REPORT OF THE AUDIT OF THE KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM

For The Fiscal Years Ended June 30, 2018 and 2017

MIKE HARMON
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Thomas B. Stephens, Secretary
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Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Public Employee Health Insurance Program (Plan), an enterprise fund of the Commonwealth of Kentucky, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Plan's financial statements as listed in the table of contents.

Management Responsibility for the Financial Statements

The Plan's 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan'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 Plan'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.

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We believe 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 position of the Kentucky Public Employee Health Insurance Program, as of June 30, 2018 and 2017, and the respective changes in its financial position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

Reporting Entity

As discussed in Note 2, the financial statements present only the Kentucky Public Employee Health Insurance Program, and are not intended to present fairly the financial position of the Commonwealth of Kentucky, or the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Change in Accounting Principle

As discussed in Note 19, the Kentucky Public Employee Health Insurance Program implemented Governmental Accounting Standards Board Statement (GASB) No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, during fiscal year 2018. The implementation of this standard resulted in a prior period adjustment to the Kentucky Public Employee Health Insurance Program's Net Position at July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the ten-year claims development information (page 53), schedule of proportionate share of the net pension liability (page 54), schedule of pension contributions (page 55), schedule of proportionate share of the net OPEB liability (page 56), and schedule of OPEB contributions (page 57) be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 November 26, 2018 on our consideration of the Plan's internal control over financial reporting and on our test 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 Plan'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 Plan's internal control over financial reporting and compliance.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

November 26, 2018

FINANCIAL STATEMENTS

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF NET POSITION
JUNE 30, 2018

	Administrative Fund	Trust Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 551,665	$ 437,242,615	$ 437,794,280
Premiums receivable, net		109,858,374	109,858,374
Pharmacy rebate receivable		58,062,769	58,062,769
Claims recovery and other receivables		1,456,501	1,456,501
Prepaid expenses	11,205	239,010	250,215
Total current assets	562,870	606,859,269	607,422,139
Noncurrent assets:			
Investments	3,064,887	73,948,718	77,013,605
Total noncurrent assets	3,064,887	73,948,718	77,013,605
Total assets	3,627,757	680,807,987	684,435,744
Deferred outflow of resources	5,897,312		5,897,312
Total assets and deferrals	9,525,069	680,807,987	690,333,056
LIABILITIES			
Current liabilities:			
Accounts payable	288,684	15,100,322	15,389,006
Accrued expenses	330,783	323,962	654,745
Incurred but unpaid claims		90,856,438	90,856,438
Premium deficiency reserve		4,100,000	4,100,000
Compensated absences	280,215		280,215
Total current liabilities	899,682	110,380,722	111,280,404
Noncurrent liabilities:			
Compensated absences	14,748		14,748
Other postemployment benefits	4,017,953		4,017,953
Net pension	21,212,020		21,212,020
Total noncurrent liabilities	25,244,721		25,244,721
Total liabilities	26,144,403	110,380,722	136,525,125
Deferred inflow of resources	860,134		860,134
Total liabilities and deferrals	27,004,537	110,380,722	137,385,259
NET POSITION			
Net position:			
Unrestricted (deficit)	(17,479,468)	570,427,265	552,947,797
Total net position (deficit)	$ (17,479,468)	$ 570,427,265	$ 552,947,797

The accompanying notes are an integral part of the financial statements.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF NET POSITION
JUNE 30, 2017

	Administrative Fund	Trust Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 160,121	$ 474,932,778	$ 475,092,899
Premiums receivable, net		101,319,077	101,319,077
Pharmacy rebate receivable		56,264,888	56,264,888
Claims recovery and other receivables		802,870	802,870
Prepaid expenses	147,436	145,969	293,405
Total current assets	307,557	633,465,582	633,773,139
Noncurrent assets:			
Investments	1,749,973	149,137,583	150,887,556
Total assets	2,057,530	782,603,165	784,660,695
Deferred outflow of resources	3,058,051		3,058,051
Total assets and deferrals	5,115,581	782,603,165	787,718,746
LIABILITIES			
Current liabilities:			
Accounts payable	113,258	12,034,228	12,147,486
Accrued expenses	364,747	305,990	670,737
Incurred but unpaid claims		80,037,885	80,037,885
Compensated absences	217,356		217,356
Total current liabilities	695,361	92,378,103	93,073,464
Noncurrent liabilities:			
Compensated absences	68,255		68,255
Net pension liability	16,001,487		16,001,487
Total noncurrent liabilities	16,069,742		16,069,742
Total liabilities	16,765,103	92,378,103	109,143,206
Deferred inflow of resources	811,112		811,112
Total liabilities and deferrals	17,576,215	92,378,103	109,954,318
NET POSITION			
Net position:			
Unrestricted (deficit)	(12,460,634)	690,225,062	677,764,428
Total net position	$ (12,460,634)	$ 690,225,062	$ 677,764,428

The accompanying notes are an integral part of the financial statements.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	Administrative Fund	Trust Fund	Total
Operating revenues:			
Premium revenues	$	$ 1,640,341,966	$ 1,640,341,966
Contributions to Waiver Health Reimbursement Accounts		47,737,094	47,737,094
Pharmacy rebates		107,302,242	107,302,242
Total operating revenues		1,795,381,302	1,795,381,302
Operating expenses:			
Claims expense		1,480,121,622	1,480,121,622
Claims incurred in Waiver Health Reimbursement Accounts		40,345,785	40,345,785
Change in premium deficiency reserve		4,100,000	4,100,000
Administrative and claims processing fees		77,296,439	77,296,439
Personnel expenses	10,397,356	431,476	10,828,832
Commodities and supplies	34,985	801,894	836,879
Utilities, rentals, and other	1,257,243		1,257,243
Travel	6,390		6,390
Total operating expenses	11,695,974	1,603,097,216	1,614,793,190
Operating income (loss)	(11,695,974)	192,284,086	180,588,112
Nonoperating revenues:			
Other		39,075	39,075
Investment income		10,235,942	10,235,942
Total nonoperating revenues		10,275,017	10,275,017
Income (loss) before other financing sources (uses)	(11,695,974)	202,559,103	190,863,129
Other financing sources (uses):			
Net operating transfers	9,856,900	(322,356,900)	(312,500,000)
Changes in net position (deficit)	(1,839,074)	(119,797,797)	(121,636,871)
Net position (deficit), beginning of year (as previously stated)	(12,460,634)	690,225,062	677,764,428
Adjustment for OPEB Liability	(3,179,760)		(3,179,760)
Net position (deficit), beginning of year (as adjusted)	(15,640,394)	690,225,062	674,584,668
Net position (deficit), end of year	$ (17,479,468)	$ 570,427,265	$ 552,947,797

The accompanying notes are an integral part of the financial statements.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017

	Administrative Fund	Trust Fund	Total
Operating revenues:			
Premium revenues	$	$ 1,627,656,265	$ 1,627,656,265
Contributions to Waiver Health Reimbursement Accounts		47,275,934	47,275,934
Pharmacy rebates		84,630,198	84,630,198
Total operating revenues		1,759,562,397	1,759,562,397
Operating expenses:			
Claims expense		1,381,709,922	1,381,709,922
Claims incurred in Waiver Health Reimbursement Accounts		40,141,541	40,141,541
Administrative and claims processing fees		75,515,090	75,515,090
Personnel expenses	8,108,612	367,419	8,476,031
Commodities and supplies	219,928	3,062,084	3,282,012
Utilities, rentals, and other	1,753,782		1,753,782
Travel	6,055		6,055
Total operating expenses	10,088,377	1,500,796,056	1,510,884,433
Operating income (loss)	(10,088,377)	258,766,341	248,677,964
Nonoperating revenues:			
Other		50,000	50,000
Investment income		5,073,228	5,073,228
Total nonoperating revenues		5,123,228	5,123,228
Income (loss) before other financing sources (uses)	(10,088,377)	263,889,569	253,801,192
Other financing sources (uses):			
Net operating transfers	9,856,900	(197,356,900)	(187,500,000)
Changes in net position	(231,477)	66,532,669	66,301,192
Net position, beginning of year	(12,229,157)	623,692,393	611,463,236
Net position, end of year	$ (12,460,634)	$ 690,225,062	$ 677,764,428

