



**Local Government Health  
Insurance Board**

**FINANCIAL STATEMENTS**

September 30, 2023



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# REPORT





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## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Local Government Health Insurance Board

### **Opinions**

We have audited the accompanying financial statements of the proprietary fund and fiduciary fund of the Local Government Health Insurance Board (the Board) which includes the statement of net position – proprietary fund and statement of fiduciary net position – fiduciary fund as of and for the year ended September 30, 2023 and the related statement of revenues, expenses and changes in net position – proprietary fund, statement of cash flows – proprietary fund and the related notes to the financial statements, which comprise the Board's basic financial statements as listed in the table of contents.

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, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Board, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not

a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, supplementary nine year claims – proprietary fund, supplementary nine year claims – Local Government Retired Employees' Health Insurance Program, schedule of changes in net pension liability and related ratios, schedule of contributions – pension plan, schedule of changes in the Board's total OPEB liability and related ratios and the related notes 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.

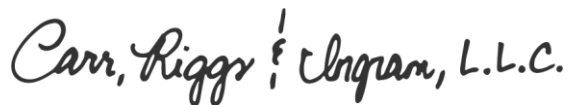
## **Other Matters**

### *Prior-Year Comparative Information*

The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Local Government Health Insurance Board financial statements for the year ended September 30, 2023, from which such partial information was derived. We have previously audited the Local Government Health Insurance Board's financial statements and we expressed an unmodified opinion on the respective financial statements in our report dated March 19, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 19, 2024, on our consideration the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Board's internal control over financial reporting and compliance.



CARR, RIGGS & INGRAM, LLC

Montgomery, Alabama

March 19, 2024



# MANAGEMENT'S DISCUSSION & ANALYSIS



## 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 in accordance with GASB 84, fiduciary activity related to retirees has been segregated and presented as the Retiree plan, a custodial fund for LGHIP retirees. Custodial fund is a type of fiduciary fund used to present the fiduciary activities of an other post-employment benefit plan that is not administered in a trust.

### **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 a custodial fund. Activity for LGHIP retirees is presented as required by GASB.

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 and provides a claims development table illustrating historical trend information on how the Board's earned revenues and interest income compare to the related costs of claims and other expenses assumed by the Board as of the end of the fiscal year. It includes a Schedule of Changes in the Board's Net Pension Liability and a Schedule of Board Contributions - Pension. Both schedules pertain to the Board's employees. Additionally, in accordance with GASB, the Required Supplementary Information includes the Schedule of Changes in the Board's Total OPEB Liability and Related Ratios. This schedule pertains to the Board's employees.

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. Proprietary funds use the accrual basis of accounting.

The Board maintains an enterprise fund. 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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>	<u>VARIANCE</u>	<u>INCREASE (DECREASE)</u>
<b>Assets:</b>				
Cash and cash equivalents	\$ 31,640,256	\$ 25,016,866	\$ 6,623,390	26.48%
Investments	97,354,051	98,855,937	(1,501,886)	(1.52%)
Receivables and other assets	12,538,635	10,255,356	2,283,279	22.26%
Invested securities lending collateral	365,872	3,996,313	(3,630,441)	(90.84%)
Property and equipment	15,318,885	6,378,365	8,940,520	140.17%
<b>Total assets</b>	<u>157,217,699</u>	<u>144,502,837</u>	<u>12,714,862</u>	<u>8.80%</u>
Deferred outflows of resources	111,102	55,669	55,433	99.58%
<b>Total assets and deferred outflows of resources</b>	<u>157,328,801</u>	<u>144,558,506</u>	<u>12,770,295</u>	<u>8.83%</u>
<b>Liabilities:</b>				
Accounts payable and other liabilities	28,703,299	29,280,516	(577,217)	(1.97%)
Claims incurred but not reported	18,507,000	18,706,000	(199,000)	(1.06%)
Due to custodial fund	3,340,579	3,004,037	336,542	11.20%
Securities lending collateral	365,873	3,996,313	(3,630,440)	(90.84%)
<b>Total liabilities</b>	<u>50,916,751</u>	<u>54,986,866</u>	<u>(4,070,115)</u>	<u>(7.40%)</u>
Deferred inflows of resources	287,622	150,314	137,308	91.35%
<b>Total liabilities and deferred inflows of resources</b>	<u>51,204,373</u>	<u>55,137,180</u>	<u>(3,932,807)</u>	<u>(7.13%)</u>
<b>Net position</b>	<u>\$ 106,124,428</u>	<u>\$ 89,421,326</u>	<u>\$ 16,703,102</u>	<u>18.68%</u>

### Financial Highlights

- Investments decreased from the previous year due to fewer purchases in the current fiscal year.
- 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.
- Property and equipment increased due to final payments for construction of the Board's new building.
- Decreases in claims incurred but not reported were due to updated claims liability estimates.
- Increases to due to custodial fund reflect an increase in the retiree portion of claims incurred but not reported.

## 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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>	<u>VARIANCE</u>	<u>INCREASE (DECREASE)</u>
<b>Additions:</b>				
Subscriber contributions	\$ 205,729,087	\$ 193,157,230	\$ 12,571,857	6.51%
Dependent and COBRA contributions	122,413,435	113,776,780	8,636,655	7.59%
Investment income	3,740,539	(14,601,933)	18,342,472	125.62%
Other revenues	61,283	62,583	(1,300)	(2.08%)
Total additions	<u>331,944,344</u>	<u>292,394,660</u>	<u>39,549,684</u>	<u>13.53%</u>
<b>Deductions:</b>				
Medical benefits	306,183,039	291,065,253	15,117,786	5.19%
Other participant related programs	828,896	768,409	60,487	7.87%
Regulatory expense	138,598	138,996	(398)	(0.29%)
Administrative expenses	7,914,197	6,380,729	1,533,468	24.03%
Other expenses	176,512	168,680	7,832	4.64%
Total deductions	<u>315,241,242</u>	<u>298,522,067</u>	<u>16,719,175</u>	<u>5.60%</u>
Change in plan net position	<u>16,703,102</u>	<u>(6,127,407)</u>	<u>22,830,509</u>	<u>372.60%</u>
Net Position - beginning of year	89,421,326	95,548,733	(6,127,407)	(6.41%)
Net Position - end of year	<u>\$ 106,124,428</u>	<u>\$ 89,421,326</u>	<u>\$ 16,703,102</u>	<u>18.68%</u>

#### Financial Highlights

- Subscriber, dependent and COBRA contributions for the full year increased as a result of increases in rates and enrollment.
- Investment income increased from the prior year due to higher rates of return on securities held by the Board.
- Other revenues were 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. Other revenues were also composed of administrative fees due to the Board from County Risk Services, Inc. as part of the interagency agreement described in Note 13 of the notes to the financial statements.
- Medical benefits increased as expected from industry cost trends.
- Changes in administrative and other expenses were as expected.

