

Local Government Health Insurance Board

FINANCIAL STATEMENTS

September 30, 2016

Local Government Health Insurance Board

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Local Government Health Insurance Board

Report on the Financial Statements

We have audited the accompanying financial statements of the proprietary funds and fiduciary funds of the Local Government Health Insurance Board (the Board) as of and for the period ended September 30, 2016 and the related notes to the financial statements, which comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the Local Government Health Insurance Board as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, supplementary ten year claims – proprietary fund, and supplementary ten year claims – Local Government Retired Employees' Health Insurance Program be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Local Government Health Insurance Board and do not purport to, and do not, present fairly the financial position of the State of Alabama as of September 30, 2016, the changes in its financial position, or, where applicable, its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Carly Riggs & Ingram, L.L.C.

Montgomery, Alabama
August 1, 2017

Local Government Health Insurance Board Management's Discussion and Analysis

The Local Government Health Insurance Board (the Board) operates the Local Government Health Insurance Plan (LGHIP) providing health care benefits to employees and retirees of participating local government units. The contributions and benefit payments related to retirees are processed through the Board's plan along with activity related to active employees. For presentation in this report, retiree activity is segregated and shown as the Retiree Plan, an agency fund for LGHIP retirees.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the Board's financial statements. The Board's basic financial statements are comprised of three parts: 1) fund financial statements, 2) notes to the financial statements, and 3) required supplementary information. Other supplementary information is included in addition to the basic financial statements for additional analysis.

Fund Financial Statements

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the Board uses to keep track of specific sources of funding and spending for a particular purpose. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Board can be divided into two categories: proprietary funds and fiduciary funds. Separate statements are presented for these two fund types and are described in general below. These funds are not presented together because fiduciary fund assets are not available to fund the general operations of the Board. Funds received specifically for retiree benefits (retiree premiums and other subsidies) and funds expended specifically for retiree benefits are accounted for with active employee activity and segregated in this report for presentation purposes.

The *Statement of Net Position* presents information on all of the Board's assets and liabilities at the end of the fiscal year. The difference between the Board's assets and its liabilities is its net position. Increases or decreases in net position from period to period may serve as a useful indicator of whether the financial position of the Board is improving or not.

The *Statement of Revenues, Expenses, and Changes in Net Position* presents information showing how the Board's net position changed during the most recent fiscal year. Additions primarily consist of subscriber contributions, dependent contributions, and investment income. Deductions are primarily made up of health care claims and expenses related to management of the Board's health care plans.

The *Statement of Cash Flows* presents information about the Board's cash receipts and cash payments during the fiscal year. The cash flow statement is divided into three sections - operating, investing and non-capital financing activities. Also, a reconciliation of operating income to net cash provided by operating activities is presented. The Board's cash flow statement was prepared using the direct method, as required by Governmental Accounting Standards Board (GASB) Statement No. 34. Under the direct method, major classes of receipts and payments are displayed. The net change in cash during the year plus the cash at the beginning of the year equals the cash at the end of the year.

Local Government Health Insurance Board Management's Discussion and Analysis

The *Statement of Fiduciary Net Position – Fiduciary Funds* presents information related to activities of the Board's retiree health care plan. The Board accounts for retiree health care in an agency fund. A statement of changes in net position is not presented for the retiree activity in compliance with GASB Statement No. 43.

The *Notes to the Financial Statements* (the Notes) are an integral part of providing a full understanding of the financial statements. The Notes include a description of the Board, a summary of significant accounting policies, credit risk disclosures for cash and investments, concentration of investments disclosures and disclosures concerning unpaid claims and liabilities.

The *Required Supplementary Information* following the *Notes to the Financial Statements* includes disclosures for the Board related to providing health care for active and retired employees as required by GASB Statement No. 43.

The *Supplementary Information* following the *Required Supplementary Information* presents other information for additional analysis of the Board's activity.

Proprietary Funds

Services for which the Board charges customers a fee are generally reported in proprietary funds. The Board maintains an enterprise fund. Proprietary funds use the accrual basis of accounting.

Enterprise funds are used to report activities that provide services in a manner similar to private business enterprises. The Board accounts for benefits provided to active employees under the Local Government Health Insurance Plan (LGHIP) in an enterprise fund.

Fiduciary Funds

The Board acts as a trustee or fiduciary for funds maintained for the LGHIP retiree health insurance plan. The Board's fiduciary activities are reported separately in the *Statement of Fiduciary Net Position - Fiduciary Funds*. These funds are not available for the general operations of the Board.

Local Government Health Insurance Board Management's Discussion and Analysis

STATEMENT OF NET POSITION - PROPRIETARY FUND AS OF SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>	<u>VARIANCE</u>	<u>INCREASE (DECREASE)</u>
Assets:				
Cash and cash equivalents	\$ 31,199,784	\$ 31,462,437	\$ (262,653)	(0.83%)
Investments	92,598,271	88,973,806	3,624,465	4.07%
Receivables and other assets	4,237,509	3,905,324	332,185	8.51%
Invested securities lending collateral	3,033,638	947,955	2,085,683	220.02%
Property and equipment	85,437	184,244	(98,807)	(53.63%)
Total assets	<u>131,154,639</u>	<u>125,473,766</u>	<u>5,680,873</u>	<u>4.53%</u>
Liabilities:				
Accounts payable and other liabilities	20,353,391	18,689,387	1,664,004	8.90%
Claims incurred but not reported	16,179,120	14,217,773	1,961,347	13.80%
Due to agency fund	1,051,022	1,427,946	(376,924)	(26.40%)
Securities lending collateral	3,033,638	947,955	2,085,683	220.02%
Total liabilities	<u>40,617,171</u>	<u>35,283,061</u>	<u>5,334,110</u>	<u>15.12%</u>
Deferred inflows of resources	<u>31,775</u>	<u>-</u>	<u>31,775</u>	<u>100.00%</u>
Net position	<u>\$ 90,505,693</u>	<u>\$ 90,190,705</u>	<u>\$ 314,988</u>	<u>0.35%</u>

Financial Highlights

- The Board's cash and cash equivalents ended the year mostly unchanged.
- Investment increases reflect improved operating income over the prior period.
- Increases to receivables and other assets reflect increased accruals for drug rebates.
- Securities lending collateral reflected cash held by the Board as collateral for securities lent to other entities. These amounts did not represent resources available to the Board. Securities lending activity is determined by Retirement Systems of Alabama, the Board's investment manager.
- Changes in property and equipment balances resulted primarily from accrual of depreciation expense and increasing the floor for capitalizing assets from \$500 to \$15,000.
- Increases to accounts payable and other liabilities reflected an increase in claims payable and decreases in vendor accounts payable, investment purchases payables, and amounts due to the SEIB (State Employees' Insurance Board).
- Increases in claims incurred but not reported reflect updated estimates of outstanding claims based on lag reports and results from prior years.
- Decreases to due to agency fund reflected increases in the accrual for Drug Rebates Receivable and Medicare part D Subsidies Receivable.

Local Government Health Insurance Board Management's Discussion and Analysis

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - PROPRIETARY FUND FOR THE YEAR ENDED SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>	<u>VARIANCE</u>	<u>INCREASE (DECREASE)</u>
Additions:				
Subscriber contributions	\$ 139,630,459	\$ 96,958,235	\$ 42,672,224	44.01%
Dependent and COBRA contributions	83,035,930	58,227,755	24,808,175	42.61%
Investment income	6,158,264	1,118,233	5,040,031	450.71%
Transfers from SEIB	-	94,601,019	(94,601,019)	(100.00%)
Other revenues	25,803	21,250	4,553	21.43%
Total additions	<u>228,850,456</u>	<u>250,926,492</u>	<u>(22,076,036)</u>	<u>(8.80%)</u>
Deductions:				
Medical benefits	221,762,080	155,524,012	66,238,068	42.59%
Other participant related programs	673,784	452,759	221,025	48.82%
Regulatory expense	1,394,174	1,430,855	(36,681)	(2.56%)
Administrative expenses	4,566,919	3,232,711	1,334,208	41.27%
Other expenses	138,511	95,450	43,061	45.11%
Total deductions	<u>228,535,468</u>	<u>160,735,787</u>	<u>67,799,681</u>	<u>42.18%</u>
Change in plan net position	<u>314,988</u>	<u>90,190,705</u>	<u>(89,875,717)</u>	<u>(99.65%)</u>
Net position - beginning of year	<u>90,190,705</u>	<u>-</u>	<u>90,190,705</u>	<u>100.00%</u>
Net position - end of year	<u>\$ 90,505,693</u>	<u>\$ 90,190,705</u>	<u>\$ 314,988</u>	<u>0.35%</u>

Financial Highlights

- The Board began operations January 1, 2015. Fiscal year 2015 balances reflect 9 months of activity versus 12 months for the current fiscal year.
- Subscriber, dependent and COBRA contributions for the full year increased by nearly 8% as expected.
- Investment income increased substantially over the prior year on the strength of improved market conditions for the Board's investments.
- Transfers from State Employees' Insurance Board (SEIB) were the transfer of the net position of the LGHIP from the SEIB to the LGHIB to establish the LGHIB.
- Other revenues were primarily composed of application fees collected from eligible employers in the Board's Local Government Health Insurance Plan. These fees vary from year to year based on interested governments.
- Medical benefits increased by nearly 7% over the full prior year as expected.
- Other participant related programs were primarily related to the Board's wellness program. These costs increased by less than 4% compared to the full prior year.