The accompanying notes are an integral part of the financial statements.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

	Administrative Fund	Trust Fund	Total
Operating activities:			
Premiums collected - public	$	$ 190,144,185	$ 190,144,185
Premiums collected - state		1,441,710,730	1,441,710,730
Waiver Health Reimbursement Account contributions collected - public		299,429	299,429
Waiver Health Reimbursement Account contributions collected - state		47,385,419	47,385,419
Pharmacy rebates collected		105,504,361	105,504,361
Benefits paid		(1,510,119,968)	(1,510,119,968)
Claims processing fees paid		(74,505,903)	(74,505,903)
Payments to employees for services	(4,314,450)		(4,314,450)
Payments to suppliers of goods and services	(3,835,992)	(1,215,398)	(5,051,390)
Net cash flows from operating activities	(8,150,442)	199,202,855	191,052,413
Noncapital financing activities:			
Nonoperating receipts		39,075	39,075
Operating transfers	9,856,900	(322,356,900)	(312,500,000)
Net cash flows from noncapital financing activities	9,856,900	(322,317,825)	(312,460,925)
Investing activities:			
Investment income		10,235,942	10,235,942
Net investment activity	(1,314,914)	75,188,865	73,873,951
Net cash flows from investing activities	(1,314,914)	85,424,807	84,109,893
Net change in cash and cash equivalents	391,544	(37,690,163)	(37,298,619)
Cash and cash equivalents, beginning of year	160,121	474,932,778	475,092,899
Cash and cash equivalents, end of year	$ 551,665	$ 437,242,615	$ 437,794,280

The accompanying notes are an integral part of the financial statements.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018
(Continued)

Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income (loss)	$ (11,695,974)	$ 192,284,086	$ 180,588,112
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
(Increase) decrease in:			
Premiums receivable, net		(8,539,297)	(8,539,297)
Pharmacy rebate receivable		(1,797,881)	(1,797,881)
Claims recovery and other receivables		(653,631)	(653,631)
Deferred inflows	49,022		49,022
Prepaid expense	136,231	(93,041)	43,190
Increase (decrease) in:			
Accounts payable	175,426	3,066,094	3,241,520
Accrued expenses	(33,964)	17,972	(15,992)
Deferred outflows	(2,839,261)		(2,839,261)
Net pension liability	5,210,533		5,210,533
Incurred but unpaid claims		10,818,553	10,818,553
OPEB liability	838,193		838,193
Premium deficiency		4,100,000	4,100,000
Compensated absences	9,352		9,352
Net cash flows from operating activities	$ (8,150,442)	$ 199,202,855	$ 191,052,413

The accompanying notes are an integral part of the financial statements.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017

	Administrative Fund	Trust Fund	Total
Operating activities:			
Premiums collected - public	$	$ 186,093,336	$ 186,093,336
Premiums collected - state		1,437,954,590	1,437,954,590
Waiver Health Reimbursement Account contributions collected - public		256,385	256,385
Waiver Health Reimbursement Account contributions collected - state		43,781,532	43,781,532
Pharmacy rebates collected		75,285,724	75,285,724
Benefits paid		(1,459,344,501)	(1,459,344,501)
Claims processing fees paid		(76,778,901)	(76,778,901)
Payments to employees for services	(4,093,587)		(4,093,587)
Payments to suppliers of goods and services	(4,883,908)	(9,392,272)	(14,276,180)
Net cash flows from operating activities	(8,977,495)	197,855,893	188,878,398
Noncapital financing activities:			
Nonoperating receipts		50,000	50,000
Repayments from Fiduciary Fund		3,550,000	3,550,000
Operating transfers	9,856,900	(197,356,900)	(187,500,000)
Net cash flows from noncapital financing activities	9,856,900	(193,756,900)	(183,900,000)
Investing activities:			
Investment income		5,073,228	5,073,228
Net investment activity	(825,823)	83,070,617	82,244,794
Net cash flows from investing activities	(825,823)	88,143,845	87,318,022
Net change in cash and cash equivalents	53,582	92,242,838	92,296,420
Cash and cash equivalents, beginning of year	106,539	382,689,940	382,796,479
Cash and cash equivalents, end of year	$ 160,121	$ 474,932,778	$ 475,092,899

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2017
(Continued)

Reconciliation of operating income (loss) to net cash flows from operating activities:			
Operating income (loss)	$ (10,088,377)	$ 258,766,341	$ 248,677,964
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:			
(Increase) decrease in:			
Premiums receivable, net		(6,846,356)	(6,846,356)
Pharmacy rebate receivable		(9,344,474)	(9,344,474)
Claims recovery and other receivables		2,223,756	2,223,756
Due from the Personnel Cabinet	118,454		118,454
Deferred inflows	811,112		811,112
Prepaid expenses	(21,345)	(56,819)	(78,164)
Increase (decrease) in:			
Accounts payable	(122,359)	(576,016)	(698,375)
Accrued expenses	38,154	(5,962,769)	(5,924,615)
Deferred outflows	(424,069)		(424,069)
Net pension liability	707,941		707,941
Incurred but unpaid claims		(40,347,770)	(40,347,770)
Compensated absences	2,994		2,994
Net cash flows from operating activities	$ (8,977,495)	$ 197,855,893	$ 188,878,398

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
STATEMENTS OF FIDUCIARY NET POSITION
JUNE 30, 2018 AND 2017

	Flexible Spending Accounts	
	2018	2017
ASSETS		
Receivables	$ 4,352,271	$ 3,854,208
LIABILITIES		
Due to other governmental funds	$ 4,015,509	$ 3,699,041
Accounts payable	336,762	155,166
Total liabilities	$ 4,352,271	$ 3,854,207

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NOTES TO THE FINANCIAL STATEMENTS

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017

Note 1 - Description of the Plan

The following brief description of the Public Employee Health Insurance Program (Plan) of the Commonwealth of Kentucky is provided for general information purposes only. Members should refer to the Plan document for more complete information.

A) Organization

Pursuant to Kentucky Revised Statutes (KRS) 18A.225, 18A.2254, 18A.2259, 18A.226, and 18A.227, the Commonwealth of Kentucky (Commonwealth) is required to administer and facilitate an employee health insurance program as part of a flexible benefits plan, thus the creation of the Trust Fund. The Department of Employee Insurance (Department) is responsible for overseeing the Public Employee Health Insurance Program, commonly referred to as the Kentucky Employees' Health Plan (KEHP), as well as, the Flexible Spending and Health Reimbursement Account Programs for state employees, boards of education, and quasi-governmental agencies. The Department is to:

1. Provide exemplary customer service to members, which include employees in state government, boards of education, health departments, retirees, persons covered under the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), beneficiaries, and certain other local government employees. COBRA allows temporary continuance of insurance coverage under certain circumstances. Survivors are individuals who were covered eligible dependents of a retiree in the Plan at the time of the member's death.
2. Support state government employees, boards of education employees, and quasi-governmental agency employees with health insurance and/or flexible spending accounts and/or health reimbursement accounts.
3. Receive, analyze, and maintain health insurance data to assist the Commonwealth in making decisions relative to the state health insurance plan.
4. Support the ongoing efforts of the Advisory Committee of State Health Insurance subscribers and the Kentucky Group Health Insurance Board, which includes the development of recommendations on the future direction of the Plan.

B) Premiums and Members

The health benefits for governmental members are funded by monthly premiums paid by individuals and state and local governmental units. A member may extend coverage to dependents for an additional monthly premium based on the coverage requested. Premiums for Plan members and their dependents are collected by the Department and held in a trust fund until needed for the payment of benefits or plan administration costs.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017
(Continued)

Note 1 - Description of the Plan (Continued)

B) Premiums and Members (Continued)

The Plan develops premium equivalent rates each year by utilizing historical trend information, current claims experience, and national trends. An outside actuarial consultant advises the Plan administrator regarding premium rates. If premium rates are changed, they become effective at the beginning of the next calendar year.