## Local Government Health Insurance Board Management's Discussion and Analysis

### STATEMENT OF FIDUCIARY NET POSITION AS OF SEPTEMBER 30, 2023 AND 2022

	<u>2023</u>	<u>2022</u>	<u>VARIANCE</u>	<u>INCREASE (DECREASE)</u>
<b>Assets:</b>				
Receivables and other assets	\$ 994,884	\$ 712,875	\$ 282,009	39.56%
Due from proprietary fund	3,340,579	3,004,037	336,542	11.20%
Total assets	<u>4,335,463</u>	<u>3,716,912</u>	<u>618,551</u>	<u>16.64%</u>
<b>Liabilities:</b>				
Accounts payable and other liabilities	\$ 2,942,463	\$ 2,522,912	\$ 419,551	16.63%
Claims incurred but not reported	1,393,000	1,194,000	199,000	16.67%
Total liabilities	<u>4,335,463</u>	<u>3,716,912</u>	<u>618,551</u>	<u>16.64%</u>
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.00%</u>

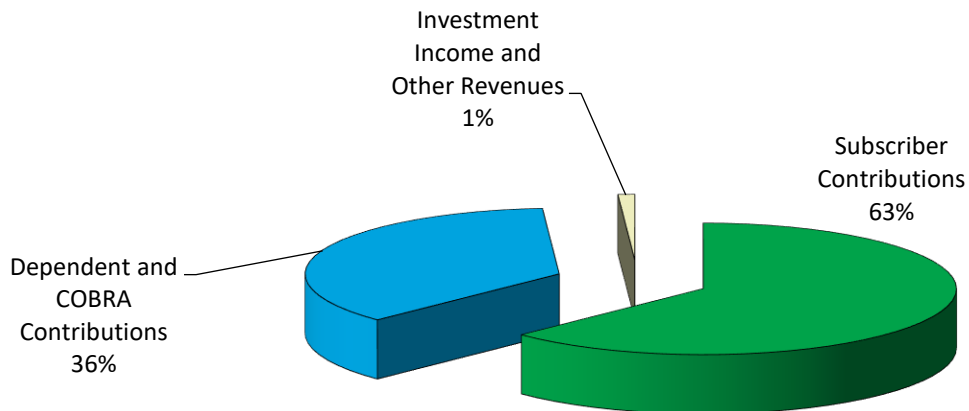
#### Financial Highlights

- Receivables and other assets increased due to increases in drug rebates receivable amounts from the prior year.
- Due from proprietary fund increased due to an increase in the retiree portion of claims incurred but not reported.
- Accounts payable and other liabilities increased primarily due to an increase in the retiree portion of deferred revenue and unpaid claims over the prior year.
- Claims incurred but not reported increased primarily due to updated claims liability estimates.

## 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.



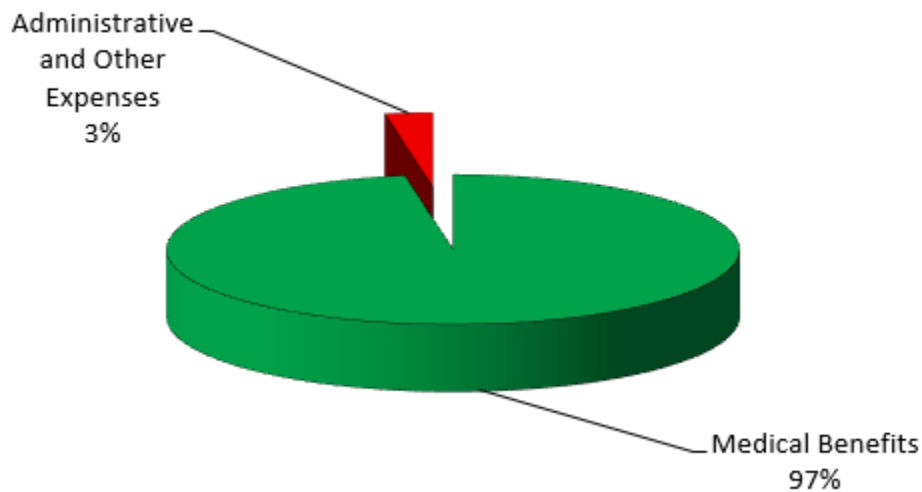
The Board assesses premiums for single and family coverage to each governmental unit for its covered employees and retirees. The Board allows each unit to determine any subsidy provided to the employee or retiree. The amount shown as subscriber contribution revenue was the single coverage premium. The 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 revenues were composed of application fees collected from eligible employers in the Board's Local Government Health Insurance Plan as well as administrative fees due to the Board from County Risk Services, Inc. as part of the interagency agreement described in Note 13 of the notes to the financial statements.

## 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.



Medical benefits were composed primarily of health care claims processed by the Board's claims processors and expenses related to 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: David Hilyer, Chief Executive Officer; P.O. Box 304901; Montgomery, AL 36130-4901.



# FINANCIAL STATEMENTS



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

September 30,

2023

**Assets**

Current assets

Cash and cash equivalents	\$ 31,640,256
Investments	97,354,051
Interest receivable	832,599
Drug rebates receivable	11,556,388
Premiums receivable	47,274
Prepaid expenses	97,549
Due from other governmental units	4,825
Invested securities lending collateral	365,872

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Total current assets	141,898,814
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Capital assets

Land	1,006,498
Construction in progress	382,385
Buildings	13,772,483
Office furniture and equipment	560,865
Less: accumulated depreciation	(403,346)

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Net capital assets	15,318,885
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Total assets	157,217,699
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Deferred outflows of resources

Pensions	(61,625)
OPEB	172,727

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Total deferred outflows of resources	111,102
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Total assets and deferred outflows of resources	\$ 157,328,801
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*The accompanying notes are an integral part of these financial statements.*



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

September 30,

2023

**Liabilities**

Current liabilities

Accounts payable and accrued expenses	\$ 1,223,689
Reported claims payable	16,820,945
Claims incurred but not reported	18,507,000
Premiums received in advance	10,252,573
Due to other governments	15,202
Due to custodial fund	3,340,579
Securities lending collateral	365,872
Total current liabilities	50,525,860

Long-term liabilities

Net OPEB obligation	388,409
Net pension liability	2,481
Total long-term liabilities	390,890

Total liabilities	50,916,750
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Deferred inflows of resources

Pensions	94,987
OPEB	192,635
Total deferred inflows of resources	287,622

Total liabilities and deferred inflows of resources	51,204,372
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**Net position**

