

CSA RETIREE WELFARE FUND

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
SEPTEMBER 30, 2011 AND 2010**

CSA RETIREE WELFARE FUND

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INDEPENDENT AUDITOR'S REPORT

To the Trustees of CSA Retiree Welfare Fund
Brooklyn, New York

We have audited the accompanying statements of benefit obligations and net assets available for benefits of CSA Retiree Welfare Fund as of September 30, 2011 and 2010, and the related statements of changes in benefit obligations and net assets available for benefits for the years then ended. These financial statements are the responsibility of the Fund'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 of America. Those standards require that we plan and perform the audits 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 Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 Fund 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 of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of benefit costs and management and general expenses, referred to as "supplementary information", are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These supplemental schedules are the responsibility of the Fund's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Tarlow & Co., C.P.A.'s

New York, New York
January 19, 2012

CSA RETIREE WELFARE FUND

STATEMENTS OF BENEFIT OBLIGATIONS AND
NET ASSETS AVAILABLE FOR BENEFITS

AS OF SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>BENEFIT OBLIGATIONS</u>		
Health claims payable	\$ 49,022	\$ 12,675
Claims incurred but not reported	<u>4,161,045</u>	<u>3,504,325</u>
Total benefit obligations	<u>4,210,067</u>	<u>3,517,000</u>
<u>NET ASSETS</u>		
<u>Assets</u>		
<u>Investments, at fair value:</u>		
Mutual funds	14,124,734	-
Mortgage and asset backed securities	4,734	6,314,340
Common stocks	<u>2,787,453</u>	<u>2,010,019</u>
Total investments	<u>16,916,921</u>	<u>8,324,359</u>
<u>Receivables:</u>		
Contributions - Board of Education	-	840,488
Accrued interest and dividends receivable	11,537	33,599
Due from CSA Union - supplemental medical	4,285	-
Due from CSA Welfare Fund	<u>23,100</u>	<u>-</u>
Total receivables	<u>38,922</u>	<u>874,087</u>
Cash and cash equivalents	3,675,320	4,339,953
Cash at broker	71,528	6,878,684
Other assets	<u>2,384</u>	<u>7,473</u>
Total assets	<u>20,705,075</u>	<u>20,424,556</u>
<u>Liabilities</u>		
Accounts payable for administrative expenses	22,139	13,913
Due to CSA Welfare Fund	<u>-</u>	<u>65,600</u>
Total liabilities	<u>22,139</u>	<u>79,513</u>
Net assets available for benefits	<u>20,682,936</u>	<u>20,345,043</u>
Excess of net assets available for benefits over benefit obligations	<u>\$ 16,472,869</u>	<u>\$ 16,828,043</u>

The accompanying notes are integral part of these financial statements.

CSA RETIREE WELFARE FUND

STATEMENTS OF CHANGES IN BENEFIT OBLIGATIONS AND
NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>NET INCREASE (DECREASE) IN BENEFIT OBLIGATIONS</u>		
Increase (decrease) during the year attributable to:		
Claims reported and approved for payment	\$ 9,595,019	\$ 9,011,526
Changes in actuarial assumptions for claims incurred but not reported	656,720	(277,525)
Claims paid	<u>(9,558,672)</u>	<u>(9,014,614)</u>
Net increase (decrease) in benefit obligations	<u>693,067</u>	<u>(280,613)</u>
<u>NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS</u>		
<u>Additions</u>		
Contributions - Board of Education	<u>10,960,683</u>	<u>11,778,686</u>
<u>Investment income</u>		
Net appreciation (depreciation) in fair value of investments	(443,550)	633,180
Interest	71,995	605,627
Dividends	<u>463,747</u>	<u>54,487</u>
Total investment income	92,192	1,293,294
Less: Investment expenses	<u>(57,562)</u>	<u>(21,670)</u>
Net investment income	<u>34,630</u>	<u>1,271,624</u>
Sundry additions	<u>97,239</u>	<u>80,448</u>
Total additions	<u>11,092,552</u>	<u>13,130,758</u>
<u>Deductions</u>		
<u>Benefit costs</u>		
Premiums paid	74,054	72,476
Benefits paid to participants and providers	<u>9,484,618</u>	<u>8,942,138</u>
Total benefit costs	9,558,672	9,014,614
Management and general expenses	<u>1,195,987</u>	<u>1,221,563</u>
Total deductions	<u>10,754,659</u>	<u>10,236,177</u>
Net increase	<u>337,893</u>	<u>2,894,581</u>
Increase (decrease) in excess net assets available for benefits over benefit	(355,174)	3,175,194
Excess of net assets available for benefits over benefit obligations:		
Beginning of year	<u>16,828,043</u>	<u>13,652,849</u>
End of year	<u>\$ 16,472,869</u>	<u>\$ 16,828,043</u>