Plan members are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the member to the Plan. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan’s liabilities.

At June 30, 2018, the Plan provided health coverage to 145 state agencies with approximately 29,500 primary members (not including dependents), 181 school districts with approximately 75,800 primary members, 243 local government entities and health departments with approximately 8,300 primary members, and five retiree divisions with approximately 37,700 primary members. Total lives covered by the Plan, including dependents, were approximately 271,100.

At June 30, 2017, the Plan provided health coverage to 150 state agencies with approximately 30,290 primary members (not including dependents), 181 school districts with approximately 76,900 primary members, 241 local government entities and health departments with approximately 8,380 primary members, and five retiree divisions with approximately 37,700 primary members. Total lives covered by the Plan, including dependents, were approximately 270,780.

C) Benefits

The Plan offers four health insurance plan options that are administered by multiple vendors: Anthem for medical; CVS for pharmacy; WageWorks for Health Reimbursement Arrangements and Flexible Spending Accounts; Go365 for wellness; and Vitals SmartShopper for transparency. The four plans are: LivingWell CDHP, LivingWell PPO, Standard PPO and the Standard CDHP.

Two of the plan options are LivingWell health plan options that require the LivingWell Promise, a KEHP wellness initiative. The Promise requires the member to complete a Go365 Health Assessment or a biometric screening.

If an employee or retiree elects a LivingWell plan option in one plan year and fails to fulfill the LivingWell Promise, he/she will not be eligible for the $40 premium incentive in the following plan year. The other two plan options are the Standard PPO and the Standard CDHP, which do not include the LivingWell Promise. A summary of the plans is below:

Note 1 - Description of the Plan (Continued)

C) Benefits (Continued)

The LivingWell CDHP is a Consumer Driven Health Plan, in which the member is in more control of managing health expenses. The member must complete the LivingWell Promise:

- Members receive an employer-funded Health Reimbursement Arrangement (HRA) to use toward their deductible and maximum out-of-pocket expenses in the amount of $500 for single coverage or $1,000 for couple, parent-plus or family coverage.
- This plan has the lowest annual out-of-pocket maximum and co-insurance percentage.
- Members are responsible for meeting deductibles then paying a co-insurance percentage for medical services and prescription drugs.
- All covered expenses apply to the deductible and out-of-pocket maximum.
- Any remaining funds in a participant's HRA at year end will be carried forward to the subsequent plan year(s) and will be available for future claims, provided the participant is eligible and continues enrollment in a CDHP.
- Unclaimed HRA funds are forfeited and returned to the Plan at any point when the participant terminates employment, or enrolls in a non-CDHP KEHP insurance plan.

The LivingWell PPO Plan is a traditional Preferred Provider Organization (PPO) health plan. The member must complete the LivingWell Promise:

- This plan includes a flat co-pay amount for most services and then deductible and co-insurance for a few other services.
- This plan includes a flat co-pay amount for prescription coverage.
- The out-of-pocket amount for this plan is the same as with the LivingWell CDHP; however, with the PPO plan there is no HRA provided.
- The out-of-pocket maximum accumulates separately for medical and prescription expenses.

The Standard PPO Plan is a traditional PPO that offers lower premiums and higher out-of-pocket costs. Members do not have to complete the LivingWell Promise when they select this plan:

- Members in this plan are responsible for meeting deductibles then paying a co-insurance percentage for services.
- All prescription drugs are co-insurance, with minimum and maximum limitations.
- The out-of-pocket maximum accumulates separately for medical and prescription expenses.
- In 2017, any member who failed to enroll or waive coverage was automatically enrolled in this plan at the single coverage level.

The Standard CDHP is a Consumer Driven Health Plan that puts the member in more control of his/her health expenses. Members do not have to complete the LivingWell Promise:

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017
(Continued)

Note 1 - Description of the Plan (Continued)

C) Benefits (Continued)

- Members receive an employer-funded HRA to use toward their deductible and maximum out-of-pocket expenses in the amount of $250 for single coverage or $500 for couple, parent-plus or family coverage.
- This plan offers the lowest premiums in exchange for higher deductibles.
- All covered expenses apply to the deductible and out-of-pocket maximum.
- Any remaining funds in a participant's HRA at year end will be carried forward to the subsequent plan year(s) and will be available for future claims, provided the participant is eligible and continues enrollment in a CDHP.
- Unclaimed HRA funds are forfeited and returned to the Plan at any point when the participant terminates employment, or enrolls in a non CDHP KEHP insurance plan.

The Commonwealth of Kentucky established the Commonwealth of Kentucky HRA for those waiving all coverage. Pursuant to KRS 18A.2254, the Commonwealth of Kentucky will provide $175 per employee as a monthly employer contribution to the HRA account, not to exceed $2,100 per plan year, to each employee waiving health coverage. The HRA contains the following three components:

1. The Waiver/General Purpose HRA: The purpose of the Waiver (General Purpose) HRA is to reimburse participants for certain un-reimbursed medical expenses for the participant and their dependents. Only the employer can contribute to the HRA. Medical expenses are defined as expenses incurred by the participant and dependents for health care as defined in Section 213 of the Internal Revenue Code. To elect the Waiver (General Purpose) HRA, members must attest that they have other group health insurance plan coverage that provides minimum value. A "group health plan" does not include individual policies purchased through Marketplace or governmental plans such as TRICARE, Medicare or Medicaid.

2. The Waiver Dental/Vision Only HRA: The purpose of this HRA is to reimburse participants for certain unreimbursed dental fees, orthodontic treatment, and vision fees. Members who are not eligible for the Waiver (General Purpose) HRA may elect the Waiver Dental/Vision Only HRA.

3. At the end of the plan year (i.e., calendar year), the third party administrator determines whether there are unclaimed reimbursement account balances remaining after the HRA claims run-out period. Funds remaining in a participant's HRA at year end, up to a maximum of $7,500, will be carried forward to the subsequent plan year(s) and will be available for future

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Note 1 - Description of the Plan (Continued)

C) Benefits (Continued)

claims, provided the participant is eligible and continues enrollment in a Waiver HRA program. Unclaimed HRA funds are forfeited and returned to the Plan at any point when the participant terminates employment, or enrolls in a Commonwealth of Kentucky insurance program other than the Waiver General Purpose or Waiver Dental/Vision Only HRA.

The Commonwealth of Kentucky has also established the Commonwealth of Kentucky Flexible Spending Accounts (FSAs). The FSAs allow members to use pre-tax contributions to pay for qualified expenses. The FSAs contains two components:

1. The Health Care Flexible Spending Account (HCFSA): The HCFSA allows members to elect a specified amount of pre-tax contributions to be used for reimbursement of eligible medical expenses. The HCFSA is intended to qualify as a Code Section 105 and 106 self-insured medical reimbursement plan. Medical expenses are defined as expenses incurred by the member and dependents for health care as defined in Section 213 of the Internal Revenue Code.

2. The Dependent Care Flexible Spending Account (DCFSA): The DCFSA allows members to elect a specified amount of pre-tax contributions to be used for reimbursement of eligible employment-related dependent care expenses. The DCFSA is intended to qualify as a Code Section 129 dependent care assistance plan.

Flexible Spending Accounts and related amounts are determined annually by member election. Reimbursement of expenses will be provided for eligible health or dependent care expenses that were incurred during the current Plan Year and submitted by the member for reimbursement within the Plan Year, or within the current Plan Year's run-out period. Members are allowed to carry over up to $500 from one plan year to the next in the Health Care FSA. Any unclaimed Flexible Spending Account funds exceeding $500 for the Health Care FSA will be forfeited by the member and restored to the Commonwealth of Kentucky if the member has not applied for reimbursement of expenses incurred during the current Plan Year, and submitted their claim for reimbursement within the run-out period. Dependent Care FSA funds do not roll over, so any unclaimed Dependent Care FSA funds will be forfeited by the member and restored to the Commonwealth of Kentucky if the member has not applied for reimbursement of expenses incurred during the current Plan Year, and submitted the claim for reimbursement within the run-out period. In order for participants to avoid forfeiting FSA funds, participants must submit a claim for reimbursement of eligible expenses incurred during the Plan Year before the run-out period expires on March 31st of each year.

