

LAWRENCE G. WASDEN  
Attorney General

RICHARD B. BURLEIGH, ISB No. 4032  
Deputy Attorney General  
State of Idaho  
Department of Insurance  
700 W. State Street, 3<sup>rd</sup> Floor  
P.O. Box 83720  
Boise, Idaho 83720-0043  
Telephone: (208) 334-4219  
Facsimile: (208) 334-4298  
[richard.burleigh@doi.idaho.gov](mailto:richard.burleigh@doi.idaho.gov)

**FILED**  
**DEC 01 2016**  
Department of Insurance  
State of Idaho

*Attorneys for the Department of Insurance*

**BEFORE THE DIRECTOR OF THE DEPARTMENT OF INSURANCE**

**STATE OF IDAHO**

In the Matter of:

BOISE MUNICIPAL HEALTH CARE  
TRUST

Idaho Registration No. 4257

Docket No. 18-3238-16

**ORDER ADOPTING REPORT  
OF EXAMINATION AS OF  
DECEMBER 31, 2014**

The Idaho Department of Insurance (“Department”), having conducted an examination of the books, records, accounts, and affairs of Boise Municipal Health Care Trust (the “Boise Trust”), pursuant to Idaho Code §§ 41-4113 and 41-219(1), hereby alleges the following facts that constitute a basis for issuance of an order, pursuant to Idaho Code §§ 41-4113(3) and 41-227(5)(a), adopting the Report of Examination of Boise Municipal Health Care Trust as of December 31, 2014 (“Report”), as filed.

**FINDINGS OF FACT**

1. The Boise Trust is an Idaho-domiciled joint public agency self-funded health care

plan, which is duly registered with the Department under Registration No. 4257. The Boise Trust was first registered with the Department on December 19, 2005, as a self-funded health care plan under the name City of Boise Employee Health Care Plan Trust. Effective December 31, 2013, the Boise Trust was registered with the Department as a joint public agency self-funded health care plan under its current name.

2. The Department completed an examination of the Boise Trust, pursuant to Idaho Code §§ 41-4113 and 41-219(1), on or about October 8, 2016. The Department's findings are set forth in the Report, which covers the time period from October 1, 2008, through December 31, 2014.

3. Pursuant to Idaho Code § 41-227(4), a copy of the Report, verified under oath by the Department's examiner-in-charge, was filed with the Department on October 14, 2016, and a copy of such verified Report was transmitted to the Boise Trust on the same date. A copy of the verified Report is attached hereto as Exhibit A.

4. Pursuant to Idaho Code § 41-227(4), the Boise Trust had thirty (30) days from October 14, 2016, to make a written submission or rebuttal with respect to any matters contained in the Report.<sup>1</sup> No written submissions or rebuttals were received by the Department from the Boise Trust.

### **CONCLUSIONS OF LAW**

5. Pursuant to Idaho Code §§ 41-4113(3) and 41-227(5)(a), the Director of the Department of Insurance ("Director") has authority to make such corrections, changes, or modifications to the Report as the Director deems appropriate. Idaho Code § 41-227(5)(a) provides that "[w]ithin thirty (30) days of the end of the period allowed for the receipt of written

---

<sup>1</sup> Idaho Code § 41-4113(3) allows the Board four (4) weeks after receipt of the report within which to recommend to the director such corrections or changes therein as the board may deem appropriate.

submissions or rebuttals, the director shall fully consider and review the report, together with any written submissions or rebuttals and relevant portions of the examiner's work papers" and shall enter an order adopting the report of examination as filed or with modifications or corrections<sup>2</sup>.

6. Having fully considered the Report, the Director concludes that the comments and recommendations contained in the Report are appropriate.

**ORDER**

NOW, THEREFORE, based on the foregoing, IT IS HEREBY ORDERED, that the Report of Examination of Boise Municipal Health Care Trust as of December 31, 2014, is hereby ADOPTED as filed, pursuant to Idaho Code §§ 41-4113(3) and 41-227(5)(a).

IT IS FURTHER ORDERED, pursuant to Idaho Code §§ 41-4113(3) and 41-227(8), that the adopted Report is a public record and shall not be subject to the exemptions from disclosure provided in title 74, chapter 1, Idaho Code.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 41-227(6)(a), that, within thirty (30) days of the issuance of the adopted Report, the Boise Trust shall file with the Department's Deputy Chief Examiner affidavits executed by each of its directors stating under oath that they have received a copy of the adopted Report and related orders.

**IT IS SO ORDERED.**

DATED this 14 day of December, 2016.

STATE OF IDAHO  
DEPARTMENT OF INSURANCE

  
DEAN L. CAMERON  
Director

---

<sup>2</sup> Idaho Code § 41-4113(3) requires the Director to file the report in his office as a document open to public inspection. Entry of an Order pursuant to Idaho Code § 41-227(5)(a) satisfies this requirement.

