



North Carolina Bar Association Health Benefit Trust

Audited Financial Statements

*Years ended September 30, 2009 and 2008
with Report of Independent Auditors*

North Carolina Bar Association Health Benefit Trust

Audited Financial Statements

Years ended September 30, 2009 and 2008

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North Carolina Bar Association Health Benefit Trust

Statements of Benefit Obligations and Net Assets Available for Plan Benefits

	As of September 30,	
	2009	2008
Benefit obligations		
Health claims liability	\$ 2,380,879	\$ 2,356,821
Assets		
Receivables:		
Employer contributions receivable	46,537	62,635
Reinsurance recoverable	172,414	92,748
Collected contributions due from third-party administrator	650,002	798,272
Pharmacy rebates receivable	162,300	180,733
Accrued interest and dividends	65,374	128,264
Total receivables	1,096,627	1,262,652
Cash and cash equivalents	2,740,102	1,126,581
Short-term investments	2,604,674	2,151,492
Investments:		
U.S. government agency securities	8,573,580	11,062,365
Prepaid expenses	14,543	12,342
Total assets	15,029,526	15,615,432
Liabilities		
Advanced contributions	1,320,660	1,490,154
Payable for securities	497,750	-
Accounts payable	455,295	444,360
Total liabilities	2,273,705	1,934,514
Net assets available for plan benefits	12,755,821	13,680,918
Excess of net assets available for plan benefits over benefit obligations	\$ 10,374,942	\$ 11,324,097

See accompanying notes to the financial statements

North Carolina Bar Association Health Benefit Trust

Statements of Changes in Benefit Obligations and Net Assets Available for Plan Benefits

	<u>Years ended</u>	<u>September 30,</u>
	<u>2009</u>	<u>2008</u>
Net change in benefit obligations		
Net change during the year attributable to:		
Health claims payable	\$ <u>24,058</u>	\$ <u>93,944</u>
Net change in net assets available for plan benefits		
Additions		
Employer contributions	32,373,424	29,571,078
Pharmacy rebates earned	337,377	285,327
Net investment income earned	412,533	584,710
Net realized gains	2,893	-
Change in fair value of investments	<u>25,848</u>	<u>(1,778)</u>
Total additions	<u>33,152,075</u>	<u>30,439,337</u>
Deductions		
Participant benefits	29,304,646	25,120,597
General expenses	<u>4,772,526</u>	<u>4,491,222</u>
Total deductions	<u>34,077,172</u>	<u>29,611,819</u>
Net change in net assets available for plan benefits	<u>(925,097)</u>	<u>827,518</u>
Excess of net change in net assets available for plan benefits over the change in benefit obligations	(949,155)	733,574
Excess of net assets available for plan benefits over benefit obligations at beginning of year	<u>11,324,097</u>	<u>10,590,523</u>
Excess of net assets available for plan benefits over benefit obligations at end of year	<u>\$ 10,374,942</u>	<u>\$ 11,324,097</u>

See accompanying notes to the financial statements

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements

Years ended September 30, 2009 and 2008

Note A - Organization and Significant Accounting Policies

Organization

The North Carolina Bar Association Health Benefit Trust ("the Trust") is a North Carolina domiciled multiple employer welfare arrangement ("MEWA"), which was granted a Certificate of Authority, effective October 1, 2002, under North Carolina General Statute §58-49-30. The Trust is sponsored by the North Carolina Bar Association ("the Sponsor") and is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). The Trust is also subject to regulation by the North Carolina Department of Insurance ("NCDOI").

The Trust is a health and benefit program whereby an employee of a participating employer, upon employment, may elect coverage. Contributions to the Trust are made by participating employers for amounts determined by the Trust. Benefits and administrative expenses are paid by the Trust from contributions made by participating employers.

The Trust has contracted with various third parties to provide management and administrative services. These arrangements are summarized as follows:

<u>Party</u>	<u>Services provided</u>	<u>Fee</u>
Lawyers Insurance Agency ("LIA")	Accounting and financial reporting, treasury and cash management, marketing, consulting and advisory, and staffing pursuant to a Service Agreement	Service fee based on a percentage of contributions
BCBS of North Carolina	Premium billing and collections, claims adjudication and processing, benefit payments and reporting, and provider network services pursuant to an Administrative Services Agreement	Administrative fee based on the number of covered employees per month

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (continued)

Organization (continued)

<u>Party</u>	<u>Services provided</u>	<u>Fee</u>
GHB Consulting, Inc.	Actuarial and limited underwriting services pursuant to a Service Contract	Administrative fee based on the number of covered employees per month
Scott Benefit Services	Regulatory compliance, advisory and third-party provider liaison, pursuant to a Management Services Agreement	Administrative fee based on the number of covered employees per month

Basis of Reporting

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") promulgated by the Financial Accounting Standards Board Accounting Standards Codification (ASC or the guidance). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The Trust has evaluated subsequent events for disclosure and recognition through December 22, 2009, the date on which these financial statements were available to be issued.