Net investment in capital assets	15,318,885
Unrestricted	90,805,543

Total net position	\$ 106,124,428
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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>For the year ended September 30,</i>	<b>2023</b>
<b>Operating revenues</b>	
Premium contributions	
Employee	\$ 205,729,087
Dependent	120,314,095
COBRA recipients	2,099,340
Other revenues	61,283
Total operating revenues	328,203,805
<b>Operating expenses</b>	
Medical claims expense	306,183,040
Consulting services	176,512
Other participant related programs	828,896
Regulatory expense	138,598
Administrative expenses	7,728,044
Depreciation expense	186,153
Total operating expenses	315,241,243
Operating income	12,962,562
Non-operating revenues and (expenses)	
Securities lending income	185,642
Securities lending expenses:	
Borrower rebates	(147,573)
Management fees	(13,391)
Net income from securities lending	24,678
Investment income (loss)	3,715,861
Total non-operating revenues (expenses)	3,740,539
<b>Change in net position</b>	<b>16,703,101</b>
<b>Net position, beginning of year</b>	<b>89,421,326</b>
<b>Net position, end of year</b>	<b>\$ 106,124,428</b>

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

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

*For the year ended September 30,*

**2023**

<b>Cash flows from (used for) operating activities</b>	
Cash receipts for premium contributions	\$ 328,592,065
Other cash receipts	61,283
Cash payments for medical claims	(308,351,172)
Cash payments to suppliers for goods and services	(9,955,285)
Net cash from (used for) operating activities	10,346,891
<b>Cash flows from (used for) capital activities</b>	
Proceeds from sale of assets	
Building	(13,772,483)
Construction in progress	(382,385)
Equipment additions	5,028,195
Net cash from (used for) capital activities	(9,126,673)
<b>Cash flows from (used for) non-capital and related financing activities</b>	
Non-operating transfer from LGHIP - Retired	336,542
Net cash from (used for) non-capital and related financing activities	336,542
<b>Cash flows from (used for) investing activities</b>	
Proceeds from sale/maturities of investments	19,999,691
Purchase of investments	(18,873,948)
Investment income received	3,916,209
Securities lending income received	24,678
Net cash from (used for) investing activities	5,066,630
<b>Net increase in cash and cash equivalents</b>	<b>6,623,390</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>25,016,866</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 31,640,256</b>

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

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

*For the year ended September 30,*

**2023**

**Reconciliation of operating income to net cash from  
(used for) operating activities:**

Operating income (loss)	\$ 12,962,562
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	186,153
Deferred inflows of resources	137,308
Deferred outflows of resources	(55,433)
Decrease (increase) in operating assets and increase (decrease) in operating liabilities:	
Premiums receivable	(37,037)
Drug rebates receivable	(2,011,618)
Prepaid expenses	(70,765)
Accounts payable and accrued expenses	(1,297,205)
Reported claims payable	42,486
Claims incurred but not reported	(199,000)
Premiums received in advance	486,580
Net pension liability	(289,025)
Net OPEB obligation	(27,532)
Due to (from) other governments	519,417
Other receivables	-
Total adjustments	(2,615,671)
Net cash from (used for) operating activities	\$ 10,346,891

*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>	<b>2023</b>
	<b>(CUSTODIAL FUND) LGHIP-RETIRED</b>
<b>Assets</b>	
Current assets	
Drug rebates receivable	\$ 994,884
Due from proprietary fund	3,340,579
Total current assets	\$ 4,335,463
<b>Liabilities</b>	
Current liabilities	
Reported claims payable	\$ 1,300,355
Claims incurred but not reported	1,393,000
Accounts payable and accrued expenses	5,134
Premiums received in advance	1,636,974
Total current liabilities	4,335,463
<b>Fiduciary net position</b>	
Fiduciary net position for other post-employment benefits	\$ -

*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 (the Board) as a state agency established to manage the Local Government Health Insurance Program (LGHIP) and LGHIP-Retired plans. The Board 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 nine-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 employee of a participating county or municipal government elected by full-time employees of participating counties and municipalities, and one retiree participating in the program or 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 became effective 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 74, *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 a custodial 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 a custodial fund.

#### ***Interagency Agreement***

Legislative Act 2014-401 defined the Board as a state agency. Previously the Board operated under an interagency agreement with the SEIB. This agreement was terminated effective June 30, 2023.

#### ***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.

## Local Government Health Insurance Board Notes to Financial Statements

### 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 in the United States of America (U.S. GAAP) as applied to government units.

Under U.S. GAAP, the Board's financial statements are reported as proprietary fund financial statements 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.

The LGHIP-Retired is accounted for as a type of fiduciary fund known as a custodial 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 Trust, 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. 74, the proprietary fund only reports activities of LGHIP's active employees.

#### ***Fiduciary Fund***

The activities of LGHIP - Retired 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 a custodial for individuals, private organizations, and other governmental units. Because the activities of the LGHIP - Retired are not administered through a trust, they are reported as a custodial fund which is a type of fiduciary fund.

## 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 paper and money market funds. These are held in the Board's name by a broker, dealer, or safekeeping agent.

#### ***Investment Securities***

GASB Statement No. 72, *Fair Value Measurement and Application*, issued February 2015, 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, 2023, and investment income includes changes in fair value.

#### ***Accounts Receivable***

Accounts receivable of \$11,556,388 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***

Capital assets, excluding land, 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 cost 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 claim liabilities based on actual results are charged or credited to expense in the periods in which such adjustments are determined.

#### ***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 net position consists of all other net position components not included in the above categories.



## Local Government Health Insurance Board Notes to Financial Statements

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### ***Contributions***

The Plan provides that the employers contribute monthly premium payments 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 U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### ***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.

#### ***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.

## Local Government Health Insurance Board Notes to Financial Statements

### Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### *Recently Issued Accounting Pronouncements*

The Board implemented GASB No. 96 Subscription Based IT Arrangements (SBITAs) on October 1, 2022. This statement requires recognition of certain cloud-based right-to-use (RTU) software implementation and subscription assets and associated lessee liabilities that previously were classified, respectively, as intangible assets-software and operating subscriptions and recognized as outflows of resources based upon the payment provisions of the contract. It establishes a single model for IT subscription accounting based upon the foundational principle that software subscriptions are financings of the right to use an underlying asset. SBITAs where the maximum possible lease term is one year or less continue to be reported as operating subscriptions. Perpetual software licenses and SBITAs that transfer ownership and contain no cancelation provisions are reported as debt by the lessee and sale of an asset by the lessor.

#### *Evaluation of Subsequent Events*

The Board has evaluated subsequent events through the date on which the financial statements were available to be issued, March 19, 2024, and determined there were no events that occurred that require disclosure.

### Note 3: CONTRACT ADMINISTRATORS

Blue Cross and 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 2022 were \$32.35 and for 2023 were \$33.30 per subscriber. OptumRx, under contract with the Board, administered prescription drug claims beginning January 1, 2020, in accordance with the Plans. The prescription drug administrator's charges for the calendar year 2022 were \$1.20 and for 2023 were \$1.15 per net paid claim in addition to various other activity fees.

For the proprietary fund, the total charges for claims administration for the fiscal year ended September 30, 2023 were \$11,113,722. 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, 2023 were \$851,751. The charges were included in the medical claims expense in the statement of changes in fiduciary net position.

