



North Carolina Bar Association Health Benefit Trust

Audited Financial Statements

*Years ended September 30, 2011 and 2010
with Report of Independent Auditors*

North Carolina Bar Association Health Benefit Trust

Audited Financial Statements

Years ended September 30, 2011 and 2010

Contents

Report of Independent Auditors.....	1
Audited Financial Statements	
Statements of Benefit Obligations and Net Assets Available for Plan Benefits.....	2
Statements of Changes in Benefit Obligations and Net Assets Available for Plan Benefits.....	3
Notes to Financial Statements.....	4 - 11
Other Financial Information	
Schedule of Assets Held for Investment Purposes.....	12

Report of Independent Auditors

Board of Trustees
North Carolina Bar Association Health Benefit Trust

We have audited the accompanying Statements of Benefit Obligations and Net Assets Available for Plan Benefits of the North Carolina Bar Association Health Benefit Trust ("the Trust") as of September 30, 2011 and 2010 and the related Statements of Changes in Benefit Obligations and Net Assets Available for Plan Benefits for the years 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the North Carolina Bar Association Health Benefit Trust as of September 30, 2011 and 2010 and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplemental schedule of assets held for investment purposes as of September 30, 2011 is presented for purposes of additional analysis and is not a required part of the financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. Such information is the responsibility of the Trust's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Johnson Lambert & Co. LLP

Raleigh, North Carolina
January 10, 2012

North Carolina Bar Association Health Benefit Trust

Statements of Benefit Obligations and Net Assets Available for Plan Benefits

	As of September 30,	
	2011	2010
Benefit obligations		
Health claims liability	\$ 1,422,355	\$ 2,026,388
Assets		
Receivables:		
Employer contributions receivable	56,654	38,457
Reinsurance recoverable	139,547	102,500
Collected contributions due from third-party administrator	924,024	732,126
Pharmacy rebates receivable	251,440	131,324
Accrued interest and dividends	20,937	31,536
Total receivables	1,392,602	1,035,943
Cash and cash equivalents	3,824,816	2,874,289
Short-term investments	1,988,707	2,367,876
Investments	8,678,514	9,035,495
Prepaid expenses	12,034	12,036
Total assets	15,896,673	15,325,639
Liabilities		
Advanced contributions	1,441,242	1,362,150
Payable for securities	-	998,000
Accounts payable	406,440	448,610
Total liabilities	1,847,682	2,808,760
Net assets available for plan benefits	14,048,991	12,516,879
Excess of net assets available for plan benefits over benefit obligations	\$ 12,626,636	\$ 10,490,491

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 September 30,</u> <u>2011</u>	<u>2010</u>
Net change in benefit obligations		
Net change during the year attributable to:		
Health claims payable	\$ <u>(604,033)</u>	\$ <u>(354,491)</u>
Net change in net assets available for plan benefits		
Additions		
Employer contributions	31,703,901	34,309,116
Pharmacy rebates earned	621,476	430,831
Net investment income earned	146,165	235,914
Net realized gains	12,660	13,433
Change in fair value of investments	<u>(15,250)</u>	<u>(23,289)</u>
Total additions	<u>32,468,952</u>	<u>34,966,005</u>
Deductions		
Participant benefits	26,984,369	30,441,458
General expenses	<u>3,952,471</u>	<u>4,763,489</u>
Total deductions	<u>30,936,840</u>	<u>35,204,947</u>
Net change in net assets available for plan benefits	<u>1,532,112</u>	<u>(238,942)</u>
Excess of net change in net assets available for plan benefits over the change in benefit obligations	2,136,145	115,549
Excess of net assets available for plan benefits over benefit obligations at beginning of year	<u>10,490,491</u>	<u>10,374,942</u>
Excess of net assets available for plan benefits over benefit obligations at end of year	<u>\$ 12,626,636</u>	<u>\$ 10,490,491</u>

See accompanying notes to the financial statements

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements

Years ended September 30, 2011 and 2010

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:

Party	Services provided	Fee
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 the number of covered employees per month
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.

