

(attested) copy of the Report was transmitted electronically via email to the Plan and filed with the Department on May 14, 2009. A draft copy of the Report was delivered electronically via email to the Plan on May 4th, 2009 to Mr. Kent Rock, Chairman of the Board of Trustees. The verified Report is attached hereto and incorporated herein in full and identified as "Exhibit A."

2. WAIVER. Attached hereto and incorporated herein in full and identified as "Exhibit B," is a Waiver signed by Mr. Rock on June 17, 2009 and received via email by the Department on June 17, 2009. In accordance with said Waiver, a final Order may be entered herein, as the Plan has waived its rights to make recommendations, to request a hearing, to seek reconsideration and to seek judicial review.

ORDER

Based on the findings herein, good cause appearing therefor, and in consideration of the premises;

IT IS HEREBY ORDERED the above-described report identified herein as "Exhibit A" which includes the findings, conclusions, comments and recommendations supporting this Order, is hereby ADOPTED as the final examination report and as an official record of the Department under §§ 41-227(5)(a) and 41-4013(3), Idaho Code.

DATED and EFFECTIVE at Boise, Idaho this 18th day of June 2009.



William W. Deal, Director
IDAHO DEPARTMENT OF INSURANCE

CERTIFICATE OF SERVICE

I hereby certify that on this 19TH day of June 2009, I caused to be served the foregoing document on the following parties in the manner set forth below:

Mr. Kent Rock, Chair	<input checked="" type="checkbox"/>	certified mail
Board of Trustees	<input type="checkbox"/>	first class mail
City of Boise Employee Health Care Plan Trust	<input type="checkbox"/>	hand delivery
City Hall	<input type="checkbox"/>	Facsimile
150 N. Capitol Boulevard		
Boise, Idaho 83701		
KROCK@cityofboise.org	<input checked="" type="checkbox"/>	e-mail

Ms. Carla Miller-Lowe, Ex Officio Member	<input type="checkbox"/>	certified mail
Board of Trustees	<input type="checkbox"/>	first class mail
City of Boise Employee Health Care Plan Trust	<input type="checkbox"/>	hand delivery
City Hall	<input type="checkbox"/>	facsimile
150 N. Capitol Boulevard		
Boise, Idaho 83701		
CLMiller@cityofboise.org	<input checked="" type="checkbox"/>	e-mail

Georgia Siehl, CPA, CFE	<input type="checkbox"/>	certified mail
Bureau Chief / Chief Examiner	<input type="checkbox"/>	first class mail
Idaho Department of Insurance	<input checked="" type="checkbox"/>	hand delivery
700 W. State St., 3 rd Floor	<input type="checkbox"/>	facsimile
Boise, Idaho 83720-0043		
e-mail: Georgia.Siehl@doi.idaho.gov	<input checked="" type="checkbox"/>	e-mail



William R. Michels, MBA, CPA, CFE
Examination Supervisor
IDAHO DEPARTMENT OF INSURANCE

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

of

CITY OF BOISE EMPLOYEE HEALTH CARE PLAN TRUST
(a self-funded employee health care plan)

as of

September 30, 2008

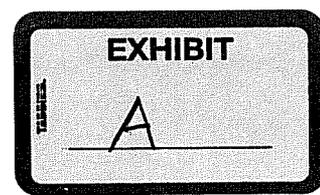


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State of Idaho
DEPARTMENT OF INSURANCE

C. L. "BUTCH" OTTER
Governor

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WILLIAM W. DEAL
Director

Boise, Idaho
May 14, 2009

The Honorable William W. Deal
Director of Insurance
State of Idaho
700 West State Street
Boise, Idaho 83720

Dear Director:

Pursuant to your instructions, in compliance with Sections 41-219(1) and 41-4013(1), Idaho Code, we have conducted an examination as of September 30, 2008, of the financial condition and corporate affairs of:

City of Boise Employee Health Care Plan Trust
150 N. Capitol Boulevard
Boise, Idaho 83701

hereinafter referred to as the "Trust," at its offices in Boise, Idaho. The following Report of Examination is respectfully submitted.

SCOPE OF EXAMINATION

This examination covered the period December 19, 2005, through September 30, 2008, and included such prior transactions and any material transactions and/or events occurring subsequent to the examination date and noted during the course of this examination. The examination was conducted in accordance with Sections 41-219(1) and 41-4013(1), Idaho Code. Verification and valuation of assets, liabilities, and net assets (surplus) and an analysis and review of such other accounts and records as appropriate to the examination were also performed. There was some reliance upon the independent auditor's and the consulting actuary's work in this examination.

A letter of representation attesting to the Trust's ownership of all assets and to the nonexistence of unrecorded liabilities or contingent liabilities was signed by and received from management.

PRIOR EXAMINATION

As noted under *HISTORY AND DESCRIPTION*, the Trust was registered as a self-funded plan under Chapter 40, Idaho Code, effective December 19, 2005. This is the first comprehensive examination of the Trust since the registration process.

HISTORY AND DESCRIPTION

The City of Boise (City) adopted Resolution Number 18457 on December 14, 2004, creating a City of Boise Health Care Plan Trust and approved the City of Boise Employees Health Care Plan Trust Agreement.