## Local Government Health Insurance Board Notes to Financial Statements

### Note 4: CASH AND CASH EQUIVALENTS

As of September 30, 2023, 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 federal depository insurance (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 fiduciary 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.

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.

## Local Government Health Insurance Board Notes to Financial Statements

### Note 5: INVESTMENTS (Continued)

#### **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.

The following represents proprietary funds interest rate risk as of September 30, 2023:

	INVESTMENT MATURITIES AT FAIR VALUE (IN YEARS)				
	LESS THAN 1	1 - 5	6 - 10	MORE THAN 10	TOTAL FAIR VALUE
	Fixed-maturity:				
U.S. Agency	\$ 442,900	\$ 2,288,192	\$ 426,611	\$ 153,782	\$ 3,311,485
U.S. Government Guaranteed	4,924,238	13,331,727	3,936,317	6,927,944	29,120,226
Corporate bonds	6,470,625	14,913,002	7,425,391	9,543,536	38,352,554
CMO's	-	-	-	2,581,927	2,581,927
GNMA's	-	234,327	508,555	16,463,340	17,206,222
Total debt securities	\$ 11,837,763	\$ 30,767,248	\$ 12,296,874	\$ 35,670,529	\$ 90,572,414
Domestic equities:					
Preferred stock					864,950
Common stock					5,916,687
Total domestic equities					6,781,637
Money market funds					23,357,839
Total holdings					120,711,890
Less: Cash equivalents					(23,357,839)
Total investments					\$ 97,354,051

#### **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, 2023:

RATINGS OF FIXED MATURITIES		
MOODY'S RATINGS	FAIR VALUE	FAIR VALUE AS A PERCENT OF TOTAL FIXED MATURITY FAIR VALUE
Aaa	\$ 4,568,446	5.04%
Aa2	515,313	0.57%
Aa3	311,803	0.34%
A1	3,775,543	4.17%
A2	1,585,221	1.75%
A3	7,629,220	8.42%
Baa1	6,162,421	6.80%
Baa2	13,453,827	14.85%
Baa3	1,961,775	2.17%
Ba1	1,277,176	1.41%
Ba2	82,567	0.09%
Ba3	82,490	0.09%
Not Rated	258,237	0.30%
 Total Moody's Rated Securities	 41,664,039	 46.00%
 US Agency Mortgage-Backed Securities	 17,206,222	 19.00%
U.S. Government Guaranteed	31,702,153	35.00%
TOTAL	\$ 90,572,414	100.0%

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 fund. Other investment holdings not rated included common stock, preferred stock, and equity mutual funds, for which credit risk disclosure is not required.

***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.

## Local Government Health Insurance Board Notes to Financial Statements

### Note 5: INVESTMENTS (Continued)

#### *Concentration of Credit Risk (Continued)*

As of September 30, 2023, 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	\$ 29,120,226	29.9%
ISHARES CORE S+P 500 ETF	500 Index Fund INST	5,916,687	6.1%

#### *Mortgage-backed Securities*

As of September 30, 2023, 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 \$408,644 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.

## Local Government Health Insurance Board Notes to 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.

Investments in private equity, debt and direct investments in Real Estate are classified as Level 3 due to lack of observable pricing inputs and are valued using annual appraisals based on a combination of market data and projected cash flows.

## 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, 2023. 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, 2023:

	<u>9/30/2023</u>	<u>Fair Value Measurements Using</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>
<b>Fixed Maturity</b>				
<b>Domestic</b>				
U.S. Agency	\$ 3,311,485	\$ -	\$ 3,311,485	\$ -
U.S. Treasuries	29,120,226	-	29,120,226	-
Corporate Bonds	38,352,554	-	38,352,554	-
GNMAs	17,206,222	-	17,206,222	-
CMOs	2,581,927	-	2,581,927	-
Total Domestic Fixed Maturity Equities	<u>90,572,414</u>	<u>-</u>	<u>90,572,414</u>	<u>-</u>
<b>Equities</b>				
Preferred	5,916,687	5,916,687	-	-
Domestic	864,950	864,950	-	-
Total Equities	<u>6,781,637</u>	<u>6,781,637</u>	<u>-</u>	<u>-</u>
<b>Total Investments</b>	<u>97,354,051</u>	<u>6,781,637</u>	<u>90,572,414</u>	<u>-</u>
Securities Lending Collateral Total Fair Value	<u>365,873</u>	<u>-</u>	<u>365,873</u>	<u>-</u>
Money Market Funds	<u>23,357,839</u>	<u>-</u>	<u>23,357,839</u>	<u>-</u>
<b>Total Fair Value</b>	<u>\$ 121,077,763</u>	<u>\$ 6,781,637</u>	<u>\$ 114,296,126</u>	<u>\$ -</u>

#### **Securities Lending**

The Local Government Health Insurance Board's Board of Directors authorizes the Plan to participate in a securities lending program. The 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 Securities 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.



## Local Government Health Insurance Board Notes to Financial Statements

### Note 5: INVESTMENTS (Continued)

#### *Securities Lending (Continued)*

The initial collateral received shall have (depending on the nature of the loaned securities and the collateral received) 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 shall 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 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 vehicle managed by State Street or its affiliates that conform to the Investment Policy Guidelines.

As of September 30, 2023, the average term of the loans was 76.18 days. Cash collateral investments in the GSLT 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, 2023, the fair value of the securities on loan was \$15,155,153. The fair value of the collateral pledged by the borrowers was \$15,864,006. 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, 2023. 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, 2023, concerning securities lent:

TYPE OF INVESTMENT LENT	PROPRIETARY AMOUNTS
For cash collateral:	
Domestic fixed maturities	\$ 358,393
Total lent for cash collateral	358,393
For non-cash collateral:	
Domestic fixed maturities	14,796,760
Total lent for non-cash collateral	14,796,760
Total securities lent	\$ 15,155,153
TYPE OF COLLATERAL RECEIVED	AMOUNTS
Cash collateral:	
Invested in SSB SSGSLT Fund	\$ 365,873
Non-cash collateral:	
For lent domestic fixed maturities:	
USD	9,960,541
For lent domestic equity maturities	
For lent international fixed maturities & equity	
USD	5,537,592
Total non-cash collateral	15,498,133
Total collateral received	\$ 15,864,006

