



Financial Statements and Supplementary Information

for

**KENTUCKY LOCAL GOVERNMENT
HEALTH TRUST**

For Years Ended June 30, 2021 and 2020
with Report of Independent Auditors

CONTENTS

	<u>Pages</u>
Report of Independent Auditors.....	1 - 2
Management's Discussion and Analysis (<i>Unaudited</i>).....	3 - 4
Financial Statements:	
Statements of Net Position	5
Statements of Revenues, Expenses and Changes in Net Position.....	6
Notes to the Financial Statements.....	7 - 11
Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11 - 12

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 net position as of June 30, 2021 and 2020, the related statements of revenues, expenses and changes in net position 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 and the standards applicable to financial audits contained in *Government Accounting Standards*, issued by the Comptroller General of the United States. 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 net position of the Trust as of June 30, 2021 and 2020, and the changes in its net position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

To the Participating Association Committee
Kentucky Local Government Health Trust
Report of Independent Auditors, continued

Other Matter

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 4 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2021 on our consideration of the Trust'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 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 Trust'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 Trust's internal control over financial reporting and compliance.

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
October 19, 2021

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Management's Discussion and Analysis (*Unaudited*)

Our discussion and analysis of the Kentucky Local Government Health Trust (the Trust) provides an overview of the Trust's financial activity for the fiscal year ended June 30, 2021. It should be read in conjunction with the financial statements, which begin on page 5.

Using this Annual Report

This report consists of a series of financial statements, notes to the financial statements, and supplemental information.

Statements of Net Position

Table 1 shows all the assets and liabilities of Trust and is presented on the accrual basis. Total net position increased \$1,804,287 for the current fiscal year compared to the increase of \$229,045 during the prior fiscal year, resulting in an overall increase in net position of 250.34% since 2020.

Table 1
Net Position

	<u>2021</u>	<u>2020</u>
Cash and investments	\$ 4,060,219	\$ 1,977,394
Receivables and other assets	<u>76,172</u>	<u>36,974</u>
Total assets	4,136,391	2,014,368
Unearned employer remittances	1,605,816	1,293,441
Accounts payable and other liabilities	<u>5,549</u>	<u>188</u>
Total liabilities	<u>1,611,365</u>	<u>1,293,629</u>
Total net position	\$ <u>2,525,026</u>	\$ <u>720,739</u>

Statement of Revenues, Expenses and Changes in Net Position

Table 2 shows all the revenues and expenses of the Trust and is also presented on the accrual basis. Net earned premium revenue increased \$5,816,529 or 16.00% from the prior fiscal year. Current year interest earned increased \$1,806 or 6.45% from the prior year. Current year premiums paid increased \$4,106,727 or 11.56% from the prior fiscal year. Both 2021 and 2020 results were very positive. The change in net position was an increase of 250.34% and 46.58% for 2021 and 2020, respectively.

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Management's Discussion and Analysis (*Unaudited*), continued

Statement of Revenues, Expenses and Changes in Net Position, continued

Table 2
Change in Net Position

Year ended June 30,	<u>2021</u>	<u>2020</u>
Net premiums earned	\$ 42,164,357	\$ 36,347,828
Interest income	<u>29,791</u>	<u>27,985</u>
Total revenue	42,194,148	36,375,813
Insurance premiums and healthcare fees	39,626,695	35,519,968
General and administrative expenses	<u>763,166</u>	<u>626,800</u>
Total expenses	<u>40,389,861</u>	<u>36,146,768</u>
Change in net position	\$ <u>1,804,287</u>	\$ <u>229,045</u>

Description of Current and Expected Conditions

The Kentucky League of Cities (KLC) established the Kentucky Local Government Health Trust in 2013 to provide a stable health care option for our members. Since 2013, KLC's health insurance program has delivered single digit rate changes to its membership. Employee participation has grown by 68% since its inception, cresting total enrollment at 4,270 at June 30, 2021. KLC continues to provide cutting edge services including Healthiest You telemedicine, data analytics, electronic invoicing and renewals, online administrative portals, and a dedicated regional staff for a personal touch.

Contacting the Organization's Financial Management

This financial report is designed to provide a general overview of 2021 and to show the Trust's accountability to its members. If you have any questions about this report or need additional information, contact the Kentucky League of Cities office at 100 East Vine Street, Suite 800, Lexington, KY 40507.

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Statements of Net Position

June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash	\$ 3,091,827	\$ 1,130,660
Investments	968,392	846,734
Insurance premiums receivable from employers	72,495	30,142
COBRA contributions receivable	3,614	6,580
Accrued interest receivable	<u>63</u>	<u>252</u>
Total assets	4,136,391	2,014,368
Liabilities		
Unearned employer remittances	1,605,816	1,293,441
Accounts payable and accrued expenses	5,549	188
Total liabilities	<u>1,611,365</u>	<u>1,293,629</u>
Net position		
Net position	<u>\$ 2,525,026</u>	<u>\$ 720,739</u>

See accompanying notes.