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Note 2 - Summary of Significant Accounting Policies

This summary of significant accounting policies of the Plan is presented to assist in understanding the Plan's financial statements. The financial statements and notes are representations of the Plan's management who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

A) Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Plan’s financial statements are included in the Commonwealth’s Comprehensive Annual Financial Report as an enterprise fund. The intent of an enterprise fund is to finance or recover, primarily through user charges, the costs of providing goods and services. An enterprise fund prepares operating statements using the flow of economic resources as its measurement focus. Such operating statements are designed to report events and transactions that increase or decrease an entity’s economic resources (i.e., all assets and liabilities). Enterprise fund transactions are accounted for using the accrual basis, under which revenues are recorded when earned, and expenses are recorded when the liabilities are incurred.

The Administrative Fund is used to fund administrative costs for the administration of the Plan. The Trust Fund is used to provide funds to pay medical claims and other costs associated with the administration of the Plan.

B) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of incurred but unpaid claims and the premium deficiency. In connection with the determination of incurred but unpaid claims and the premium deficiency, management uses the methodology detailed in the incurred but unpaid claims and premium deficiency notes, and as discussed in the following paragraph, to estimate the liabilities. See Note 5 and Note 6.

Management believes the liability for incurred but unpaid claims and the premium deficiency is adequate. While management uses available information to estimate incurred but unpaid claims and the premium deficiency, future changes to the liabilities may be necessary based on claims experience, changing claims frequency and severity conditions, as well as changes in doctrines of legal liability and damage awards in the Commonwealth. The future changes will be charged or credited to expenses when they occur. See Note 5 and Note 6.

Note 2 - Summary of Significant Accounting Policies (Continued)

C) Description of Net Position Classes

Generally accepted accounting principles require classification of net position into three components – net investment in capital assets, restricted; and unrestricted. These classifications are defined as follows:

Net investment in capital assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, constructions, or improvements of those assets. If there are significant unspent related debt proceeds at year end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of net investments in capital assets. Rather, that portion of the debt is included in the same net position component as unspent proceeds.

Restricted - This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net position consists of the net position that does not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

D) Cash and Cash Equivalents

The Plan considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

E) Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statements of net position.

F) Inter-fund Activity

Interfund activity is reported as either loans or reimbursements. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Reimbursements are when one fund incurs cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement.

Note 2 - Summary of Significant Accounting Policies (Continued)

G) Incurred But Unpaid Claims

The Plan establishes liabilities for incurred but unpaid claims based on its estimate of the ultimate cost of settling claims that have been reported but not yet settled, and claims that have been incurred but not yet reported. Although such estimates are the Plan's best estimates of the incurred claims to be paid, due to the complex nature of the factors involved in the calculation, the actual results may be more or less than the estimate. The claim liabilities are recomputed on a periodic basis using actuarial and statistical techniques which consider the effects of the general economic conditions, such as inflation, and other factors of past experience, such as changes in member accounts. Adjustments to claim liabilities are recorded in the periods in which they are made. A provider has 15 months from the time the service is performed until the claim has to be filed or additional information provided.

H) Premium Deficiency Reserve

Premium deficiency reserves are required to be recorded when the anticipated claim costs and claim adjustment expenses for the remainder of the contract term are in excess of anticipated premium receipts for the remainder of the contract term. Anticipated investment income is not considered in determining whether a premium deficiency exists. At June 30, 2018 a premium deficiency reserve of $4,100,000 was determined by the Department. At June 30, 2017, a premium deficiency reserve was not considered necessary. See Note 6.

I) Operating Revenues and Expenses

Balances classified as operating revenues and expenses are those which comprise the Plan's principal ongoing operations. Since the Plan's operations are similar to those of any other insurance company, most revenues and expenses are considered operating. The Plan does not record deferred acquisition costs since administrative expenses are primarily maintenance expenses and not acquisition expenses.

J) Premiums

Premiums are recognized in the period when the insurance coverage is provided. Premiums are due monthly from the employers and members according to the rates adopted by the Plan.

K) Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. At June 30, 2018 and 2017, an allowance for doubtful accounts was not considered necessary.

Note 2 - Summary of Significant Accounting Policies (Continued)

L) Fiduciary Funds

Fiduciary funds are defined as funds used to report amounts held in a trustee or agency capacity for others and which, therefore, cannot be used to support the government's own programs. This fund is custodial in nature and does not involve measurement of results of operations. Accordingly, it presents only a statement of fiduciary net position and does not present a statement of changes in fiduciary net position. Fiduciary funds consist of unspent member contributions to Flexible Spending Accounts held in an agency capacity. Agency funds held in the Flexible Spending Accounts consist of pre-tax monies received from members to be used on a reimbursement basis for expenses paid by members for either health and/or dependent care expenditures.

M) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflow of resources related to pensions, and pension expense, information about the fiduciary net position of the Kentucky Employees' Retirement System (KERS) and additions to/deductions from KERS's fiduciary net position have been determined on the same basis as they are reported by the Plan.

N) Postemployment Benefits Other Than Pensions

For purposes of measuring the Other Postemployment Benefit (OPEB) liability, deferred outflows of resources, and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the KERS and additions to/deductions from KERS's fiduciary net position have been determined on the same basis as they are reported by KERS. KERS recognizes benefit payments (including refunds of employee contributions) when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase one year or less, which are reported at cost. The KERS Non-hazardous Insurance funds are reported as OPEB trust funds and are accounted for on the accrual basis of accounting.

Note 3 - Cash Deposits

Plan receipts are deposited in the Commonwealth's general depository or depositories designated by the State Treasurer, which has statutory responsibility and authority to safeguard the funds.

A) Administrative and Trust Funds

Cash includes amounts on deposit with the Commonwealth’s cash and investment pool. See the Commonwealth’s Comprehensive Annual Financial Report for disclosure of the credit risk classifications of the cash and investment pool. The carrying amount of the Plan’s cash and cash equivalents invested in the Commonwealth’s cash and investment pool balance was $435,594,280 and $475,092,899 at June 30, 2018 and 2017, respectively.

The carrying amount and bank balance of the Plan’s deposits with local financial institutions was $2,200,000 and $0 at June 30, 2018 and 2017, respectively. Custodial credit risk of deposits is the risk that in the event of a bank failure, the Plan’s deposits may not be returned to it. The Plan does not have an external deposit policy for custodial credit risk. At June 30, 2018, all bank balances in excess of federally insured limits were collateralized under a collateralization agreement with a financial institution whereby all deposits in excess of federally insured limits would be collateralized.

B) Fiduciary Fund

The carrying amount of cash held in Flexible Spending Accounts and invested in the Commonwealth’s cash and investment pool was $0 and $0 at June 30, 2018 and 2017, respectively.

Note 4 - Investments

All Plan investments are held directly in the Commonwealth's investment pool, reported at fair value, which has statutory responsibility and authority to safeguard the funds. The Plan's share of investments in the Commonwealth's investment pool totaled $77,013,605 and $150,887,556 at June 30, 2018 and 2017, respectively. Flexible Spending Account funds held by the Plan in an agency capacity in the Commonwealth’s investment pool totaled $0 at June 30, 2018 and 2017. Legally authorized investments generally include obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; asset backed securities; U.S. dollar denominated corporate securities; collateralized certificates of deposit; bankers’ acceptances; commercial paper and repurchase agreements. The Commonwealth is also eligible to invest in reverse repurchase agreements. See the Commonwealth’s Comprehensive Annual Financial Report for disclosure of the credit risk classifications of the cash and investment pool.