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

**Note 6: CAPITAL ASSETS**

During the year ended September 30, 2023, the following changes in capital assets occurred:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Capital assets not being depreciated:				
Land	\$ 1,006,498	-	-	\$ 1,006,498
Construction in progress	5,165,877	382,385	(5,165,877)	382,385
Total capital assets not being depreciated	<u>6,172,375</u>	<u>382,385</u>	<u>(5,165,877)</u>	<u>1,388,883</u>
Capital assets being depreciated:				
Automobiles	24,922	50,963	-	75,885
Building	-	13,772,483		13,772,483
Office and equipment	398,262	86,718		484,980
Total capital assets being depreciated	423,184	13,910,164	-	14,333,348
Less accumulated depreciation for:				
Automobiles	(24,922)	(6,795)	-	(31,717)
Building	-	(112,887)	-	(112,887)
Office and equipment	(192,272)	(66,470)	-	(258,742)
Total capital assets being depreciated, net	<u>205,990</u>	<u>13,724,012</u>	<u>-</u>	<u>13,930,002</u>
Total capital assets	<u>\$ 6,378,365</u>	<u>\$ 14,106,397</u>	<u>\$ (5,165,877)</u>	<u>\$ 15,318,885</u>

## Local Government Health Insurance Board Notes to Financial Statements

### 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.

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

	LGHIP - ACTIVE	LGHIP - RETIRED
Reported claims payable and estimated claims incurred but not reported at beginning of year	\$ 35,484,460	\$ 2,274,946
Incurred claims and claims adjustment expense:		
Provisions for insured claims of the current year	306,382,040	24,999,473
Adjustment to estimated claims incurred but not reported at end of year	(199,000)	199,000
Total expense	306,183,040	25,198,473
Payments:		
Claims and claims adjustment expenses attributable to insured claims of the current year	283,598,774	23,328,525
Claims and claims adjustment expenses attributable to insured claims of the prior year	22,740,781	1,451,539
Total payments	306,339,555	24,780,064
Reported claims payable and estimated claims incurred but not reported at end of year	\$ 35,327,945	\$ 2,693,355

At period-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, 2023, are detailed below:

RECEIVABLE FUND	PAYABLE FUND	AMOUNT
Custodial	Proprietary	\$ 3,340,579

The primary purpose of the interfund payable is to record the liability to the custodial fund for funds allocated in the proprietary fund for liabilities of the custodial 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 165 units. Average enrollment in the reporting period was 1,738 for retirees over 65 and 1,290 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 year 2022-2023 are as follows:

	2022	2023
Individual Coverage/Non-Medicare Eligible	\$1,117 - \$1,141	\$1,188 - \$1,214
Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$2,043 - \$2,104	\$2,174 - \$2,239
Family Coverage/Non-Medicare Eligible Retired Member and Medicare Eligible Dependent(s)	\$1,292 - \$1,340	\$1,363 - \$1,415
Individual Coverage/Medicare Eligible	\$175 - \$199	\$175 - \$201
Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$931- \$992	\$979 - \$1,044
Family Coverage/Medicare Eligible Retired Member and Medicare Eligible Dependent(s)	\$350 - \$398	\$350 - \$402

### 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 Alabama Department of Finance, Division of Risk Management to insure for general liability claims. The Board’s equipment, motor vehicles, and building are insured by the State Insurance Fund. 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 10 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*

Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	8
Active employees	31
Total employees (active and inactive)	<u>40</u>

##### *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, 2023, the average active employee contribution rate was 5% of annual pay, and the Board's average contribution rate was 7.11% of annual payroll.

##### *Net Pension Liability*

The Board's net pension liability was measured as of September 30, 2023, 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, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	Rate
Inflation	1.50% to 2.0%
Salary increases	3.00%
Investment rate of return	6.50%

Mortality rates used in the September 30, 2023 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, 2023 valuation were based on the results of an actuarial experience study for the period October 1, 2022 through September 30, 2023.

The long-term expected rate of return on pension plan investments was based on a best-estimate range of expected future real rates of return (expected returns, net of inflation) and developed for each major asset class. These 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, 2023 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***

	Total Pension Liability (A)	<u>Increase (Decrease)</u> Plan Fiduciary Net Position (B)	Net Pension Liability (A)-(B)
Balances at 9/30/2022	\$ 1,358,674	\$ 1,067,168	\$ 291,506
Changes for the year:			
Service cost	340,546	-	340,546
Interest (1 + 2) X 6.50%	110,449	-	110,449
Changes for Experience (+ Loss, - Gain)	(28,998)	-	(28,998)
Demographic Based			
Change for Assumptions	-	-	-
Change for Plan Amendments	-	-	-
Contributions - Employer	-	447,337	(447,337)
Contributions - Employee	-	139,908	(139,908)
Assumed Investment Income (measured at 9/30/2022)	-	86,358	(86,358)
Actual Investment Income	-	123,777	(123,777)
Change from experience ((loss), gain)		37,419	(37,419)
Benefit payments, including refunds of employee contributions	(64,412)	(64,412)	-
Net Changes	357,585	646,610	(289,025)
Balances at 9/30/2023	<u>\$ 1,716,259</u>	<u>\$ 1,713,778</u>	<u>\$ 2,481</u>

***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%)
Discount rate	(5.50%)	(6.50%)	(7.50%)
Board's net pension liability (asset)	\$289,887	\$2,481	(\$231,153)



**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, 2023, the Board recognized pension expense of (\$139,942). At September 30, 2023, 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	\$ 90,899	\$ 142,083
Net difference between projected and actual earnings on pension plan investments	152,524	47,096
Total	\$ (61,625)	\$ 94,987

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:			
2024	\$	36,330	
2025		38,492	
2026		45,971	
2027		4,850	
2028		2,634	
Thereafter		28,335	

**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 post-employment healthcare 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 Note 9 of this report.

Benefits provided by the Plan are described in Note 1 of this report.

## Local Government Health Insurance Board Notes to Financial Statements

### Note 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – EMPLOYER (Continued)

#### **Plan Membership**

At September 30, 2022, plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits	1	
Inactive members entitled to but not yet receiving benefits	-	
Active employees	27	
Total	28	

#### **Total OPEB Liability**

The Board’s total OPEB liability of \$388,409 was measured as of September 30, 2022, and was determined by an actuarial valuation as of that date.

#### **Actuarial Methods and Assumptions**

The total OPEB liability in the September 30, 2022 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation		2.50%
Real wage growth		0.25%
Wage inflation		2.75%
Salary increases, including wage inflation		3.25% - 6.00%
Municipal Bond Index Rate		
Prior measurement date		2.26%
Measurement date		4.02%
Health care cost trends		
Pre-Medicare medical and prescription drug	7.00% for 2022 decreasing to an ultimate rate of 4.50% by 2032	
Medicare medical and prescription drug	5.125% for 2022 decreasing to an ultimate rate of 4.500% by 2025	

The Board selected a Municipal Bond Index Rate equal to the Bond Buyer 20-year General Obligation Bond Index published at the last Thursday of September by The Bond Buyer, and the Municipal Bond Index Rate as of the measurement date as the discount rate used to measure the TOL.

Mortality rates were based on the Pub-2010 Public Mortality Plans Mortality Tables, with adjustments for AL ERS experience and generational mortality improvements using Scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019.

## Local Government Health Insurance Board Notes to Financial Statements

### Note 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – EMPLOYER (Continued)

#### *Actuarial Methods and Assumptions (Continued)*

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the September 30, 2022 valuation were based on the results of an actuarial experience study for the period October 1, 2015 – September 30, 2020.

