

NY44 HEALTH BENEFITS PLAN TRUST
FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 and 2018



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 as of June 30, 2019, and 2018, and the related statements of activities, functional expenses, and cash flows for the fiscal 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 of NY44 Health Benefits Plan Trust as of June 30, 2019 and 2018, and the changes in its net assets, 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

November 11, 2019

NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF NET ASSETS
JUNE 30, 2019 and 2018

| | 2019 | 2018 |
|--|----------------------|----------------------|
| <u>ASSETS</u> | | |
| CURRENT ASSETS | | |
| Cash | \$ 17,853,615 | \$ 9,065,711 |
| Investments in securities | 3,651,383 | 3,484,032 |
| Accounts receivable | 1,773,563 | 1,921,081 |
| TOTAL ASSETS | \$ 23,278,561 | \$ 14,470,824 |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| CURRENT LIABILITIES | | |
| Deferred participants' contributions | \$ 4,234,425 | \$ 4,135,054 |
| Estimated health claims payable | 11,050,634 | 21,011,514 |
| TOTAL CURRENT LIABILITIES | 15,285,059 | 25,146,568 |
| NET ASSETS | | |
| Without restriction | 7,883,016 | (10,785,504) |
| With restriction | 110,486 | 109,760 |
| TOTAL NET ASSETS | 7,993,502 | (10,675,744) |
| TOTAL LIABILITIES AND NET ASSETS | \$ 23,278,561 | \$ 14,470,824 |

NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2019 and 2018

| | 2019 | | | 2018 | | |
|--|------------------------|---------------------|---------------------|------------------------|---------------------|------------------------|
| | Without Restriction | With Restriction | Total | Without Restriction | With Restriction | Total |
| REVENUES | | | | | | |
| Participants' contributions | \$ 186,264,806 | - | \$ 186,264,806 | \$ 262,737,263 | - | \$ 262,737,263 |
| Participants' assessments | 132,048 | - | 132,048 | 40,000 | - | 40,000 |
| Drug subsidy | 56,388 | - | 56,388 | 1,246,706 | - | 1,246,706 |
| Interest income | 143,431 | 726 | 144,157 | 74,013 | 238 | 74,251 |
| Trust administrative fee revenues | 1,311,995 | - | 1,311,995 | 1,243,242 | - | 1,243,242 |
| Realized and unrealized change in investments, net | 58,891 | - | 58,891 | (162,031) | - | (162,031) |
| Pharmacy rebates | 8,948,728 | - | 8,948,728 | 7,169,773 | - | 7,169,773 |
| Other income | 56,128 | - | 56,128 | - | - | - |
| Total Revenues | 196,972,415 | 726 | 196,973,141 | 272,348,966 | 238 | 272,349,204 |
| EXPENSES | | | | | | |
| Program Services | 172,073,615 | - | 172,073,615 | 260,595,067 | - | 260,595,067 |
| Management and General | 6,230,280 | - | 6,230,280 | 8,065,980 | - | 8,065,980 |
| Total expenses | 178,303,895 | - | 178,303,895 | 268,661,047 | - | 268,661,047 |
| CHANGE IN NET ASSETS | 18,668,520 | 726 | 18,669,246 | 3,687,919 | 238 | 3,688,157 |
| NET ASSETS, at beginning of year | (10,785,504) | 109,760 | (10,675,744) | (14,473,423) | 109,522 | (14,363,901) |
| NET ASSETS, at end of year | \$ 7,883,016 | \$ 110,486 | \$ 7,993,502 | \$ (10,785,504) | \$ 109,760 | \$ (10,675,744) |

See accompanying notes and independent auditor's report.

NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2019 and 2018

| | 2019 | | | 2018 | | |
|--|-----------------------|------------------------|-----------------------|-----------------------|------------------------|-----------------------|
| | Program Services | Management and General | Total | Program Services | Management and General | Total |
| Medical & dental claim payments | \$ 171,312,651 | \$ - | \$ 171,312,651 | \$ 259,723,003 | \$ - | \$ 259,723,003 |
| Health and wellness program | 760,964 | - | 760,964 | 872,064 | - | 872,064 |
| Total Claims | 172,073,615 | - | 172,073,615 | 260,595,067 | - | 260,595,067 |
| Administrative expenses | | | | | | |
| Claims administration | 4,955,533 | - | 4,955,533 | 6,680,953 | - | 6,680,953 |
| Salaries and payroll taxes | - | 271,320 | 271,320 | - | 378,432 | 378,432 |
| Legal and consulting | 584,486 | 10,842 | 595,328 | 505,090 | 8,816 | 513,906 |
| Insurance | 8,600 | 42,013 | 50,613 | 7,475 | 40,282 | 47,757 |
| Patient-centered outcomes research fee | 34,671 | - | 34,671 | 85,225 | - | 85,225 |
| Other | - | 322,815 | 322,815 | - | 359,707 | 359,707 |
| Total Administrative | 5,583,290 | 646,990 | 6,230,280 | 7,278,743 | 787,237 | 8,065,980 |
| Total Expenses | \$ 177,656,905 | \$ 646,990 | \$ 178,303,895 | \$ 267,873,810 | \$ 787,237 | \$ 268,661,047 |

NY44 HEALTH BENEFITS PLAN TRUST
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2019 and 2018

| | 2019 | 2018 |
|---|----------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 18,669,246 | \$ 3,688,157 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Net realized and unrealized change in investments | (58,891) | 162,031 |
| (Increase) decrease in current assets | | |
| Accounts receivable | 147,518 | (506,304) |
| Increase (decrease) in current liabilities: | | |
| Accounts payable | - | (2,998,364) |
| Deferred participant contributions | 99,371 | 17,062 |
| Estimated health claims payable | (9,960,880) | (304,475) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 8,896,364 | 58,107 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchase of investments | (108,460) | (3,630,460) |
| Proceeds from sale of investments | - | 3,566,596 |
| NET CASH USED IN INVESTING ACTIVITIES | (108,460) | (63,864) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 8,787,904 | (5,757) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | 9,065,711 | 9,071,468 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | \$ 17,853,615 | \$ 9,065,711 |

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 continued in existence to December 31, 2010, thereafter, it renews on a 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.

NY44 HEALTH BENEFITS PLAN TRUST

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Statement Presentation

On August 18, 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958)-*Presentation of Financial Statements of Not-for-Profit Entities*. NY44 Health Benefits Plan Trust has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standards change the following aspects of NY44 Health Benefits Plan Trust financial statements:

- The temporarily restricted net asset class has been renamed net assets with restriction.
- The unrestricted net asset class has been renamed net assets without restriction.
- The financial statements include a new disclosure about liquidity and availability of resources (Note 11).
- In addition, certain amounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

The Trust is required to report information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions which are described as follows:

With Restriction

Net assets with restriction are subject to imposed stipulations that may or will be met either by actions of the Trust and/or passage of time. When a restriction expires, net assets with restriction are reclassified to net assets without restriction, and reported in the Statements of Activities as net assets released from restrictions.

Without Restriction

Net assets without restriction are not subject to imposed stipulation.

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, 2019 and 2018 totaled \$18,011,043 and \$9,073,499, 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, 2019</u> | <u>June 30, 2018</u> |
|--------------|-----------------------------|----------------------------|
| A | \$ 538,171 | \$ 516,774 |
| B | 17,472,872 | 8,556,725 |
| C | - | - |
| Total | <u><u>\$ 18,011,043</u></u> | <u><u>\$ 9,073,499</u></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).

| Description | 2019 | 2018 |
|--|--|--|
| | Quoted Prices in Active Market for Identical Assets (Level 1) | Quoted Prices in Active Market for Identical Assets (Level 1) |
| Marketable Debt Securities | | |
| Certificates of Deposits (greater than 90 day maturity) | \$ 1,161,005 | \$ 1,119,177 |
| Municipal Bonds | 2,490,378 | 2,364,855 |
| Government Securities | - | - |
| Total | \$ 3,651,383 | \$ 3,484,032 |

NOTE 4 – ACCOUNTS RECEIVABLE

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

| | 2019 | 2018 |
|------------------|---------------------|---------------------|
| Pharmacy rebates | 1,773,563 | 1,921,081 |
| Total | \$ 1,773,563 | \$ 1,921,081 |

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 \$11,050,634 and \$21,011,514, as of June 30, 2019 and 2018 respectively, were calculated by the Trust's qualified actuary.