Local Government Health Insurance Board Management's Discussion and Analysis

- Regulatory expense was related to the Board's liability for fees assessed under the Federal Affordable Care Act. This cost decreased by nearly 33% compared to the full prior year due to a fee decrease.
- Increases to other expenses reflect the increase in fees for the claims data warehouse services from prior year to the current year.

STATEMENT OF FIDUCIARY NET POSITION AS OF SEPTEMBER 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>	<u>VARIANCE</u>	<u>INCREASE (DECREASE)</u>
Assets:				
Receivables and other assets	\$ 2,065,690	\$ 1,558,751	\$ 506,939	32.52%
Due from proprietary fund	1,051,022	1,427,946	(376,924)	(26.40%)
Total assets	<u>3,116,712</u>	<u>2,986,697</u>	<u>130,015</u>	<u>4.35%</u>
Liabilities:				
Accounts payable and other liabilities	\$ 1,709,832	\$ 1,628,470	\$ 81,362	5.00%
Claims incurred but not reported	1,406,880	1,358,227	48,653	3.58%
Total liabilities	<u>3,116,712</u>	<u>2,986,697</u>	<u>130,015</u>	<u>4.35%</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(0.00%)</u>

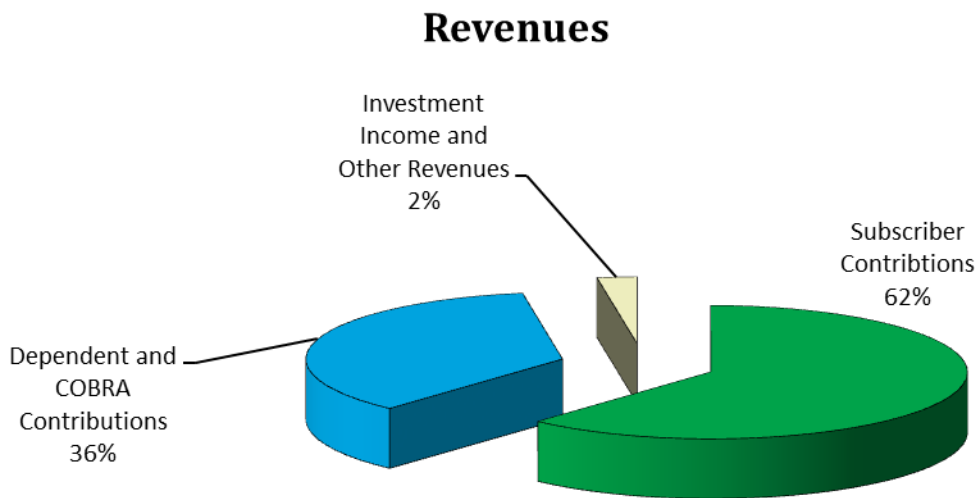
Financial Highlights

- Receivables and other assets increased due to an increase in the drug rebates receivable and Employer Group Waiver Plan drug subsidy amounts from the prior year.
- Decreases to due from proprietary fund reflect a decrease in the accrual for Drug Rebates Receivable and Medicare part D Subsidies Receivable.
- Accounts payable and other liabilities consisted primarily of health care claims payable, deferred revenue and Federal Affordable Care Act fees.
- Claims incurred but not reported was an estimate of outstanding health care claims incurred by plan members prior to the end of the reporting period but not yet presented for payment.

Local Government Health Insurance Board Management's Discussion and Analysis

SOURCES OF FUNDS

The Board has three primary sources of revenue – subscriber contributions, dependent and COBRA contributions, and investment earnings.



The Board assesses premiums for single and family coverage to each governmental unit for its covered employees and retirees. The Board allows each unit to determine any subsidy provided to the employee or retiree. The amount shown as subscriber contribution revenue was the single coverage premium. The dependent portion of the family coverage premium and COBRA premiums were shown as dependent and COBRA contributions. COBRA premiums were received monthly directly from qualifying former employees.

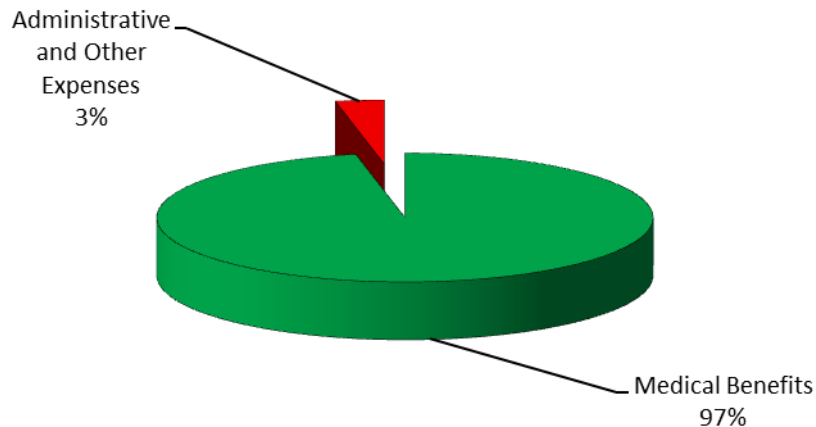
Investment of funds on hand is managed by the Retirement Systems of Alabama through an interagency agreement. Other revenue consisted of immaterial one-time revenues.

Local Government Health Insurance Board Management's Discussion and Analysis

USES OF FUNDS

The Board's primary mission is to provide a health care plan for active and retired local government employees.

Expenses



Medical benefits and premiums were composed of health care claims processed by the Board's claims processors. Other participant related programs primarily included the worksite wellness program.

Administrative and other expenses were costs of enrollment, accounting, information technology, and other expenses necessary for managing the program.

REQUESTS FOR INFORMATION

The financial report is designed to provide a general overview for all those interested in the finances of the Local Government Health Insurance Board. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: William L. Ashmore, Chief Executive Officer; P.O. Box 304900; Montgomery, AL 36130-4900.

**Local Government Health Insurance Board
Statement of Net Position – Proprietary Fund**

September 30,

2016

Assets

Current assets

Cash and cash equivalents	\$ 31,199,784
Investments	92,598,271
Interest receivable	656,532
Drug rebates receivable	3,420,630
Premiums receivable	53,439
Prepaid expenses	106,908
Invested securities lending collateral	3,033,638

Total current assets	131,069,202
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Capital assets:

Office furniture and equipment	120,783
Less: Accumulated depreciation	(35,346)

Net capital assets	85,437
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Total assets	131,154,639
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Liabilities

Current liabilities

Accounts payable and accrued expenses	1,082,686
Reported claims payable	12,806,071
Claims incurred but not reported	16,179,120
Premiums received in advance	6,188,616
Due to other governments	229,307
Due to agency fund	1,051,022
Securities lending collateral	3,033,638

Total current liabilities	40,570,460
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Noncurrent liabilities

Net OPEB obligation	33,632
Net pension liability	13,079

Total noncurrent liabilities	46,711
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Total liabilities	40,617,171
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Deferred inflows of resources

31,775

Net position

Net investment in capital assets	85,437
Unrestricted	90,420,256

Total net position	\$ 90,505,693
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The accompanying notes are an integral part of these financial statements.