### CERTIFICATE OF SERVICE

I HEREBY CERTIFY that, on this 1<sup>st</sup> day of December, 2016, I caused a true and correct copy of the foregoing ORDER ADOPTING REPORT OF EXAMINATION AS OF DECEMBER 31, 2014, to be served upon the following by the designated means:

Mr. Craig Croner  
Chairman of the Board of Trustees  
Boise Municipal Health Care Trust  
150 N. Capitol Blvd.  
Boise, ID 83702  
[sxpeter@cityofboise.org](mailto:sxpeter@cityofboise.org)

- ☐ first class mail
- ☒ certified mail
- ☐ hand delivery
- ☒ email

Boise Municipal Health Care Trust  
625 W. Idaho  
Boise, ID 83702

- ☒ first class mail
- ☐ certified mail
- ☐ hand delivery
- ☐ email

Georgia Siehl, CPA, CFE  
Bureau Chief / Chief Examiner  
Idaho Department of Insurance  
700 W. State Street, 3<sup>rd</sup> Floor  
Boise, ID 83720-0043  
[georgia.siehl@doi.idaho.gov](mailto:georgia.siehl@doi.idaho.gov)

- ☐ first class mail
- ☐ certified mail
- ☐ hand delivery
- ☒ email

Pamela Murray

DEPARTMENT OF INSURANCE

STATE OF IDAHO



REPORT OF EXAMINATION

Of

BOISE MUNICIPAL HEALTH CARE TRUST  
(Self-Funded Health care Plan)

As of December 31, 2014



## Table of Contents

SALUTATIONS .....	3
SCOPE OF EXAMINATION .....	4
SUBSEQUENT EVENTS.....	4
TRUST RECORDS.....	5
<i>Minutes of Meetings</i> .....	6
MANAGEMENT AND CONTROL.....	6
<i>Trustees</i> .....	7
<i>Contracts and Agreements</i> .....	7
FIDELITY BONDS AND OTHER INSURANCE.....	10
TERRITORY AND PLAN OF OPERATION.....	10
GROWTH OF THE TRUST .....	10
BENEFIT PLANS AND RELATED PRACTICES.....	11
<i>Benefit Plans</i> .....	11
<i>Complaints</i> .....	11
<i>Privacy Practices</i> .....	11
ACCOUNTS AND RECORDS .....	12
<i>General Accounting</i> .....	12
<i>Independent Auditor</i> .....	12
<i>Actuarial Opinion</i> .....	12
FINANCIAL STATEMENTS .....	13
Statement of Net Assets .....	14
Statement of Income, Expenses and Changes in Net Assets.....	15
For the Year Ended December 31, 2014 .....	15
Reconciliation of Changes in Net Assets .....	16
NOTES TO FINANCIAL STATEMENTS .....	17
SUMMARY .....	17
COMMENTS AND RECOMMENDATIONS .....	17
ACKNOWLEDGEMENT .....	23
AFFIDAVIT OF EXAMINER.....	24

Boise, ID

September 15, 2016

The Honorable Dean L. Cameron  
Director, Department 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 41-4113(1), Idaho Code, we have conducted an examination as of December 31, 2014, of the financial condition and corporate affairs of:

Boise Municipal Health Care Trust  
150 N. Capitol Boulevard  
Boise, Idaho 83701

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

## **SCOPE OF EXAMINATION**

### *Period of Examination*

This examination covered the period from October 1, 2008 through December 31, 2014, 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.

### *Examination Procedures Employed*

The examination was conducted in accordance with Sections 41-219(1) and 41-4113(1), Idaho Code. Due to the nature of the Trust, the examination was not conducted as a risk-focused examination in accordance with the NAIC Financial Condition Examiners Handbook (Examiner's Handbook). However, key exhibits from the Examiner's Handbook were utilized and customized as appropriate for this examination.

The City of Boise retained the services of certified public accounting firm Eide Bailly, LLP to audit the financial records of the trust for the years under examination. The firm provided the examiners with access to requested work papers prepared in connection with its audits. The external audit work was relied upon where deemed appropriate. Verification and valuation of assets, liabilities, and net assets and an analysis and review of such other accounts and records as appropriate to the examination were also performed.

All accounts and activities of the Trust were considered during the examination process. The Initial phase of the examination focused on evaluating the Trust's management/governance and control environment, as well as business approach, in order to develop an examination plan tailored to the Trust's individual operating profile. Interviews were held with the Chairman of the Board of Trustees and key management personnel of the Trust to gain an understanding of the Trust's profile and control environment.

The Examination relied on the findings of the actuarial firm contracted by the Department to verify rate calculation and reserves.

### *Status of Prior Examination Findings*

## **SUBSEQUENT EVENTS**

Through an amendment to the trust agreement and the joint powers agreement, Community Planning Association of Southwest Idaho (Compass) became a new party to the Trust effective January 1, 2015. Starting that date, employees of Compass are eligible to become



members/beneficiaries of the Trust and received optional health care benefits provided by the Trust.

## **HISTORY AND DESCRIPTION**

The City of Boise, 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 (Trust) 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 Trust was registered with the Idaho Department of Insurance as a self-funded health care plan under the name "City of Boise Employee Health Care Plan Trust" effective December 19, 2005, and registered and regulated under Title 41, Chapter 40, Idaho Code.

Effective January 1, 2011, the city's Police and Fire Fighters' Unions were no longer covered under the Trust and created their own self-funded plan.