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Note 5 - Incurred But Unpaid Claims

As discussed in Note 2, the Plan establishes liabilities for incurred but unpaid claims based on its estimate of the ultimate cost of settling claims that have been reported but not yet settled, and of claims that have been incurred but not yet reported.

Changes in the aggregate liability for claims and claims adjustment expenses during 2018 and 2017 are as follows:

	2018	2017
Balance, beginning of year	$ 80,037,885	$ 120,385,655
Claims incurred	1,603,675,028	1,499,476,871
Changes in prior year estimates	(5,911,182)	(2,110,318)
Claims paid	(1,586,945,293)	(1,537,714,323)
Balance, end of year	$ 90,856,438	$ 80,037,885

The incurred but unpaid claims liability of $90,856,438 and $80,037,885 at June 30, 2018 and 2017, respectively, does not include a liability for claims adjustment expenses as service providers have waived claims runout processing fees.

As a result of changes in estimates of insured events in the prior year and higher than expected claims run out, the provision for claims increased by approximately $10,900,000 in 2018.

As of June 30, 2018, the liability total includes the incurred but unpaid claims estimates for all CDHP Health Reimbursement Accounts and Stand-Alone Health Reimbursement Accounts (i.e., waived health coverage) of $1,167,132 and $1,579,743, respectively.

As of June 30, 2017, the liability includes the incurred but unpaid claims estimates for the all CDHP Health Reimbursement Accounts and Stand-Alone Health Reimbursement Accounts (i.e., waived health coverage) of $1,015,447 and $1,670,871, respectively.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
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Note 6 - Premium Deficiency Reserve

A premium deficiency reserve is recorded at the end of the fiscal year when the anticipated costs of settling claims, plus claims processing fees for the remainder of the contracted premium period, are in excess of the anticipated premium receipts for the remainder of the contracted premium period. Anticipated premium receipts are projected based on the current premium rates adopted by the Plan. Anticipated investment income is not considered in determining whether a premium deficiency exists. Incurred claims for the remainder of the year are projected based on current year incurred claims, increased for anticipated inflation rates. The Department determined that a reserve for premium deficiency was necessary in the amount of $4,100,000 and $0 as of June 30, 2018 and 2017, respectively.

Note 7 - Reinsurance

As of June 30, 2018 and 2017, the Plan has not transferred any risk of loss through reinsurance contracts.

Note 8 - Compensated Absences

The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 1 day to 2 days per month, determined by length of service, with a maximum carry forward ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. The estimated liability for accrued annual leave for the Plan was $205,181 and $213,190 at June 30, 2018 and 2017, respectively. Compensatory leave is granted to authorized employees. The estimated liability for compensatory leave for the Plan was $89,782 and $72,421 at June 30, 2018 and 2017, respectively.

Changes in compensated absences for the year ended June 30, 2018 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	$ 285,611	$ 346,071	$ (336,719)	$ 294,963	$ 280,215

Changes in compensated absences for the year ended June 30, 2017 are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Compensated Absences	$ 282,617	$ 357,886	$ (354,892)	$ 285,611	$ 217,356

Note 8 - Compensated Absences (Continued)

It is the policy of the Plan to record the cost of sick leave when paid. Generally, sick leave (earned one day per month with unlimited accumulation) is paid when an employee is absent due to illness, injury, or related family death. Sick leave accumulated is added to an employee's years of service at the time of retirement. There was no liability recorded for sick leave at June 30, 2018 and 2017. The estimated accumulated amount of unused sick leave at June 30, 2018 and 2017 for the Plan was $352,866 and $335,847, respectively.

Note 9 - Pharmacy Rebates

The Plan is guaranteed a minimum rebate from the Plan's pharmacy third party administrator for each prescription filled as detailed in the agreement with the third party. The Plan recorded $107,302,242 and $84,630,198 in pharmacy rebates for the years ended June 30, 2018 and 2017, respectively.

Note 10 - Net Position

Included in total net position are unused Health Reimbursement Account (HRA) balances of approximately $134,030,719 and $116,019,344 as of June 30, 2018 and 2017, respectively. HRA dollars remaining at the end of each plan year roll over to the next plan year if the member re-enrolls in the HRA. Should the member elect to change his or her benefit option from the previously elected HRA or upon termination of employment or other loss of eligibility, any and all balance remaining in the member's HRA shall be forfeited, and become part of the Public Employee Health Insurance Trust Fund.

KRS 18A.2254 specifies trust fund receipts from prior plan years shall not be used to pay claims and expenses for current or subsequent plan years. In the event of a projected deficit in the trust fund balance of a prior plan year, the Secretary of the Finance and Administration Cabinet may declare an emergency and transfer up to twenty-five percent (25 percent) of another prior plan year's balance to that plan year, provided the Governor and Legislative Research Commission are notified at least 30 days prior to the transfer.

Pursuant to House Bill 200 of the 2018 regular session and notwithstanding KRS 18A.2254, plan years 2010, 2011, 2012, 2013, 2014, and 2015 were considered closed as of June 30, 2018, and all balances from those plan years were transferred to plan year 2016. All other income and expenses attributable to the closed plan years shall be deposited in or charged to the plan year 2016. At June 30, 2018, management has determined the designated cash balances, in the Trust Fund unrestriced cash and investments, to be $203,861,937 for the plan year 2017 and $217,750,221 for the plan year 2016.

Note 10 - Net Position (Continued)

Pursuant to House Bill 265 of the 2012 regular session and notwithstanding KRS 18A.2254, plan years 2006, 2007, 2008, and 2009 were considered closed as of December 31, 2011, and all balances from those plan years were transferred to plan year 2010. All other income and expenses attributable to the closed plan years shall be deposited in or charged to the plan year 2010. At June 30, 2017, management has determined the designated cash balances, in the Trust Fund unrestricted cash and investments, to be $241,007,542 for the plan year 2016, $271,604,326 for the plan year 2015, $55,971 for the plan year 2014, $71,052 for the plan year 2013 and $14,398 for the plan year 2012.

Note 11 - Retirement Plan

All Department for Employee Insurance (DEI) employees who work more than 100 hours per month participate in a defined benefit plan administered by KERS, a cost-sharing multi-employer public employee retirement system. Payroll for the employees of the Department for Employee Insurance totaled $2,341,380 and $2,470,779 for the years ended June 30, 2018 and 2017, respectively.

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Note 11 - Retirement Plan (Continued)

	Tier 1 Participation Prior to 9/1/2008	**Tier 2** Participation 9/1/2008 through 12/31/2013	**Tier 3** Participation on or after 1/1/2014
Covered Employees:	Substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in KERS.		
Benefit Formula:	Final Compensation X Benefit Factor X Years of Service		Cash Balance Plan
Final Compensation:	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	Five (5) complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
Benefit Factor:	1.97% - If you do not have 13 months credit for 1/1/1998 - 1/1/1999. 2.00% - If you have 13 months credit for 1/1/1998 - 1/1/1999	10 years or less = 1.10%. Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and a method adopted by the board based on member's accumulated account balance.

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Note 11 - Retirement Plan (Continued)

	Tier 1 Participation Prior to 9/1/2008	**Tier 2** Participation 9/1/2008 through 12/31/2013	**Tier 3** Participation on or after 1/1/2014
Cost of Living Adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
Unreduced Retirement Benefit:	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
Reduced Retirement Benefit:	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit.

Benefit and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565 contribution requirements of the active employees and the participating organizations are established and may be amended by the KERS Board. For the fiscal year ended June 30, 2018 and 2017, Plan employees were required to contribute five percent of their annual covered salary for retirement benefits. Employees with a participation date after 9/1/2008 were required to contribute an additional one percent of their salary for retiree healthcare benefits. The Plan was contractually required to contribute 41.06 percent and 8.41 percent of covered payroll to the nonhazardous KERS pension and insurance plans, respectively during the year ended June 30, 2018. The Plan was contractually required to contribute 40.24 percent and 8.35 percent of covered payroll to the nonhazardous KERS pension and insurance plans, respectively during the year ended June 30, 2017. Actuarially determined as an amount that, when combined with employee contributions, is expected to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Plan's total required contributions to KERS nonhazardous pension plans for the years ended June 30, 2018 and 2017, was $943,047 and $973,181, respectively.