Local Government Health Insurance Board
Statement of Revenues, Expenses, and Changes
in Net Position – Proprietary Fund

<i>Year ended September 30,</i>	2016
Operating revenues	
Premium contributions	
Employee	\$ 139,630,459
Dependent	81,977,212
COBRA recipients	1,058,718
Other revenues	25,803
Total operating revenue	222,692,192
Operating expenses	
Medical claims expense	221,762,080
Consulting services	138,511
Other participant related programs	673,784
Regulatory expense	1,394,174
Administrative expenses	4,429,480
Net OPEB expense	33,632
Depreciation expense	103,807
Total operating expenses	228,535,468
Operating loss	(5,843,276)
Non-operating revenues and (expenses)	
Securities lending income	56,168
Securities lending expenses:	
Borrower rebates	(3,651)
Management fees	(11,894)
Net income from securities lending	40,623
Investment income	6,117,641
Total non-operating revenues	6,158,264
Change in net position	314,988
Net position, beginning of year	90,190,705
Net position, end of year	\$ 90,505,693

The accompanying notes are an integral part of these financial statements.

**Local Government Health Insurance Board
Statement of Cash Flows – Proprietary Fund**

<i>Year ended September 30,</i>	2016
Cash flows from (used for) operating activities	
Cash receipts for premium contributions	\$ 223,197,182
Other cash receipts	25,803
Cash payments for medical claims	(217,605,603)
Cash payments to suppliers for goods and services	(7,470,230)
Net cash used for operating activities	(1,852,848)
Cash flows used for capital activities	
Equipment additions	(5,000)
Net cash used for capital activities	(5,000)
Cash flows used for non-capital and related financing activities	
Non-operating transfer from LGHIP - Retired	(376,924)
Net cash used for non-capital and related financing activities	(376,924)
Cash flows from (used for) investing activities	
Proceeds from sale/maturities of investments	17,390,133
Purchase of investments	(18,976,371)
Investment income received	3,517,734
Securities lending income received	40,623
Net cash from investing activities	1,972,119
Net decrease in cash and cash equivalents	(262,653)
Cash and cash equivalents, beginning of year	31,462,437
Cash and cash equivalents, end of year	\$ 31,199,784

The accompanying notes are an integral part of these financial statements.

**Local Government Health Insurance Board
Statement of Cash Flows – Proprietary Fund (Continued)**

Year ended September 30,

2016

**Reconciliation of operating loss to net cash used for
operating activities**

Operating loss	\$ (5,843,276)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	103,807
Deferred inflows of resources	31,775
Change in operating assets and liabilities:	
Premiums receivable	474,937
Drug rebates receivable	(801,579)
Prepaid expenses	(2,147)
Accounts payable and accrued expenses	(480,457)
Reported claims payable	2,996,709
Claims incurred but not reported	1,961,347
Premiums received in advance	55,856
Net pension liability	13,079
Net OPEB obligation	33,632
Due from other governments	(396,531)
Total adjustments	3,990,428
Net cash used for operating activities	\$ (1,852,848)

The accompanying notes are an integral part of these financial statements.

**Local Government Health Insurance Board
Statement of Fiduciary Net Position – Fiduciary Fund**

<i>September 30,</i>	2016
LGHIP-RETIRED	
Assets	
Current assets	
Drug rebates receivable	\$ 230,378
EGWP subsidies receivable	1,835,312
Due from proprietary fund	1,051,022
Total current assets	\$ 3,116,712
Liabilities	
Current liabilities	
Reported claims payable	\$ 1,113,571
Claims incurred but not reported	1,406,880
Accounts payable and accrued expenses	72,575
Premiums received in advance	523,686
Total current liabilities	\$ 3,116,712

The accompanying notes are an integral part of these financial statements.

Local Government Health Insurance Board Notes to Financial Statements

NOTE 1: DESCRIPTION OF PLANS

General

Legislative Act 2014-401 created the Local Government Health Insurance Board (LGHIB) as a state agency established to manage the Local Government Health Insurance Program (LGHIP) and LGHIP-Retiree plans. The LGHIB began operations January 1, 2015 in accordance with the legislation. The LGHIP and LGHIP-Retired were previously operated by the State Employees' Insurance Board (SEIB), an Alabama state agency established to provide health insurance for state employees.

The Board is governed by a 9 member Board of Directors consisting of three representatives of municipal governments appointed by the Alabama League of Municipalities, three representatives of county governments appointed by the Association of County Commissions of Alabama, one retired employee appointed by the Alabama Retired Employees' Association, one full-time active or retired employee of a participating county or municipal government elected by full-time employees of participating counties and municipalities, and one active full-time employee of a participating unit that is not a county or municipality elected by participating full-time non-county and municipal employees.

Local Government Health Insurance Program (LGHIP)

The Local Government Health Insurance Program was established in 1992 by Act 92-303 of the Legislature to provide health insurance benefits for employees and retired employees of any participating local government unit within the State. The LGHIP began operations April 1, 1993.

Local Government Retired Employee Health Insurance Program (LGHIP-Retired)

In order to comply with the reporting requirements as set out in GASB Statement 43, *Financial Reporting for Post-employment Benefits Plans Other Than Pension Plans*, the contribution (employer and plan member) and benefit payments related to retirees that are processed through LGHIP are required to be segregated from LGHIP and reported separately as an agency fund. Since LGHIP is used to accumulate assets and pay benefits in an agent multiple-employer OPEB plan for retired employees of local governments, LGHIP - Retired is reported as an agency fund.

Interagency Agreement

Legislative Act 2014-401 defined the LGHIB as a state agency. The LGHIB operates under an interagency agreement with the SEIB. The SEIB provides the following services to the LGHIB under this agreement:

- Determine eligibility in accordance with the eligibility requirements established for the LGHIP by the LGHIB
- Enter and transmit enrollment information to the Claims Administrator(s)

Local Government Health Insurance Board Notes to Financial Statements

NOTE 1: DESCRIPTION OF PLANS (CONTINUED)

Interagency Agreement (Continued)

- Verify and reconcile enrollment information with the Claims Administrator(s)
- Provide a premium billing system
- Provide for accounting functions
- Serve as liaison between the LGHIB and the Claims Administrator(s), consultants, providers, members and other third parties
- Conduct appeals according to the Appeals Process established by the LGHIB
- Other duties as mutually agreed to by the parties

In exchange for providing these services, the LGHIB compensates the SEIB 2% of premiums received from member units of the LGHIP less any allowable cost of LGHIP administration paid directly by the LGHIB. This agreement may be terminated at any time by either party with at least three months written notice.

Benefits

The LGHIP provides basic medical coverage for up to 365 days of care during each hospital confinement, outpatient care, physicians' benefits, radiation therapy, and major medical benefits with no lifetime maximum. Dental coverage is available as an optional benefit.

Participants should refer to the LGHIP Plan agreement for a complete description of the Plan's provisions.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

The Board is defined as a state agency by its enabling statute, Act No. 2014-401. The statute also specifies that the Board shall not receive any funding from the State of Alabama. The State has not included the Board's activity as part of the State's reporting entity.

Measurement focus and basis of accounting

The financial statements of the Board have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to government units.

Under GAAP, the Board's financial statements are reported as proprietary fund using the economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions are recognized when earned, pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the Plans.

Local Government Health Insurance Board Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement focus and basis of accounting (Continued)

The LGHIP-Retired is accounted for as a fiduciary fund (also referred to as an agency fund.) Revenues are recognized and recorded when earned and expenses are recorded when a liability is incurred.

The Board applies all applicable GASB pronouncements.

Financial statement presentation

The financial statements and notes to the financial statements provide reporting for LGHIP and LGHIP - Retired, the funds administered by the Board. All significant interfund balances and transactions have been eliminated.

Proprietary fund

The activities of the Board are accounted for as a proprietary fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Enterprise funds report the activities for which fees are charged to external users for goods or services. Due to the application of GASB Statement No. 43, the proprietary fund only reports activities of LGHIP's active employees.

Fiduciary fund

The activities of LGHIP - Retired Trust, an other post-employment benefits trust, are accounted for within a fiduciary fund. Fiduciary funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, and other governmental units.

Pension and other employee benefit trust funds account for resources that are required to be held in trust for the members and beneficiaries of the State's defined benefit plans. Agency funds report assets and liabilities for deposits and investments entrusted to the Board as an agent for others. Due to the application of GASB Statement No. 43, the fiduciary fund only reports activities of LGHIP's retired employees.

Local Government Health Insurance Board Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

Highly liquid investments with a maturity of 90 days or less when acquired are classified as cash equivalents. Included in cash equivalents are commercial papers and money market funds. These are held in the Board's name by a broker, dealer, or safekeeping agent.

Investment securities

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, issued March 1997, establishes accounting and financial reporting standards for investments held by governmental entities. It essentially requires all investments to be carried at fair value in the statement of net position, with all investment income, including changes in fair value, reported as revenue in the statement of revenues, expenses, and changes in net position. Therefore, all investments are reported at fair value for the period ended September 30, 2016, and investment income includes changes in fair value.

