To the Trustees of
NY44 Health Benefits Plan Trust

We have audited the accompanying financial statements of NY44 Health Benefits Plan Trust (a nonprofit organization), which comprise the statements of net assets available for benefits as of June 30, 2014 and 2013, and the related statements of changes in net assets available for benefits and cash flows 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 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 net assets available for benefits of NY44 Health Benefits Plan Trust as of June 30, 2014 and 2013, and the changes in its net assets available for benefit and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Bahgat + Laurito-Bahgat

Bahgat & Laurito-Bahgat
Certified Public Accountants, P.C.
Fredonia, NY

October 14, 2014

NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 2014 and 2013

	2014	2013
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 19,915,331	\$ 21,514,308
Investments in securities	6,384,381	5,012,905
Accounts receivable	1,674,139	478,007
TOTAL ASSETS	\$ 27,973,851	\$ 27,005,220
<u>LIABILITIES AND NET ASSETS AVAILABLE FOR BENEFITS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 144,323	\$ -
Deferred participants' contributions	2,431,588	2,605,464
Estimated health claims payable	8,645,077	8,723,082
TOTAL CURRENT LIABILITIES	11,220,988	11,328,546
NET ASSETS		
Unrestricted	16,643,545	15,150,577
Temporarily Restricted	109,318	526,097
TOTAL NET ASSETS	16,752,863	15,676,674
TOTAL LIABILITIES AND NET ASSETS AVAILABLE FOR BENEFITS	\$ 27,973,851	\$ 27,005,220

NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED JUNE 30, 2014 and 2013

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
ADDITIONS TO NET ASSETS						
Participants' contributions	\$ 157,510,118	-	\$ 157,510,118	\$ 124,998,027	-	\$ 124,998,027
Drug subsidy	728,571	-	728,571	-	-	-
Participants' assessments	-	-	-	-	171,074	171,074
Interest income	362,823	568	363,391	229,355	1,797	231,152
Trust administrative fee revenues	980,987	-	980,987	731,896	-	731,896
Realized and unrealized change in investments, net	15,361	-	15,361	(456,600)	-	(456,600)
Pharmacy rebates	2,014,931	-	2,014,931	1,412,735	-	1,412,735
Other	533	-	533	-	-	-
Total additions	161,613,324	568	161,613,892	126,915,413	172,871	127,088,284
DEDUCTIONS FROM NET ASSETS						
Medical & dental claim payments	153,639,206	-	153,639,206	114,005,030	-	114,005,030
Health and wellness program	501,705	-	501,705	432,780	-	432,780
Stop loss insurance	360,000	-	360,000	691,150	-	691,150
Participants' assessments	-	417,347	417,347	-	-	-
Administrative expenses						
Claims administration	4,671,397	-	4,671,397	3,519,369	-	3,519,369
Salaries and payroll taxes	411,027	-	411,027	410,125	-	410,125
Legal and consulting	256,516	-	256,516	267,213	-	267,213
Insurance	16,318	-	16,318	13,237	-	13,237
Patient-centered outcomes research fee	24,448	-	24,448	-	-	-
Other	239,739	-	239,739	225,758	-	225,758
Total deductions	160,120,356	417,347	160,537,703	119,564,662	-	119,564,662
CHANGE IN NET ASSETS	1,492,968	(416,779)	1,076,189	7,350,751	172,871	7,523,622
NET ASSETS, at beginning of year	15,150,577	526,097	15,676,674	7,799,826	353,226	8,153,052
NET ASSETS, at end of year	\$ 16,643,545	\$ 109,318	\$ 16,752,863	\$ 15,150,577	\$ 526,097	\$ 15,676,674

See accompanying notes and independent auditor's report.

**NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 and 2013**

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets available for benefits	\$ 1,076,189	\$ 7,523,622
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized change in investments	(15,361)	456,600
(Increase) decrease in current assets		
Accounts receivable	(1,196,132)	(196,584)
Due from Friends of NY44 Health Benefits Plan, Inc.	-	3,413
Increase (decrease) in current liabilities:		
Accounts payable	144,323	-
Deferred participant contributions	(173,876)	1,750,391
Estimated health claims payable	(78,005)	772,453
NET CASH (USED BY) PROVIDED BY OPERATING ACTIVITIES	(242,862)	10,309,895
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(2,432,271)	(6,734,218)
Proceeds from sale of investments	1,076,156	3,802,338
NET CASH USED BY INVESTING ACTIVITIES	(1,356,115)	(2,931,880)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,598,977)	7,378,015
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21,514,308	14,136,293
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 19,915,331	\$ 21,514,308

NY44 HEALTH BENEFITS PLAN TRUST

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Trust

The following description of the NY44 Health Benefits Plan Trust provides only general information. Participants should refer to the Plan Trust Summary Plan Description (SPD) for a more complete description of the Trust's provisions which can be found on the Trust's website.

The Trust was established between the Erie 1 BOCES Board and the Board of Trustees of NY44 Health Benefits Plan Trust on May 15, 2003 and shall continue in existence until December 31, 2010, and thereafter, from year to year, unless sooner terminated, pursuant to Article 12 of the Trust agreement.

The governing Board shall consist of five managerial representatives employed by Erie I BOCES and five labor employees of Erie I BOCES, each of whom shall be a member of, and separately designated by, one of the five labor organizations that has a collective bargaining agreement with Erie I BOCES. Any action taken by the Trustees shall be by unit vote, 1 management and 1 union. In addition, the Plan Administrator is considered an ex-officio member of the governing Board.

The purpose of the Trust, and the general nature of its business shall be established and maintained, pursuant to Article 44 of the Insurance Law of the State of New York, an employee welfare (Trust), self-funding in whole or in part, or insuring in whole or in part, health benefit coverage for eligible employees.

Basis of Accounting

The financial statements of the NY44 Health Benefits Plan Trust are prepared on the accrual basis of accounting, and accordingly, reflect all significant receivables, payables, and other liabilities.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Trust considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

NY44 HEALTH BENEFITS PLAN TRUST

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments in equity securities with readily determinable fair values, mutual funds, and all investments in debt securities are measured at market value in the statement of financial position. The fair values for equity securities, mutual funds, and debt securities are based on quoted market prices.

Investment income and gains are reported as increases in additions to net assets in the reporting period in which the income and gains are reported.

Deferred Participants Contributions

Deferred participants' contributions represent contributions received in advance for the next fiscal year.

Estimated Health Claims Payable

The cost of claims payable for health care services provided to Trust members, covered employees and dependents include estimates based on evaluations of providers' claims submitted and provisions for incurred but not yet reported claims. Trust liabilities incurred but not yet reported are estimated by management based on the lag claim reports provided by the third party administrator.

Estimates

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

Participant Contributions

The Trust receives contributions from its Trust members on behalf of the covered employees and dependents. This contribution is based on employee classification (single or family) multiplied by a predetermined rate per month, such rate being determined with the Board of Trustees.

Participant Assessments

The Trust receives monies from charter schools which is set aside for health claims payable subsequent to the termination of a charter school. These monies are accounted for in temporarily restricted net assets.

NY44 HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Trust Amendment and/or Termination

The Trust may be amended and/or terminated by a majority vote of the Board of Trustees. If terminated, all previous contributions by the Trust members shall continue to be issued for the purpose of paying benefits under the provisions of this Trust with respect to claims arising before such termination, or shall be used for the purpose of providing similar health benefits to covered participants.

NOTE 2- CUSTODIAL CREDIT AND CONCENTRATION OF CREDIT RISKS

Custodial credit risk is the risk that in the event of bank failure, the Trust's deposits may not be returned to it. The Trust's deposits are exposed to custodial credit risk if they are not covered by depository insurance.

The Trust's aggregate bank balances at June 30, 2014 and 2013 totaled \$19,915,331 and \$21,514,308, respectively, and are categorized as follows:

- A. Insured,
- B. Collateralized with securities held by the pledging financial institution in the Trust's name, or trust department of agency in the Trust's name, or
- C. Uncollateralized.