The City, as the plan sponsor and employer, created the Trust effective January 1, 2005. The purpose of the Trust is to receive contributions to the Health Care Plan (Plan) established by the City; hold, manage, and invest Trust property and income thereon; make distributions from the Trust fund; and be responsible for the Trust's long term financial stability, among other things.

The Plan provides optional health care benefits to full-time City employees and their dependents, retirees, and former employees/dependents under the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA).

As previously stated, the Trust was registered with the Idaho Department of Insurance as a self-funded plan effective December 19, 2005.

The City has sponsored a Wellness Program for employees since 1989. The Program's basic mission is to provide information and education to City employees that will allow them to identify health risks and provide educational opportunities to improve their health and make them better users of the health care benefits provided by the City. The

Wellness Program was included in the Human Resources Department and was managed by a volunteer committee with representation from various City departments. During 2007, the Wellness Program was merged into the Trust. The purpose of the merger was to improve coordination between programs and to enhance funding.

MANAGEMENT AND CONTROL

Pursuant to the By-laws adopted by the Health Trustees, the Trustees have a fiduciary responsibility to the Plan participants (City Employees) to operate the Trust so that its assets and income of the Trust Fund are adequate under reasonable estimates for payment of all benefits promised to beneficiaries by the Plan. The Trustees will have final approval on all health related programs and benefits and Trust related financial issues, within the confines of the appropriated budget, applicable laws, and governing rules. The Trustees will consider and address issues or recommendations brought forth by the Mayor, City Council, and employee representative groups. The Trustees are obligated by law as fiduciaries to handle the Trust funds in a manner consistent with the Trust on behalf of the Plan Participants.

The Trustees are comprised of the following nine voting members who are appointed by the City Council, unless otherwise noted:

- One employee advisory committee member: two year term.
- Five financial administrators from any department: four year terms.
- One City Treasurer or equivalent position: standing position.
- One Fire department employee covered by the collective bargaining agreement: two year term.
- One Police department employee covered by the collective bargaining agreement: two year term.

The Benefits/Compensation/HRIS Manager or equivalent position is a non-voting Trustee. The Trust appoints a Trust Board Secretary staffed by the Human Resources Department. The Trust is charged with a portion of the Benefits/Compensation/HRIS salaries. All other services are provided at no charge to the Trust.

The Trustees establish the positions of Chair and Vice-Chair elected from among the Trust members. Trust officers are elected at the first regular Trust meeting in November of each year. The Chair and Vice-Chair serve two year terms and are elected by majority vote.

The Trustees will serve as indicated above or until their death, incapacity, resignation, or removal, whichever comes first.

The Trust may determine that a subcommittee(s) is necessary to conduct the business of the Trust. The subcommittees are organized on an "as needed" basis and may be temporary or permanent.

Business is transacted at official meetings of the Trust Board. These may be either regular or special meetings. The regular meetings are held on the fourth Wednesday of each month beginning at 1:30 p.m. Any one of the Trustees may call a special meeting at any time by giving at least forty-eight hours written notice.

Trustees

The following persons were the duly elected and/or appointed Trustees at September 30, 2008:

<u>Name and Business Address</u>	<u>Principal Occupation</u>
Kent Rock, Chair 150 N. Capitol Boulevard Boise, Idaho 83701	City Treasurer
Michael O'Dell 150 N. Capitol Boulevard Boise, Idaho 83701	Airport Deputy Director
Sandy Records 150 N. Capitol Boulevard Boise, Idaho 83701	Fire Administrative Manager
Patricia Braddock 150 N. Capitol Boulevard Boise, Idaho 83701	Police Deputy Chief
Carla Miller-Lowe, ex-officio 150 N. Capitol Boulevard Boise, Idaho 83701	Benefits/Compensation/HRIS Manager
Julie Bryson 150 N. Capitol Boulevard Boise, Idaho 83701	Housing & Community Development Accounting Supervisor
Brian Lee 150 N. Capitol Boulevard Boise, Idaho 83701	Police Union Employee
James Walker 150 N. Capitol Boulevard Boise, Idaho 83701	Fire Union Employee

Neal Oldemeyer resigned as a Trustee and Co-Chair effective September 24, 2008. Mr. Oldemeyer's Co-Chair position was replaced by Julie Bryson, effective September 30, 2008. On January 1, 2009, Denise McNeley replaced Mr. Oldemeyer's vacant Board member/Trustee position.

Officers:

The following person was serving as an officer of the Trust at September 30, 2008:

Kent Rock, Chair

Julie Bryson, Co-Chair

Sub-Committees:

The Trustees through its Wellness Subcommittee provides funding and overall direction for the Wellness Program.

Contracts and Agreements

The Trust had the following agreement in effect at September 30, 2008:

Administrative Service Contract

An Administrative Services Contract (ASC) executed by the City, as the health care benefits plan sponsor, and Blue Cross of Idaho Health Service, Inc. (BCI) was in-force during the examination period. The agreement provides for general administrative services and benefit payment services, among other things, relative to the Trust. BCI contracts with external service provider, WellPoint, to process and pay pharmacy claims.

The agreement effective January 1, 2006 was signed by the Mayor and adopted by the City Council. The agreement was renewed effective January 1, 2009 and was adopted by the Trustees on January 28, 2009. This agreement is also between the City of Boise and BCI.