Accounts Receivable

Accounts receivable of \$3,420,630 as shown in the proprietary statement of net position, consist of non-Medicare drug rebates receivable and accrued during the current period. The Board considers such amounts to be fully collectible and as such, an allowance for uncollectible amounts has not been accrued.

Capital assets

All capital assets are recorded at historical cost and depreciated using the straight-line method over 5 - 10 years for furniture and equipment which correspond to the assets' estimated useful lives.

Unpaid claims liabilities

The Board establishes claims liabilities based on estimates of the ultimate cost of claims (including future retroactive claims adjustments) that have been reported but not settled and of estimated claims that have been incurred but not reported. The estimation of claims costs depends on many factors including historical loss experience. Actual claims cost ultimately incurred may vary from estimated claims liabilities should the nature and frequency of actual claims vary from historical claims experience on which the estimates are based. Adjustments of the estimated claims liabilities based on actual results are charged or credited to expense in the periods in which such adjustments are determined.

Local Government Health Insurance Board Notes to Financial Statements

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net position

For proprietary funds, net position comprises the various net earnings from operating and non-operating revenues, expenses, and contributions of capital. Net position is classified in the following two components: investment in capital assets and unrestricted net position. Investment in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Unrestricted consists of all other net position components not included in the above categories.

Contributions

The Plan provides that the employers contribute monthly for the medical and other insurance of participating employees and dependents. The Board allows each unit to determine what, if any, subsidy is provided for its employee and dependent coverage. Employee and dependent premium amounts are determined annually and are set at a rate necessary to provide sufficient funds to pay all claims and reasonable expenses of administering the plans.

Proprietary fund operating revenues and expenses

Operating revenues and expenses are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Local Government Health Insurance Board Employees' Pension Plan ("the Plan") and additions to/deductions from the Plan's net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Premiums

The Board recognizes revenue from the receipt of premiums in the period in which the related coverage occurs. Premium payments received in advance of the coverage period are recorded as a liability. Premiums not received by the end of a coverage period are recorded as premiums receivable.

Employer Group Waiver Plan (EGWP)

The LGHIP received funds for its participation in the Employer Group Waiver Plan (EGWP) during the reporting period. The amount received from this program was a result of the LGHIP continuing prescription drug coverage for Medicare eligible retirees and dependents. The EGWP payments not received by the end of the coverage period are recorded on the statements of fiduciary net position as EGWP subsidies receivable as follows:

	Agency Fund
Coverage Gap Discount	\$ 242,000
Direct Subsidy	38,847
Federal Catastrophic Reinsurance Subsidy	1,181,465
Federal Drug Rebates	373,000
Total EGWP subsidies receivable	\$ 1,835,312

Regulatory Expense

The Board is required to pay fees to fund two programs established by the Patient Protection and Affordable Care Act, the Patient Centered Outcomes Research Institute (PCORI) and the Transitional Reinsurance Program (TRIP). These fees are calculated based on the number of covered lives under the plans. The total fees due, but not yet paid by the proprietary fund, as of September 30, 2016 was recorded as accounts payable and accrued expense and amounted to \$917,090. The total fees due, but not yet paid by the fiduciary fund, as of September 30, 2016 was recorded as accounts payable and accrued expenses and amounted to \$72,575.

NOTE 3: CONTRACT ADMINISTRATORS

Blue Cross/Blue Shield of Alabama (Blue Cross), under contract with the Board, administers medical and dental claims in accordance with the Plans. The claims administrator's charges for the calendar year 2015 were \$22.63 and for 2016 were \$23.63 per subscriber. Prime Therapeutics, under contract with the Board, administers prescription drug claims in accordance with the Plans. The claims administrator's charges for the calendar year 2015 and 2016 were \$3.91 per subscriber.

Local Government Health Insurance Board Notes to Financial Statements

NOTE 3: CONTRACT ADMINISTRATORS (CONTINUED)

For the proprietary fund, the total charges for claims administration for the fiscal year ended September 30, 2016 were \$7,786,380. The charges were included in the medical claims expense in the statement of revenues, expenses, and changes in net position.

For LGHIP - Retired, the total charges for claims administration for the fiscal year ended September 30, 2016 were \$879,959. The charges were included in the medical claims expense in the statement of changes in fiduciary net position.

NOTE 4: CASH AND CASH EQUIVALENTS

As of September 30, 2016, cash consisted of non-interest bearing deposits held in a financial institution in the name of the Board.

The Board's deposits were covered by the Federal Deposit Insurance Corporation (FDIC) or by collateral pledged under the Security for Alabama Funds Enhancement Act. Under the Act, financial institutions holding public deposits in excess of the amounts insured by FDIC must pledge collateral to a collateral pool in the name of the Board. If any member financial institution fails, the entire collateral pool becomes available to satisfy claims of governmental entities. If the value of the pool's collateral were inadequate to cover the loss, additional amounts would be assessed on a pro rata basis to the members of the pool. Funds deposited in accordance with the requirements of the Act are considered fully secured.

NOTE 5: INVESTMENTS

Investment policy

The Board adopted the current investment policy on December 11, 2014. The same policy was adopted for both proprietary and trust fund investments.

The objective of the policy is to balance market and credit risks against the potential investment return, to make investments compatible with the policy, and to maintain compliance with regulatory investment requirements.

All investments are assumed to be suitable to be held to maturity. However, sale prior to maturity may be warranted in some cases. For example, investments may be sold if the quality of an investment is expected to deteriorate, if the need to change the maturity structure of the portfolio arises, or if swaps would allow increased yields. In any case, the investment portfolio is not intended to be used for speculative purposes.

NOTE 5: INVESTMENTS (CONTINUED)

Investment policy (continued)

The Board is ultimately responsible for the investment policy and all related transactions. However, the Board has delegated day-to-day responsibility of carrying out the policy to the Chief Executive Officer (CEO). The CEO is authorized to seek whatever professional guidance is necessary to perform his responsibilities from the following sources:

- The State Treasurer of Alabama or the Retirement Systems of Alabama.
- A professionally recognized investment firm who shall be approved by the Board.

The CEO is required to maintain records of investment activity and report to the Board upon request. The CEO currently utilizes the Retirement Systems of Alabama to manage the Board's investments.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The fair value of fixed-maturity investments fluctuates in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. However, the Board's intent is to hold all fixed maturity investments until maturity, and as such, fixed maturity investments are classified in the following table as if they were held to maturity. The Board has no policy on interest rate risk.

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 5: INVESTMENTS (CONTINUED)

Interest rate risk (continued)

The following represents proprietary funds interest rate risk as of September 30, 2016:

	INVESTMENT MATURITIES AT FAIR VALUE (IN YEARS)					
	LESS THAN				MORE THAN	TOTAL FAIR VALUE
	1	1 - 5	6 - 10	10		
Fixed-maturity:						
U.S. Agency	\$ 1,032,170	\$ 2,476,389	\$ 2,463,611	\$ -	\$ 5,972,170	
U.S. Government Guaranteed	2,551,459	9,253,329	8,295,070	4,104,824	24,204,682	
Corporate bonds	8,115,393	9,869,197	12,166,212	8,923,373	39,074,175	
CMO's	-	272,322	221,586	15,119,733	15,613,641	
GNMA's	-	-	-	947,137	947,137	
Total debt securities	\$ 11,699,022	\$ 21,871,237	\$ 23,146,479	\$ 29,095,067	85,811,805	
Domestic equities:						
Mutual funds					5,771,564	
Preferred stock					1,014,902	
Total domestic equities					6,786,466	
Money market funds					28,172,926	
Total holdings					120,771,197	
Less: Cash equivalents					(28,172,926)	
Total investments					\$ 92,598,271	

Credit risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Nationally recognized statistical rating organizations provide ratings of debt securities' quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. The Board is authorized to invest in U.S. Government and Agency notes, mutual funds, mortgage-backed securities, corporate bonds, private placements, and repurchase agreements. The Board has no policy on credit risk.