The accompanying notes are integral part of these financial statements.

CSA RETIREE WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 1 - DESCRIPTION OF FUND

The following description of the CSA Retiree Welfare Fund (the "Fund") provides only general information. Participants should refer to the plan agreement for a complete description of the Fund.

Benefits

The CSA Retiree Welfare Fund was formed on February 8, 1984 under the terms of an agreement and Declaration of Trust entered into by the Trustees designated by the executive Board of the Council of Supervisors and Administrators. The Fund provides dental, optical, supplemental medical, extended hospitalization and hearing aid benefits to retired supervisors formerly employed by the New York City Board of Education for whom a contribution is made, as well as to surviving dependents of such employees for a period of three years from the date of death of the employee.

Effective January 1, 2006, the trustees approved establishing the prescription drug benefit in conjunction with the passage of Medicare Part D. Medicare eligible retirees enrolled in the GHI prescription drug rider plan will receive \$40 per month and payments will be made in the first quarter of the following year.

Effective October 1, 2010, coverage for children was extended to age 26 in compliance with the provisions of the Patient Protection and Accountability Act of 2010. Coverage for children age 26 through 29 will be made available, with member contributions set at Fund cost.

Group insurance

Dental benefits provided to the members are either insured through a contract with Healthplex, Inc. and Blue Cross Dental Network or self-insured and administered through Self-Insured Dental Services (SIDS). The Fund pays for extended hospitalization coverage to Medicare eligible members enrolled in the City Health Plan Blue Cross GHI program.

Termination

The Fund may be terminated under certain conditions. Upon termination, the assets then remaining should be subject to the applicable provisions of the Fund then in effect and should be used until exhausted to pay benefits to members in order of their entitlement.

Contributions

Contributions are determined according to the negotiated settlement between the CSA Union and the City of New York, Board of Education and are funded by the controller of the City of New York. Contributions are currently either \$83.60 per participant per month for retirees enrolled prior to September 9, 1982 or \$120.27 per participant per month for retirees enrolled post September 9, 1982.

In addition to the normal contributions, the Fund received a one-time contribution of \$200 per member in October 2009 based on the City/MLC agreement.

CSA RETIREE WELFARE FUND
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2011 AND 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements of the Fund are prepared on the accrual basis of accounting.

Use of estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, 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.

Allowance for doubtful accounts

The allowance for doubtful accounts are based on known troubled accounts, historical experience, and, other currently available evidence. Accounts receivable are written off at the time said accounts are determined to be uncollectible.

Investment valuation and income recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 6 for discussion of fair value measurements.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis and dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Fund's gains and losses on investments bought and sold as well as held during the period.

Claims incurred but not reported

Plan obligations, at September 30, 2011 and 2010 for health claims incurred by participants but not reported at that date, are estimated by the Fund's actuary in accordance with accepted actuarial principles. Such estimated amounts are reported in the accompanying statements of benefit obligations and net assets available for benefits were estimated using a "claims development", "lag" method or "trend factors", methods generally accepted and commonly used in actuarial practice.

NOTE 3 - ADMINISTRATIVE AGREEMENT

The Fund is administered by the administrator and staff of the CSA Welfare Fund through an agreement between the Trustees of the Fund and the Trustees of the CSA Welfare Fund. Under the terms of the agreement, the Fund reimburses the CSA Welfare Fund for its share of common administrative costs. Such charges were \$834,900 and \$857,600 for the years ended September 30, 2011 and 2010, respectively.