The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2022 valuation were based on a review of recent plan experience done concurrently with the September 30, 2022 valuation.

#### *Changes in the Total OPEB Liability*

<b>Total OPEB Liability as of September 30, 2021</b>	\$	415,941
<b>Changes for the year:</b>		
Service Cost at the end of the year		91,012
Interest on TOL and Cash Flows		9,410
Change in benefit terms		-
Difference between expected and actual experience		31,443
Changes of assumptions or other inputs		(160,227)
Benefit payments		830
Other		-
<b>Net Changes</b>		<b>(27,532)</b>
<b>Total OPEB Liability as of September 30, 2022</b>	<b>\$</b>	<b>388,409</b>

#### *Sensitivity of the Board's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate*

The following represents the Board's proportionate share of the net OPEB liability, as well as what the Board's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.02 percent) or 1-percentage-point higher (5.02 percent) than the current discount rate:

	1% Decrease	Current Rate	1% Increase
Discount rate	3.02%	4.02%	5.02%
Board's proportionate share of collective net OPEB liability \$	\$ 302,339	\$ 388,409	\$ 506,201

## Local Government Health Insurance Board Notes to Financial Statements

### Note 12: OTHER POST-EMPLOYMENT BENEFITS (OPEB) – EMPLOYER (Continued)

#### ***Sensitivity of the Board's Net OPEB Liability to Changes in the Healthcare Cost Trend Rates***

The following presents the Board's proportionate share of the net OPEB liability, as well as what the Board's proportionate share of the net OPEB liability would be if it were calculated using healthcare trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (6.00% pre-Medicare and 4.125% Medicare for 2022 decreasing to 3.50% for pre- Medicare and for Medicare eligible)	Current Healthcare Trend rate (7.00% pre-Medicare and 5.125% Medicare for 2022 decreasing to 4.50% for pre- Medicare and for Medicare eligible)	1% Increase (8.00% pre-Medicare and 6.125% Medicare for 2022 decreasing to 5.50% for pre- Medicare and for Medicare eligible)
Net OPEB liability (asset)	\$ 474,635	\$ 388,409	\$ 320,472

#### ***OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

For the year ended September 30, 2023, the Board recognized OPEB expense of \$104,075. At September 30, 2023, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 133,691	\$ 35,545
Changes of Assumptions	39,036	157,090
Total	\$ 172,727	\$ 192,635

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

#### **Years ended September 30:**

2023	\$	(1,847)
2024		(1,847)
2025		(2,304)
2026		(766)
2027		324
Thereafter		(13,468)

## Local Government Health Insurance Board Notes to Financial Statements

### **Note 13: ADMINISTRATION OF RELATED PROGRAMS**

On November 27, 2018, the Board executed an interagency agreement with County Risk Services, Inc. (CRS) to provide for the administration of the payment of health care services on behalf of employer participants whose eligible employees suffer an on-the-job injury. The Board acts as a pass-through entity for claim payments. The Board is not liable for the claim expenses incurred, as they are the responsibility of CRS. Therefore, the Board has not included the CRS claims incurred but not reported as a liability. Administrative fees charged to CRS totaled \$54,759 for the fiscal year ended September 30, 2023. The balance due from CRS as of September 30, 2023 is \$4,825.

### **Note 14: CONSTRUCTION IN PROGRESS**

During the year ended September 30, 2021, the Board began construction of a new building and moved into the new building in June 2023. Construction in progress as of September 30, 2023 of \$382,385 represented final construction costs paid subsequent to that date. The Board began depreciating the cost of the building on September 30, 2023.



## REQUIRED SUPPLEMENTARY INFORMATION



**Local Government Health Insurance Board  
Supplementary Nine Year Claims – Proprietary Fund  
September 30, 2023**

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 each of the last nine years. The Board was established January 1, 2015 and utilizes a September 30 fiscal year.

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 years 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.

*See independent auditor’s report.*

**Local Government Health Insurance Board  
Supplementary Nine Year Claims (In Thousands)  
- Proprietary Fund  
September 30, 2023**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
(1) TOTAL REVENUES	\$ 156,325	\$ 228,850	\$ 235,841	\$ 241,732	\$ 268,055	\$ 284,707	\$ 288,931	\$ 292,395	\$ 331,944
(2) UNALLOCATED EXPENSES	5,212	6,773	6,136	6,382	6,711	6,662	6,912	7,457	9,058
(3) ESTIMATED INCURRED CLAIMS AND EXPENSE, END OF PLAN YEAR	155,524	221,762	218,373	240,513	264,406	267,986	290,142	291,065	306,183
(4) PAID (CUMULATIVE) AS OF:									
End of plan year	114,804	200,883	204,106	216,157	235,635	255,372	261,382	272,933	283,599
One year later	130,725	213,791	223,363	237,514	257,267	278,112	284,123	295,674	
Two years later	130,725	213,791	223,363	237,514	257,267	278,112	284,123		
Three years later	130,725	213,791	223,363	237,514	257,267	278,112			
Four years later	130,725	213,791	223,363	237,514	257,267				
Five years later	130,725	213,791	223,363	237,514					
Six years later	130,725	213,791	223,363						
Seven years later	130,725	213,791							
Eight years later	130,725								
Nine years later									
(5) RE-ESTIMATED INCURRED CLAIMS AND EXPENSE:									
End of plan year	155,524	221,762	218,373	240,513	264,406	267,986	290,142	291,065	306,183
One year later	130,725	213,791	223,363	237,514	257,267	278,112	284,123	295,674	
Two years later	130,725	213,791	223,363	237,514	257,267	278,112	284,123		
Three years later	130,725	213,791	223,363	237,514	257,267	278,112			
Four years later	130,725	213,791	223,363	237,514	257,267				
Five years later	130,725	213,791	223,363	237,514					
Six years later	130,725	213,791	223,363						
Seven years later	130,725	213,791							
Eight years later	130,725								
Nine years later									
(6) INCREASE (DECREASE) IN ESTIMATED INCURRED CLAIMS AND EXPENSE FROM END OF PLAN YEAR	\$ (24,799)	\$ (7,971)	\$ 4,990	\$ (2,999)	\$ (7,139)	\$ 10,127	\$ (6,020)	\$ 4,608	\$ -

*See independent auditor's report.*



**Local Government Health Insurance Board  
Supplementary Nine Year Claims –  
Local Government Retired Employees’  
Health Insurance Plan  
September 30, 2023**

The following table illustrates how the Board’s custodial fund total revenues compare to related costs of loss and other expenses assumed by the retiree custodial fund as of the end of each of the last nine years. The Board was established January 1, 2015 and utilizes a September 30 fiscal year.

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 years 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 custodial fund.