At June 30, 2018 and 2017, the Plan reported a liability of $21,212,020 and $16,001,487, respectively, for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2017 and June 30, 2016, respectively. The Plan's proportion of the net pension liability was based on a projection of the Plan's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities. At June 30, 2018 and 2017, the Plan's proportion was 0.158439 and 0.140373 percent, respectively.

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Note 11 - Retirement Plan (Continued)

Actuarial Assumptions:	2018	2017
Actuarial Valuation Date	June 30, 2016	June 30, 2015
Actuarial Cost Method	Entry age	Entry age
Amortization Method	Level percent of pay	Level percent closed
Remaining amortization period	28 years, closed	27 years
Asset valuation method	20% of the idifference between the market value of assets and the expected actuarial value of assets is recognized.	Five-year smoothed market
Investment rate of return	5.25%	6.75%
Inflation Rate	2.30%	3.25%
Projected salary increases	3.05%	4.00%
Mortality tables:	RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set back 1 year for females)	RP-2000 Combined Mortality Table projected to 2013 with Scale BB (set back 1 year for females)
Date of experience study	The period July 1, 2008 - June 30, 2013	The period July 1, 2008 - June 30, 2013
Updated Procedures Applied	The actuarial valuation date of June 30, 2016, was rolled forward from the valuation date of the Plan's fiscal year end of June 30, 2017 using standard roll forward procedures.	

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
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(Continued)

Note 11 - Retirement Plan (Continued)

For the year ended June 30, 2018, the Plan recognized pension expenses of $4,027,394 and deferred outflows and deferred inflows related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 3,773	$ 136,598
Net difference between projected and actual earnings on investments	265,099	162,522
Change of assumptions	2,691,299	
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,243,578	474,551
Contributions subsequent to the measurement date	943,047	
Total	$ 5,146,796	$ 773,671

The $943,047 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2019. Other amounts reported as deferred inflows and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

2019	$ 2,096,941
2020	1,333,577
2021	28,773
2022	(29,213)
Thereafter	

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
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Note 11 - Retirement Plan (Continued)

For the year ended June 30, 2017, the Plan recognized pension expenses of $2,068,165 and deferred outflows and deferred inflows related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 16,714	$
Net difference between projected and actual earnings on investments	245,693	
Change of assumptions	1,212,108	
Changes in proportion and differences between employer contributions and proportionate share of contributions	610,355	811,112
Contributions subsequent to the measurement date	973,181	
Total	$ 3,058,051	$ 811,112

The $973,181 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability during the year ended June 30, 2018. Other amounts reported as deferred inflows and deferred outflows of resources related to pensions will be recognized in pension expense as follows:

2018	$ 762,343
2019	390,585
2020	72,917
2021	47,913

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Note 11 - Retirement Plan (Continued)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis, performed was for the period covering fiscal years 2008 through 2013, and is outlined in a report dated December 5, 2015. Several factors are considered in evaluating the long-term rate of return. Assumption including long-term historical data, estimates inherent in current market data, and a log – normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were 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 then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The 2018 target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	2018 Target Allocation	2018 Long Term Expected Real Rate of Return
U.S. Equity	17.50%	5.75%
International Equity	17.50%	7.38%
Global Fixed	10.00%	2.63%
Credit Fixed	17.00%	3.63%
Real Return	5.00%	6.63%
Private Equity	10.00%	5.63%
Real Estate	10.00%	5.13%
Absolute Return	10.00%	8.25%
Cash Equivalent	3.00%	1.88%
	100%	

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Note 11 - Retirement Plan (Continued)

The 2017 target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the following table:

Asset Class	2017 Target Allocation	2017 Long Term Expected Real Rate of Return
Combined Equity	50%	5.3%
Combined Fixed Income	11%	1.0%
Real Return (Diversified Inflation Strategies)	11%	3.3%
Real Estate	5%	4.3%
Absolute Return (Diversified Hedge Funds)	10%	4.0%
Private Equity	2%	8.0%
Diversified Inflation Strategy	8%	3.2%
Cash Equivalent	3%	-0.25%
	100%	

The projection of cash flows used to determine the discount rate assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 28-year amortization period of the unfunded actuarial accrued liability. The actuarial determined contribution rate is adjusted to reflect the phase in of anticipated gains on actuarial value of assets over the first four years of the projection period.

June 30, 2016 is the actuarial valuation date upon which the total pension liability is based. The total pension liability was rolled-forward from the valuation date to June 30, 2017. The discount rate is defined as the single rate of return that when applied to all projected payments results in an actuarial value of projected benefits payments. A municipal bond rate was not used.

The following presents the net pension liability of the Plan at June 30, 2018, calculated using the discount rate of 5.25 percent, as well as what the Plan’s net position liability would be if it were calculated using a discount rate that is one percentage point lower (4.25 percent) or one percentage point higher (6.25 percent):

	Decrease (4.25%)	Discount (5.25%)	Increase (6.25%)
The Plan's proportionate share	$ 24,219,690	$ 21,212,020	$ 18,711,889

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017
(Continued)

Note 11 - Retirement Plan (Continued)

The following presents the net pension liability of the Plan at June 30, 2017, calculated using the discount rate of 6.75 percent, as well as what the Plan's net position liability would be if it were calculated using a discount rate that is one percentage point lower (5.75 percent) or one percentage point higher (7.75 percent):

	Decrease (5.75%)	Discount (6.75%)	Increase (7.75%)
The Plan's proportionate share	$ 18,027,162	$ 16,001,487	$ 14,299,646

Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (which is a matter of public record). The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to KERS.

In addition to the above plans, the Department's employees are also eligible to participate in two deferred compensation plans sponsored by the Commonwealth of Kentucky. These plans are organized as a Section 457 plan and as a Section 401(k) plan under the Internal Revenue Code. Both plans permit employees to defer a portion of their salary until future years. Contributions to these plans totaled $71,586 and $74,852 for the years ended June 30, 2018 and 2017, respectively. Both plans permit employees to defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, the year age 59 ½ is attained, death, or financial hardship. Minimum distributions are required at age 70 ½. Loans are also permitted in accordance with plan provisions. The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to the deferred compensation plans.

Note 12 - Post-Employment Health Care Benefits

All regular full-time employees who work in non-hazardous duty positions of any state department, board, agency, county, city, school board, and any eligible local agencies participate in an OPEB plan administered by KERS, a cost-sharing multi-employer public employee retirement system. The plan provides health insurance benefits to plan members and also to certain beneficiaries of plan members under prescribed circumstances.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017
(Continued)

Note 12 - Post-Employment Health Care Benefits (Continued)

Benefit Factor:	Participation prior to July 2003		Participation between July 2003 and August 2008		Participation on or after September 2008	
	Months of Service	Percent of premium paid	Months of Service	Percent of premium paid	Months of Service	Percent of premium paid
	<48	0%	Greater than or equal to 120	$10 per month for each year of service window without regard to a maximum dollar amount adjusted annually	Greater than or equal to 180	$10 per month for each year of service window without regard to a maximum dollar amount adjusted 1.5% annually
	48 to 119 inclusive	25%				
	120 to 179 inclusive	50%				
	180 to 239 inclusive	75%				
	240 or more	100%				

Contribtuion Rate: Contribtuion rates for the employer is actuarially determined. The Traditional Plan members do not contribute to the OPEB plan directly. Instead assets have been allocated between pension and retirees medicial liabilities on the basis of accrued liability as of July 1, 2017. This amount has been brought forward from that date based on actual cash flows and prorated allocation of investment returns.

Benefits and contribution rates are established by state statute. Per Kentucky Revised Statute 61.565 contribution requirements of the active employees and the participating organizations are established and may be amended by the KERS Board. Employees with a participation date after September 1, 2008 were required to contribute an additional 1 percent of their salary for retiree healthcare benefits. The Plan was contractually required to contribute 8.41 percent of covered payroll to the nonhazardous KERS insurance plans. Actuarially determined as an amount that, when combined with employees during the year, with an additional amount to finance any unfunded accrued liability. The Plan's total required contributions to KERS nonhazardous insurance plan for the year ended June 30, 2018 was $193,157.