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, 2011 and 2010.

Cash and Short-term Investments

Cash and cash equivalents as of September 30, 2011 and 2010 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. Included in these accounts are amounts exceeding FDIC insured limits.

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (continued)

Investments

Current GAAP guidance establishes a three-level hierarchy that prioritizes inputs to valuation techniques used to measure fair value of invested assets. 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 asset's or liabilities fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Trust's fixed maturity securities are classified as available-for-sale and are reported at their estimated fair value based on average bid prices of identical or similar issues with the same life and expected yields (Level 2). Security transactions are recognized on the trade date (the date the order to buy or sell is executed). Gains and losses are determined using the specific identification basis.

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, 2011 and 2010, 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, 2011 and 2010.

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (continued)

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 of Organization Exempt From Income Tax*.

The Sponsor analyzed the tax positions taken by the Trust, and concluded that as of September 30, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. No tax planning strategies were used during the years ended September 30, 2011 and 2010. Tax returns filed within the past three years are subject to examination by the Internal Revenue Service. There are no examinations currently being conducted.

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.

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, 2011 and 2010 represents the best estimate of the ultimate net cost of settling unpaid health claims incurred through September 30, 2011 and 2010. 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 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, 2011 and 2010. 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.

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements (Continued)

Note A - Organization and Significant Accounting Policies (continued)

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, 2011 and 2010 were \$501,360 and \$461,807, respectively.

Subsequent Events

The Trust has evaluated subsequent events through January 10, 2012, the date on which these financial statements were available to be issued.

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:

	2011	2010
Bonds:		
Short-term investments:		
Dreyfus Government Cash Management	\$ 1,988,707	\$ 2,367,876
Total	\$ 1,988,707	\$ 2,367,876

The major components of the net change in fair value of investments, and interest on investments, during the year ended September 30, 2011 were as follows:

	Net change in fair value of investments	Interest income	Total
Cash and short-term investments	\$ -	\$ 3,363	\$ 3,363
U.S. Government agencies	(37,536)	134,425	96,889
Mortgage-backed securities	22,286	8,377	30,663
Total	\$ (15,250)	\$ 146,165	\$ 130,915

The major components of the net change in fair value of investments, and interest on investments, during the year ended September 30, 2010 were as follows:

	Net change in fair value of investments	Interest income	Total
Cash and short-term investments	\$ -	\$ 4,217	\$ 4,217
U.S. Government agencies	(23,289)	231,697	208,408
Total	\$ (23,289)	\$ 235,914	\$ 212,625

North Carolina Bar Association Health Benefit Trust

Notes to Financial Statements (Continued)

Note C - Reinsurance

For the year ended September 30, 2011, the Trust purchased specific and aggregate excess of loss reinsurance from AIG Life Insurance Company with an effective date of October 1, 2010 and an expiration date of September 30, 2011. 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 \$50,452,870 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, 2011 amounted to \$1,067,647 and \$854,240, respectively.

For the year ended September 30, 2010, the Trust purchased specific and aggregate excess of loss reinsurance from AIG Life Insurance Company with an effective date of October 1, 2009 and an expiration date of September 30, 2010. The specific excess of loss coverage has an attachment point of \$175,000, per individual, and a limit of liability of \$4,875,000 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 \$41,460,639 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, 2010 amounted to \$1,075,031 and \$1,282,132, 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, 2011 and 2010 were comprised of the following:

	<u>2011</u>	<u>2010</u>
BCBS administration fees	\$ 2,087,332	\$ 2,498,674
Lawyers Insurance Agency administration fees	1,578,920	1,946,128
Consulting fees	95,000	67,503
Actuarial fees	47,212	86,403
Insurance expense	69,048	68,776
Other	52,775	60,464
Accounting fees	21,900	22,625
Legal fees	284	12,916
Total general expenses	<u>\$ 3,952,471</u>	<u>\$ 4,763,489</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, 2011 and 2010:

