

**KENTUCKY LOCAL GOVERNMENT
HEALTH TRUST
Financial Statements**

*For Years Ended June 30, 2018 and 2017
with Report of Independent Auditors*

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Report of Independent Auditors

To the Participating Association Committee
Kentucky Local Government Health Trust
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Local Government Health Trust (the Trust) which comprise the statements of benefit obligations and net assets available for benefits as of June 30, 2018 and 2017, the related statements of changes in benefit obligations and net assets available for benefits for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Trust as of June 30, 2018 and 2017, and the changes in its financial status for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Dean Dorton Allen Ford, PLLC

December 7, 2018

Lexington, Kentucky

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Statements of Benefit Obligations and Net Assets Available for Benefits

June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Benefit Obligations		
Amounts due to insurance companies	\$ -	\$ 8,438
Assets		
Cash	278,693	586,430
Investments	561,427	-
Insurance premiums receivable from employers	171,148	-
Amounts due from insurance carriers	24,771	-
COBRA contributions receivable	2,396	2,176
Accrued interest receivable	2,260	-
Prepaid insurance premiums	<u>-</u>	<u>639,751</u>
Total assets	1,040,695	1,228,357
Liabilities		
Unearned employer remittances	721,767	977,868
Accounts payable and accrued expenses	<u>2,569</u>	<u>-</u>
Total liabilities	<u>724,336</u>	<u>977,868</u>
Net assets available for benefits	<u>316,359</u>	<u>250,489</u>
Excess of net assets available for benefits over benefit obligations	<u>\$ 316,359</u>	<u>\$ 242,051</u>

See accompanying notes.

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Statements of Changes in Benefit Obligations and Net Assets Available for Benefits

Years ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Net (Decrease) Increase in Benefit Obligations		
(Decrease) increase in amounts due to insurance companies	\$ <u>(8,438)</u>	\$ <u>5,229</u>
Net Increase in Net Assets Available for Benefits		
Additions:		
Employer contributions	28,034,687	25,706,010
Interest income	<u>6,418</u>	<u>-</u>
Total additions	28,041,105	25,706,010
Deductions:		
Insurance premiums	27,437,923	25,032,835
Administrative expenses	528,616	432,973
Attorney fees	5,423	-
Bank fees	<u>3,273</u>	<u>2,954</u>
Total deductions	<u>27,975,235</u>	<u>25,468,762</u>
Increase in net assets available for benefits	<u>65,870</u>	<u>237,248</u>
Increase in net assets available for benefits over benefit obligations	74,308	232,019
Excess of net assets available for benefits over benefit obligations:		
Beginning of year	<u>242,051</u>	<u>10,032</u>
End of year	<u>\$ 316,359</u>	<u>\$ 242,051</u>

See accompanying notes.

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Notes to the Financial Statements

1. Description of Trust

The Kentucky Local Government Health Trust (the Trust) was established, effective July 1, 2013, for the employers of local government entities in Kentucky who subscribe to the plans of the Trust (Subscribing Employers) and are also members of a Participating Association as defined in Trust Agreement. The related plans provide welfare benefits for eligible employees of the Subscribing Employers and are facilitated by UMR, Inc. d/b/a Administrative Services Group (through March 31, 2018) and Capstone Administrators, LLC (beginning April 1, 2018), collectively the Contract Administrator. The Trust had 3,277 and 3,150 participating employees as of June 30, 2018 and 2017, respectively. Subscribing Employers adopt individual welfare plans at the member level. The individual Subscribing Employer plans are fully-insured through various contracts issued by insurance companies. All benefits are paid directly by the insurance companies.

Neither this Trust nor any associated health plan is subject to the Employee Retirement Income Security Act of 1974 (ERISA) due to the government plan exemption.

Each Subscribing Employer completes a subscription agreement whereby the employer creates its own plan by adopting the various provisions and determining the eligibility requirements and the allocation of participant premiums for amounts due for benefit coverage. The Trust is designed to collect Subscribing Employer premiums and pay premiums to the group insurer.