Pursuant to Section 41-4007(3), Idaho Code, the trust fund of a self-funded plan shall have the power to contract in its own name and such contracts shall be in writing. If there is more than one trustee, all trustees may authorize one trustee to execute the contract. Therefore, it is recommended that the ASC agreement be amended, revised, or updated to replace the "City of Boise" and all references to "City" to the "City of Boise Employee Health Care Plan Trust". It is further recommended that all Trustees sign the agreement or authorize one Trustee to do so. This authorization should be clearly documented in the Trustee minutes.

Services are provided to the Trust under two existing agreements with the City's Human Resources/Wellness Committee. The Trustees approved the services which are summarized below.

Professional Services Contract Agreement

The Segal Company provides actuarial and benefit consulting services to the Trust under a benefits consultant agreement executed with City of Boise City, Human Resources Department. The agreement was adopted by Resolution Number 19356 adopted by the City Council and approved by the Mayor on November 28, 2006. The agreement was renewed and adopted by Resolution Number 19828 adopted by the City Council and approved by the Mayor on October 9, 2007. According to Trust management, change orders are processed for work Segal performs specifically for the Trust. The change orders acknowledge that the Trust is responsible for payment of such work. Therefore, the Department has determined that a separate contract between The Segal Company and the Trust is not necessary.

Treasure Valley YMCA

An agreement to provide health-related program services was executed between the City of Boise, Wellness Services, Human Resources and the YMCA in 2005. The agreement was adopted by Resolution Number 18849, which was adopted by the City Council and approved by the Mayor on November 15, 2005. The agreement was renewed for one year under Resolution Number 20223 adopted by the City Council and approved by the Mayor on August 26, 2008. The term of the agreement is three years from the date of approval.

As mentioned earlier, pursuant to Section 41-4007(3), Idaho Code, the trust fund of a self-funded plan shall have the power to contract in its own name and such contracts shall be in writing. If there is more than one trustee, all trustees may authorize one trustee to execute the contract. Therefore, it is recommended that the YMCA agreement be amended, revised, or updated to replace the "City of Boise" and all references to "City" to the "City of Boise Employee Health Care Plan Trust". It is further recommended that all Trustees sign the agreement or authorize one Trustee to do so. This authorization should be clearly documented in the Trustee minutes.

CORPORATE RECORDS

Trust Agreement and By-laws

The original Trust agreement submitted to the Department of Insurance was approved through the registration process effective December 19, 2005. The Trust agreement was subsequently revised and approved by the Department of Insurance on January 30, 2008.

The By-laws were created pursuant to Section 3.15 of the Trust Agreement, which authorizes the Trustees to promulgate such rules and regulations as may be properly and necessary for the sound and efficient administration of the Trust. The By-laws were approved by the Trustees on December 27, 2006. Subsequent revisions were approved by the Trustees on July 5, 2007 and July 23, 2008.

Minutes of Meetings

A review of the minutes of the meetings of the Trustees for the period January 1, 2005 through September 30, 2008, and subsequent thereto, indicated compliance with the Trust agreement and By-laws with respect to Trustee meeting dates and the election of officers.

This review of the minutes also indicated that a quorum was present at all Trustee meetings held during the examination period and that significant transactions and activities were properly authorized.

However, it was noted that the Trust had authorized the City Treasurer (also the Trustee Chair) to provide investment services on behalf of the Trust. Although the Trustees are provided monthly detailed reports of the Trust's investments, it was noted that the Trustees did not authorize every investment trade therein. To be in full compliance with Section 41-4009(4), Idaho Code, it is recommended that the Trustees authorize all investments made on their behalf by Treasury after reviewing the monthly detailed reports. It is further recommended that such investment authorization be documented in the Trustee minutes.

The types of investments eligible for acquisition by the Trust should also be documented in an investment policy adopted by the Trustees. In this regard, it is recommended that the Trust adopt an investment policy to include Section 41-4009, Idaho Code, and the named provisions of Title 41, Chapter 7 adopted by Chapter 40. These include Section 41-711, Corporate Obligations; Section 41-714, Common Stocks; and Section 41-716, Investment Trust Securities; however the aforementioned investment sections are limited/governed by separate provisions found in Section 41-4009, Idaho Code. Adoption of such investment policy should be documented in the Trustee minutes.

FIDELITY BOND AND OTHER INSURANCE

Insurance coverage for the protection of the Trust was maintained through the period under examination. Coverages in effect as of September 30, 2008 included pension and welfare fund fiduciary responsibility insurance and a commercial crime policy.

The protection of the commercial crime policy met the maximum coverage specified in Section 41-4014, Idaho Code.

The insurance company providing coverage to the Trust was licensed or otherwise authorized in the State of Idaho.

TERRITORY AND PLAN OF OPERATION

As previously reported, the Trust was registered with the Idaho Department of Insurance as a self-funded employee health care plan effective December 19, 2005. In this

connection, Certificate of Registration Number 3670 was granted to the Trust to transact business in the State of Idaho. Operations of the Trust are performed at City Hall, Boise Idaho. The City's Human Resources Department has been charged with performing the day-to-day operations of the Trust.

Human Resources is responsible for providing the following support to the Trust: secretarial support, subject matter expertise, liaison with consultants/contractors, provide financial reports, complete financial transactions, underwrite analysis with benefits consultant (evaluate numbers from BCI), regulatory compliance, administration of benefits, advising employees, and serve as liaison with the Department of insurance.