CSA RETIREE WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 4 - CONCENTRATIONS OF CREDIT RISK

- a) The Fund maintains its cash in bank deposit and money market accounts which at times, may exceed federally insured limits. Accounts in the United States are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At September 30, 2011 and 2010, the Fund had \$3,344,781 and \$10,718,487, respectively in excess of FDIC insured limits. The Fund has not experienced any losses in such accounts.
- b) Contributions from the Board of Education accounted for approximately 100% of total contributions for the years ended September 30, 2011 and 2010, respectively.
- c) As discussed in Note 7, Alliance Bernstein became the custodian and investment advisor of the Fund's investments in May 2010. The Fund had \$16,988,449 and \$15,203,043 invested with Alliance Bernstein at September 30, 2011 and 2010, respectively, consisting of the following investments: cash deposits, money markets, mutual funds, publicly traded equity securities and mortgage and asset backed securities. Alliance Bernstein is a member of the Securities Investor Protection Corporation (SIPC).

NOTE 5 - INVESTMENTS

The Fund's investments were held and administered by Alliance Bernstein since May 2010. Prior to this date, Smith Barney held and administered the Fund's investments. During the years ended September 30, 2011 and 2010, the Fund's investments (including investments bought, sold, and held during period) appreciated (depreciated) in value by \$(443,550) and \$633,180, respectively, as follows:

	September 30,			
	2011		2010	
	Net Increase (Decrease) In Value During Year	Fair Value at End of Year	Net Increase In Value During Year	Fair Value at End of Year
Fair value as determined by quoted market price:				
Mutual Funds	\$ (373,695)	\$ 14,124,734	\$ -	\$ -
Mortgage and asset backed securities	123,387	4,734	481,040	6,314,340
Common stocks	<u>(193,242)</u>	<u>2,787,453</u>	<u>152,140</u>	<u>2,010,019</u>
	<u>\$ (443,550)</u>	<u>\$ 16,916,921</u>	<u>\$ 633,180</u>	<u>\$ 8,324,359</u>

CSA RETIREE WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 5 - INVESTMENTS (Continued)

The fair value of individual investments that represent 5% or more of the Fund's net assets are as follows:

	September 30,	
	2011	2010
Investments at fair value, as determined at quoted market price:		
<u>Mutual funds</u>		
Bernstein Intermediate Duration Institutional Portfolio, 513,753.078 shares in 2011	\$ 8,307,387	\$ -
Bernstein Short Duration Plus Portfolio, 359,106.555 shares in 2011	4,271,429	-

NOTE 6 - FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 820, Fair Value Measurements and Disclosures, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

- Level 1 -** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.
- Level 2 -** Inputs to the valuation methodology include:
- quoted prices for similar assets or liabilities in active markets;
 - quoted prices for identical or similar assets or liabilities in inactive markets;
 - inputs other than quoted prices that are observable for the asset or liability;
 - inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

CSA RETIREE WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 6 - FAIR VALUE MEASUREMENTS - (Continued)

Level 3 - Inputs to the valuation methodology are unobservable and significant to the value measurements.

The asset or liability's fair value measurement 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.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in methodologies used at September 30, 2011 and 2010.

Mutual funds: Valued based on quoted market prices, in the active market, which represent the net asset value (NAV) of the shares held by the Fund at the end of the reporting period.

Common stocks: Valued at the closing price reported in the active market in which the individual common stock is traded.

Mortgage and asset backed securities: Traded in over-the-counter markets and listed securities for which no sale was reported on the last business day of the reporting period are valued at the average of the last reported bid and asked prices.