Participants should refer to the applicable *Summary Plan Description* pamphlet and their subscription agreements for a more complete description of their individual plans.

If the Trust were to terminate, the Contract Administrator would be required to use available funds to, (1) pay or provide for the payment of all insurance premiums, service contract fees and other charges required to be paid pursuant to the insurance and/or service contracts, (2) pay or provide for payment of all reasonable and necessary expenses in connection with or arising out of the establishment, installation and administration of the Trust, and (3) apply any balance to such other purposes as shall best effectuate the purposes of the Trust. Currently, there is no intention to terminate the Trust.

2. Summary of Significant Accounting Policies

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP), which requires the Trust's management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results may differ from those estimates.

The following is a summary of the significant accounting policies consistently followed by the Trust in the preparation of its financial statements:

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting.

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Contributions

Premiums due from Subscribing Employers are billed in advance and recorded as receivables until collected and as unearned employer remittances until the related insurance coverage becomes effective. If elected by the Subscribing Employer, employee contributions can be made to the Trust under a Section 125 Plan (the Flexible Benefits Plan). This election allows employers to defer employee contributions pre-tax. Employer contributions include all amounts remitted by Subscribing Employers including amounts originally contributed by participants.

Benefit Obligations

Health costs incurred by participants and their dependents are covered by insurance contracts maintained by the Trust. It is the present intention of the Trust to continue obtaining insurance coverage for benefits. Benefit obligations as of June 30, 2018 and 2017, represented premiums due to the insurance companies to continue the benefits.

Investment Valuation and Income Recognition

The Trust's investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation or depreciation includes the Trust's gains or losses on investments bought and sold as well as held during the period.

Risks and Uncertainties

The Trust has investments in money market accounts. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of the investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the statements of benefit obligations and net assets available for benefits and the statement of changes in benefit obligations and net assets available for benefits.

Income Tax Status

The Trust is treated as a tax exempt governmental trust under Section 115 of the Internal Revenue Code (the Code).

Administrative Expenses

Certain administrative expenses of the Trust are paid by Kentucky League of Cities, a Participating Association. All other administrative expenses are paid by the Trust.

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Notes to the Financial Statements, continued

2. Summary of Significant Accounting Policies, continued

Subsequent Events

The Trust's management has evaluated subsequent events for accounting and disclosure requirements through December 7, 2018, the date the financial statements were available to be issued.

3. Fair Value Measurements

The Trust classifies its investments based on a hierarchy consisting of: Level 1 (valued using quoted prices from active markets for identical assets), Level 2 (not traded on an active market but for which observable market inputs are readily available), and Level 3 (valued based on significant unobservable inputs). The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodology used for investments measured at fair value on a recurring basis:

Money market accounts and repurchase agreement, interest bearing cash: Cost approximates fair value.

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

The following table sets forth by level, within the fair value hierarchy, the Trust's investments at fair value as of June 30, 2018:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market accounts	\$ 561,427	\$ 561,427	\$ -	\$ -

Investments valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Investments valued using level 2 inputs are based primarily on quoted prices for similar investments in active or inactive markets. Investments valued using level 3 inputs are primarily valued using management's assumptions about the assumptions market participants would utilize in pricing the investments.

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Notes to the Financial Statements, continued

4. Related Party Transactions

The Contract Administrator facilitates the collection of insurance premium remittances for the Trust, assists with transactions with the insurance companies or the service contracts or their agents relative to the execution and administration of the insurance or service contracts; and establishes the rules for the administration of the affairs of the Trust. The Contract Administrator is compensated for services by administrative fees based on the number of participating employees of each Subscribing Employer and by other fees charged periodically for services rendered. Total fees paid during the year ended June 30, 2018 and 2017 were \$528,616 and \$432,973, respectively.