On August 27, 2013, the City of Boise and Valley Regional Transit (VRT) executed a joint powers agreement for the purpose of establishing a joint public agency self-funded health care plan. The new Trust was registered with the Department of Insurance as a self-funded health care plan effective December 31, 2013. At that time, the registration and regulation became subject to Title 41, Chapter 41, Idaho Code. The new Trust's name is Boise Municipal Health Care Plan. Employees of VRT were eligible to participate in and receive health care benefits of the Trust effective January 1, 2014.

The Trust provides optional health care benefits to all employees who regularly work at least 20 hours per week, and their dependents, or a retiree from City of Boise and Valley Regional Transit, except for fire and police union employees. Coverage commences on the first day of the month following a 60 day waiting period.

As aforementioned under "Subsequent Events", Community Planning Association of Southwest Idaho (COMPASS) became a new party to the Trust effective January 1, 2015. Starting that date, employees of Compass are eligible to participate in the Trust.

## **TRUST RECORDS**

### *Joint Powers Agreement, Trust Agreement and By-laws*

The City of Boise and Valley Regional Transit entered into a joint powers agreement on September 10, 2013. This agreement was approved by the Council and Mayor of the City of Boise on August 27, 2013. The purpose of this agreement was to (1) facilitate their joint participation on and

negotiation of health care benefits for their participants/employees and (2) establish and create a trust fund for the purpose of funding health benefits, costs of operation and reporting and surplus for the benefits for their participants/employees. This agreement was amended on December 9, 2014 for the purpose of adding Community Planning Association of Southwest Idaho (COMPASS) for its participation in the trust. The amendment was approved by the Board of Trustees on December 2, 2014.

The City of Boise and Valley Regional Transit entered into a trust agreement on January 1, 2014. The purposes of the Trust as stated in the agreement include (1) receive in advance all contributions to the Trust (2) hold, manage, invest and reinvest the Trust's property and all income from the property (3) to make distributions from the Trust Fund in such amounts and to such person or persons as the Administrator shall direct to provide for medical, dental, pharmacy and vision expenses incurred by Participants (4) be responsible for the Trust's long term financial stability and (5) exercise all powers of a trust under Chapter 41, Title 41, Idaho Code. This agreement was amended on December 2, 2014 for the purpose of adding COMPASS for its participation in the trust. COMPASS became a new party to the Trust effective January 1, 2015.

The By-laws were created pursuant to Section 4.16 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 November 27, 2013. Subsequent revisions were approved by the Trustees on December 2, 2014.

#### *Minutes of Meetings*

A review of the minutes of the meetings of the Trustees for the period October 1, 2008 through December 31, 2014, and subsequent thereto, indicated compliance with the Trust agreement and By-laws with respect to Trustee meeting dates and the election of officers.

The minutes indicates that the Board of Trustees approved the Treasurer's Report. The Treasurer's Report includes a list of securities owned by the Trust as of a certain date. It does not include a record showing the type of investment purchased or disposed and approved by the Board.

Idaho Code Section 41-4109(4) states that no investment shall be made unless authorized in writing by the board and shown in the records of the trust fund. (See Comments and Recommendations A)

### **MANAGEMENT AND CONTROL**

Pursuant to Section 7.4 of the By-laws, the Board of Trustees has a fiduciary responsibility to maintain a financially sound Trust Fund. The Board is comprised of five members elected by the Boise City Council and one member for each additional public agency elected by that governing body of that public agency as its representative. The member elected by the governing body of each additional public agency member shall be a non-voting member of the Board.

The Board shall also include non-voting members or administrative staff as needed. The non-voting Board members include a benefits liaison, financial liaisons, and a legal liaison. The benefits liaison serves as the Trust Secretary. She assumes the day-to-day responsibilities for managing the Trust's self-funded plan and wellness initiative programs. The Trust Secretary appoints a City of Boise Human Resources staff who processes the day-to-day financial transaction and reconciliation of the Trust accounts. The City Attorney of the City of Boise appoints a legal liaison who shall provide legal guidance on as-needed basis.

### *Trustees*

The following persons were members of the Board of Trustees at December 31, 2014:

<u>Name and Business Address</u>	<u>Principal Occupation</u>
Craig Croner Boise, Idaho	Administrative Services Senior Manager City of Boise
Rebecca Hupp Boise, Idaho	Airport Director City of Boise
Heather Buchanan Boise, Idaho	PW Support System Senior Manager City of Boise
Brent Davis Boise, Idaho	Budget Division Senior Manager City of Boise
Jim Parle Boise, Idaho	PW Supply/Inventory Specialist City of Boise
Rick Thompson Meridian, Idaho	Finance Director Valley Regional Transit (VRT)

\* Megan Larson, Director of Operations of Compass became a director of the Trust effective January 1, 2015

### Officers:

The following person was serving as an officer of the Trust as of December 31, 2014:

Craig Croner, Chair                      Kristin Holtz, Secretary

### *Contracts and Agreements*

The Trust had the following agreements in effect at December 31, 2014:

Administrative Services Agreement:

This service agreement became effective on January 1, 2014 and is automatically renewed for successive 12 months periods until cancelled by either party. In this agreement, Blue Cross of Idaho Health Services, Inc. (BCI) agrees to provide general administrative services, benefit payment services, and excess of loss coverage to the Plan. Below is a brief description of the services provided:

General Administrative Services

- Furnish summary description of health benefits to employees
- Furnish application forms to the Trust
- Maintain enrollment eligibility files
- Provide ID cards to covered employees
- Provide a weekly summary of paid claims
- Provide an annual accounting of claims, administrative fees and excess of premiums paid.
  