GROWTH OF THE TRUST

The Trust's growth for the years indicated, as taken from the audited financial statements for the years 2005 through 2007 and the unaudited quarterly statement filed with the Department, is shown in the following schedule:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets (Surplus)</u>	<u>Change in Net Assets (Surplus)</u>
2005	\$5,119,557	\$1,609,091	\$3,510,466	\$3,510,466
2006	4,314,960	1,907,192	2,407,768	(1,102,698)
2007	5,615,591	1,971,033	3,644,558	1,236,790
9/30/08*	6,690,589	1,837,848	4,852,741	1,208,183

*As determined by Examination.

REINSURANCE

Under the ASC contract with BCI, excess loss coverage is provided to the Trust in consideration for Specific Excess Loss Premiums set forth in the contract. The Trust has responsibility to pay benefits up to the Specific Excess Loss Amount of \$200,000. Thereafter, BCI has responsibility to pay for any claims exceeding this amount.

Aggregate excess loss coverage is also provided in exchange for the Aggregate Excess Loss Premium set forth in the contract. BCI refunds the amount of benefits for covered services exceeding the Aggregate Excess Loss Amount, which is calculated as follows:

Aggregate Excess Loss Amount = sum of Aggregate Excess Loss Factor(s)
times number of enrollees for each month of agreement period (1 year).

A review of the September 2008 ASC billing statement indicated the Specific Excess Loss and Aggregate Excess Loss fees were properly included within the total fees billed under the contract.

INSURANCE PRODUCTS AND RELATED PRACTICES

Policy Forms and Underwriting

The Trust provides optional health care benefits to all full-time employees who regularly work at least twenty hours per week, and their dependents, or a retiree from the City. Certain employees separated from the City may continue their coverage under the Plans for a fixed monthly premium. Coverage commences on the first day of the month following a sixty day waiting period. The Plan benefit period is January 1st through December 31st. Coverages provided to City employees include medical, dental, vision, and pharmacy benefits.

The following health Plans are offered to City employees:

- Point of Service
- Traditional 200
- PPO – Preferred
- PPO – Economy
- Retiree - Catastrophe

Not all employees are eligible for every Plan. Each Plan has defined premiums, deductibles, out-of-pocket limits and other provisions that differ by Plan. The coverages are funded through contributions from the City, participating employees and retired and other past employees. Certain past employees continue coverage after COBRA has been exhausted by participating in a catastrophic plan until they reach Medicare eligibility.

Treatment of Policyholders

Claims

As previously reported, BCI administers claims on behalf of the Trust under an ASC agreement. During the examination period, the City's Office of Internal Audit undertook a review of medical, dental, and pharmacy claims processed and paid by BCI and its pharmacy benefits manager, WellPoint, during calendar years 2005 and 2006.

The overall objective of the internal audit was to test the accuracy of the BCI systems as it related to processing and paying of medical, dental, and pharmacy claims. A scope limitation was noted in that BCI could not produce historical information related to pharmacy pricing. This was due to problems that occurred when BCI transitioned from its legacy pharmacy benefits manager to WellPoint which resulted in incorrect or unavailable information in this data. This situation was corrected as of October 2005 going forward. Exclusive of the scope limitation and based on the sample results, BCI/WellPoint correctly adjudicated and paid the City's medical, dental, and pharmacy claims for calendar years 2005 and 2006.

Complaints

The Plans offered to City employees include an inquiry and appeals procedure. In this regard, the Trust maintains appeal documentation in the City's Human Resources Department. In addition, BCI, as third party administrator, maintains grievance records on behalf of its clients, including the Trust.

Privacy Practices

The City maintains privacy practices set forth under the federal Health Insurance Portability and Accountability Act (HIPAA). The policy describes procedures used by the City's group health Plan to protect the privacy of employees and family members covered by the Plan.

ACCOUNTS AND RECORDS

General Accounting

The Trust's accounting records are maintained on and its financial reports are produced by the City's accounting and information systems. The City utilizes Peoplesoft software as its general ledger accounting and human resource software. Sympro Investment Systems and Bloomberg software are utilized for investment accounting purposes.

The City's accounting and financial reporting is maintained on a fiscal year basis for the period October 1st through September 30th. However, the Trust is on a calendar year reporting period, January 1st through December 31st. The Trust submits an annual audited statement and quarterly financial reports to the Department of Insurance as required under Section 41-4011(4), Idaho Code. However, the City's quarterly financial statements are presented on a fiscal year basis (October 1st through September 30th).

To be consistent with the Trust's calendar year and to be in compliance with IDAPA 18.01.27, which requires quarterly financial statements, it is recommended that future interim statements filed with the Department be reported on a calendar year basis. Alternatively, the Trust may want to consider changing its reporting period from a calendar year basis to the City's fiscal year reporting period.

During the review of the Trust's accounting records, it was noted that accruals made by management to reclassify cash to accounts receivable and to record known but unpaid claims at year-end were not accrued in the interim (quarterly unaudited) statements. To be comparable and consistent with the audited year-end financial statements, it is recommended that similar accruals be presented in the quarterly financial statements filed with the Idaho Department of Insurance. See Notes (1) and (3) to the Financial Statements for additional information.

