

**KENTUCKY LOCAL GOVERNMENT
HEALTH TRUST
Financial Statements**

*For Years Ended June 30, 2016 and 2015
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, 2016 and 2015, and 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, 2016 and 2015, 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

November 29, 2016
Lexington, Kentucky

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Statements of Benefit Obligations and Net Assets Available for Benefits

June 30, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|------------------|------------------|
| Benefit Obligations | | |
| Amounts due insurance companies | \$ <u>3,209</u> | \$ <u>13,325</u> |
| Assets | | |
| Employer contributions receivable | 7,477 | - |
| Cash | 102,957 | 153,013 |
| Prepaid insurance premiums | <u>879,157</u> | <u>792,682</u> |
| Total assets | <u>989,591</u> | <u>945,695</u> |
| Liabilities | | |
| Unearned employer remittances | <u>976,350</u> | <u>929,033</u> |
| Net assets available for benefits | <u>13,241</u> | <u>16,662</u> |
| Excess of net assets available for benefits over benefit obligations | \$ <u>10,032</u> | \$ <u>3,337</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, 2016 and 2015

| | <u>2016</u> | <u>2015</u> |
|---|--------------------|-------------------|
| Net (Decrease) Increase in Benefit Obligations | | |
| (Decrease) increase in amounts due to insurance companies | \$ <u>(10,116)</u> | \$ <u>6,753</u> |
| Net (Decrease) Increase in Net Assets Available for Benefits | | |
| Additions: | | |
| Employer contributions | <u>24,058,130</u> | <u>21,103,129</u> |
| Total additions | <u>24,058,130</u> | <u>21,103,129</u> |
| Deductions: | | |
| Insurance premiums | 23,648,072 | 20,724,883 |
| Administrative expenses | 410,181 | 362,277 |
| Bank fees | <u>3,298</u> | <u>3,188</u> |
| Total deductions | <u>24,061,551</u> | <u>21,090,348</u> |
| (Decrease) increase in net assets available for benefits | <u>(3,421)</u> | <u>12,781</u> |
| Increase in net assets available for benefits over benefit obligations | 6,695 | 6,028 |
| Excess (deficit) of net assets available for benefits over benefit obligations: | | |
| Beginning of year | <u>3,337</u> | <u>(2,691)</u> |
| End of year | \$ <u>10,032</u> | \$ <u>3,337</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 (Contract Administrator). The Trust had 3,118 and 2,828 participating employees as of June 30, 2016 and 2015, respectively. Subscribing Employers adopt individual welfare plans at the member level and the Trust is filed as a group insurance arrangement as defined in the applicable sections of Department of Labor (DOL) regulations. 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 health plan associated 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, 2016 and 2015, represented premiums due to the insurance companies to continue the 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.

Subsequent Events

The Trust's management has evaluated subsequent events for accounting and disclosure requirements through November 29, 2016, the date the financial statements were available to be issued.

3. Related Party Transactions

The Contract Administrator facilitates the collection of insurance premium remittances for the Trust and remits the insurance premiums to the respective insurance companies or their agents; pays or provides for the payment of the Trust itself for all reasonable and necessary expenses of establishment, installation and administration of the Trust; conducts all 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, 2016 and 2015 were \$410,181 and \$362,277, respectively.