At June 30, 2018, the Plan reported a liability of $4,017,953 or its proportionate share of collective net OPEB liability. The collective net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net collective OPEB liability was determined by an actuarial valuation as of June 30, 2017. The Plan's proportion of the collective net OPEB liability was based on projection of the Plan's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2018, the Plan's proportion was 0.158439 percent.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017
(Continued)

Note 12 - Post-Employment Health Care Benefits (Continued)

For the year ended June 30, 2018, the Plan recognized OPEB expenses of $398,585 and deferred outflows and deferred inflows related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$	$ 4,972
Net difference between projected and actual earnings on investments		52,005
Change of assumptions	526,071	
Changes in proportion and differences between employer contributions and proportionate share of contributions		29,486
Contributions subsequent to the measurement date	224,445	
Total	$ 750,516	$ 86,463

Of the total amount reported as deferred outflows of resources related to OPEB, $224,445 resulting from the Plan's contributions subsequent to the measurement date and before the end of the fiscal year will be included as a reduction of the collective net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in the Plan's OPEB expense as follows:

2019	$ 109,596
2020	109,596
2021	109,596
2022	1,225
Thereafter	

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017
(Continued)

Note 12 - Post-Employment Health Care Benefits (Continued)

The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions shown in the table below. The total OPEB liability used to calculate the net collective OPEB liability was rolled forward from the valuation date to the plan's fiscal year end, June 30, 2017, using generally accepted actuarial principles.

Experience Study	July 1, 2008 - June 30, 2013
Actuarial Valuation Date	June 30, 2016 with standard roll-forward procedures to June 30, 2017
Inflation	2.3% for fiscal year 2017. A reduction from the prior years rate of 3.25%. This reduction resulted in a 0.95% decrease in salary
Salary Increases	12.5% currently, decreasing in one year to 4.5% , year two is 2.0%. An average of 1.1% thereafter.
Payroll growth	0% for Fiscal year 2017. Prior year 2016 4.00%.
Assumed Investment Return	6.25% for fiscal year 2017. Prior year was 7.50%
Health cost trend rates	Underlying assumptions: 1). A short run period-this is a period for which anticipated health care trend rates are manually set based on local information as well as plan-specific and carrier information. 2). Long term real GDP Growth- 1.75%. 3). Long term rate of inflation- 2.3%. 4). Long term nominal GDP growth- 4.05%. 5). Year that excess rate converges to 0-15 years from the valuation. Health Care Cost Trends are thus the manually set rates for the short run period and rates which decline to an ultimate trend rate which equals the assumed nominal long term GDP growth rate.
Actuarial Cost Method	Entry age normal, Level percentage of pay
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized.
Mortality Tables	The mortality table used for active members is RP-2000 Combined Mortality Table projected with scale BB to 2013 (multiplied by 50% for males and 30% for females.) For non-disabled retired members the mortality table used RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back one year for females.) For disabled members the RP-2000 Combined Disabled Mortality Table
Update procedures applied	The actuarial valuation date of June30, 2016 was rolled-forward from the valuation date to the plan's fiscal year ending June 30, 2017 using standard roll forward procedures . The prior actuary's valuations was replicated using the same assumptions, methods, and data as of that date, June 30, 2016.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017
(Continued)

Note 12 - Post-Employment Health Care Benefits (Continued)

The long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the Systems. The most recent analysis was dated December 3, 2015. The long-term expected rate of return was determined using a building block method in which the best-estimate ranges of expected future real rate of returns are developed for each asset class. The ranges are combined by weighting the expected future real rate of return by the target asset allocation percentage. The target allocation and best estimates of arithmetic real rate of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	17.5%	5.97%
International Equity	17.5%	7.85%
Global Bonds	4%	2.63%
Global Credit	2%	3.63%
High Yield	7%	5.75%
Emerging Market Debt	5%	5.50%
Private Credit	10%	8.75%
Real Estate	5%	7.63%
Absolute Return	10%	5.63%
Real Return	10%	6.13%
Private Equity	10%	8.25%
Cash	2%	1.88%
Total	100.00%	

The projection of cash flows used to determine the discount rate of 5.83 percent for KERS Non-hazardous, assumed that local employers would contribute the actuarially determined contribution rate of projected compensation over the remaining 26 years (closed) amortization period of the unfunded actuarial accrued liability. The discount rate determination used an expected rate of return of 6.25 percent, and a municipal bond rate of 3.56 percent, as reported in Fidelity Index's "20 –Year Municipal GO AA Index" as of June 30, 2017. However, the cost associated with the implicit employer subsidy was not included in the calculation of the System's actuarial determined contributions, and any cost associated with the implicit subsidy will not be paid out of the System's trusts. Therefore, the municipal bond rate was applied to future expected benefit payments associated with the implicit subsidy. The target asset allocation and best estimates of arithmetic nominal rates of return for each major asset class are summarized in the Commonwealth of Kentucky's Comprehensive Annual Financial Report..

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017
(Continued)

Note 12 - Post-Employment Health Care Benefits (Continued)

Sensitivity of the Plan's proportionate share of the collective net OPEB liability to changes in the discount rate. The following presents the Plan's proportionate share of the collective net OPEB liability, as well as what the Plan's proportionate share of the collective net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.83 percent) or 1-percentage-point higher (6.83 percent) than the current discount rate:

	Decrease 4.83%	Discount 5.83%	Increase 6.83%
The Plan's proportionate share	$ 4,697,473	$ 4,017,953	$ 3,453,230

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
The Plan's proportionate share	$ 3,413,959	$ 4,017,953	$ 4,776,375

Healthcare Trend Rates (Pre-65)	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Trend Rates (Post-65)	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

Detailed information about the KERS's fiduciary net position is available in the separately issued Kentucky Employees' Retirement System's Annual Financial Report (which is a matter of public record). The Commonwealth of Kentucky's Comprehensive Annual Financial Report should be referred to for additional disclosures related to KERS.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017
(Continued)

Note 13 - Plan Administration and Operating Transfers

The Administrative Fund is used to fund administrative costs for the administration of the Plan. With the Commonwealth moving from a fully insured health insurance program to a self-insured program, the Department for Employee Insurance took on significant financial responsibilities including actuarial work and therefore requested transfers of approximately $9,856,900 and $9,856,900 from the premiums to help fund the administrative costs of the Plan for the years ending June 30, 2018 and 2017, respectively.

Pursuant to House Bill 200 of the 2018 regular session and notwithstanding KRS 18A.2254, for the fiscal years ended June 30, 2019 and 2020, a one-time transfer of $135,140,500 and $175,364,400 shall be transferred to the Commonwealth of Kentucky's General Fund each year.

Pursuant to House Bill 303 of the 2016 regular session and notwithstanding KRS 18A.2254, for the fiscal years ended June 30, 2017 and 2018, a one-time transfer of $187,500,000 shall be transferred to the Commonwealth of Kentucky's General Fund each year. Additionally, for the fiscal year ended June 30, 2018, a one-time transfer of $125,000,000 shall be transferred to the Kentucky Permanent Pension Fund.

Note 14 - Interfund Receivables/Payables

At June 30, 2018, the Fiduciary Fund had a liability to other governmental funds of $4,015,509. At June 30, 2017, the Fiduciary Fund had a liability due to the Trust Fund of $3,699,041. These liabilities represent loans provided to the Flexible Spending Accounts maintained within the Fiduciary Fund to assist with cash flow deficits.

Note 15 - Related Party Transactions

The Plan received the benefit of accounting and administrative services from the Personnel Cabinet for 2018 and 2017 for which no fee was assessed. The Plan received the benefit of legal services from the Personnel Cabinet for 2018 and 2017 for which no fee was assessed.