- If requested and appropriate, large claimant reports
- Prepare and deliver an IBNR estimate
- Assist in the establishment of a funding program
- Timely prepare summaries of benefits and coverages for the Trust

Benefits Payment Services

- Process and pay benefit claims for the Trust
- Provide written notice to members of the initial denial of a claim
- Receive and review request for reconsideration of a denied claim

Excess of Loss Coverage:

Specific Excess of Loss Coverage-The Trust has financial responsibility to pay for benefits paid on behalf of a participant until such payment reaches \$200,000. Thereafter, BCI shall have financial responsibility to pay for benefit claims for that participant only if such benefit claims are paid by BCI during the agreement period or during the six months immediately following that agreement period.

Aggregate Excess of Loss Coverage-BCI agrees to reimburse to the Trust if the Trust, any amounts paid during the agreement period, or during the six months immediately following that agreement period, that exceed the aggregate excess of loss calculated amount. The aggregate excess of loss amount is based on a set factor multiplied by the number of enrollees over twelve months (agreement period).

#### Professional Services Contract Agreement

The Segal Company, Phoenix, Arizona provides actuarial and benefit consulting services to the Trust under a benefits consulting agreement executed with City of Boise, Human Resources Department. The agreement was originally adopted by the City of Council and approved by the Mayor on November 28, 2006. The latest agreement was renewed effective November 5, 2013. The last report of examination indicates that change orders are processed for work Segal performs specifically for the Trust. The change orders acknowledge that the Trust is responsible for payment for such work. Therefore, the Department has determined that a separate contract between The Segal Company and the Trust is not necessary.

#### Services Agreement with SimplyWell, LLC

This services agreement became effective on July 24, 2012 and was renewed on July 24, 2014. In this agreement, SimplyWell agrees to provide and maintain electronic health records such as physician summary, laboratory report and medical chart report to the participants. Participants can also get access to online health information.

#### Professional Services Contract Agreement with Preventative Health

The Trust entered into a professional services contract agreement with Preventative Health, Eagle, Idaho, effective May 30, 2014. In this agreement, Preventative Health agrees to provide health screening services to members of the Trust.

#### Investment Management Services Level Agreement

The Trust entered into an investment management service level agreement with the City of Boise effective November 20, 2013. The purpose of this agreement is to authorize the City of Boise to manage and investment the funds of the Trust.

The Board of Trustees may delegate the ministerial duties of an investment manager, but they cannot delegate their fiduciary duty to manage the Trust Funds in compliance with Idaho Code. Every investment transaction shall be authorized in writing by the board and shown in the records of the Trust. (See Comments and Recommendations B) .

#### Custody Agreement

All of the Plan's investments are kept by U.S. Bank and the Trust had established an account with it. However, the custody agreement is between U.S. Bank and the City of Boise. Since the City does not have the power to manage and invest Trust funds, the custody agreement should be between the Trust and U.S. Bank. (See Comments and Recommendation C)

## **FIDELITY BONDS AND OTHER INSURANCE**

A fidelity bond policy for the protection of the Trust against employee dishonesty was maintained through the period under examination under an authorized insurer in the State of Idaho. The Trust does not have employees. Receipts and disbursements are handled by the City of Boise, for which the Trust does not have a service contract with but is paying for the services provided by the City of Boise. Pursuant to Idaho Code § 41-4114(3), the board is required to cause all individuals handling receipts and disbursements for the trust fund to be covered under a dishonesty insurance policy or surety bond in specified amounts. (See Comments and Recommendation D)

## **TERRITORY AND PLAN OF OPERATION**

The Trust changed its registration with the Department of Insurance from a single employer self-funded health plan regulated under Title 41, Chapter 40 to a Joint Powers Agreement (JPA) self-funded health plan subject to registration and regulation under Title 41, Chapter 41, Idaho Code, effective December 31, 2013. In this connection, Certificate of Registration Number 4257 was granted to the Trust to transact business in the State of Idaho. Operations of the Trust are performed at the City of Boise office in Boise, Idaho. Operations related to claims are handled by Blue Cross of Idaho Health Service, Inc.

The Trust currently provides medical, dental, pharmacy, and vision benefits to approximately 2,500 individuals. These individuals include employees, retirees and their dependents from City of Boise and Valley Regional Transit, except for fire and police union employees. Effective January 1, 2015, employees of Community Planning Association of Southwest Idaho (Compass) are eligible to participate in the Trust.