Cash and cash equivalents: Consist of checking accounts and money market funds which are valued at cost which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Fund believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CSA RETIREE WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 6 - FAIR VALUE MEASUREMENTS - (Continued)

The following tables set forth by level, within the fair value hierarchy, the Fund's assets at fair value as of September 30, 2011 and 2010:

	Assets at Fair Value as of September 30, 2011		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 3,746,848	\$ -	\$ 3,746,848
Mutual funds	14,124,734	-	14,124,734
Mortgage and asset backed securities	-	4,734	4,734
Common stocks	<u>2,787,453</u>	<u>-</u>	<u>2,787,453</u>
Total assets at fair value	<u>\$20,659,035</u>	<u>\$ 4,734</u>	<u>\$ 20,663,769</u>

	Assets at Fair Value as of September 30, 2010		
	Level 1	Level 2	Total
Cash and cash equivalents	\$ 11,218,637	\$ -	\$ 11,218,637
Mortgage and asset backed securities	-	6,314,340	6,314,340
Common stocks	<u>2,010,019</u>	<u>-</u>	<u>2,010,019</u>
Total assets at fair value	<u>\$ 13,228,656</u>	<u>\$ 6,314,340</u>	<u>\$ 19,542,996</u>

NOTE 7 - PARTY-IN-INTEREST TRANSACTIONS

Certain fund investments were managed by Alliance Bernstein (prior to May 2010 it was managed by Smith Barney), which is the investment advisor and custodian of the Fund's investments. The purchases and sales of these investments and resulting balances are considered party-in-interest transactions and balances. Fees paid by the Fund for investment management services amounted to \$57,562 and \$21,670 for the years ended September 30, 2011 and 2010, respectively.

NOTE 8 - TAX STATUS

The Trust established under the Fund, to hold the Fund's net assets, is qualified pursuant to Section 501 (c)(9) of the Internal Revenue Code (the "IRC") and, accordingly, the Fund's net investment income is exempt from income taxes. The fund administrator and the Fund's counsel believe that the Trust is designed and is currently being operated in compliance with the applicable requirement, of the IRC.

CSA RETIREE WELFARE FUND

NOTES TO FINANCIAL STATEMENTS

SEPTEMBER 30, 2011 AND 2010

NOTE 8 - TAX STATUS (Continued)

Accounting principles generally accepted in the United States of America require fund management to evaluate tax positions taken by the Fund and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The fund administrator has analyzed the tax positions taken by the Fund, and has concluded that as of September 30, 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Fund is subject to routine audits by the Internal Revenue Service; however, there are currently no audits for any tax periods in progress. The fund administrator believes it is no longer subject to income tax examinations for years prior to 2008.

NOTE 9 - RISKS AND UNCERTAINTIES

Actuarial estimates and assumptions

The actuarial present value of benefit obligations is reported based on certain assumptions pertaining to interest rates, health care inflation rates, and member demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

Investment valuations

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

The Fund invests in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage asset backed securities, including securities backed by subprime mortgage loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

NOTE 10 - SUBSEQUENT EVENTS

Fund management has evaluated subsequent events through January 19, 2012, the date that the financial statements were available to be issued.

NOTE 11 - RECLASSIFICATIONS

Certain amounts in the September 30, 2010 financial statements have been reclassified to conform to September 30, 2011 presentation.

SUPPLEMENTARY INFORMATION

CSA RETIREE WELFARE FUND

SCHEDULES OF BENEFIT COSTS

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>Total premiums paid:</u>		
Dental	\$ 74,054	\$ 72,476
<u>Benefits paid to participants and providers:</u>		
Dental benefits	\$ 5,151,315	\$ 4,978,361
Supplemental major medical	2,021,526	1,659,640
GHI Rider Costs	1,783,400	1,763,622
Optical	251,483	239,389
Hospitalization	141,344	176,761
Hearing aids	<u>135,550</u>	<u>124,365</u>
Total benefits paid to participants and providers	<u>\$ 9,484,618</u>	<u>\$ 8,942,138</u>

See independent auditor's report.

CSA RETIREE WELFARE FUND

SCHEDULES OF MANAGEMENT AND GENERAL EXPENSES

FOR THE YEARS ENDED SEPTEMBER 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Shared administrative expenses	\$ 834,900	\$ 857,600
Other benefit costs	245,118	249,927
Consultant fees	46,636	45,227
Auditing fees	29,860	28,623
Insurance	19,350	19,547
Sundry	9,980	10,229
Legal fees	7,200	7,200
Postage	2,156	400
Office expense	<u>787</u>	<u>2,810</u>
Total management and general expenses	<u>\$ 1,195,987</u>	<u>\$ 1,221,563</u>

See independent auditor's report.