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 5: INVESTMENTS (CONTINUED)

Credit risk (continued)

The following represents proprietary fund credit risk as of September 30, 2016:

RATINGS OF FIXED MATURITIES		
MOODY'S RATINGS	FAIR VALUE	FAIR VALUE AS A PERCENT OF TOTAL FIXED MATURITY FAIR VALUE
Aaa**	\$ 46,656,768	54.4%
Aa1	1,538,690	1.8%
Aa2	208,037	0.2%
Aa3	357,107	0.4%
A1	2,867,277	3.3%
A2	1,556,963	1.8%
A3	5,388,269	6.3%
Baa1	8,018,634	9.3%
Baa2	5,411,269	6.3%
Baa3	4,571,124	5.3%
Ba1	2,031,307	2.4%
Ba2	852,923	1.0%
B1	768,026	0.9%
B2	207,575	0.2%
B3	94,185	0.1%
Not Rated	5,283,651	6.2%
	\$ 85,811,805	100.0%

** Includes Securities Guaranteed by the US Government in the amount of \$25,151,819

The State Street Trust Fund (STIF), which represents the money market funds were rated P-1 by Moody's ratings. These funds are reported as cash equivalents on the statement of net position-proprietary funds. Other investment holdings not rated included common stock, preferred stock, and equity mutual funds, for which credit risk disclosure is not required.

Local Government Health Insurance Board
Notes to Financial Statements

NOTE 5: INVESTMENTS (CONTINUED)

Concentration of credit risk

Concentration of credit risk is the result of investing 5% or more of total investments in any one issuer. The Board has no policy for concentration of credit risk.

As of September 30, 2016, The Board's proprietary fund owned the following debt securities that comprised 5% or more of the investment holdings:

ISSUER	INVESTMENT TYPE	FAIR VALUE	FAIR VALUE AS A PERCENT OF TOTAL HOLDINGS
U.S. Treasury	U.S. Treasury	\$ 24,204,682	26.14%
Federal National Mortgage Association	Collateralized Mortgage Obligation	10,684,318	11.54%
Vanguard Total Bond Index	Corporate Bonds	5,771,564	6.23%

Mortgage-backed securities

As of September 30, 2016, the Board had investments in mortgage-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligors of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligors tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of mortgage-backed securities.

Realized gains/losses

Realized gains/(losses) on proprietary fund investments totaled \$210,042 for the year. The calculation of realized gains and losses is independent of the calculation of net change in the fair value of investments. Realized gains and losses in investments held in more than one fiscal period and sold in the current period were included as a change in the fair value of investments reported in prior fiscal years and the current year as applicable. Realized gains and losses are presented together with changes in the fair value of investments in the financial statements.

NOTE 5: INVESTMENTS (CONTINUED)

Fair Value

The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes the inputs to valuation used to measure the fair value of the asset, giving the highest priority to quoted prices in an active market for identical assets (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The inputs to the three levels of the fair value hierarchy are described as follows:

- Level 1:** Quoted (unadjusted) prices in an active market for identical assets or liabilities.
- Level 2:** Significant other inputs which are observable either directly or indirectly, including quoted prices for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in a less active market, or other market-corroborated inputs.
- Level 3:** Valuations derived from valuation techniques using significant unobservable inputs for the asset or liabilities.

The categorization of investments within the hierarchy is based upon pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Investments in equity securities classified as Level 1 are valued using quoted prices in an active market for those securities.

Investments in securities classified as Level 2 are valued using non-proprietary information that is readily available to market participants from multiple independent sources, which are known to be actively involved in the market. Pricing inputs may include market quotation, yields, maturities, call features and ratings.

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 5: INVESTMENTS (CONTINUED)

Fair Value (continued)

The following table provides information as of September 30, 2016. The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Board has the following recurring fair value measurements as of September 30, 2016:

	<u>Fair Value Measurements Using</u>			
	<u>9/30/2016</u>	<u>Quoted Prices in Active Markets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<i>Fixed Maturity</i>				
Domestic				
U.S. Agency	\$ 5,972,170	\$ -	\$ 5,972,170	\$ -
U.S. Government Guaranteed	24,204,682	-	24,204,682	-
Corporate Bonds	39,074,176	4,875,765	34,198,411	-
GNMAs	947,137	-	947,137	-
CMOs	15,613,640	-	15,613,640	-
Total Domestic Fixed				
Maturity Equities	\$ 85,811,805	\$ 4,875,765	\$ 80,936,040	\$ -
<i>Equities</i>				
Preferred	5,771,563	\$ 5,771,563	\$ -	\$ -
Mutual funds	1,014,903	1,014,903	-	-
Total Equities	\$ 6,786,466	\$ 6,786,466	\$ -	\$ -
Total Investments	\$ 92,598,271	\$ 11,662,231	\$ 80,936,040	\$ -
Securities Lending Collateral				
Total Fair Value	3,033,638	-	3,033,638	-
Money Market Funds	28,172,926	-	28,172,926	-
Total Fair Value	\$ 123,804,835	\$ 11,662,231	\$ 112,142,604	\$ -

NOTE 5: INVESTMENTS (CONTINUED)

Securities lending

The Local Government Health Insurance Board's Board of Directors authorizes the Plan to participate in a securities lending program. The Board's custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the Board are loaned to borrowers for collateral that will be returned for the same type of securities. Approved borrowers of securities provide acceptable collateral in the form of cash (U.S. and foreign currency), any other assets permissible under Rule 15c3-3 under the Exchange Act of 1934, U.S. and non U.S. equities and such other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the Board, or borrower. The initial collateral received shall have a value of 102% or 105% of the fair value of the loaned securities, or such other value, but not less than 102% of the fair value of the loaned securities, as may be applicable in the jurisdiction in which such loaned securities are customarily traded. Pursuant to the terms of the applicable securities loan agreement, State Street shall, in accordance with State Street's reasonable and customary practices, mark loaned securities and collateral to their fair value each business day based upon the fair value of the collateral and the loaned securities at the close of the business employing the most recently available pricing information and receive and deliver collateral in order to maintain the value of the collateral at no less than 100% of the fair value of the loaned securities.

The Board cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Global Securities Lending Trust (GSLT). The collateral fund is separated into two pools, a liquidity pool and a duration pool. The split allows greater flexibility in managing the available liquidity in the investment in the funds and the outstanding balance of the securities on loan.

The following describes the GSLT's fund guidelines for the liquidity pool. The GSLT's Investment Manager shall maintain the dollar-weighted average maturity of GSLT in a manner that the Investment Manager believes is appropriate to the objective of GSLT; provided, that (i) in no event shall any Eligible security be acquired with a remaining legal final maturity (i.e., the date on which principal must be repaid) of greater than 18 months, (ii) The Investment Manager shall endeavor to maintain a dollar-weighted average maturity of GSLT not to exceed 75 calendar days and (iii) the Investment Manager shall endeavor to maintain a dollar weighted average maturity to final of GSLT not to exceed 180 calendar days. At the time of purchase (i) all Eligible Securities with maturities of 13 months or less shall (x) be rated at least A1, P1 or F1 by at least any two of the following nationally recognized statistical rating organizations: Standard & Poor's Corp. ("S&P"), Moody Investor Services, Inc. ("Moody's"), or Fitch, Inc. ("Fitch"), or (y) be determined by the Investment Manager to be of comparable quality and (ii) all Eligible Securities with maturities in excess of 13 months shall (x) be rated at least A-,A3 or A- by at least any two of S&P, Moody's or Fitch, or (y) be determined by the Investment Manager to be of comparable quality. GSLT may invest up to 10% of its assets at time of purchase in commingled vehicles managed by State Street or its affiliates that conform to the Investment Policy Guidelines. The following describes the GSLT's guidelines for the duration pool.

NOTE 5: INVESTMENTS (CONTINUED)

Securities Lending (continued)

The GSLT duration pool includes all GSLT asset backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each GSLT investor as of December 30, 2010, owns a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The GSLT duration pool will not make additional investments.

As of September 30, 2016, the average term of the loans was 44.60 days. Cash collateral investments in the SSGSLT are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral. At September 30, 2016, the fair value of the securities on loan was \$17,631,233. The fair value of the collateral pledged by the borrowers was \$18,344,804. Since the amounts owned by the Board exceeded the amounts the borrowers owed the Board, there was no credit risk exposure as of September 30, 2016. There were no significant violations of legal or contractual provisions, no borrower, or lending agent default losses, and no recoveries of prior period losses during the year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the Board. Securities pledged as collateral are held by the custodial agent, but not in the name of the Board.