## **GROWTH OF THE TRUST**

The Trust's growth for the years indicated, as taken from the audited financial statements for the fiscal years 2009 and 2014, is shown in the following schedule:

<u>Year</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Assets/Surplus</u>	<u>Change in Net Asset/Surplus (deficit)</u>
2009	\$8,606,127	\$2,088,331	\$6,517,796	\$1,062,684
2010+	5,500,623	1,751,579	3,749,044	-2,768,752
2011	4,410,287	1,494,575	2,915,712	-833,332
2012	4,417,846	1,254,897	3,162,949	247,237
2013	5,634,288	889,286	4,745,002	1,582,053
2014*	5,233,284	1,188,631	4,044,653	-700,349

+The Trust declared a few contribution holidays in 2010 that resulted in reducing the total contributions and surplus in that year.

\*As determined by Examination

## **BENEFIT PLANS AND RELATED PRACTICES**

### *Benefit Plans*

The Trust provides optional health care benefits to all employees who regularly work at least 20 hours per week, and their dependents, or a retiree from the City of Boise and Valley Regional Transit, except for fire and police union employees. Coverage commences on the first day of the month following a 60 day waiting period. The benefit period is January 1<sup>st</sup> through December 31<sup>st</sup>.

The following health Plans are offered to the employees:

- Preferred PPO
- Economy PPO
- Catastrophic PPO

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 employers, participating employees and retired and other past employees.

### *Complaints*

The Trust is responsible to maintain a complaint log, which should cover any complaints that come directly to them, their administrator or other source. Their administrator, Blue Cross of Idaho Health Service, Inc. (BCI) has not maintained a complaint log to record complaints received from the Trust's members/ beneficiaries in compliance with Idaho Code Sections 41-904 and 41-1330. (See Comments and Recommendations E)

### *Privacy Practices*

To comply with privacy practices set forth under the federal Health Insurance Portability and Accountability Act (HIPAA), Blue Cross of Idaho Health Service, Inc., the Trust's third party administrator has agreed, as described in the benefit summary, to keep all medical records and other information of the Trust's participants in a confidential manner.

## ACCOUNTS AND RECORDS

### *General Accounting*

The Trust's business and accounting records were maintained at the office of City of Boise. Claims data were maintained by its claims service administrator, Blue Cross of Idaho Health Services, Inc.

The Quarterly Statements submitted to the Department were on fiscal year basis in accordance with the City of Boise financial reporting schedule (year-end as of September 30<sup>th</sup>); however, its year-end audited statements were on calendar year basis in accordance with the plan year. (See Comments and Recommendations F)

The authorized signatories of the Trust's investment and bank accounts are employees of the City of Boise. None of these signatories are board members of the Trust or its employees as required in the Trust Agreement. (See Comments and Recommendations G)

The investment and bank accounts with US Bank are under the name City of Boise Health Insurance Trust instead of the registered name of the Trust. (See Comments and Recommendations H)

Payment of claims and other expenses are paid first paid by the City of Boise and were later reimbursed by the Trust through electronic transfers instead of being paid for directly by the Trust. (See Comments and Recommendations I)

### *Independent Auditor*

The annual independent audits of the Trust for the years 2009 through 2014 were performed by Eide Bailly LLP, (CPA) Boise, Idaho. In the auditor's opinion, the financial statements of the Trust present fairly the financial position of the Trust in accordance with accounting principles generally accepted in the United States of America.

The CPA's engagement letter was addressed to the City Council of Boise and the Mayor. Subsequent to the period of examination, the CPA has corrected this issue based on our review and findings.

### *Actuarial Opinion*

The actuarial certifications (2008-2014) for incurred but not reported (IBNR) health claims were prepared by Gary L. Peterson, FCA, ASA, MAAA of The Segal Company, Tempe, Arizona.



The December 31, 2014 statement of actuarial certification stated that the data, methods, and assumptions used to develop the estimated liability for IBNR claims are reasonable and are calculated in accordance with generally accepted and consistently applied actuarial principles.

The IBNR is composed of the following items as presented in the 2014 actuarial certification:

Medical/Vision	\$668,000
Pharmacy	30,000
Dental	<u>32,000</u>
Total IBNR	<u>\$730,000</u>
Administration (Reserve for Claims Adjustment Expense in the event for Plan Termination	70,000
Margin (1.5% margin for 2014 IBNR and Run Out Administration)	<u>12,000</u>
Total IBNR with Administration and Margin	<u>\$812,000</u>

See Note (1) to the Financial Statements for additional comments regarding IBNR.

