

ERIE 1 BOCES
HEALTH BENEFITS PLAN TRUST
FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2010

BAHGAT

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LAURITO-BAHGAT
Certified Public Accountants, P.C.

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Providing the Tools for Financial Success

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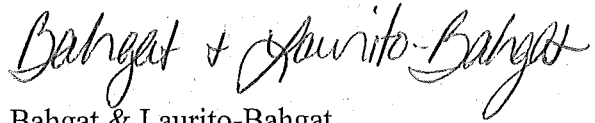
INDEPENDENT AUDITORS' REPORT

To the Trustees of
Erie 1 BOCES Health Benefits Plan Trust

We have audited the accompanying statement of net assets available for benefits of the Erie 1 BOCES Health Benefits Plan Trust as of June 30, 2010, and the related statement of changes in net assets available for benefits and cash flows for the year then ended. These financial statements are the responsibility of the Trust's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the Erie 1 BOCES Health Benefits Plan Trust as of June 30, 2010, and the changes in its net assets available for benefits and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.


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

October 19, 2010

ERIE 1 BOCES HEALTH BENEFITS PLAN TRUST
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 2010

ASSETS

CURRENT ASSETS

Cash	\$ 5,387,922
Investments in securities	2,774,849
Accounts receivable	<u>306,165</u>
TOTAL ASSETS	<u><u>\$ 8,468,936</u></u>

LIABILITIES AND NET ASSETS AVAILABLE FOR BENEFITS

CURRENT LIABILITIES

Deferred participants' contributions	\$ 89,387
Estimated health claims payable	<u>4,452,148</u>
TOTAL CURRENT LIABILITIES	4,541,535

NET ASSETS AVAILABLE FOR BENEFITS

Unrestricted	3,656,169
Temporarily Restricted	<u>271,232</u>
TOTAL NET ASSETS AVAILABLE FOR BENEFITS	3,927,401

TOTAL LIABILITIES AND NET ASSETS

AVAILABLE FOR BENEFITS	<u><u>\$ 8,468,936</u></u>
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ERIE 1 BOCES HEALTH BENEFITS PLAN TRUST
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
ADDITIONS TO NET ASSETS			
Participants' contributions	\$ 63,266,608	\$ -	\$ 63,266,608
Participants' assessments	280,459	271,232	551,691
Trust administration fee revenues	374,491	-	374,491
Interest income	18,896	-	18,896
Investment income	70,095	-	70,095
Realized and unrealized gain on investments	6,409	-	6,409
Other	573,259	-	573,259
Total additions	<u>64,590,217</u>	<u>271,232</u>	<u>64,861,449</u>
DEDUCTIONS FROM NET ASSETS			
Medical & dental claim payments	57,450,227	-	57,450,227
Health and wellness program	310,223	-	310,223
Administrative expenses			
Claims administration	2,231,848	-	2,231,848
Legal and consulting	209,563	-	209,563
Insurance	352,825	-	352,825
Other	211,895	-	211,895
Total deductions	<u>60,766,581</u>	<u>-</u>	<u>60,766,581</u>
CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS	3,823,636	271,232	4,094,868
NET ASSETS AVAILABLE FOR BENEFITS, at beginning of year, as restated	<u>(167,467)</u>	<u>-</u>	<u>(167,467)</u>
NET ASSETS AVAILABLE FOR BENEFITS, at end of year	<u>\$ 3,656,169</u>	<u>\$ 271,232</u>	<u>\$ 3,927,401</u>

ERIE 1 BOCES HEALTH BENEFITS PLAN TRUST
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets available for benefits	\$ 4,094,868
Adjustments to reconcile net income to net cash provided by operating activities:	
Net realized and unrealized gains on investments	(6,409)
Investment income	(70,095)
Decrease in accounts receivable	3,421
Increase (decrease) in operating liabilities:	
Accounts payable	(79,634)
Deferred participants' contributions	(311,155)
Estimated health claims payable	809,059
NET CASH PROVIDED BY OPERATING ACTIVITIES	4,440,055
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(763,551)
Proceeds from sale of investments	797,000
NET CASH USED BY INVESTING ACTIVITIES	33,449
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,473,504
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	914,418
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 5,387,922</u>

**ERIE 1 BOCES
HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Trust

The following description of the Erie 1 BOCES 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 Erie 1 BOCES 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 Erie 1 BOCES 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.