Independent Accountants

The annual independent audits of the Trust for the years 2005 through 2007 were performed by Eide Bailly LLP, Boise, Idaho. The financial statements in each report were on a GAAP basis. There was some reliance on the 2007 audit report and workpapers in this examination of the Trust.

Actuarial Opinion

The actuarial certification for the liability for incurred but not reported (IBNR) health claims was prepared by Robert L. Schmidt, FSA, MAAA, of Milliman, Boise, Idaho for 2005. For the years 2006 and 2007, the actuarial certifications were prepared by Gary L. Petersen, FCA, ASA, MAAA, of The Segal Company, Tempe, Arizona.

The December 31, 2007 statement of actuarial certification stated that the reserves were computed in accordance with generally accepted and consistently applied actuarial standards, and are fairly stated in accordance with actuarial principles, given the available data. Furthermore, the certification presented all information necessary to comply with Governmental Accounting Standards Board Statement 10 with respect to the benefit liabilities addressed.

The identified actuarial items in the 2007 audited financial statements are as follows:

Medical/Vision	\$1,113,000
Pharmacy	86,000
Dental	<u>90,000</u>
Total IBNR	<u>\$1,289,000</u>
Administration	\$ 76,000
Margin (1.5% margin for 12/31/06 & 2007)	<u>21,000</u>
Total IBNR with Administration and margin	<u>\$1,386,000</u>

See Note (4) to the Financial Statements for additional comments regarding the actuarial certification.

FINANCIAL STATEMENTS

The financial section of this report contains the following statements:

Statement of Net Assets (Surplus), as of September 30, 2008

Statement of Changes in Net Assets (Surplus) for the Nine Month
Period Ending September 30, 2008

Statement of Examination Changes to the Statement of Net Assets (Surplus) as of
September 30, 2008

(continued on next page)

FINANCIAL STATEMENTS (continued)

Reconciliation of Net Assets (Surplus), December 31, 2005, through
September 30, 2008

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Statement of Net Assets (Surplus)

As of September 30, 2008

	<u>Per Trust*</u>	<u>Examination</u>	<u>Per Examination</u>
<u>ASSETS</u>	<u>Assets</u>	<u>Adjustments</u>	<u>Assets</u>
Cash (Note 1)	\$1,490,875	(\$1,477,854)	\$ 13,021
Receivables:			
Accounts receivable (Note 1)	39,703	1,477,854	1,517,557
Interest and dividends	34,077	0	34,077
Investments, at fair market value: (Note 2)	<u>5,125,934</u>	<u>0</u>	<u>5,125,934</u>
Total assets	<u>\$6,690,589</u>	<u>\$ 0</u>	<u>\$6,690,589</u>
 <u>LIABILITIES</u>			
Accounts payable (Note 3)	\$ 42,417	\$ 409,430	\$ 451,847
IBNR reserve (Note 4)	1,386,000	0	1,386,000
Rounding	<u>1</u>	<u>0</u>	<u>1</u>
Total liabilities	<u>\$1,428,418</u>	<u>\$ 409,430</u>	<u>\$1,837,848</u>
Net Assets (Surplus)	<u>\$5,262,171</u>	<u>(\$ 409,430)</u>	<u>\$4,852,741</u>

*Per the unaudited statements as of September 30, 2008 provided by the Trust.

Statement of Changes in Net Assets (Surplus)
For the Nine Month Period Ended September 30, 2008

<u>ADDITIONS</u>	<u>Per Trust**</u>	<u>Examination Adjustments</u>	<u>Per Examination</u>
<u>Contributions:</u>			
Employer	\$12,621,886	\$ 0	\$12,621,886
Plan members	<u>1,287,107</u>	<u>0</u>	<u>1,287,107</u>
Total contributions	<u>\$13,908,993</u>	<u>\$ 0</u>	<u>\$13,908,993</u>
Rebates	\$ 82,666	\$ 0	\$ 82,666
Wellness revenue/onsite fitness	14,955	0	14,955
Net increase(decrease) in fair value of investments	(19,679)	0	(19,679)
Interest	119,677	0	119,677
Rounding	<u>1</u>	<u>0</u>	<u>1</u>
Total additions	<u>\$14,106,613</u>	<u>\$ 0</u>	<u>\$14,106,613</u>
 <u>DEDUCTIONS</u>			
Insurance claim benefits (Note 3)	\$11,385,370	\$ 409,430	\$11,794,800
IBNR expense	0	0	0
Wellness expenses	69,121	0	69,121
Administrative expenses	<u>1,034,509</u>	<u>0</u>	<u>1,034,509</u>
Total deductions	<u>\$12,489,000</u>	<u>\$ 409,430</u>	<u>\$12,898,430</u>
CHANGES IN NET ASSETS (SURPLUS)	\$ 1,617,613	(\$ 409,430)	\$ 1,208,183
NET ASSETS (SURPLUS), BEGINNING OF YEAR	<u>3,644,558</u>	<u>0</u>	<u>3,644,558</u>
NET ASSETS (SURPLUS), END OF YEAR	<u>\$ 5,262,171</u>	<u>(\$ 409,430)</u>	<u>\$ 4,852,741</u>

**Per the Statement of Changes in Net Assets converted from December 31, 2008 to September 30, 2008 provided by the Trust. Such conversion was necessary to convert the income statement account balances maintained on the City's fiscal year basis to the Trust's calendar year basis.