	2011	2010
Net health claims liability, beginning of year	\$ 2,026,388	\$ 2,380,879
Provision for health claims incurred during:		
Current year	26,059,091	29,043,337
Previous years	321,245	1,043,630
Total provision for health claims incurred	26,380,336	30,086,967
Health claims paid for claims, net of reinsurance, incurred during:		
Current year	24,884,265	27,463,631
Previous years	2,100,104	2,977,827
Total health claims paid	26,984,369	30,441,458
Net health claims liability, end of year	\$ 1,422,355	\$ 2,026,388
Gross health claims liability, end of year	\$ 1,422,355	\$ 2,026,388
Less: Reinsurance recoverable on unpaid claims	-	-
Net health claims liability, end of year	\$ 1,422,355	\$ 2,026,388

As reflected in the preceding table, the reserve for health claims attributable to insured events of prior fiscal years has increased by \$321,245 and \$1,043,630 during fiscal years 2011 and 2010, 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:

	2011	2010
Net assets available for plan benefits per the financial statements	\$ 14,048,991	\$ 12,516,879
Health claims currently payable	1,422,355	2,026,388
Net assets available for benefits per Form 5500	\$ 12,626,636	\$ 10,490,491

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>2011</u>	<u>2010</u>
Benefits to participants per the financial statements	\$ 26,984,369	\$ 30,441,458
Add: Amounts currently payable at end of period	1,422,355	2,026,388
Less: Amounts currently payable at beginning of period	<u>2,026,388</u>	<u>2,380,879</u>
Benefits to participants per Form 5500	<u>\$ 26,380,336</u>	<u>\$ 30,086,967</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, 2011

Identity of issue, borrower, lessor or similar party	Description of investment	Cost	Current value
Morgan Keegan	Cash	\$ 3,824,817	\$ 3,824,817
Dreyfus Government Cash Management	Money Market	1,988,707	1,988,707
GNMA #783308; 3.500%; due 05/15/26	Bond	519,532	517,360
GNMA II #5012; 3.500%; due 04/20/26	Bond	500,482	513,343
GNMA #738040; 3.500%; due 03/15/26	Bond	501,251	510,867
Federal Home Loan Bank; 1.000%; due 07/25/16	Bond	497,500	501,200
Federal Home Loan Bank; 1.00% due 12/28/11	Bond	499,095	500,960
Federal Farm Credit Bank; 1.500%; due 12/08/14	Bond	497,055	500,925
Federal Home Loan Bank; 1.250%; due 08/23/16	Bond	499,375	500,635
Federal Farm Credit Bank; 1.600%; due 11/09/15	Bond	499,750	500,515
Federal Farm Credit Bank; 1.440%; due 08/10/15	Bond	500,665	500,460
Federal Home Loan Banks; 1.350%; due 11/17/14	Bond	499,750	500,415
Federal Home Loan Bank; 1.250%; due 10/28/15	Bond	499,500	500,355
Federal Home Loan Bank; 1.500%; due 08/24/16	Bond	500,875	500,340
Federal Farm Credit Bank; 1.050%; due 11/10/14	Bond	499,875	500,270
Federal Home Loan Banks; 1.000%; 10/21/15	Bond	498,500	500,160
Federal Home Loan Bank; 0.875% due 10/28/13	Bond	497,500	500,150
Federal Home Loan Bank; 1.000%; due 09/23/16	Bond	499,125	498,555
Federal Home Loan Bank; 0.500%; due 12/30/15	Bond	499,500	497,155
Federal Home Loan Bank; 1.000%; due 09/23/15	Bond	133,942	134,848
Total		<u>\$ 14,456,796</u>	<u>\$ 14,492,037</u>