Termination Provisions

Although it has not expressed any intent to do so, the Sponsor has the right to terminate the Trust by written instrument delivered to the Trustees. Upon such termination, the Trust shall be paid out by the Trustees in accordance with the underlying Trust agreement.

Receivables

The Trust routinely assesses the collectibility of amounts due from third parties. The Trust has determined that no allowance is necessary at September 30, 2009 and 2008.

Cash and Short-term Investments

Cash and cash equivalents as of September 30, 2009 and 2008 consist of highly liquid investments with original maturities of three months or less when purchased. Short-term investments consist of investments with original maturities of one year or less when purchased. The Trust maintains certain cash and cash equivalent balances that exceed FDIC insurance limits.

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (continued)

Investments

The Trust's estimates of fair value for financial assets and financial liabilities are based on the framework established in the Fair Value Measurements and Disclosures accounting guidance. The framework is based on the inputs used in valuation and requires that observable inputs be used in the valuations when available. The disclosure of fair value estimates in the fair value accounting guidance includes a hierarchy based on whether significant valuation inputs are observable. In determining the level of the hierarchy in which the estimate is disclosed, the highest priority is given to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs that reflect the Trust's significant market assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), the next priority to quoted prices for identical assets and liabilities in inactive markets or similar assets and liabilities in active markets (Level 2), and the lowest priority to unobservable inputs (Level 3).

The Trust's fixed maturity securities are classified as available-for-sale and are reported at their estimated fair value based on quoted market prices (Level 2). Security transactions are recognized on the trade date (the date the order to buy or sell is executed).

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term. Such changes could materially affect the amounts reported in the statement of benefit obligations and net assets available for plan benefits.

Accounts payable

As of September 30, 2009 and 2008, a significant component of accounts payable represents amounts due to BCBS of North Carolina for claims administration fees associated with the Trust's unpaid health claims liability. Such fees due amounted to \$275,000 as of September 30, 2009 and 2008.

Income Tax Status

The Trust is exempt from federal income taxes under Section 501(c)(9) of the Internal Revenue Code. The Trust operates as a self-funded MEWA, solely and exclusively as a non-profit entity for the purpose of providing benefits to employees of participating employers. The Trust is required to file Form 990, *Return for Tax Exempt Organization*.

Contributions

Contributions are earned when due. Contributions received for future periods are included as advanced contributions. Contributions earned are reported net of amounts ceded to reinsurers.

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (continued)

Health claims liability

The health claims liability reported in the financial statements consists of two primary components: amounts for projected losses incurred but not yet reported ("IBNR"), calculated based upon claims projections utilizing certain assumptions and industry data and is net of reinsurance recoverable; claims paid by BCBS of North Carolina that have not yet been funded by the Trust. Although considerable variability is inherent in IBNR estimates, management believes that the health claims liability reported as of September 30, 2009 and 2008 represents the best estimate of the ultimate net cost of settling unpaid health claims incurred through September 30, 2009 and 2008. However, because of future events beyond the control of management, actual loss experience may not conform to the assumptions used in determining the estimated amounts for such reserves at the balance sheet date. Accordingly, the ultimate liability could be significantly in excess of or less than the amount indicated in the financial statements. As adjustments to these estimates become necessary, such adjustments are reflected in current operations.

Reinsurance

As described more fully in Note C, the Trust has entered into reinsurance agreements, whereby the Trust cedes to reinsurers portions of covered losses. Management believes that reinsurance recoverables on paid claims, as recorded, represents its best estimate of such amounts and has determined that no allowance is necessary as of September 30, 2009 and 2008. Reinsurance recoverables on unpaid claims have been estimated using assumptions consistent with those used in establishing the gross health claims liability, and are reported as a component of reinsurance recoverable in the statements of benefit obligations and net assets available for benefits. Reinsurance contracts do not relieve the Trust of its primary obligation to insureds.

