

NY44 HEALTH BENEFITS PLAN TRUST

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2018 and 2017



BAHGAT & LAURITO-BAHGAT

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

PROVIDING THE TOOLS FOR FINANCIAL SUCCESS



INDEPENDENT AUDITOR'S REPORT

To the Board of 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, 2018, and 2017, 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, 2018 and 2017, and the changes in its net assets available for benefits, 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 CPAs
Bahgat & Laurito-Bahgat
Certified Public Accountants, P.C.
Fredonia, NY

October 15, 2018

NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 2018 and 2017

	2018	2017
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 9,065,711	\$ 9,071,468
Investments in securities	3,484,032	3,582,199
Accounts receivable	1,921,081	1,414,777
TOTAL ASSETS	\$ 14,470,824	\$ 14,068,444
<u>LIABILITIES AND NET ASSETS AVAILABLE FOR BENEFITS</u>		
CURRENT LIABILITIES		
Deferred participants' contributions	\$ 4,135,054	\$ 4,117,992
Accounts payable	-	2,998,364
Estimated health claims payable	21,011,514	21,315,989
TOTAL CURRENT LIABILITIES	25,146,568	28,432,345
NET ASSETS		
Unrestricted	(10,785,504)	(14,473,423)
Temporarily Restricted	109,760	109,522
TOTAL NET ASSETS	(10,675,744)	(14,363,901)
TOTAL LIABILITIES AND NET ASSETS AVAILABLE FOR BENEFITS	\$ 14,470,824	\$ 14,068,444

NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017

	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
	\$	\$	\$	\$	\$	\$
ADDITIONS TO NET ASSETS						
Participants' contributions	262,737,263	-	262,737,263	240,137,434	-	240,137,434
Participants' assessments	40,000	-	40,000	-	-	-
Drug subsidy	1,246,706	-	1,246,706	749,904	-	749,904
Interest income	74,013	238	74,251	270,383	66	270,449
Trust administrative fee revenues	1,243,242	-	1,243,242	1,262,751	-	1,262,751
Realized and unrealized change in investments, net	(162,031)	-	(162,031)	(337,904)	-	(337,904)
Pharmacy rebates	7,169,773	-	7,169,773	5,605,618	-	5,605,618
Total additions	272,348,966	238	272,349,204	247,688,186	66	247,688,252
DEDUCTIONS FROM NET ASSETS						
Medical & dental claim payments	259,723,003	-	259,723,003	244,333,062	-	244,333,062
Health and wellness program	872,064	-	872,064	849,300	-	849,300
Administrative expenses						
Claims administration	6,680,953	-	6,680,953	6,620,219	-	6,620,219
Salaries and payroll taxes	378,432	-	378,432	483,388	-	483,388
Legal and consulting	513,906	-	513,906	398,192	-	398,192
Insurance	47,757	-	47,757	38,584	-	38,584
Patient-centered outcomes research fee	85,225	-	85,225	80,856	-	80,856
Transitional reinsurance fee	-	-	-	953,586	-	953,586
Other	359,707	-	359,707	246,262	-	246,262
Total deductions	268,661,047	-	268,661,047	254,003,449	-	254,003,449
CHANGE IN NET ASSETS	3,687,919	238	3,688,157	(6,315,263)	66	(6,315,197)
NET ASSETS, at beginning of year	(14,473,423)	109,522	(14,363,901)	(8,158,160)	109,456	(8,048,704)
NET ASSETS, at end of year	\$ (10,785,504)	\$ 109,760	\$ (10,675,744)	\$ (14,473,423)	\$ 109,522	\$ (14,363,901)

See accompanying notes and independent auditor's report.

**NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 and 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets available for benefits	\$ 3,688,157	\$ (6,315,197)
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized change in investments	162,031	337,904
(Increase) decrease in current assets		
Accounts receivable	(506,304)	(153,988)
Increase (decrease) in current liabilities:		
Accounts payable	(2,998,364)	2,998,364
Deferred participant contributions	17,062	75,324
Estimated health claims payable	(304,475)	3,619,829
NET CASH PROVIDED BY OPERATING ACTIVITIES	58,107	562,236
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(3,630,460)	(315,606)
Proceeds from sale of investments	3,566,596	4,065,339
NET CASH(USED IN) PROVIDED BY INVESTING ACTIVITIES	(63,864)	3,749,733
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,757)	4,311,969
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	9,071,468	4,759,499
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 9,065,711	\$ 9,071,468

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 the Plan's contracted actuary based on the completion factor method. The completion factor method is based on an incurred claim estimation technique whereby ultimate claim costs are projected assuming claims complete at the same rate as historical experience dictates. The completion factor method permits the actuarial estimation of incurred claim costs for each month of the plan year.

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.

**NY44 HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2018 and 2017 totaled \$9,073,499 and \$9,096,108, 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>June 30, 2018</u>	<u>June 30, 2017</u>
A	\$ 516,774	\$ 517,044
B	8,556,725	8,579,064
C	-	-
Total	<u>\$ 9,073,499</u>	<u>\$ 9,096,108</u>

NY44 HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE 3– INVESTMENTS

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

<u>Description</u>	<u>2018</u> Quoted Prices in Active Market for Identical Assets (Level 1)	<u>2017</u> Quoted Prices in Active Market for Identical Assets (Level 1)
Marketable Debt Securities		
Certificates of Deposits (greater than 90 day maturity)	\$ 1,119,177	\$ 1,235,364
Municipal Bonds	2,364,855	1,467,092
Government Securities	-	879,743
Total	\$ 3,484,032	\$ 3,582,199

NOTE 4 – ACCOUNTS RECEIVABLE

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

	<u>2018</u>	<u>2017</u>
Contributions receivable	\$ -	\$ 20,545
Pharmacy rebates	1,921,081	1,394,232
Total	\$ 1,921,081	\$ 1,414,777

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. The estimated cost of claims payable of \$21,011,514 and \$21,315,989, as of June 30, 2018 and 2017 respectively, were calculated by the Trust’s qualified actuary.

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:	2018	2017
South Buffalo Charter School Premium Advance	\$ 109,760	\$ 109,522

NOTE 7 – OTHER EXPENSES

Other expenses consist of the following at June 30:

	2018	2017
Operations expense		
Management fee	\$ 253,265	\$ 147,961
Rent	23,825	23,477
Supplies & Miscellaneous	11,958	9,247
Postage	17,018	17,273
Printing	882	3,144
Phone	19,009	26,909
Total Operations expense	325,957	228,011
Travel & conference expense	8,806	11,096
Meeting expense	2,987	3,063
Other	21,957	4,092
Total	\$ 359,707	\$ 246,262

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.

NOTE 9 – STOP-LOSS INSURANCE COVERAGE

At June 30, 2018 and 2017, the Trust was fully self-funded and did not purchase a separate stop loss insurance policy.

NY44 HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS

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.

NOTE 11 – CONTINGENCIES

The Trust received termination notices from nine East Central region schools which included Bainbridge-Guilford Central School District, Elmira Heights Central School District, Elmira City Schools, GST BOCES, Norwich City Schools, Odessa-Montour Central School District, Oxford Academy & Central School, Spencer Van Etten Central School District, and Watkins Glen Central School District, and two WNY region schools which included Lewiston Porter Schools, and Iroquois Central School District for their termination from the Trust effective June 30, 2018.

In addition, the Trust received termination notices from Alfred-Almond Central School District effective July 31, 2018, and Canisteo Greenwood Central School District effective October 31, 2018, both East Central region schools. The Trust received termination notices from five East Central region schools which included Candor Central School, DCMO BOCES, Gilbertsville-Mount Upton Central School, Otselic Valley Central School, and Waverly Central Schools, for their termination from the Trust effective June 30, 2019. The effects of their departure from the entity have not been determined.

There is pending litigation against the Trust. The outcome of the ongoing matters is not presently determinable; therefore, no amount has been recognized in the financial statements. In the opinion of management, the ultimate liability will not have a material adverse effect on the financial condition or results of operation of the Trust.

NOTE 12 – SUBSEQUENT EVENTS

Events and transactions which have occurred from June 30, 2018 through October 15, 2018, which is the date the financial statements were available to be issued, 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 events or transactions were noted.