*See independent auditor’s report.*

**Local Government Health Insurance Board  
Supplementary Nine Year Claims (In Thousands) –  
Local Government Retired Employees’  
Health Insurance Plan  
September 30, 2023**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>
(1) TOTAL REVENUES	\$ 13,956	\$ 18,587	\$ 21,756	\$ 23,444	\$ 19,986	\$ 17,986	\$ 20,000	\$ 20,739	\$ 25,305
(2) UNALLOCATED EXPENSES	339	551	393	374	356	299	267	214	106
(3) ESTIMATED INCURRED CLAIMS AND EXPENSE, END OF PLAN YEAR	13,616	18,036	21,363	23,071	19,630	17,659	19,733	20,525	25,198
(4) PAID (CUMULATIVE) AS OF:									
End of plan year	10,827	16,426	20,442	19,159	19,287	17,354	17,897	19,357	23,329
One year later	12,193	17,478	22,347	20,522	20,668	18,657	19,200	20,809	
Two years later	12,193	17,478	22,347	20,522	22,049	18,657	19,200		
Three years later	12,193	17,478	22,347	20,522	22,049	18,657			
Four years later	12,193	17,478	22,347	20,522	22,049				
Five years later	12,193	17,478	22,347	20,522					
Six years later	12,193	17,478	22,347						
Seven years later	12,193	17,478							
Eight years later	12,193								
(5) RE-ESTIMATED INCURRED CLAIMS AND EXPENSE:									
End of plan year	13,616	18,036	21,363	23,071	19,630	17,659	19,733	20,525	25,198
One year later	12,193	17,478	22,347	20,522	20,668	18,657	19,200	20,809	
Two years later	12,193	17,478	22,347	20,522	22,049	18,657	19,200		
Three years later	12,193	17,478	22,347	20,522	22,049	18,657			
Four years later	12,193	17,478	22,347	20,522	22,049				
Five years later	12,193	17,478	22,347	20,522					
Six years later	12,193	17,478	22,347						
Seven years later	12,193	17,478							
Eight years later	12,193								
(6) INCREASE (DECREASE) IN ESTIMATED INCURRED CLAIMS AND EXPENSE FROM END OF PLAN YEAR	\$ (1,423)	\$ (558)	\$ 983	\$ (2,548)	\$ 2,419	\$ 998	\$ (533)	\$ 284	\$ -

*See independent auditor's report.*

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

	2023	2022	2021	2020	2019	2018	2017	2016
<b>Total pension liability</b>								
Service cost	\$ 340,546	\$ 257,116	\$ 282,793	\$ 195,829	\$ 162,241	\$ 130,803	\$ 113,593	\$ 88,533
Interest	110,449	81,037	66,658	44,671	29,797	18,660	10,999	-
Differences between expected and actual experience	(28,998)	85,667	(77,284)	10,800	3,197	(6,119)	(23,935)	(32,910)
Benefit payments, including refunds of employee contributions	(64,412)	(54,754)	(25,271)	-	-	(3,447)	-	-
Net change in total pension liability	357,585	369,066	246,896	251,300	195,235	139,897	100,657	55,623
Total pension liability - beginning	1,358,674	989,608	742,712	491,412	296,177	156,280	55,623	-
Total pension liability - ending (a)	\$ 1,716,259	\$ 1,358,674	\$ 989,608	\$ 742,712	\$ 491,412	\$ 296,177	\$ 156,280	\$ 55,623
<b>Plan fiduciary net position</b>								
Contributions - employer	\$ 447,337	\$ 116,424	\$ 103,317	\$ 273,901	\$ 85,221	\$ 89,965	\$ 53,904	\$ 22,212
Contributions - employee	139,908	115,953	75,581	65,538	51,515	39,852	32,529	18,572
Net investment income	123,777	(178,979)	95,734	49,789	20,629	9,273	7,948	1,760
Benefit payments, including refund of employee contributions	(64,412)	(54,754)	(25,271)	-	-	(3,447)	-	-
Net change in plan fiduciary net assets	646,610	(1,356)	249,361	389,228	157,365	135,643	94,381	42,544
Plan fiduciary net position - beginning	1,067,167	1,068,523	819,162	429,933	272,568	136,925	42,544	-
Plan fiduciary net position - ending (b)	\$ 1,713,777	\$ 1,067,167	\$ 1,068,523	\$ 819,161	\$ 429,933	\$ 272,568	\$ 136,925	\$ 42,544
Board's net pension liability - ending (a) - (b)	\$ 2,481	\$ 291,507	\$ (78,915)	\$ (76,449)	\$ 61,479	\$ 23,609	\$ 19,355	\$ 13,079
Plan fiduciary net position as a percentage of the total pension liability	99.86%	78.54%	107.97%	110.29%	87.49%	92.03%	87.62%	76.49%
Covered-employee payroll	\$ 2,773,432	\$ 2,189,104	\$ 1,909,595	\$ 1,261,426	\$ 1,181,843	\$ 845,356	\$ 696,664	\$ 510,623
Board's net pension liability as a percentage of covered-employee payroll	0.09%	13.32%	-4.13%	-6.06%	5.20%	2.79%	2.78%	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.

*See independent auditor's report.*

**Local Government Health Insurance Board  
Schedule of Board Contributions – Pension Plan  
For the Fiscal Year Ended September 30,**

	<b>2023</b>	<b>2022</b>	<b>2021</b>	<b>2020</b>
Actuarially determined contribution	\$ 265,100	\$ 209,788	\$ 133,837	\$ 126,812
Contributions in relation to the actuarially determined contribution	587,245	231,377	178,898	339,439
Contribution deficiency (excess)	(322,145)	(21,589)	(45,061)	(212,627)
Covered-employee payroll	\$ 2,773,432	\$ 2,189,104	\$ 1,909,595	\$ 1,261,426
Contributions as a percentage of covered-employee payroll	21.17%	10.57%	9.37%	26.91%

Notes to Schedule

Valuation date:

Actuarially determined contribution rates are calculated as of September 30, 2022, one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal method
Amortization method	straight line
Remaining amortization period	30 years
Asset valuation method	Fair market value of plan assets
Inflation	1.50% to 2.00%
Salary increases	3.00%
Investment rate of return	6.50%
Retirement age	

The normal retirement age for all employees is the first day of the month following attainment of age 65, or 5 years participation, if later.

Mortality

Mortality rates used in the September 30, 2023 actuarial valuation were based on the 2016 Applicable Mortality Table published periodically by the U.S. Treasury Department. In addition, a Turnover Table (T-2) was included to reflect low to moderate turnover.