Pharmacy Rebates

Pharmacy rebates receivable represent management's best estimate of amounts due to the Trust based on pharmacy expenses incurred during the reporting period. Such estimates have been established based upon the historical experience of the Trust. Pharmacy rebates received during the years ended September 30, 2009 and 2008 were \$355,810 and \$330,900, respectively.

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements (Continued)

Note B - Investments

The fair values of individual investments that represent 5% or more of the Trust's total net assets available for benefits are as follows at September 30:

	2009	2008
Bonds:		
Federal Home Loan Bank; 3.5%; due 2/5/10	\$ -	\$ 999,670
Short-term investments:		
Dreyfus Government Cash	2,604,674	2,151,492
Total	\$ 2,604,674	\$ 3,151,162

The major components of the net change in fair value of investments, and interest on investments, during the year ended September 30, 2009 were as follows:

	Net change in fair value of investments	Interest income	Total
Cash and cash equivalents	\$ -	\$ 6,339	\$ 6,339
U.S. Government agencies	25,848	406,194	432,042
Total	\$ 25,848	\$ 412,533	\$ 438,381

The major components of the net change in fair value of investments, and interest on investments, during the year ended September 30, 2008 were as follows:

	Net change in fair value of investments	Interest income	Total
Cash and cash equivalents	\$ -	\$ 144,983	\$ 144,983
U.S. Government agencies	(1,778)	439,727	437,949
Total	\$ (1,778)	\$ 584,710	\$ 582,932

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements (Continued)

Note C - Reinsurance

For the year ended September 30, 2009, the Trust purchased specific and aggregate excess of loss reinsurance from AIG Life Insurance Company with an effective date of October 1, 2008 and an expiration date of September 30, 2009. The specific excess of loss coverage has an attachment point of \$175,000, per individual, and a limit of liability of \$4,825,000 in excess of the attachment point, per individual; however, the Trust is not eligible for recoveries against claims paid until the aggregate amount for all individual claims that have exceeded the individual attachment point have surpassed an additional \$100,000 deductible. The aggregate excess of loss coverage (applicable to aggregate claims paid during the reinsurance term) has a minimum attachment point of \$34,673,237 and a limit of liability of \$1,000,000 in excess of the attachment point. Contributions and health claims ceded to the reinsurer during the year ended September 30, 2009 amounted to \$948,118 and \$520,210, respectively.

For the year ended September 30, 2008, the Trust purchased specific and aggregate excess of loss reinsurance from AIG Life Insurance Company with an effective date of October 1, 2007 and an expiration date of September 30, 2008. The specific excess of loss coverage has an attachment point of \$175,000, per individual, and a limit of liability of \$4,825,000 in excess of the attachment point, per individual; however, the Trust is not eligible for recoveries against claims paid until the aggregate amount for all individual claims that have exceeded the individual attachment point have surpassed an additional \$100,000 deductible. The aggregate excess of loss coverage (applicable to aggregate claims paid during the reinsurance term) has a minimum attachment point of \$26,345,903 and a limit of liability of \$1,000,000 in excess of the attachment point. Contributions and health claims ceded to the reinsurer during the year ended September 30, 2008 amounted to \$839,107 and \$317,388, respectively.

Note D - General Expenses

General expenses include all underwriting expenses incurred during the day-to-day operations of the Trust. General expenses incurred during the years ended September 30, 2009 and 2008 were comprised of the following:

	<u>2009</u>	<u>2008</u>
BCBS administration fees	\$ 2,458,800	\$ 2,368,331
Lawyers Insurance Agency administration fees	1,999,293	1,824,611
Consulting fees	67,624	65,731
Actuarial fees	86,558	84,136
Insurance expense	69,180	69,180
Other	56,583	60,571
Accounting fees	29,959	17,675
Legal fees	4,529	987
Total general expenses	<u>\$ 4,772,526</u>	<u>\$ 4,491,222</u>

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements (Continued)

Note E - Health Claims Liability

The following represents the change in the health claims liability for the Trust during the years ended September 30, 2009 and 2008:

	2009	2008
Net health claims liability, beginning of year	\$ 2,356,821	\$ 2,262,877
Provision for health claims incurred during:		
Current year	28,794,917	25,373,022
Previous years	533,787	(158,481)
Total provision for health claims incurred	29,328,704	25,214,541
Health claims paid for claims, net of reinsurance, incurred during:		
Current year	26,548,464	23,288,022
Previous years	2,756,182	1,832,575
Total health claims paid	29,304,646	25,120,597
Net health claims liability, end of year	\$ 2,380,879	\$ 2,356,821
Gross health claims liability, end of year	\$ 2,380,879	\$ 2,356,821
Less: Reinsurance recoverable on unpaid claims	-	-
Net health claims liability, end of year	\$ 2,380,879	\$ 2,356,821

As reflected in the preceding table, the reserve for health claims attributable to insured events of prior fiscal years has increased by \$533,787 and decreased by \$158,481 during fiscal years 2009 and 2008, respectively, as a result of re-estimation of unpaid health claims. Such changes are generally the result of ongoing analysis of recent claims development trends.