**ERIE 1 BOCES
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.

Investments income and gains are reported as increases in net in the reporting period in which the income and gains are recognized.

Deferred Participants' Contributions

Deferred participants' contributions represents 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 in 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 the management to make estimates and assumptions that effect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Contributions

Contributions received are recorded as unrestricted or temporarily restricted, depending on the existence and/or nature of any donor restrictions. The Trust has not received any permanently restricted contributions.

**ERIE 1 BOCES
HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contributions (continued)

Contributions that are restricted by the donor are reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Changes in Net Assets Available for Benefits as net assets released from restrictions.

The Trust receives contributions from its Trust member 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.

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.

**ERIE 1 BOCES
HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS**

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, 2010 totaled \$5,431,314 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.

A	B	C
\$755,002	\$4,676,312	\$-0-

**ERIE 1 BOCES
HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS**

NOTE 3– INVESTMENTS

The Trust’s assets are primarily invested with Morgan Stanley Smith Barney. The cost and fair value of investments in marketable securities at June 30, 2010 are summarized as follows:

	<u>Cost</u>	<u>Fair Market Value</u>	<u>Unrealized Gain/(Loss)</u>
Money Market Funds	\$ 799,262	\$ 799,262	\$ -
Corporate Bonds			
Wachovia Corp.	48,880	48,726	(154)
Wells Fargo & Co.	26,334	26,410	76
Fixed Rate Capital Securities			
HSBC	47,406	43,960	(3,446)
Bank of America	50,094	49,040	(1,054)
Certificate of Deposits	1,595,666	1,626,792	31,126
Mutual Funds			
American Cap Inc.	<u>181,213</u>	<u>180,659</u>	<u>(554)</u>
Total	<u>\$ 2,748,855</u>	<u>\$ 2,774,849</u>	<u>\$ 25,994</u>

NOTE 4 – ACCOUNTS RECEIVABLE

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

	<u>2010</u>
Grand Island premium assessment	\$ 140,229
Pharmacy rebates	165,936
Total	<u><u>\$ 306,165</u></u>

**ERIE 1 BOCES
HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS**

NOTE 5 – ESTIMATED 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, 2010 as of the August 31, 2010 paid claims lag schedule.

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>2010</u>
Charter School for Applied Technology Premium Advance	<u>\$ 271,232</u>

NOTE 7 – OTHER REVENUES

Other revenues consist of the following at June 30:

	<u>2010</u>
Stop loss rebate	\$ 5,051
Pharmacy rebates	565,262
Other	2,946
Total	<u>\$ 573,259</u>

NOTE 8 – RELATED PARTY

The Trust finances are managed by employees of Erie 1 BOCES. Erie 1 BOCES is also a participant in the medical benefits plan. The Trust has an annually renewed agreement for the rental of space from Erie 1 BOCES. The amount paid for rent for the fiscal year ended June 30, 2010 was \$14,261.

**ERIE 1 BOCES
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. However, there is a \$1,000,000 lifetime limit for out of network claims.

As of the balance sheet date the Trust has recovered \$5,051 in stop loss reimbursements while incurring \$348,944 in stop loss premiums.

NOTE 10 – RESTATEMENT OF NET ASSETS

The June 30, 2009 investment balances were understated by \$14,426. Accounts receivable was also understated by \$24,516. Additionally, estimated claims payable was understated by \$42,265 and accounts payable was overstated by \$58,040. The previously mentioned errors resulted in a restatement to the beginning net asset balance of \$54,717:

Net asset balance at June 30, 2009	\$ (222,184)
Investment understatement	14,426
Accounts receivable understatement	24,516
Estimated claims payable understatement	(42,265)
Accounts payable overstatement	58,040
Total restatement	<u>54,717</u>
Net asset balance at June 30, 2009, as restated	<u>\$ (167,467)</u>

NOTE 11 – CONTINGENCY

At the date of issuance of these financial statements, a final determination as to the tax exempt status from the Internal Revenue Service had not been received by the Trust. The Trust's management is actively pursuing clarification regarding the appropriate legal citation permitting their tax exempt status. During the fiscal year ended June 30, 2010, the Trust had a significant amount of revenues in excess of expenses. In the event the Trust is not considered a tax exempt entity, the potential tax effects have not been determined and could be material to the financial statements.

NOTE 12 – SUBSEQUENT EVENTS

Events and transactions which have occurred from June 30, 2010 through October 19, 2010, 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.