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Revenues:		
Employer contributions	\$ 42,164,357	\$ 36,347,828
Interest income	<u>29,791</u>	<u>27,985</u>
Total revenues	42,194,148	36,375,813
Expenses:		
Insurance premiums and healthcare fees	39,626,695	35,519,968
Administrative expenses	664,643	588,686
Professional fees	84,969	30,220
Other expenses	<u>13,554</u>	<u>7,894</u>
Total expenses	<u>40,389,861</u>	<u>36,146,768</u>
Change in net position	1,804,287	229,045
Net position, beginning of year	<u>720,739</u>	<u>491,694</u>
Net position, end of year	<u>\$ 2,525,026</u>	<u>\$ 720,739</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 Capstone Administrators, LLC (Capstone). The Trust had 4,270 and 4,045 participating employees as of June 30, 2021 and 2020, 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, Capstone 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 following is a summary of the significant accounting policies consistently followed by the Trust in the preparation of its financial statements:

Basis of Presentation

The accompanying financial statements are presented in accordance with GAAP established by GASB, which designates accounting principles and financial reporting standards applicable to state and local governmental units. The accompanying financial statements include solely the accounts of the Trust including all programs, activities and functions relating to accumulation and investment of the assets and related income necessary to provide benefits required under the terms of the Trust agreement.

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, 2021 and 2020, 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 net position and the statements of revenues, expenses and changes in net position.

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

COVID-19

In March 2020, the World Health Organization declared the coronavirus (COVID-19) outbreak to be a pandemic. COVID-19 continues to spread across the globe and is impacting worldwide economic activity and financial markets. The Trust is closely monitoring the impact of the COVID-19 pandemic on all aspects of its operations. The continued spread of the disease represents a significant risk that operations could be disrupted in the near future. The extent to which COVID-19 impacts the Trust will depend on future developments, which are highly uncertain and cannot be predicted.

Subsequent Events

The Trust's management has evaluated subsequent events for accounting and disclosure requirements through October 19, 2021, 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 funds: Valued at cost which approximates fair value.

Mutual funds: Valued at the net asset value of shares held by the Trust at period end.

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.

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Notes to the Financial Statements, continued

3. Fair Value Measurements, continued

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

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>2021</u>				
Money market accounts	\$ 191,207	\$ 191,207	\$ -	\$ -
Mutual funds	<u>777,185</u>	<u>777,185</u>	<u>-</u>	<u>-</u>
	<u>\$ 968,392</u>	<u>\$ 968,392</u>	<u>\$ -</u>	<u>\$ -</u>

2020

Money market accounts	\$ <u>846,734</u>	\$ <u>846,734</u>	\$ <u>-</u>	\$ <u>-</u>
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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.

Investments with Related Party

During the year ended June 30, 2021, the Trust invested \$750,000 through Kentucky League of Cities Investment Pool Plus (KLCIPP). The investments held by KLCIPP are managed and advised by PNC Bank. The fair value of these investments were \$777,185 as of June 30, 2021.

4. Anthem Reserve

The Trust entered into a contingent premium funding arrangement with Anthem Blue Cross and Blue Shield (Anthem) effective July 1, 2020 through June 30, 2021. During the contract period, the Trust pays a contingent premium calculated as 98% of the full premium for coverage for health care benefits. Additionally, the funding arrangement includes a risk premium that is calculated at 102% of the full premium. The Trust has recorded premiums paid during the contract period at 100% of the full premium, but could be subject to pay an additional amount, up to the risk premium. In October 2021, the Trust was notified by Anthem that there would be no additional amount owed for the contingent premium for the year ended June 30, 2021.

KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Notes to the Financial Statements, continued

5. Related Party Transactions

Capstone 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. Capstone 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, 2021 and 2020 were \$589,643 and \$513,686, respectively.

The Plan Sponsor, Kentucky League of Cities (KLC), manages the employee enrollment and processes applications for coverages provided by the Trust. KLC oversees the Trust's investments and authorizes and processes all operational expenses related to the Trust. Total administrative fees paid during both the years ended June 30, 2021 and 2020 were \$75,000.

**Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Report of Independent Auditors

Participating Association Committee
Kentucky Local Government Health Trust
Lexington, Kentucky

We have audited, in accordance with the 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, the financial statements of the Kentucky Local Government Health Trust (the Trust), which comprise the statement of net position as of June 30, 2021, the related statement of revenues, expenses and changes in net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dean Dotson Allen Ford, PLLC

Lexington, Kentucky
October 19, 2021