

NY44 HEALTH BENEFITS PLAN TRUST

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2013 and 2012

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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, 2013 and 2012, 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 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 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, 2013 and 2012, 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.

A handwritten signature in cursive script that reads "Bahgat & Laurito-Bahgat".

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

November 4, 2013

NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
JUNE 30, 2013 and 2012

	2013	2012
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 21,514,308	\$ 14,136,293
Investments in securities	5,012,905	2,537,625
Accounts receivable	478,007	281,423
Due from Friends of NY44 Health Benefits Plan, Inc.	-	3,413
TOTAL ASSETS	\$ 27,005,220	\$ 16,958,754
<u>LIABILITIES AND NET ASSETS AVAILABLE FOR BENEFITS</u>		
CURRENT LIABILITIES		
Deferred participants' contributions	\$ 2,605,464	\$ 855,073
Estimated health claims payable	8,723,082	7,950,629
TOTAL CURRENT LIABILITIES	11,328,546	8,805,702
NET ASSETS		
Unrestricted	15,150,577	7,799,826
Temporarily Restricted	526,097	353,226
TOTAL NET ASSETS	15,676,674	8,153,052
TOTAL LIABILITIES AND NET ASSETS AVAILABLE FOR BENEFITS	\$ 27,005,220	\$ 16,958,754

NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEARS ENDED JUNE 30, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
ADDITIONS TO NET ASSETS						
Participant's contributions	\$ 124,998,027	-	\$ 124,998,027	\$ 96,694,516	-	\$ 96,694,516
Participant's assessments	-	171,074	171,074	1,949,787	79,065	2,028,852
Interest income	229,355	1,797	231,152	146,441	1,044	147,485
Trust administrative fee revenues	731,896	-	731,896	598,470	-	598,470
Realized and unrealized change in investments, net	(456,600)	-	(456,600)	13,082	-	13,082
Pharmacy rebates	1,412,735	-	1,412,735	937,884	-	937,884
Total additions	126,915,413	172,871	127,088,284	100,340,180	80,109	100,420,289
DEDUCTIONS FROM NET ASSETS						
Medical & dental claim payments	114,005,030	-	114,005,030	93,077,185	-	93,077,185
Health and wellness program	432,780	-	432,780	413,899	-	413,899
Stop loss insurance	691,150	-	691,150	63,040	-	63,040
Administrative expenses						
Claims administration	3,519,369	-	3,519,369	2,614,276	-	2,614,276
Salaries and payroll taxes	410,125	-	410,125	406,468	-	406,468
Legal and consulting	267,213	-	267,213	205,027	-	205,027
Insurance	13,237	-	13,237	4,923	-	4,923
Other	225,758	-	225,758	200,727	-	200,727
Total deductions	119,564,662	-	119,564,662	96,985,545	-	96,985,545
CHANGE IN NET ASSETS	7,350,751	172,871	7,523,622	3,354,635	80,109	3,434,744
NET ASSETS, at beginning of year	7,799,826	353,226	8,153,052	4,445,191	273,117	4,718,308
NET ASSETS, at end of year	\$ 15,150,577	\$ 526,097	\$ 15,676,674	\$ 7,799,826	\$ 353,226	\$ 8,153,052

See accompanying notes and independent auditor's report.

NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets available for benefits	\$ 7,523,622	\$ 3,434,744
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized and unrealized change in investments	456,600	(13,082)
(Increase) decrease in current assets		
Accounts receivable	(196,584)	(76,839)
Due from Friends of NY44 Health Benefits Plan, Inc.	3,413	(3,413)
Increase in current liabilities:		
Deferred participant contributions	1,750,391	310,457
Estimated health claims payable	772,453	1,873,178
NET CASH PROVIDED BY OPERATING ACTIVITIES	10,309,895	5,525,045
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(6,734,218)	(3,539,391)
Proceeds from sale of investments	3,802,338	2,961,540
NET CASH USED BY INVESTING ACTIVITIES	(2,931,880)	(577,851)
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,378,015	4,947,194
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	14,136,293	9,189,099
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 21,514,308	\$ 14,136,293

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, 2013 and 2012 totaled \$21,514,308 and \$14,192,732, 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>2013</u>	<u>2012</u>
A	\$ 5,745,821	\$ 4,971,470
B	15,768,487	9,221,262
C	-	-
Total	<u>\$ 21,514,308</u>	<u>\$ 14,192,732</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	2013 Quoted Prices in Active Market for Identical Assets (Level 1)	2012 Quoted Prices in Active Market for Identical Assets (Level 1)
Marketable Debt Securities		
Municipal Bonds	\$ 3,119,454	\$ 1,443,801
Government Securities	1,893,451	1,093,824
Total	\$ 5,012,905	\$ 2,537,625

NOTE 4 – ACCOUNTS RECEIVABLE

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

	2013	2013
Contributions receivable	\$ 74,325	\$ -
Consultant refund	7,268	-
Pharmacy rebates	396,414	281,423
Total	\$ 478,007	\$ 281,423

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, 2013 as of the August 31, 2013 paid claims lag schedule.

	2013	2012
July claims payable	\$ 7,479,936	\$ 6,848,435
August claims payable	1,243,146	1,102,194
Total	\$ 8,723,082	\$ 7,950,629

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>2013</u>	<u>2012</u>
Charter School for Applied Technology Premium Advance	\$ 274,545	\$ 273,964
Pinnacle Charter School Premium Advance	79,430	79,262
Community Charter School Premium Advance	62,937	-
South Buffalo Charter School Premium Advance	109,185	-
Total	<u>\$ 526,097</u>	<u>\$ 353,226</u>

NOTE 7 – OTHER EXPENSES

Other expenses consist of the following at June 30:

	<u>2013</u>	<u>2012</u>
Operations expense		
Management fee	\$ 139,796	\$ 139,090
Rent	16,903	19,647
Supplies & Miscellaneous	11,582	10,537
Postage	10,660	6,921
Printing	2,666	2,171
Phone	16,903	2,018
Total Operations expense	<u>201,626</u>	<u>180,384</u>
Travel & conference expense	19,350	16,757
Meeting expense	3,745	3,160
Other	1,037	426
Total	<u>\$ 225,758</u>	<u>\$ 200,727</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, 2013 and 2012, the Trust has recovered \$0 and \$0 in stop loss reimbursements while incurring \$691,150 and \$63,040 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 2012 is 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, 2013 through November 4, 2013, 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.