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 5: INVESTMENTS (CONTINUED)

Securities Lending (continued)

The following table provides information as of September 30, 2016, concerning securities lent:

TYPE OF INVESTMENT LENT	PROPRIETARY AMOUNTS
For cash collateral:	
Domestic fixed maturities	\$ 2,224,566
Domestic equity	739,172
Total lent for cash collateral	2,963,738
For non-cash collateral:	
Domestic fixed maturities	14,667,495
Total lent for non-cash collateral	14,667,495
Total securities lent	\$ 17,631,233
TYPE OF COLLATERAL RECEIVED	AMOUNTS
Cash collateral:	
Invested in SSB SSGSLT Fund	\$ 3,033,638
Non-cash collateral:	
For lent domestic fixed maturities	8,078,219
For lent domestic equity maturities	306,459
For lent international fixed maturities & equity	
US Dollar	6,926,488
Total non-cash collateral	15,311,166
Total collateral received	\$ 18,344,804

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 6: CAPITAL ASSETS

During the year ended September 30, 2016, the following changes in capital assets occurred:

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Capital assets not being depreciated:				
Land	\$ -	\$ 5,000	\$ -	\$ 5,000
Total capital assets not being depreciated	<u>-</u>	<u>5,000</u>	<u>-</u>	<u>5,000</u>
Capital assets being depreciated:				
Office furniture and equipment	206,093	-	(90,310)	115,783
Total capital assets being depreciated	206,093	-	(90,310)	115,783
Less accumulated depreciation for:				
Office furniture and equipment	<u>(21,849)</u>	<u>(13,497)</u>	<u>-</u>	<u>(35,346)</u>
Total capital assets being depreciated, net	<u>184,244</u>	<u>(13,497)</u>	<u>(90,310)</u>	<u>80,437</u>
Total capital assets	<u><u>\$ 184,244</u></u>	<u><u>\$ (8,497)</u></u>	<u><u>\$ (90,310)</u></u>	<u><u>\$ 85,437</u></u>

NOTE 7: UNPAID CLAIMS LIABILITIES

As discussed in Note 2, the Board establishes a liability for both reported and unreported insurance claims, which includes estimates of future payments of both medical claims and related retroactive claims adjustment expenses.

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 7: UNPAID CLAIMS LIABILITIES (CONTINUED)

The following represents changes in those aggregate liabilities for the Board during the reporting period:

	<u>LGHIP - ACTIVE</u>	<u>LGHIP - RETIRED</u>
Reported claims payable and estimated claims incurred but not reported at beginning of year	\$ 24,027,135	\$ 2,295,318
Incurred claims and claims adjustment expense:		
Provisions for insured claims of the current year	219,800,733	17,987,059
Adjustment to estimated claims incurred but not reported at end of year	1,961,347	48,653
Total expense	221,762,080	18,035,712
Payments:		
Claims and claims adjustment expenses attributable to insured claims of the current year	200,882,811	16,426,126
Claims and claims adjustment expenses attributable to insured claims of the prior year	15,921,213	1,384,453
Total payments	216,804,024	17,810,579
Reported claims payable and estimated claims incurred but not reported at end of year	\$ 28,985,191	\$ 2,520,451

At year end, unpaid claims liabilities are computed using the gross method without discounting the accrued claims payable.

NOTE 8: INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances as of September 30, 2016 are detailed below:

<u>RECEIVABLE FUND</u>	<u>PAYABLE FUND</u>	<u>AMOUNT</u>
Agency	Proprietary	\$ 1,051,022

The primary purpose of the interfund payable is to record the liability to the agency fund for funds allocated in the proprietary fund for liabilities of the agency fund.

Local Government Health Insurance Board Notes to Financial Statements

NOTE 9: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – LGHIP-RETIRED

The LGHIP-Retired plan is an agent-multiple employer plan that is not administered as a trust. Therefore, each participating local government unit is required to disclose additional information regarding funding policy, the employer’s annual OPEB cost and contributions made, the funded status and funding progress of the employer’s individual plan, and actuarial methods and assumptions used.

The local government employers may or may not pay a portion of the premium for a retiree as it is the decision of each local government unit as to whether or not the unit will provide retiree benefits. The LGHIP-Retired plan participating employers totaled 262 units as of September 30, 2016. Average enrollment in the reporting period was 1,167 for retirees over 65 and 1,212 for retirees under 65.

The Board determines annually the required contributions from participating local government units and retirees to adequately fund retiree health costs. The cost of benefits is recognized as an expense in the month in which it is incurred plus an estimate of claims incurred but not reported. The employer contribution per month per retiree is funded on a pay-as-you-go basis.

Required monthly contribution rates for calendar years 2015-2016 are as follows:

Retired Member Rates:

	2015	2016
Individual Coverage/Non-Medicare Eligible	\$799 - 817	\$861 - \$881
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$1,458 - \$1,052	\$1,571 - \$1,621
Family Coverage/Non-Medicare Eligible Retired Member and Medicare Eligible Dependent(s)	\$1,175 - \$1,219	\$1,266 - \$1,316
Individual Coverage/Medicare Eligible	\$376 - \$394	\$405 - \$425
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$916 - \$960	\$987 - \$1,037
Family Coverage/Medicare Eligible Retired Member and Medicare Eligible Dependent(s)	\$752 - \$796	\$810 - \$860

NOTE 10: RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets, errors and omissions, and natural disasters. The Board participates in the General Liability Trust Fund operated by the Department of Finance, Division of Risk Management to insure for general liability claims. The Board’s equipment and motor vehicles are insured by the State Insurance Fund. The Board owns no buildings. The Board completed the purchase of real estate after the end of the audit period. Settlements have not exceeded coverage for each of the past three fiscal years.

Local Government Health Insurance Board

Notes to Financial Statements

NOTE 11: RETIREMENT PLAN

General Information About The Pension Plan

Plan Description

The Board's defined benefit pension plan, Local Government Health Insurance Board Employees' Pension Plan ("the Plan"), provides pensions for all eligible employees of the Board. The Plan is a single-employer defined benefit pension plan administered by the Plan trustee. Article VII of the Plan document sets out procedures for amending the terms of the Plan.

Benefits Provided

The Plan provides retirement, disability and death benefits. Retirement benefits for employees are calculated as 2.0125% of the employee's monthly average for the highest three of the last ten years worked. Employees with at least 10 years of service in the Plan are eligible to retire at age 55. Employees are eligible for non-duty disability benefits after 10 years of service. Death benefits entitle a beneficiary to receive the actuarial equivalent of the employee's accrued benefit to be paid at age 65 calculated as of the date of the employee's death.

Employees Covered By Benefit Terms

At September 30, 2016, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	0
Inactive employees entitled to but not yet receiving benefits	0
Active employees	8
Total employees (active and inactive)	8

Contributions

Article VII of the Plan document grants the Board the right to establish and amend the contribution requirements of the Board and its active employees. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance the unfunded accrued liability. The Board is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended September 30, 2016, the average active employee contribution rate was 5% of annual pay, and the Board's average contribution rate was 5.98% of annual payroll.

Net Pension Liability

The Board's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 11: RETIREMENT PLAN (CONTINUED)

Actuarial assumptions

The total pension liability in the September 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	1.5% to 2.0%
Salary increases	3.00%
Investment rate of return	6.50%

Mortality rates used in the September 30, 2016 actuarial valuation were based on the 2016 Applicable Mortality Table published periodically by the U.S. Treasury Department. In addition, a Turnover Table analysis reflects low to moderate turnover.

The actuarial assumptions used in the September 30, 2016 valuation were based on the results of an actuarial experience study for the period October 1, 2015 through September 30, 2016.

The long-term expected rate of return on pension plan investments was based on using a best-estimate range of expected future real rates of return (expected returns, net of inflation) developed for each major asset class. The ranges are combined to produce the long term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding future inflation.