### **FINANCIAL STATEMENTS**

The financial section of this report contains the following statements:

Statement of Net Assets (Surplus) as of December 31, 2014

Statement of Income, Expenses, and Changes in Net Assets for the Year Ended December 31, 2014

Reconciliation of Net Assets, December 31, 2008 through December 31, 2014

Statement of Net Assets  
As of December 31, 2014

	Per Plan	Examination Adjustments	Per Examination
<b>Assets</b>			
Cash and cash equivalents	\$1,619,150	\$ 0	\$1,619,150
Accounts receivable	101,822	0	101,822
Interest and dividends	8,353	0	8,353
Investments, at fair values	3,503,959	0	3,503,959
Total Assets	<u>\$5,233,284</u>	<u>\$ 0</u>	<u>\$5,233,284</u>
<b>Liabilities and Net Assets</b>			
Accounts payable	\$ 276,047	\$ 0	\$ 276,047
IBNR liability (Note 1)	912,584	0	912,584
Total Liabilities	\$1,188,631	\$ 0	\$1,188,631
Net Assets	<u>\$4,044,653</u>	<u>\$ 0</u>	<u>\$4,044,653</u>

The rest of this page was intentionally left blank

**Statement of Income, Expenses and Changes in Net Assets**  
**For the Year Ended December 31, 2014**

	Per Plan	Examination Adjustments	Per Examination
Contributions:			
Employers	\$ 547,138	\$ 0	\$ 547,138
Plan members*	11,389,968	0	11,389,968
Total Contributions	<u>\$11,937,106</u>	<u>0</u>	<u>\$11,937,106</u>
Rebates	213,002	0	213,002
Net investment gain	31,353	0	31,353
Other revenues	4,946	0	4,946
Total Income	<u>\$12,186,407</u>	<u>\$ 0</u>	<u>\$12,186,407</u>
Expenses:			
Claims	\$11,083,019	\$ 0	\$11,083,019
Change in IBNR	271,584	0	271,584
Wellness	400,338	0	400,338
Administrative expenses	1,131,815	0	1,131,815
Total Expenses	<u>\$12,886,756</u>	<u>\$ 0</u>	<u>\$12,886,756</u>
Net Income (Loss)	\$ (700,349)	\$ 0	\$ (700,349)

\*In addition to contributions from employees, retirees, this amount also included flex credits (contribution) paid by the City of Boise to its employees through its wellness program.

**The rest of this page was intentionally left blank**

Reconciliation of Changes in Net Assets  
December 31, 2008 through December 31, 2014

	2009	2010	2011	2012	2013	2014*
Net Assets, End of Previous year	\$5,455,112	\$6,517,796	\$3,749,044	\$2,915,712	\$3,162,949	\$4,745,002
Net Income (Loss)	1,062,684	(2,768,752)	(833,332)	247,237	1,582,053	(700,349)
Net Assets, End of current Year	\$6,517,796	\$3,749,044	\$2,915,712	\$3,162,949	\$4,745,002	\$4,044,653

The Trust declared a few premium holidays in 2010; that resulted in reducing contributions to the Trust substantially in that year.

\*Per Examination

The rest of this page was intentionally left blank

## NOTES TO FINANCIAL STATEMENTS

*Note (1) – IBNR Liability*

\$912,584

The Trust's consulting actuary estimated that the liability for incurred but not reported claims (IBNR) totaled \$730,000 as of December 31, 2014. His estimate was projected based on claims paid through December 31, 2014. The Trust's independent auditor did a run-off review of the Trust's claims data and determined that the aforementioned IBNR was understated by \$182,584. An audit adjustment was made to increase the IBNR from \$730,000 to \$912,584.

## SUMMARY

The results of this examination disclosed that as of December 31, 2014, the Trust had assets of \$5,233,284, liabilities of \$1,188,631 and surplus/net assets of \$4,044,653.

## COMMENTS AND RECOMMENDATIONS

### A Approval of Investments-Minutes

Pursuant to Idaho Code § 41-4111, the board of a joint public agency self-funded plan shall cause full and accurate records and accounts to be entered and maintained covering all financial transactions and affairs of the trust. The minutes of board meetings indicate that the Board of Trustees approved the Treasurer's Report. The minutes do not indicate that the investments were approved by the Board. The Treasurer's Report merely includes a list of securities owned by the Trust as of a certain date. It does not include a record of transactions such as the purchase and disposal of investments approved by the Board.

Pursuant to Idaho Code § 41-4109(4) ...no investment shall be made unless authorized in writing by the board and shown in the records of the trust fund. The minutes do not clearly indicate the approval of investment transactions by the Trustees.

### Recommendation:

It is recommended that full and accurate records and accounts be entered and maintained covering all financial transactions and affairs of the trust in compliance with Idaho Code § 41-4111. These records and accounts include investment transactions approved by the Board of Trustees. It is further recommended that the

approval and authorization of investment transactions be clearly put in writing pursuant to Idaho Code § 41-4109(4).

#### B Payment of Claims and Other Expenses

The Trust's expenses, including claims and other general expenses, were first paid by the City of Boise from the City's own funds and were later reimbursed to the City through electronic transfers. The authorized signers of the Trust's bank account are all employees of the City of Boise and none of them are members of the Board of Trustees.

Idaho Code § 41-4107(5) grants the Trust the power to engage exclusively in transactions authorized or required by Chapter 41, Title 41, Idaho Code, or reasonable incidental thereto. There are functions of the Trust that cannot be delegated. For instance, the Trustees' fiduciary duties cannot be delegated. The Trust is a separate entity and must be maintained as such. The functions of the Trust cannot be entwined with the City's functions. The authorized signatories of the Trust's bank account shall be authorized members of the Board of Trustees. Ministerial duties such as being an authorized signer may be delegated; yet all expenditures and authorized ministerial delegations must be traceable to the minutes and resolutions that are a record of, and as authorized by, the board of Trustees. A written agreement between the City and the board of Trustees should be entered detailing the responsibilities of delegated ministerial duties.