Reconciliation of Examination Changes

To the Statement of Net Assets (Surplus)

As of September 30, 2008

Net Assets (Surplus) per Trust				<u>\$5,262,171</u>
	<u>Account</u>	<u>Per Trust</u>	<u>Per Examination</u>	<u>Increase/ (Decrease) in Surplus</u>
	Cash (Note 1)	\$1,490,875	\$ 13,021	(\$1,477,854)
	Accounts receivable (Note 1)	39,703	1,517,557	1,477,854
	Accounts Payable (Note 3)	42,417	451,847	(409,430)
	Net increase (decrease) in net assets (surplus)			<u>(\$ 409,430)</u>
	Net Assets (Surplus) per Examination			<u>\$4,852,741</u>

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Reconciliation of Changes in Net Assets (Surplus)

December 31, 2005 Through September 30, 2008

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>9/30/08</u>
Net Assets (Surplus), End of Previous Year	\$ 0	\$3,510,466	\$2,407,768	\$3,644,558
Change in Net Assets (Notes 1 & 3)	<u>3,510,466</u>	<u>(1,102,698)</u>	<u>1,236,790</u>	<u>1,208,183</u>
Net Assets (Surplus), December 31, 2005, 2006, and 2007; September 30, 2008	<u>\$3,510,466</u>	<u>\$2,407,768</u>	<u>\$3,644,558</u>	<u>\$4,852,741</u>

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NOTES TO THE FINANCIAL STATEMENTS

Note (1) – Cash	\$ 13,021
<u>Note (1) – Accounts receivable</u>	<u>1,517,557</u>

Contributions are paid into the Plans by the participants (City employees) and the employer (City). The contribution is posted as of the end of the current month and is recorded in the bank reconciliation as a “deposit-in-transit” for tracking purposes. Such contributions for the following month are not physically transferred to the Trust’s bank account until the middle of the following month. The following month’s contribution is always a reconciling item in each month. An entry is made at calendar year-end to reclassify cash to accounts receivable for the audited financial statements. To be consistent and comparable with the audited statements, a similar reclassification entry was made in the financial statements of the examination report. In this connection, cash of \$1,477,854 was reclassified to accounts receivable in the same amount. This reclassification entry did not result in any changes to Net Assets (Surplus) at September 30, 2008.

As previously noted under the caption, *ACCOUNTS AND RECORDS*, it is recommended that the accounts receivable reclassification be reflected in the quarterly financial statements filed with the Idaho Department of Insurance.

<u>Note (2) – Investments</u>	<u>\$5,125,934</u>
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Investments of the Trust were held under a custody agreement with Wells Fargo Bank (formerly First Security Bank) dated June 18, 1990. As the Trust was created subsequent to execution of the custody agreement, it was not a named party to the agreement. However, investments of the Trust are held in a separate custody account in the name of the Trust.

It is recommended that the custody agreement described above be updated to include the City of Boise Employee Health Care Plan Trust. It is also recommended that the investments of the Trust held under the custody agreement should be in the name of the Trust pursuant to Section 41-4009(3), Idaho Code. Furthermore, it is suggested that the custody agreement include the safeguards and controls recommended by the National Association of Insurance Commissioners.

<u>Note (3) – Accounts payable</u>	<u>\$451,847</u>
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An accrual for known but unpaid claims at year-end is prepared for the audited financial statements. To be consistent and comparable with the audited statements, a similar accrual was developed and reflected in the financial statements of the examination report. The accrual for known but unpaid claims is calculated below:

Period BCI Invoice Covers	Unpaid Claims at 9/30/08 per BCI Invoice	Percentage Allocated to Accounts Payable	Amount included in accrual per examination
9/23 to 9/29/08	\$371,853.35	100%	\$371,853.35
9/30 to 10/6	\$263,034.41	14.2857%	<u>37,576.31</u>
Total accrual:			<u>\$409,429.66</u>
Rounded up:			<u>\$409,430.00</u>

Based on the calculation above, *Accounts payable* and the offsetting entry, *Insurance claim benefits* were understated by \$409,430 at September 30, 2008. Therefore, a change was made in the financial statements to reflect the accrual for known but unpaid claims at September 30, 2008.

As previously noted under the caption, *ACCOUNTS AND RECORDS*, it is recommended that an accrual for known but unpaid claims be reflected in the quarterly financial statements filed with the Idaho Department of Insurance.

Note (4) – IBNR reserve \$1,386,000

The IBNR reserve as of December 31, 2007 and September 30, 2008 were examined by Taylor-Walker & Associates, Inc., examining actuaries for the Idaho Department of Insurance.