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return	Mid-point
Equity	50%	5.00% - 8.00%	6.50%
Fixed Income	50%	2.00% - 5.00%	3.50%
Total	100%		

Discount rate

The discount rate used to measure the total pension liability at September 30, 2016 was 6.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Board contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 11: RETIREMENT PLAN (CONTINUED)

Changes in Net Pension Liability

	Increase Decrease		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a)-(b)
Balances at 9/30/2015	\$ -	\$ -	\$ -
Changes for the year:			
Service cost	88,533	-	88,533
Interest (1 + 2) X 6.50%	-	-	-
Changes for Experience (+ Loss, - Gain) Demographic Based	(32,910)	-	(32,910)
Change for Assumptions	-	-	-
Change for Plan Amendments	-	-	-
Contributions – Employer	-	22,212	(22,212)
Contributions – Employee	-	18,572	(18,572)
Assumed Investment Income (measured at 9/30/2016)	-	-	-
Actual Investment Income	-	2,000	(2,000)
Benefit payments, including refunds of employee contributions	-	-	-
Administrative expense	-	(240)	240
Other changes	-	-	-
Net Changes	55,623	42,544	13,079
Balances at 9/30/2016	\$ 55,623	\$ 42,544	\$ 13,079

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the Board, calculated using the discount rate of 6.50%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.50%) or 1 percentage point higher (7.50%) than the current rate:

	1% Decrease (5.50%)	Current Discount Rate (6.50%)	1% Increase (7.50%)
Board's net pension liability	\$56,470	\$55,623	\$54,776

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 11: RETIREMENT PLAN (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2016, the Board recognized pension expense of \$87,398. At September 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 31,775
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	-
Total	\$ -	\$ 31,775

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:			
2017		\$1,135	
2018		1,135	
2019		1,135	
2020		1,135	
2021		1,135	
Thereafter		\$26,100	

NOTE 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – EMPLOYER

Plan description

The Board’s defined benefit post-employment healthcare plan, the Local Government Health Insurance Board Post-Employment Health Care Plan (OPEB Plan), provides medical benefits to eligible retired Board employees and their beneficiaries. The OPEB Plan is affiliated with the Local Government Health Insurance Plan-Retired Plan, an agent multiple-employer postemployment health-care plan administered by the Board. The OPEB plan is authorized by Act Code of Alabama 1975, Section 36-29-17 and Section 11-91A-2. Details regarding retiree coverage for all member agencies are included in this report.

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – EMPLOYER (CONTINUED)

Funding Policy

The Board’s contributions were on a pay-as-you-go basis as of September 30, 2016. The Board does not anticipate establishing a trust fund to fund its postemployment medical insurance. The contribution requirements of plan members are established by the Board and may be amended provided they comply with the enabling statutes. Required monthly contribution rates for calendar years 2015-16 are as follows:

Retired member rates by calendar year:	2015	2016
Individual Coverage/Non-Medicare Eligible	\$ 311	\$ 336
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) without spouse	573	598
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) including spouse	698	733
Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible without spouse	442	467
Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible including spouse	542	577
Individual Coverage/Medicare Eligible Retired Member	50	75
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) without spouse	312	337
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) including spouse	437	472
Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible	171	196
Family Coverage/Medicare Eligible Retired Member and Spouse Medicare Eligible	271	306

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – EMPLOYER (CONTINUED)

Funding Policy (continued)

Surviving spouse rates:	2015	2016
Surviving Spouse Non-Medicare Eligible	\$ 432	\$ 477
Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible	689	734
Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible with Non-Medicare Spouse	814	869
Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible	598	643
Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible with Medicare Spouse	789	844
Surviving Spouse Medicare Eligible	226	271
Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible	483	528
Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible with Non-Medicare spouse	608	663
Surviving Spouse Medicare Eligible and Dependent Medicare Eligible	392	437
Surviving Spouse Medicare Eligible and Dependent Medicare Eligible with Medicare Spouse	492	547

The Board is responsible for contributing any amounts in excess of retiree premiums to fund the OPEB Plan. In fiscal year 2016 the Board provided no funding to the OPEB Plan. No retired employees participated in the OPEB Plan in fiscal year 2016. The following table shows the components of the Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Board's net OPEB obligation for the OPEB plan:

Annual required contribution	
Employer Annual Required Contribution	\$ 33,632
Valuation Discount Rate	4.00%
Interest on Net OPEB Obligation: (b) * (i)	\$ -
Amortization Factor	26.1695
Adjustment to Annual Required Contribution: (i) / (d)	\$ -
Annual OPEB Cost: (a) + (c) - (e)	\$ 33,632
Employer Contributions made for Fiscal Year Ending 9/30/2016	\$ -
Increase (decrease) in Net OPEB Obligation: (f) - (g)	\$ 33,632
Net OPEB Obligation Beginning of Fiscal Year	\$ -
Net OPEB Obligation End of Fiscal Year: (h) + (i)	\$ 33,632

Local Government Health Insurance Board Notes to Financial Statements

NOTE 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – EMPLOYER (CONTINUED)

Funding Policy (continued)

The Board's annual OPEB cost contributed to the OPEB Plan and the net OPEB obligation for 2016 is as follows (No prior year data is presented because 2016 was the first year for the Board's OPEB plan):

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2016	\$33,632	0%	\$33,632

Funded Status and Progress

As of September 30, 2016, the actuarial accrued liability for benefits was \$5,717, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$510,623, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.12%. The projection of future benefits for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term prospective of the calculations.

In the September 30, 2016, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses). They included an annual healthcare cost trend rate of 7.75% initially, reduced by decrements to an ultimate rate of 5% for Pre-Medicare retirees after 6 years. For Post-Medicare retirees, the annual healthcare cost trend rate was 5.75% reduced by decrements to an ultimate rate of 0% after 6 years. All rates include a 3% inflation assumption. The actuarial value of OPEB Plan assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 30 year period.

**Local Government Health Insurance Board
Notes to Financial Statements**

NOTE 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – EMPLOYER (CONTINUED)

Actuarial Methods and Assumptions (continued)

The OPEB Plan’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at September 30, 2016, was 30 years.

Information related to the most recent actuarial valuation including the actuarial method and assumptions was as follows:

Valuation date	September 30, 2016
Actuarial cost method	Entry Age Normal Level Percentage of Pay,
Amortization method Level	open
Remaining amortization period	30 years
Asset valuation method	Market Value of Assets
Actuarial assumptions:	
Investment Rate of Return*	4.00%
ARC adjustment factor	26.1695
Medical cost trend rate:	
Pre-Medicare	7.75%-5.00%
Post-Medicare	5.75%-5.00%
Year of Ultimate trend rate	
Pre-Medicare	2022
Post-Medicare	2019

*Includes inflation at 3.00%

NOTE 13: SUBSEQUENT EVENTS

The Board completed purchase of land for a future office site on January 20, 2017. Earnest money deposit of \$5,000 is presented under capital assets for land at September 30, 2016. The final purchase price of the land with associated closing costs was \$988,838.



REQUIRED SUPPLEMENTARY INFORMATION

**Local Government Health Insurance Board
Supplementary Two Year Claims – Proprietary Fund
September 30, 2016**

The following table illustrates how the Board's proprietary fund total revenues compare to related costs of loss and other expenses assumed by the Board as of the end of the current period. The Board was established January 1, 2015 and utilizes a September 30 fiscal year. Accordingly, this report covers its first nine months of operation. Prior period activity was included in the State Employees' Insurance Board reporting entity. The rows of the table are defined as follows:

(1) This line shows the total of each fiscal year's earned contribution revenues. (2) This line shows each fiscal year's other operating cost of the Board including overhead and claims expense not allocable to individual claims. (3) This line shows the Board's incurred claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called plan year). (4) This section of rows shows the cumulative amounts paid as of the end of successive years for each plan year. (5) This section of rows shows how each plan year's incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest re-estimated incurred claims amount to the originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally estimated. As data for individual plan years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature plan years. The columns of the table show data for successive plan years. The amounts reported as paid represent the timing of payments by the third party administrator and may not be the same as the timing of the funding of the payments by the Board.

**Local Government Health Insurance Board
Supplementary Two Year Claims (In Thousands)
-Proprietary Fund
September 30, 2016**

	<u>2015</u>	<u>2016</u>
(1) Total revenues	\$ 156,325	\$ 228,850
(2) Unallocated expenses	5,212	6,773
(3) Estimated incurred claims and expense, end of plan year	155,524	221,762
(4) Paid (cumulative) as of:		
End of plan year	114,804	200,883
One year later	130,725	
Two years later		
Three years later		
Four years later		
Five years later		
Six years later		
Seven years later		
Eight years later		
Nine years later		
(5) Re-estimated incurred claims and expense:		
End of plan year	155,524	221,762
One year later	130,725	
Two years later		
Three years later		
Four years later		
Five years later		
Six years later		
Seven years later		
Eight years later		
Nine years later		
(6) Increase (decrease) in estimated incurred claims and expense from end of plan year	(24,799)	-

See independent auditors' report on supplementary information

**Local Government Health Insurance Board
Supplementary Two Year Claims –
Local Government Retired Employees’
Health Insurance Plan
September 30, 2016**

The following table illustrates how the Board’s agency fund total revenues compare to related costs of loss and other expenses assumed by the retiree agency fund as of the end of the current period. The Board was established January 1, 2015 and utilizes a September 30 fiscal year. Accordingly, this report covers its first nine months of operation. Prior period activity was included in the State Employees’ Insurance Board reporting entity. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year’s earned contribution revenues. (2) This line shows each fiscal year’s other operating cost including overhead and claims expense not allocable to individual claims. (3) This line shows incurred claims and allocated claims adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called plan year). (4) This section of rows shows the cumulative amounts paid as of the end of successive years for each plan year. (5) This section of rows shows how each plan year’s incurred claims increased or decreased as of the end of successive years. This annual re-estimation results from new information received on known claims, re-evaluation of existing information on known claims, as well as emergence of new claims not previously known. (6) This line compares the latest re-estimated incurred claims amount to the originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally estimated. As data for individual plan years mature, the correlation between original estimates and re-estimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature plan years. The columns of the table show data for successive plan years. The amounts reported as paid represent the timing of payments by the third party administrator and may not be the same as the timing of the funding of the payments by the retiree agency fund.