Pursuant to Idaho Code § 41-4108(1), the trust fund of a joint public agency self-funded plan shall be legally liable for the payment of all applicable benefits stated in the statement or schedule of benefits in effect at the time a claim thereunder arises and subject to the terms of the joint powers agreement. Payment of claims, general expenses, and other expenses incidental to the operations of the Trust, should then be engaged exclusively by the Trust and run directly through the Trust account and not by the City of Boise to be reimbursed later on by the Trust. In the current arrangement, the City of Boise is paying for claims and general expenses that should have been paid directly by the Trust.

#### Recommendation:

It is recommended that all payments of claims, general expenses, and other operating expenses incidental to the operations of the Trust, must be engaged exclusively by the Trust in compliance with Idaho Code §§ 41-4107(5) and 41-4108(1).

#### C Custodial Agreement

All of the Plan's investments are kept by U.S. Bank and the Trust had established an account with it. However, the custody agreement is between U.S. Bank and the City

of Boise. Since the City does not have the power to manage and invest Trust funds, the custody agreement should be between the Trust and U.S. Bank.

Pursuant to Idaho Code § 41-4107(3) The Trust has the power to contract in its own name. Although the signing of these contracts in writing can be delegated by the Chairman of the Board of Trustees to his or her designee upon proper authorization, there is no provision in the code allowing the delegation of the Trust's power to contract in its own name. Therefore, all contracts and services paid for by the Trust, should be in the name of the Trust.

**Recommendation:**

It is recommended that the Trust enter into a custody agreement with U.S. Bank and the agreement be signed by the Chairman of the Board or his/her designee. It is also recommended that the Board maintain a clear record of appointment if a designee is authorized to execute the agreement.

**D External Accountant's Engagement Letter**

The CPA's 2014 engagement letter was addressed to the City Council of Boise and the Mayor. It should be addressed to the Board of Trustees of the Trust. In addition, the name on the engagement letter was Boise City Trust. It should be Boise Municipal Health Care Trust.

Idaho Code § 41-4111 requires the Trust to maintain accurate and complete records and accounts of its affairs. This includes having the agreements and contracts in written form and under the accurate name of the Trust.

Pursuant to Idaho Code § 41-4114(1), the trust shall be governed and managed by a board of trustees. Therefore, engagements with external auditors and the results of their audits should be made with and reported to the Board of Trustees and not to the employer or officials of the employer.

Subsequent to the period of examination, the CPA has corrected this issue based on our review of the letter to the trustees on audit findings dated 3/31/15.

**Recommendation:**

It is recommended in the future that the Trust comply with Idaho Code § 41-4111 and 41-4114.

**E Complaint Records**

Pursuant to Idaho Code § 41-4121, the Plan is required to comply with the provisions in chapter 13, title 41 of the Idaho Code.

For purposes of chapter 13, title 41 of the Idaho Code, the Plan is an insurer. Idaho Code § 41-1330 requires the Plan to maintain complete record of all the complaints which it has received since the date of its last examination under Idaho Code § 41-219. This record shall indicate on a state by state basis, the total number of complaints, their classification by line of insurance, the nature of each complaint, the disposition of these complaints, and the time it took to process each complaint.

As of the date of examination, the plan does not maintain a record of complaints it received.

Recommendation:

It is recommended that the plan maintain a complaint log in compliance with Idaho Code § 41-1330.

F Financial Reporting Process

The Quarterly Statements submitted to the Department were on fiscal year basis in accordance with the City of Boise financial reporting schedule (as of September 30<sup>th</sup>); however, its year-end audited statements were on calendar year basis in accordance with the plan year.

The 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> quarter financials are reported within 60 after the end of each quarter. The 1<sup>st</sup> quarter financial statement which is supposed to be reported in the same manner as the others has not been reported. Instead, an audited financial statement on a calendar year basis is submitted in March.

Idaho Code § 41-4111 requires the Plan to file quarterly financial reports in a form and at the times prescribed by the Director. Pursuant to IDAPA 18.01.28.028, the Plan is required to file a quarterly statement with the Director within sixty (60) days of the end of each quarter. Due to the audited financial statement being presented on a calendar year basis instead of fiscal year ending September 30, the first quarter financial statements was due on or about March 1 and has not been filed as of for all the years under examination. The Plan is not in compliance with Idaho Code § 41-4111 and IDAPA 18.01.28.028.

Subsequent to the examination period, the plan is contemplating filing quarterly statements consistent with the calendar year basis of the Plan.

Recommendation:

It is recommended that the Plan determine its year end, notify the Department and prepare and file its quarterly statements in accordance with Idaho Code § 41-4111 and IDAPA 18.01.28.028.

G Fiduciary Accounts



The authorized signatories of the Trust's investment and bank accounts are employees of the City of Boise. None of these signatories are board members of the Trust or its employees.