The results of the December 31, 2007 actuarial examination are summarized below:

<u>Liabilities</u>	<u>Per Trust</u>	<u>Per Examination</u>	<u>Difference</u>
IBNR Reserve	\$1,289,000	\$750,017	\$(538,983)
Margins	21,000	11,881	(9,119)
Unpaid Claims Adjustment			
Expenses (UCAE)	<u>76,000</u>	<u>46,680</u>	<u>(29,320)</u>
Total Reserves	<u>\$1,386,000</u>	<u>\$808,578</u>	<u>\$(577,422)</u>

The results of the September 30, 2008 actuarial examination are summarized below:

<u>Liabilities</u>	<u>Per Trust</u>	<u>Per Examination</u>	<u>Difference</u>
IBNR Reserve	\$1,289,000	\$892,720	\$(396,280)
Margins	21,000	14,140	(6,860)
Unpaid Claims Adjustment			
Expenses (UCAE)	<u>76,000</u>	<u>55,576</u>	<u>(20,424)</u>
Total Reserves	<u>\$1,386,000</u>	<u>\$962,436</u>	<u>\$(423,564)</u>

As shown above, the net indicated examination decrease to the Total Reserves as of December 31, 2007 is \$577,422 and \$423,564 as of September 30, 2008.

Since the booked amounts are higher than the indications resulting from the examination, it is not recommended that the indicated adjustments be made for examination purposes.

Based on the actuarial examination, the following recommendations are made:

- As noted in the charts above, the Trust's IBNR Reserves were redundant by \$538,983 at year-end 2007. Contributing to the indicated redundancy was a large claim payment reversal that was made in January 2008, but which was not part of the data analyzed by the Trust's actuary as of December 31, 2007. The Trust should consider instructing its internal and/or external auditors to, when reviewing claim payments processed by BCI, also perform a claims audit to ensure that incurred dates, paid dates, and benefit amounts (per policy provisions) are correctly recorded, and to reconcile claims data with the actuarial triangles. The Trust should also continually review its lag studies and methodologies, and utilize those methods that will most closely estimate its IBNR Reserve. Further, the Trust should estimate IBNR reserves on a quarterly basis.
- UCAE should be calculated by multiplying the UCAE ratios and the IBNR Reserve plus Margins for all benefits, i.e., for medical, drug, dental, and vision. The Trust's actuary did not calculate UCAE for the Drug or Vision benefits.
- It is recommend that, in the future, in addition to preparing a report outlining his analysis, the Trust's consulting actuary prepare an actuarial certification specifically opining on the reserve amounts booked by the Trust.
- It is recommended that, in the future, the Trust's consulting actuary modify his report to properly characterize the nature of the statutory 30 percent surplus requirement set forth under Section 41-4010(3), Idaho Code. That is to say, the 30 percent of the unpaid claims liability [(IBNR + Known but Unpaid Claims) x 30%] is simply a calculation to determine the minimum surplus required of the Trust, rather than being a separate liability of the Trust. It was noted that the Trust's opining actuary characterized this amount as an additional liability in his report(s). Additionally, it was noted that in a prior year (2006), the 30 percent minimum surplus calculation was actually booked as a liability of the Trust. In summary, the 30 percent minimum surplus calculated amount is not a separate liability of the Trust and should not be characterized as such; rather it is the minimum amount of surplus prescribed by Idaho Code.

SUMMARY, COMMENTS AND RECOMMENDATIONS

Summary

The results of this examination disclosed that as of September 30, 2008, the Trust had assets of \$6,690,589, liabilities of \$1,837,848, and net assets (surplus) of \$4,852,741. Under Section 41-4010(3), Idaho Code, surplus shall be equal to at least 30 percent of the

unpaid claims liability. Based on the September 30, 2008 IBNR Reserve plus known but unpaid claims, surplus should be at least \$538,629, [(\$1,386,000 + \$409,430) x 30 percent]. In summary, the Trust's surplus exceeded the minimum prescribed by Section 41-4010(3), Idaho Code.

Comments and Recommendations

Page

- 5 It is recommended that the ASC agreement be amended, revised, or updated to replace the "City of Boise" and all references to "City" to the "City of Boise Employee Health Care Plan Trust". It is further recommended that all Trustees sign the agreement or authorize one Trustee to do so. This authorization should be clearly documented in the Trustee minutes.
- 6 It is recommended that the YMCA agreement be amended, revised, or updated to replace the "City of Boise" and all references to "City" to the "City of Boise Employee Health Care Plan Trust". It is further recommended that all Trustees sign the agreement or authorize one Trustee to do so. This authorization should be clearly documented in the Trustee minutes.
- 7 It is recommended that the Trustees authorize all investments made on their behalf by Treasury after reviewing the monthly detailed reports. It is further recommended that such investment authorization be documented in the Trustee minutes.
- 7 It is recommended that the Trust adopt an investment policy to include Section 41-4009, Idaho Code and the named provisions of Title 41, Chapter 7 adopted by Chapter 40. The Trustee minutes should document adoption of such investment policy.
- 10 It is recommended that future interim statements filed with the Department be reported on a calendar year basis. Alternatively, the Trust may want to consider changing its reporting period from a calendar year basis to the City's fiscal year reporting period.
- 10 To be comparable and consistent with the audited year-end financial statements, it is recommended that similar accruals be presented in the quarterly financial statements filed with the Idaho Department of Insurance. See Notes (1) and (3) to the Financial Statements for additional information.
- 17 The custody agreement with Wells Fargo Bank should be updated to include the City of Boise Employee Health Care Plan Trust. The investments of the Trust held under the custody agreement should be in the name of the Trust pursuant to Section 41-4009(3), Idaho Code. Furthermore, it is suggested that safeguards and controls set forth by the National Association of Insurance Commissioners be included in the custody agreement.