	<u>2014</u>	<u>2013</u>
A	\$ 6,734,442	\$ 5,745,821
B	13,180,889	15,768,487
C	-	-
Total	<u>\$ 19,915,331</u>	<u>\$ 21,514,308</u>

NY44 HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE 3— INVESTMENTS

The Trust's assets are primarily invested with Morgan Stanley Smith Barney. Fair values for investments are determined by reference to quoted market prices and other relevant information generated by market transactions (all Level 1 measurements).

Description	2014 Quoted Prices in Active Market for Identical Assets (Level 1)	2013 Quoted Prices in Active Market for Identical Assets (Level 1)
Marketable Debt Securities		
Municipal Bonds	\$ 3,243,939	\$ 3,119,454
Government Securities	3,140,442	1,893,451
Total	\$ 6,384,381	\$ 5,012,905

NOTE 4 – ACCOUNTS RECEIVABLE

The Trust has the following outstanding accounts receivable at June 30:

	2014	2013
Contributions receivable	\$ -	\$ 74,325
Consultant refund	-	7,268
Pharmacy rebates	590,753	396,414
Stop loss reimbursement	1,083,386	-
Total	\$ 1,674,139	\$ 478,007

NOTE 5 – ESTIMATED HEALTH CLAIMS PAYABLE

The cost of claims payable for health care services provided to consortium members' covered employees and dependents include estimates based on evaluations of provider's claims submitted and provisions for incurred but not yet reported claims. Trust liabilities incurred but not yet reported are estimated based upon a claims run off report provided by the processor, which reflects the estimated ultimate cost of settling claims, including the effects of inflations and other social and economic factors. The estimated cost of claims payable is based on the payments made for the fiscal year ended June 30, 2014 as of the August 31, 2014 paid claims lag schedule.

	2014	2013
July claims payable	\$ 6,745,012	\$ 7,479,936
August claims payable	1,900,065	1,243,146
Total	\$ 8,645,077	\$ 8,723,082

NY44 HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – NET ASSETS

Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes or periods:

Subsequent period premium assessment:	<u>2014</u>	<u>2013</u>
Charter School for Applied Technology Premium Advance	\$ -	\$ 274,545
Pinnacle Charter School Premium Advance	-	79,430
Community Charter School Premium Advance	-	62,937
South Buffalo Charter School Premium Advance	109,318	109,185
Total	<u>\$ 109,318</u>	<u>\$ 526,097</u>

NOTE 7 – OTHER EXPENSES

Other expenses consist of the following at June 30:

	<u>2014</u>	<u>2013</u>
Operations expense		
Management fee	\$ 140,298	\$ 139,766
Rent	20,049	20,049
Supplies & Miscellaneous	8,582	11,582
Postage	19,360	10,660
Printing	1,625	2,666
Phone	19,902	16,903
Total Operations expense	209,816	201,626
Travel & conference expense	24,534	19,350
Meeting expense	2,274	3,745
Other	3,115	1,037
Total	<u>\$ 239,739</u>	<u>\$ 225,758</u>

NOTE 8 – RELATED PARTY

The Trust finances are managed by its employees and employees of Erie 1 BOCES. All amounts detailed in Note 7 under operations expense are amounts paid to Erie 1 BOCES as per the agreements signed with Erie 1 BOCES. Erie 1 BOCES is also a participant in the medical benefits plan.

NY44 HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE 9 – STOP-LOSS INSURANCE COVERAGE

The Trust has purchased stop loss insurance which is reviewed on an annual basis with a specific stop loss deductible of \$500,000 with no individual or maximum limit.

As of June 30, 2014 and 2013, the Trust has recovered \$1,083,386 and \$0 in stop loss reimbursements while incurring \$360,000 and \$691,150 in stop loss premiums, respectively.

NOTE 10 - INCOME TAXES

The Trust is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(9) of the Internal Revenue Code and has been classified by the Internal Revenue Service as other than private foundation under Section 509(a)(2). The Trust believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax provisions that are material to the financial statements.

The Trust's federal Returns of Organization Exempt from Income Tax (Form 990) for 2013 and 2012 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 11 – SUBSEQUENT EVENTS

Events and transactions which have occurred from June 30, 2014 through October 14, 2014, the date of these financial statements, have been evaluated by the Trust's management for the purpose of determining whether there were any events that might require disclosure in these financial statements. No such events or transactions were noted.