Section 3.6 of the Trust Agreement provides that for investments; all withdrawals, drafts, or checks of the Trust Funds from such bank or banks shall be effective only upon the signature or countersignature of duly authorized board members. Therefore, investments accounts and other bank account withdrawals, drafts, or checks for investment purposes are only valid upon signature or counter signature of authorized Board members. If the bank account transfer is for the purpose of investment, a signature or counter signature of an authorized Board member is required.

Paragraph 6.vi of the Joint Powers Agreement (JPA) states that the public agency shall agree in writing to comply with all of the provisions of... the Trust Agreement and any amendments thereto. Additionally, pursuant to Idaho Code § 41-4104(2) (b) requires that all members of the joint powers agreement comply with the provisions of the joint powers agreement. The Trust is not compliant with the JPA and the Trust Agreement; and is therefore in violation of Idaho Code § 41-4104(2) (b).

**Recommendation:**

It is recommended in compliance with Idaho Code § 41-4104(2)(b), that the Trust establish procedures to ascertain that fund withdrawals or transfers for investment purposes are in compliance with Section 3.6 of the Trust Agreement..

**H      Ownership of Fiduciary Accounts**

The name registered on the investment and bank accounts with US Bank is the City of Boise Health Insurance Trust. The name, as currently registered on the Certificate of Registration, is Boise Municipal Health Care Trust.

Pursuant to Idaho Code § 41-4109(3)... All...investments shall be made and held in the name of the trust fund, and the interest and yield thereon shall inure to the account of the trust fund.

**Recommendation:**

It is recommended that the Trust immediately comply with Idaho Code § 41-4109(3) and ensure that investments and other bank accounts be held in the name of the Trust.

## I Service Level Agreement

The Trust entered into an investment management service level agreement with the City of Boise effective November 20, 2013. The purpose of this agreement is to authorize the City of Boise to manage and invest the funds of the Trust.

Idaho Code § 41-4114 does not provide for the delegation of the authority to govern and manage the Trust. The Board of Trustees has the statutory duty to manage the Trust. Therefore the City of Boise cannot manage and invest the Trust's funds.

Idaho Code § 41-4109(4) does not allow for delegation of authority to manage and invest the trust fund. Every investment transaction shall be authorized in writing by the board and shown in the records of the Trust.

### Recommendation:

It is recommended that the Trust revise the service level agreement with the City of Boise to be in compliance with Idaho Code. Ministerial duties in order to facilitate the Trustees management of the trust must be clearly defined.

## J Other Services Performed by City of Boise

The Trust has outsourced its accounting, contribution posting and settlement, claims processing/billing to Blue Cross of Idaho, and general ledger maintenance and recording services to the City of Boise. In 2014, the Trust paid the City of Boise \$32,728 for duties performed by the human resources and legal departments. The City of Boise did not charge the Trust for accounting services.

Pursuant to Idaho Code § 41-4111(1), the board of a joint public agency self-funded plan shall cause full and accurate records and accounts to be entered and maintained covering all financial transactions and affairs of the trust fund. The Trust does not have a service agreement with the City of Boise supporting the liability of the Trust to pay service fees to the City of Boise, or clearly outlining the duties and responsibilities of each party, as well as compensation, if any, for the services provided.

### Recommendation:

It is recommended that the Trust comply with Idaho Code § 41-4111(1) and execute one or more written service agreements with the City of Boise that provide detailed explanation of the services to be provided, who will provide the services and the fee (if any) for such services. Additionally, this service agreements should require all individuals handling receipts and disbursements for the trust fund to be covered under a dishonesty insurance policy or surety bond as prescribed in Idaho Code § 41-4114(3).

### **ACKNOWLEDGEMENT**

The undersigned acknowledges the assistance and cooperation of the employees of City of Boise in conducting the examination.

In addition to the undersigned, Scott Garduno, FSA, MAAA, Taylor & Walker, Inc. participated in the examination.

Respectfully submitted,

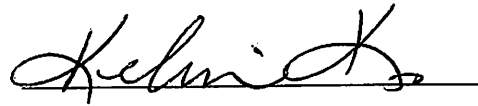
A handwritten signature in cursive script, appearing to read "Kelvin Ko", written over a horizontal line.

Kelvin Ko. CFE  
Senior Insurance Examiner  
State of Idaho  
Department of Insurance

**AFFIDAVIT OF EXAMINER**

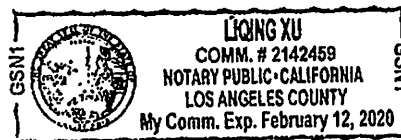
State of California  
County of Los Angeles

Kelvin Ko being duly sworn, deposes and says that he is a duly appointed Examiner for the Department of Insurance of the State of Idaho, that he has made an examination of the affairs and financial condition of *Boise Municipal Health Care Trust* for the period from October 1, 2008 through December 31, 2014, that the information contained in the report consisting of the foregoing pages is true and correct to the best of his knowledge and belief; and that any conclusions and recommendations contained in this report are based on the facts disclosed in the information.



Senior Insurance Examiner  
Department of Insurance  
State of Idaho

Subscribed and sworn to before me the 8 day of October, 2016 at San Gabriel, California.



Signature of Notary Public