NY44 HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE 6 – OTHER EXPENSES

Other expenses consist of the following at June 30:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------|--------------------------|--------------------------|
| Operations expense | | |
| Management fee | \$ 252,776 | \$ 253,265 |
| Rent | 24,068 | 23,825 |
| Supplies & Miscellaneous | 7,793 | 11,958 |
| Postage | 9,675 | 17,018 |
| Printing | 1,497 | 882 |
| Phone | 20,304 | 19,009 |
| Total Operations expense | <u>316,113</u> | <u>325,957</u> |
| Travel & conference expense | 3,985 | 8,806 |
| Meeting expense | 1,852 | 2,987 |
| Other | 865 | 21,957 |
| Total | <u>\$ 322,815</u> | <u>\$ 359,707</u> |

NOTE 7 – RELATED PARTY

The Trust finances are managed by its employees and employees of Erie 1 BOCES. All amounts detailed in Note 6 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 8 – STOP-LOSS INSURANCE COVERAGE

At June 30, 2019 and 2018, the Trust was fully self-funded and did not purchase a separate stop loss insurance policy.

NOTE 9 - 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.

NY44 HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE 10 – CONTINGENCIES

The Trust received termination notices from the following East Central region schools for their termination from the Trust effective,

| | |
|---|-----------------|
| Walton Central School District | July 31, 2019 |
| Franklin Central School District | March 31, 2020 |
| Madrid Waddington Central School District | March 31, 2020 |
| Oneida Herkimer Madison BOCES | March 31, 2020 |
| Cooperstown Central School District | June 30, 2020 |
| Mechanicville Central School District | June 30, 2020 |
| OESJ Central School District | June 30, 2020 |
| Schenevus Central School District | June 30, 2020 |
| Unatego Central School District | June 30, 2020 |
| Fulton Montgomery Community College | July 31, 2020 |
| Canajoharie Central School District | August 31, 2020 |

The Trust received termination notices from the following Western region schools for their termination from the Trust effective,

| | |
|---|-------------------|
| Pioneer Central School District - Professional | July 31, 2019 |
| Pioneer Central School District - Auxilliary | December 31, 2019 |
| St. Francis High School | February 29, 2020 |
| The Park School | February 29, 2020 |
| Hamburg Central School District | April 30, 2020 |
| Akron Central School District (except teachers) | May 31, 2020 |
| Elmwood Franklin Central School District | June 30, 2020 |
| Springville Central School District | June 30, 2020 |

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.

NY44 HEALTH BENEFITS PLAN TRUST
NOTES TO FINANCIAL STATEMENTS

NOTE 11 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects NY44 Health Benefits Plan Trust’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or imposed restrictions.

| | 2019 | 2018 |
|--|---------------|---------------|
| Financial assets at year end | \$ 23,278,561 | \$ 14,470,824 |
| Less those unavailable for general expenditures: | | |
| Subsequent period premium assessment: | | |
| South Buffalo Charter School | | |
| Premium Advance | (110,486) | (109,760) |
| Financial assets available to meet cash needs for general expenditures within one year | \$ 23,168,075 | \$ 14,361,064 |

The Trust has a goal to maintain financial assets, which consists of cash, on hand to meet normal operating expenses. The Trust has its financial assets available as its general expenditures, liabilities, and other obligations come due.

NOTE 12 – SUBSEQUENT EVENTS

Events and transactions which have occurred from June 30, 2019 through November 11, 2019, which is the date the financial statements were available to be issued, have been evaluated by the Trust’s management.