*See independent auditor's report.*

**Local Government Health Insurance Board  
Schedule of Changes in the Board's Total OPEB  
Liability and Related Ratios  
For the Fiscal Year Ended September 30,**

	<b>2022</b>	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>Total OPEB Liability</b>						
Service Cost	\$ 91,012	\$ 60,778	\$ 44,710	\$ 63,953	\$ 66,844	\$ 46,030
Interest	9,410	5,377	3,756	4,340	2,125	198
Differences between expected and actual experience	31,443	105,801	20,608	(58,832)	(3,690)	17,550
Changes of assumptions	(160,227)	229	32,583	27,918	(20,960)	(11,041)
Benefit payments	830	890	-	-	-	-
<b>Net change in total OPEB liability</b>	<b>(27,532)</b>	<b>173,075</b>	<b>101,657</b>	<b>37,379</b>	<b>44,319</b>	<b>52,737</b>
<b>Total OPEB liability - beginning</b>	<b>415,941</b>	<b>242,866</b>	<b>141,209</b>	<b>103,830</b>	<b>59,511</b>	<b>6,774</b>
<b>Total OPEB liability - ending (a)</b>	<b>\$ 388,409</b>	<b>\$ 415,941</b>	<b>\$ 242,866</b>	<b>\$ 141,209</b>	<b>\$ 103,830</b>	<b>\$ 59,511</b>
 <b>Covered-employee payroll</b>	 <b>\$ 2,310,704</b>	 <b>\$ 1,847,478</b>	 <b>\$ 1,300,296</b>	 <b>\$ 1,192,276</b>	 <b>\$ 883,922</b>	 <b>\$ 719,593</b>
 <b>Net OPEB liability as a percentage of covered-employee payroll</b>	 <b>16.81%</b>	 <b>22.51%</b>	 <b>18.68%</b>	 <b>11.84%</b>	 <b>11.75%</b>	 <b>8.27%</b>

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.

*See independent auditor's report.*

## **SUPPLEMENTARY INFORMATION**



## SUPPLEMENTARY INFORMATION





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## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

To the Board of Directors  
The Local Government Health Insurance Board

We have audited the financial statements of the Local Government Health Insurance Board (the Board) as of and for the year ended September 30, 2023, and our report thereon dated March 19, 2024, which expressed an unqualified opinion on those financials appears on pages one through three. 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 49 to 53 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. 74 were not applied to the presentation of these combining statements of all funds. The application of GASB Statement No. 74 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  
March 19, 2024



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

September 30,

2023

**Assets**

Current assets:

Cash and cash equivalents	\$	31,640,255
Investments		97,354,051
Interest receivable		832,599
Drug rebates receivable		12,551,272
Premiums receivable		47,274
Prepaid expenses		97,549
Due from other governments		4,825
Invested securities lending collateral		365,872

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Total current assets		142,893,697
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Capital assets

Buildings		13,772,483
Construction in progress		382,385
Land		1,006,498
Office furniture and equipment		560,865
Less: accumulated depreciation		(403,346)

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Net capital assets		15,318,885
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Total assets		158,212,582
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**Deferred outflows of resources**

Pensions		(61,625)
OPEB		172,727

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Total deferred outflows of resources		111,102
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Total assets and deferred outflows of resources	\$	158,323,684
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*See independent auditor's report on supplementary information.*

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

<i>September 30,</i>	<b>2023</b>
<b>Liabilities</b>	
Current liabilities	
Accounts payable and accrued expenses	\$ 1,228,822
Reported claims payable	18,121,300
Claims incurred but not reported	19,900,000
Premiums received in advance	11,889,547
Due to other governments	15,202
Securities lending collateral	365,873
Total current liabilities	51,520,744
Long-term liabilities	
Net OPEB obligation	388,409
Net pension liability	2,481
Total long-term liabilities	390,890
Total liabilities	51,911,634
<b>Deferred inflows of resources</b>	
Pensions	94,987
OPEB	192,635
Total deferred inflows of resources	287,622
Total liabilities and deferred inflows of resources	52,199,256
<b>Net position</b>	
Investment in capital assets	15,318,885
Unrestricted	90,805,543
Total net position	\$ 106,124,428

*See independent auditor's 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,*

**2023**

<b>Operating revenues</b>	
Premium contributions:	
Subscriber	\$ 223,870,268
Dependent	127,477,733
COBRA recipients	2,099,340
Other revenues	61,283
<b>Total operating revenue</b>	<b>353,508,624</b>
<b>Operating expenses</b>	
Medical claims expense	331,381,512
Consulting services	176,512
Other participant related programs	828,896
Regulatory expense	143,731
Administrative expenses	7,829,256
Depreciation expense	186,153
<b>Total operating expenses</b>	<b>340,546,060</b>
<b>Operating income</b>	<b>12,962,564</b>
Non-operating revenues and (expenses)	
Securities lending income	185,642
Securities lending expenses:	
Borrower rebates	(147,573)
Management fees	(13,391)
<b>Net income from securities lending</b>	<b>24,678</b>
Investment income (loss)	3,715,861
<b>Total non-operating revenues (expenses)</b>	<b>3,740,539</b>
<b>Change in net position</b>	<b>16,703,103</b>
<b>Net position, beginning of year</b>	<b>89,421,325</b>
<b>Net position, end of year</b>	<b>\$ 106,124,428</b>

*See independent auditor's report on supplementary information.*

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

*For the year ended September 30,*

**2023**

<b>Cash flows from (used for) operating activities</b>	
Cash receipts for premium contributions	\$ 354,106,769
Other cash receipts	61,283
Cash payments for medical claims	(333,423,042)
Cash payments to suppliers for goods and services	(10,061,575)
Net cash from (used for) operating activities	10,683,435
 <b>Cash flows from (used for) capital activities</b>	
Land additions	(382,385)
Equipment additions	(8,744,288)
Net cash used for capital activities	(9,126,673)
 <b>Cash flows from (used for) investing activities:</b>	
Proceeds from sale/maturities of investments	19,999,691
Purchase of investments	(18,873,950)
Investment income received	3,916,208
Securities lending income received	24,678
Net cash from (used for) investing activities	5,066,627
Net increase in cash and cash equivalents	6,623,389
Cash and cash equivalents, beginning of year	25,016,867
Cash and cash equivalents, end of year	\$ 31,640,256

*See independent auditor's report on supplementary information.*

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

*For the year ended September 30,*

**2023**

**Reconciliation of operating income to net cash from (used for) operating activities:**

Operating income (loss)	\$ 12,962,564
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	186,153
Deferred inflows of resources	137,308
Deferred outflows of resources	(55,433)
Increase (decrease) in operating assets and increase (decrease) in operating liabilities:	
Premiums receivable	(27,239)
EGWP subsidies receivable	-
Drug rebates receivable	(2,303,423)
Prepaid expenses	(70,766)
Other receivables	-
Accounts payable and accrued expenses	(1,297,148)
Reported claims payable	261,894
Claims incurred but not reported	-
Premiums received in advance	686,664
Net pension liability	(289,025)
Net OPEB expense	(27,531)
Due to other funds	519,417
Total adjustments	(2,279,129)
Net cash from (used for) operating activities	\$ 10,683,435

*See independent auditor's report on supplementary information.*