**Local Government Health Insurance Board
Supplementary Two Year Claims (In Thousands) –
Local Government Retired Employees’
Health Insurance Plan
September 30, 2016**

	<u>2015</u>	<u>2016</u>
(1) Total revenues	\$13,956	\$18,587
(2) Unallocated expenses	339	551
(3) Estimated incurred claims and expense, end of plan year	13,616	18,036
(4) Paid (cumulative) as of:		
End of plan year	10,827	16,426
One year later	12,193	
Two years later		
Three years later		
Four years later		
Five years later		
Six years later		
Seven years later		
Eight years later		
(5) Re-estimated incurred claims and expense:		
End of plan year	13,616	18,036
One year later	12,193	
Two years later		
Three years later		
Four years later		
Five years later		
Six years later		
Seven years later		
Eight years later		
(6) Increase (decrease) in estimated incurred claims and expense from end of plan year	(1,423)	

See independent auditors’ report on supplementary information

**Local Government Health Insurance Board
Schedule of Changes in the Board's Net Pension
Liability and Related Ratios
For the Year Ended September 30, 2016**

	2016
Total pension liability	
Service cost	\$ 88,533
Interest	-
Change of benefit terms	-
Differences between expected and actual experience	(32,910)
Changes of assumptions	-
Benefit payments, including refunds of employee contributions	-
Net change in total pension liability	55,623
Total pension liability - beginning	-
Total pension liability - ending (a)	55,623
Plan fiduciary net position	
Contributions - employer	22,212
Contributions - employee	18,572
Net investment income	1,760
Benefit payments , including refund of employee contributions	-
Administrative expense	-
Other	-
Net change in plan fiduciary net assets	42,544
Plan fiduciary net position - beginning	-
Plan fiduciary net position - ending (b)	42,544
Board's net pension liability - ending (a) - (b)	13,079
Plan fiduciary net position as a percentage of the total pension liability	76.49%
Covered-employee payroll	\$ 510,623
Board's net pension liability as a percentage of covered-employee payroll	2.56%

This schedule is presented to show information for 10 years. Until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

**Local Government Health Insurance Board
 Schedule of Funding Progress – Other Post-Employment
 Benefits and Schedule of Employer Contributions
 September 30, 2016**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unite Credit (b)	Unfunded AAL (UAAL) (b-a)	Fund Ratio (a/b)	Covered Payroll ©	UAAL as a Percentage of Covered Payroll (b-a/c)
September 30, 2016	\$ -	\$ 5,717	\$ 5,717	0%	\$ 510,623	1.12%

See independent auditors' report on supplementary information



SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors
The Local Government Health Insurance Board

Our report on the audit of the financial statements of the Local Government Health Insurance Board (the Board) for the period ended September 30, 2016 appears on pages one and two. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's financial statements as a whole.

The combining statements of all funds reported as supplementary information on pages 40 to 43 are presented for managerial purposes only and are not a required part of the basic financial statements. The combining statements of all funds are the responsibility of management. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. However, we believe that these statements are not presented in conformity with accounting principles generally accepted in the United States of America because the principles of Governmental Accounting Standards Board Statement No. 43 were not applied to the presentation of these combining statements of all funds. The application of GASB Statement No. 43 requires the Board to report the activities of retired employees of the State Employees' Insurance Fund and the Local Government Health Insurance Program separately as fiduciary funds.

Carr, Riggs & Ingram, L.L.C.

Montgomery, Alabama
August 1, 2017

**Local Government Health Insurance Board
Statement of Net Position – All Funds**

September 30,

2016

Assets

Current assets

Cash and cash equivalents	\$ 31,199,784
Investments	92,598,271
Interest receivable	656,532
Drug Rebates Receivable	3,651,008
Premiums receivable	53,439
EGWP subsidies receivable	1,835,312
Prepaid expenses	106,908
Invested securities lending collateral	3,033,638

Total current assets	133,134,892
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Office furniture and equipment	120,783
Less: Accumulated depreciation	(35,346)

Net capital assets	85,437
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Total assets	133,220,329
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Liabilities

Current liabilities

Accounts payable and accrued expenses	1,155,261
Reported claims payable	13,919,642
Claims incurred but not reported	17,586,000
Premiums received in advance	6,712,302
Due to other governments	229,307
Securities lending collateral	3,033,638

Total current liabilities	42,636,150
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Noncurrent liabilities

Net OPEB obligation	33,632
Net pension liability	13,079

Total noncurrent liabilities	46,711
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Total liabilities	42,682,861
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Deferred inflows of resources

31,775

Net position

Investment in capital assets	85,437
Unrestricted	90,420,256

Total net position	\$ 90,505,693
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See independent auditors' report on supplementary information

**Local Government Health Insurance Board
Statement of Revenues, Expenses,
and Changes in Net Position – All Funds**

For the year ended September 30,

2016

Operating revenues	
Premium contributions	
Subscriber	\$ 152,763,991
Dependent	87,430,554
COBRA recipients	1,058,718
Other revenues	25,803
Total operating revenue	241,279,066
Operating expenses	
Medical claims expense	239,797,792
Consulting services	138,511
Other participant related programs	673,784
Regulatory expense	1,504,677
Administrative expenses	4,870,139
Net OPEB expense	33,632
Depreciation expense	103,807
Total operating expenses	247,122,342
Operating loss	(5,843,276)
Non-operating revenues and (expenses)	
Securities lending income	56,168
Securities lending expenses:	
Borrower rebates	(3,651)
Management fees	(11,894)
Net income from securities lending	40,623
Investment income	6,117,641
Total non-operating revenues	6,158,264
Change in net position	314,988
Net position, beginning of year	90,190,705
Net position, end of year	\$ 90,505,693

See independent auditors' report on supplementary information

**Local Government Health Insurance Board
Statement of Cash Flows – All Funds**

For the year ended September 30,

2016

Cash flows from (used for) operating activities	
Cash receipts for premium contributions	\$ 241,734,784
Other cash receipts	25,803
Cash payments for medical claims	(235,927,537)
Cash payments to suppliers for goods and services	(8,062,822)
<hr/>	
Net cash used for operating activities	(2,229,772)
Cash flows used for capital activities	
Equipment additions	(5,000)
<hr/>	
Net cash used for capital activities	(5,000)
Cash flows from (used for)	
investing activities	
Proceeds from sale/maturities of investments	17,390,133
Purchase of investments	(18,976,371)
Investment income received	3,517,734
Securities lending income received	40,623
<hr/>	
Net cash from investing activities	1,972,119
<hr/>	
Net decrease in cash and cash equivalents	(262,653)
Cash and cash equivalents, beginning of year	31,462,437
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Cash and cash equivalents, end of year	\$ 31,199,784
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See independent auditors' report on supplementary information

**Local Government Health Insurance Board
Statement of Cash Flows – All Funds (Continued)**

For the year ended September 30,

2016

**Reconciliation of operating loss to net cash
used for operating activities**

Operating loss	\$ (5,843,276)
Adjustments to reconcile operating loss to net cash from (used for) operating activities:	
Depreciation expense	103,807
Deferred inflows of resources	31,775
Increase (decrease) in operating assets and increase (decrease) in operating liabilities:	
Premiums receivable	479,353
EGWP subsidies receivable	(280,977)
Drug rebates receivable	(1,031,957)
Prepaid expenses	(2,147)
Accounts payable and accrued expenses	(521,887)
Reported claims payable	3,173,189
Claims incurred but not reported	2,010,000
Premiums received in advance	2,168
Net pension liability	13,079
Net OPEB expense	33,632
Due to other funds	(396,531)
<hr/>	
Total adjustments	3,613,504
<hr/>	
Net cash used for operating activities	\$ (2,229,772)

See independent auditors' report on supplementary information