- 17 As previously noted under the caption, *ACCOUNTS AND RECORDS*, it is recommended that the accounts receivable reclassification be reflected in the quarterly financial statements filed with the Idaho Department of Insurance.
- 18 As previously noted under the caption, *ACCOUNTS AND RECORDS*, it is recommended that an accrual for known but unpaid claims be reflected in the quarterly financial statements filed with the Idaho Department of Insurance.
- 19 The Trust should consider instructing its internal and/or external auditors to, when reviewing claim payments processed by BCI, also perform a claims audit to ensure that incurred dates, paid dates, and benefit amounts (per policy provisions) are correctly recorded, and to reconcile claims data with the actuarial triangles. The Trust should also continually review its lag studies and methodologies, and utilize those methods that will most closely estimate its IBNR Reserve. Further, the Trust should estimate IBNR reserves on a quarterly basis.

UCAE should be calculated by multiplying the UCAE ratios and the IBNR Reserve plus Margins for all benefits, i.e., for medical, drug, dental, and vision. The Trust's actuary did not calculate UCAE for the Drug or Vision benefits.

It is recommend that, in the future, in addition to preparing a report outlining his analysis, the Trust's consulting actuary prepare an actuarial certification specifically opining on the reserve amounts booked by the Trust.

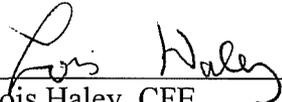
It is recommended that, in the future, the Trust's consulting actuary modify his report to properly characterize the nature of the statutory 30 percent surplus requirement set forth under Section 41-4010(3), Idaho Code. That is to say, the 30 percent of the unpaid claims liability [(IBNR + Known but Unpaid Claims) x 30%] is simply a calculation to determine the minimum surplus required of the Trust, rather than being a separate liability of the Trust. It was noted that the Trust's opining actuary characterized this amount as an additional liability in his report(s). Additionally, it was noted that in a prior year (2006), the 30 percent minimum surplus calculation was actually booked as a liability of the Trust. In summary, the 30 percent minimum surplus calculated amount is not a separate liability of the Trust and should not be characterized as such; rather it is the minimum amount of surplus prescribed by Idaho Code.

CONCLUSION

The undersigned acknowledges the assistance and cooperation of the Trustees and Officers of the Trust and City employees in conducting the examination.

In addition to the undersigned, Joseph J. Wallace, Jr., ASA, MAAA, Taylor-Walker & Associates, Inc. participated in the examination.

Respectfully submitted,

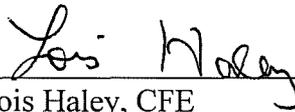


Lois Haley, CFE
Senior Insurance Examiner
Department of Insurance
State of Idaho

AFFIDAVIT OF EXAMINER

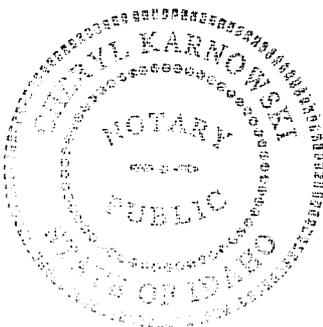
State of Idaho
County of Ada

Lois Haley, being duly sworn, deposes and says that she is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that she has made an examination of the affairs and financial condition of the City of Boise Employee Health Care Plan Trust for the period from December 19, 2005, through September 30, 2008, that the information contained in the report consisting of the foregoing pages is true and correct to the best of her knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the examination.



Lois Haley, CFE
Senior Insurance Examiner
Department of Insurance
State of Idaho

Subscribed and sworn to before me the 14th day of May, 2009 at Boise, Idaho.



Notary Public

My Commission Expires: 9/12/2009

State of Idaho
DEPARTMENT OF INSURANCE

C.L. "BUTCH" OTTER
Governor

700 West State Street, 3rd Floor
P.O. Box 83720
Boise, Idaho 83720-0043
Phone (208)334-4250
FAX # (208)334-4398

WILLIAM W. DEAL
Director

WAIVER

In the matter of the Report of Examination as of September 30, 2008, of:

City of Boise Employee Health Care Plan Trust
150 N. Capitol Boulevard
Boise, Idaho 83701

By executing this Waiver, the City of Boise Employee Health Care Plan Trust hereby acknowledges receipt of the above-described examination report, verified as of the 14th day of May 2009, and by this Waiver hereby consents to the immediate entry of a final order by the Director of the Department of Insurance adopting said report without any modifications.

By executing this Waiver, the Company also hereby waives:

1. its right to examine the report for up to four (4) weeks as provided in § 41-4013(3), Idaho Code, and
2. its right to recommend to the director such corrections or changes therein as prescribed by § 41-4013(3), Idaho Code, and
3. any right to request a hearing under Idaho Code sections 41-227(5) and (6), 41-232(2)(b), or elsewhere in the Idaho Code, and
4. any right to seek reconsideration and appeal from the Director's order adopting the report as provided by section 41-227(6), Idaho Code, or elsewhere in the Idaho Code.

Dated this 17 day of May, 2009

Kent Rock

Name (print)

Kent Rock

Name (signature)

Chair, Boise City Healthcare Trust

Title

EXHIBIT

B