



Financial Statements

for

**KENTUCKY LOCAL GOVERNMENT  
HEALTH TRUST**

For Years Ended June 30, 2023 and 2022  
with Report of Independent Auditors

## CONTENTS

	<u>Pages</u>
Report of Independent Auditors.....	1 - 3
Management's Discussion and Analysis ( <i>Unaudited</i> ).....	4 - 5
Financial Statements:	
Statements of Net Position.....	6
Statements of Revenues, Expenses and Change in Net Position.....	7
Notes to the Financial Statements.....	8 - 12
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> .....	13 - 14

## Report of Independent Auditors

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

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the financial statements of Kentucky Local Government Health Trust (the Trust) which comprise the statements of net position as of June 30, 2023 and 2022, the related statements of revenues, expenses and change in net position for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the net position of the Trust as of June 30, 2023 and 2022, and the change in its net position for the years then ended in accordance with accounting principles generally accepted in the United States of America (GAAP).

#### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). 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 Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Responsibilities of Management for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, and for 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 Trust'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.

## **Report on the Audit of the Financial Statements, continued**

### ***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 opinion. 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 GAAS 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 GAAS 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 Trust'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 Trust'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.

**Report on the Audit of the Financial Statements, continued**

***Required Supplementary Information***

GAAP requires that the Management's Discussion and Analysis on pages 4 - 5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the 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 GAAS, 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 audits 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 18, 2023 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 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 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 18, 2023

## KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

### Management's Discussion and Analysis (*Unaudited*)

Year ended June 30, 2023

Our discussion and analysis of the Kentucky Local Government Health Trust (the Trust) provides an overview of the Trust's financial activity for the year ended June 30, 2023. It should be read in conjunction with the financial statements, which begin on page 6.

#### Using this Annual Report

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

#### Statements of Net Position

Table 1 shows all the assets and liabilities of the Trust and is presented on the accrual basis of accounting. Total net position increased \$965,122 for the current year compared to the increase of \$686,991 during the prior year, resulting in an overall increase in net position of 30.05% since 2022.

**Table 1**  
**Net Position**

	<u>2023</u>	<u>2022</u>
Cash and investments	\$ 8,625,926	\$ 5,827,179
Receivables and other assets	<u>101,506</u>	<u>48,347</u>
Total assets	<b>8,727,432</b>	5,875,526
Unearned employer remittances	<b>1,549,938</b>	505,084
Accounts payable and other liabilities	<b>530</b>	302
Anthem reserve	<u>2,999,825</u>	<u>2,158,123</u>
Total liabilities	<u>4,550,293</u>	<u>2,663,509</u>
Total net position	<b>\$ <u>4,177,139</u></b>	<b>\$ <u>3,212,017</u></b>

#### Statements of Revenues, Expenses and Change in Net Position

Table 2 shows all the revenues and expenses of the Trust and is also presented on the accrual basis of accounting. Employer contributions increased \$3,057,153 or 6.94% from the prior year. Current year net investment earnings increased \$484,179 or 264.87% from the prior year. Current year premiums and healthcare fees paid increased \$3,155,777 or 7.46% from the prior year. Both 2023 and 2022 results were positive. The change in net position was an increase of 30.05% and 27.21% for 2023 and 2022, respectively, primarily due to coverage options.

## KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

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

Year ended June 30, 2023

### Statements of Revenues, Expenses and Change in Net Position, continued

**Table 2**  
**Change in Net Position**

Year ended June 30,	<u>2023</u>	<u>2022</u>
Employer contributions	\$ <b>47,082,641</b>	\$ 44,025,488
Net investment income (loss)	<u>301,381</u>	<u>(182,798)</u>
Total revenue	<b>47,384,022</b>	43,842,690
Insurance premiums and healthcare fees	<b>45,477,135</b>	42,321,358
General and administrative expenses	<u>941,765</u>	<u>834,341</u>
Total expenses	<u><b>46,418,900</b></u>	<u>43,155,699</u>
Change in net position	\$ <u><b>965,122</b></u>	\$ <u>686,991</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 70% since its inception, cresting total enrollment at 4,303 at June 30, 2023. 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 Trust's Financial Management

This financial report is designed to provide a general overview of 2023 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, 2023 and 2022

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Cash	\$ 82,724	\$ 120,706
Investments	8,543,202	5,706,473
Insurance premiums receivable from employers	66,183	32,972
COBRA contributions receivable	11,174	10,913
Accrued interest receivable	<u>24,149</u>	<u>4,462</u>
Total assets	8,727,432	5,875,526
<b>Liabilities</b>		
Unearned employer remittances	1,549,938	505,084
Accounts payable and accrued expenses	530	302
Anthem reserve	<u>2,999,825</u>	<u>2,158,123</u>
Total liabilities	<u>4,550,293</u>	<u>2,663,509</u>
<b>Net position</b>		
Net position	\$ <u>4,177,139</u>	\$ <u>3,212,017</u>

See accompanying notes.



**KENTUCKY LOCAL GOVERNMENT HEALTH TRUST**

Statements of Revenues, Expenses and Change in Net Position

Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Revenues:		
Employer contributions	\$ 47,082,641	\$ 44,025,488
Net investment income (loss)	<u>301,381</u>	<u>(182,798)</u>
Total revenues	<b>47,384,022</b>	43,842,690
Expenses:		
Insurance premiums and healthcare fees	<b>45,477,135</b>	42,321,358
Administrative expenses	<b>830,149</b>	730,967
Professional fees	<b>92,179</b>	87,438
Other expenses	<u>19,437</u>	<u>15,936</u>
Total expenses	<u><b>46,418,900</b></u>	<u>43,155,699</u>
Change in net position	<b>965,122</b>	686,991
Net position, beginning of year	<u>3,212,017</u>	<u>2,525,026</u>
Net position, end of year	<u><b>\$ 4,177,139</b></u>	<u>\$ 3,212,017</u>

See accompanying notes.

# KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

## Notes to the Financial Statements

### 1. Description of the 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 the 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 4,303 and 4,340 participating employees as of June 30, 2023 and 2022, 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 accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (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 or loss necessary to provide benefits required under the terms of the Trust agreement.

# KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

## Notes to the Financial Statements, continued

### 2. Summary of Significant Accounting Policies, continued

#### Basis of Accounting

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

#### 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, 2023 and 2022, 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 a concentration of credit risk in that it maintains cash deposits in a single financial institution which, at times, exceeds federally insured limits. The Trust has not experienced any losses in such accounts. The Trust believes it is not exposed to any significant credit risk regarding its cash balances.

The Trust has investments in money market accounts and mutual funds. 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 change in net position.

## KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Notes to the Financial Statements, continued

### 2. Summary of Significant Accounting Policies, continued

#### 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 (KLC), 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 October 18, 2023, the date the financial statements were available to be issued.

### 3. Deposits and Investments

The composition of the Trust's investment portfolio must meet certain criteria as set forth in the Kentucky Administrative Regulations. Investments held by the Trust are as follows as of June 30:

	<u>2023</u>	<u>2022</u>
Deposits and investments classified as cash and cash equivalents:		
Cash and cash equivalents	\$ 82,724	\$ 120,706
Investments classified as investment securities:		
Money market funds	6,361,906	3,626,089
Equity mutual funds	599,931	504,205
Bond mutual funds	<u>1,581,365</u>	<u>1,576,179</u>
	<u>8,543,202</u>	<u>5,706,473</u>
Total deposits and investments	<u>\$ 8,625,926</u>	<u>\$ 5,827,179</u>

Net investment income (loss) is comprised of the following for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Interest and dividend income	\$ 248,655	\$ 44,000
Net realized losses on sales of securities	(35,463)	(6,630)
Unrealized gains (losses) on securities, net	<u>88,189</u>	<u>(220,168)</u>
	<u>\$ 301,381</u>	<u>\$ (182,798)</u>

## KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

### Notes to the Financial Statements, continued

#### 3. Deposits and Investments, continued

##### Fair Value

Investments, including derivative instruments that are not hedging derivatives, are measured at fair value on a recurring basis. Recurring fair value measurements are those that GAAP requires or permits in the statement of net position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quotes prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Money market funds are valued at market value which approximates fair value. All of the Trust's other investments are actively traded. All investments are categorized as Level 1 in the fair value hierarchy.

##### Credit Risk

The Trust investment guidelines assert that no individual equity holding or fixed income security shall comprise greater than 5% of the market value of the account, except for bonds issued by the Kentucky Bond Corporation, up to an aggregate limit of \$2,000,000. Fixed income securities will be rated with a minimum rating of BBB-/Baa3 at the time of purchase and the average rating of the bond portfolio shall be A or better. If an investment falls below BBB investment grade quality, the investment manager will evaluate to determine if permanent or temporary impairment exists.

The Trust investment guidelines have established the following asset allocations:

Cash	0-10%
Fixed Income	40-60%
Equities	40-60%

As of June 30, 2023, the Trust was invested in mutual funds that held government bonds, corporate bonds, and S&P 500 equities. Of these mutual funds that were rated, all ranged in ratings from A to AAA. The Trust also invested in money market funds that were not rated.

##### Concentration of Credit Risk

As of June 30, 2023, the Trust held no individual equity or fixed income security comprising more than 5% of the Trust's total investments.

##### Custodial Credit Risk - Deposits

The Trust maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Trust has not experienced any losses in such accounts. Management believes it is not exposed to any significant credit risk related to cash. Cash equivalents include investments in a money market fund that are not federally insured.

## KENTUCKY LOCAL GOVERNMENT HEALTH TRUST

Notes to the Financial Statements, continued

### 3. Deposits and Investments, continued

#### Investments with Related Party

Certain investments are held by Kentucky League of Cities Investment Pool Plus (KLCIPP), a related party. The investments held by KLCIPP are managed and advised by PNC Bank. As of June 30, 2023 and 2022, the fair value of these investments was \$2,181,296 and \$2,080,384, respectively, with a cost basis of \$2,294,463 and \$2,281,740, respectively.

### 4. Anthem Reserve

The Trust entered into a contingent premium funding arrangement with Anthem Blue Cross and Blue Shield (Anthem) for both the years ended June 30, 2023 and 2022. During the contract period, the Trust pays a contingent premium calculated as 95% for both 2023 and 2022 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. For the years ended June 30, 2023 and 2022, the Trust was notified by Anthem that the additional amount owed for the contingent premium was \$2,999,825 and \$2,158,123, respectively.

### 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, technology fees, commissions, and by other fees charged periodically for services rendered. Total fees paid to Capstone during the years ended June 30, 2023 and 2022 were \$646,757 and \$558,945, respectively.

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 to KLC during both the years ended June 30, 2023 and 2022 were \$100,000. Total technology fees and commissions from Delta Dental, Delta VSP, Standard Life and Anthem Life paid to Agency during the years ended June 30, 2023 and 2022 were \$83,392 and \$72,022, respectively.

**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 (*Government Auditing Standards*), the financial statements of the Kentucky Local Government Health Trust (the Trust), which comprise the Trust's statement of net position as of June 30, 2023, the related statement of revenues, expenses and change in net position for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2023.

**Report on 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) as a basis for designing 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 or significant deficiencies may exist that have not been identified.

## **Report on 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 financial statements. 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 18, 2023