Note F - Reconciliation of Financial Statements to Form 5500

The following is a reconciliation of net assets available for plan benefits per the financial statements to Form 5500:

	2009	2008
Net assets available for plan benefits per the financial statements	\$ 12,755,821	\$ 13,680,918
Health claims currently payable	2,380,879	2,356,821
Net assets available for benefits per Form 5500	\$ 10,374,942	\$ 11,324,097

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements (Continued)

Note F - Reconciliation of Financial Statements to Form 5500 (continued)

The following is a reconciliation of benefits paid per the financial statements to Form 5500:

	<u>2009</u>	<u>2008</u>
Benefits to participants per the financial statements	\$ 29,304,646	\$ 25,120,597
Add: Amounts currently payable at end of period	2,380,879	2,356,821
Less: Amounts currently payable at beginning of period	<u>2,356,821</u>	<u>2,262,877</u>
Benefits to participants per Form 5500	<u>\$ 29,328,704</u>	<u>\$ 25,214,541</u>

North Carolina Bar Association Health Benefit Trust

Schedule H, line 4i - Schedule of Assets Held for Investment Purposes
Employer Identification Number 56-6595155, Plan Number 501

September 30, 2009

Identity of issue, borrower, lessor or similar party	Description of investment	Cost	Current value
Wachovia Bank, N.A.	Advantage Interest Checking	\$ 738,704	\$ 738,704
Regions FDIC	Money Market	2,001,398	2,001,398
Dreyfus Government Cash	Money Market	2,604,674	2,604,674
Federal Farm Credit Bank; 3.17%; due 11/18/11	Bond	499,500	502,040
Federal Home Loan Bank; 1.94%; due 05/14/12	Bond	499,750	501,910
Federal Farm Credit Bank; 1.97%; due 06/25/12	Bond	499,500	503,650
Federal Home Loan Bank; 2.12%; due 08/24/12	Bond	499,500	502,445
Federal Home Loan Bank; 2.11%; due 12/28/12	Bond	499,625	498,295
Federal Farm Credit Bank; 2.73%; due 06/24/13	Bond	499,250	500,195
Federal Home Loan Bank; 4.62%; due 07/29/13	Bond	499,375	506,520
Federal Home Loan Bank; 2.60%; due 08/12/13	Bond	499,325	504,435
Federal Home Loan Bank; 2.52%; due 08/19/13	Bond	499,500	504,135
Federal Farm Credit Bank; 3.95%; due 10/15/13	Bond	498,250	519,785
Federal Home Loan Bank; 2.05%; due 06/17/14	Bond	498,625	498,725
Federal Home Loan Bank; 2.02%; due 06/30/14	Bond	495,000	499,550
Federal Home Loan Bank; 4.94%; due 07/22/14	Bond	508,515	518,515
Federal Home Loan Bank; 3.05%; due 09/15/14	Bond	499,250	501,500
Federal Home Loan Bank; 4.84%; due 12/03/14	Bond	499,375	503,455
Federal Home Loan Bank; 4.07%; due 05/14/15	Bond	498,750	510,675
Federal Home Loan Bank; 2.00%; due 10/22/14	Bond	497,750	497,750
Total		<u>\$ 13,835,616</u>	<u>\$ 13,918,356</u>

North Carolina Bar Association Health Benefit Trust

Schedule H, line 4j- Schedule of Reportable Transactions
 Employer Identification Number 56-6595155, Plan Number 501

September 30, 2009

<u>Identity of party involved</u>	<u>Description of asset</u>	<u>Purchase price</u>	<u>Selling price</u>	<u>Lease rental</u>	<u>Expense incurred with transaction</u>	<u>Cost of asset</u>	<u>Current value of asset on transaction date</u>	<u>Net gain or (loss)</u>
Morgan Keegan & Co.	Dreyfus Government Cash	\$ 2,604,674	N/A	N/A	N/A	\$ 2,604,674	\$ 2,604,674	N/A