The Plan received the benefit of utilities, motor pool, postage, and office space from the Finance and Administration Cabinet (FAC). During 2018 and 2017, the Plan reimbursed the FAC $272,396 and $226,640, respectively for these costs.

The Plan received services from the Commonwealth Office for Technology (COT) which provides technical support for State government agencies in the application of information technology including major information resource functions such as data center operations, data and voice communications, data administration, hardware selection and installation, printing, and related end-user and customer support services. During 2018 and 2017, the Plan paid $529,568 and $1,255,345, respectively to the COT for services provided.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018 AND JUNE 30, 2017
(Continued)

Note 16 - Fair Value of Financial Instruments

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- *Level 1*: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.
- *Level 2*: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- *Level 3*: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset 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 maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

The following table sets forth by level, within the hierarchy, the Plan's assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and 2017 are as follows:

	Assets at Fair Value as of June 30, 2018		
	Level 1	Level 2	Total
The Plan's share of the Commonwealth's investment pool	$ 73,948,718	$ 3,064,887	$ 77,013,605

	Assets at Fair Value as of June 30, 2017		
	Level 1	Level 2	Total
The Plan's share of the Commonwealth's investment pool	$ 149,137,583	$ 1,749,973	$ 150,887,556

The Plan's policy is to recognize transfers between levels as of the actual date of the event or change in circumstances. There were no transfers between levels during the year ended June 30, 2018 and 2017, respectively.

Note 16 - Fair Value of Financial Instruments (Continued)

Realized and unrealized gains/(losses) of ($1,364,830) and $1,378,478 for the years ended June 30, 2018 and 2017, respectively are included in earnings and are reported in the statement of revenues, expenses, and changes in net position as a component of non-operating revenue.

The Plan holds investments which are exposed to various risks such as interest rate, market, and credit. Due to the level of risk associated with these securities and the level of uncertainty related to changes in the value, it is at least reasonably possible that changes in the various risk factors will occur in the near term that could materially affect the amounts reported in the accompanying financial statements.

Note 17 - Risk Management

The Plan is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; and errors and omissions. The Plan utilizes the Commonwealth of Kentucky’s Risk Management Fund to cover exposure to these potential losses. The Commonwealth of Kentucky’s Comprehensive Annual Financial Report should be referred to for additional disclosures related to the Risk Management Fund.

Note 18 - Commitments

The Plan entered into long term contracts with certain vendors for processing medical and pharmacy claims in support of the Plan's operations. The medical and pharmacy claims processing contracts expire on December 31, 2018. The total amount to be paid for processing medical and pharmacy claims is based on a monthly per member cost with no limit. Contract provisions also include a provision to waive claims runout processing fee.

The fees incurred by the Plan for services performed by the above third party administrators totaled approximately $60,060,000 and $59,614,000 for the years ended June 30, 2018 and 2017, respectively.

The Plan entered into a contract with a vendor to provide wellness benefits. This contract expires on December 31, 2018. The fees incurred by the Plan for services performed under this contract totaled approximately $14,761,000 and $14,688,000 for the years ended June 30, 2018 and 2017, respectively.

The Plan entered into a contract with a vendor to provide health insurance consulting and actuarial services including premium rate setting. This contract was effective January 1, 2011 and has been renewed through June 30, 2020. The fees incurred by the Plan for services performed under this contract totaled approximately $544,000 for the year ended June 30, 2018 and $405,000 for the year ended June 30, 2017.

Note 18 – Commitments (Continued)

The Plan entered into a contract with a vendor to provide health insurance data management and decision support. This contract was effective August 24, 2005 and has been renewed through December 31, 2019. The fees incurred by the Plan for services performed under this contract total approximately $926,000 for the year ended June 30, 2018 and $791,250 for the year ended June 30, 2017.

The Plan entered into contracts with vendors to provide on-site health services to state employees at four Frankfort locations. This contract was effective July 1, 2016 and is set to expire June 30, 2020. The fees incurred by the Plan for services performed under these contracts total approximately $1,326,000 for the year ended June 30, 2018 and $1,104,000 for the year ended June 30, 2017.

The Plan entered into a contract with a vendor to provide transparency administration services. This contract was effective January 1, 2015 and is effective through December 31, 2018. The fees incurred by the Plan for services performed under this contract total approximately $1,493,000 and $1,412,000 for the years ended June 30, 2018 and 2017, respectively.

The Plan entered into a contract with a vendor to provide eligibility verification auditing services. This contract was effective January 1, 2018 and is effective through June 30, 2019. The fees incurred by the Plan for services performed under this contract total approximately $441,000 for the year ended June 30, 2018.

The Plan entered into a contract with a vendor to provide medication therapy management services to the Plan's early retiree population. This contract was effective July 1, 2017 and is effective through June 30, 2020. The fees incurred by the Plan for services performed under this contract total approximately $450,000 for the year ended June 30, 2018.

Note 19 – New Standard Implementation

During 2018, the Plan implemented **GASB Statement No. 75**, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued June 2015. This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. The adoption of these standards decreased the previously presented net position as of June 30, 2017 by $3,179,760. The 2017 financial statements have not been restated as the Plan's OPEB amounts were not individually calculated at June 30, 2017, and it was not deemed practical to determine its impact on the opening 2017 financial position or the effect on the 2017 change in net position.

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REQUIRED SUPPLEMENTAL INFORMATION

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
REQUIRED SUPPLEMENTAL INFORMATION
TEN-YEAR CLAIMS DEVELOPMENT INFORMATION

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
1 Earned premium revenue	$ 1,310,552,939	$ 1,466,303,263	$ 1,571,311,742	$ 1,600,787,301	$ 1,597,599,297	$ 1,606,978,197	$ 1,612,539,798	$ 1,624,815,499	$ 1,627,656,265	$ 1,640,341,966
2 Administrative fees	72,835,609	77,103,647	81,047,606	82,087,968	81,459,009	87,107,670	83,048,766	73,177,331	75,515,090	77,296,439
3 Incurred claims as originally estimated	1,292,058,690	1,391,340,142	1,475,301,386	1,531,837,744	1,530,198,658	1,460,929,606	1,347,112,404	1,348,429,170	1,402,631,988	1,479,372,629
4 Claims paid (cumulative) as of:										
End of fiscal year	1,264,866,329	1,318,823,738	1,391,374,820	1,445,034,561	1,434,661,145	1,367,500,127	1,275,353,882	1,230,809,586	1,326,155,196	1,390,162,355
One year later	1,290,726,721	1,399,923,238	1,477,128,563	1,533,569,193	1,539,861,704	1,477,144,251	1,349,674,497	1,339,032,485	1,397,381,146	
Two years later	1,289,632,676	1,396,975,889	1,466,785,311	1,532,731,690	1,537,203,974	1,476,869,202	1,353,582,804	1,327,946,378		
Three years later	1,289,627,965	1,396,631,217	1,466,628,596	1,532,536,824	1,537,203,974	1,476,869,202	1,353,582,804			
Four years later	1,289,627,965	1,396,631,217	1,466,785,311	1,532,536,824	1,537,203,974	1,476,869,202				
Five years later	1,289,627,965	1,396,631,217	1,466,785,311	1,532,536,824	1,537,203,974					
Six years later	1,289,627,965	1,396,631,217	1,466,785,311	1,532,536,824						
Seven years later	1,289,627,965	1,396,631,217	1,466,785,311							
Eight years later	1,289,627,965	1,396,631,217								
Nine years later	1,289,627,965									
5 Re-estimation of incurred claims:										
End of fiscal year	1,292,058,690	1,391,340,142	1,475,301,386	1,531,837,744	1,530,198,658	1,460,929,606	1,347,112,404	1,348,429,170	1,402,631,988	1,479,372,629
One year later	1,289,388,786	1,398,876,844	1,474,723,264	1,532,351,648	1,537,906,575	1,474,432,788	1,351,081,978	1,339,032,485	1,396,808,015	
Two years later	1,289,627,965	1,396,631,217	1,466,628,596	1,532,536,824	1,536,506,505	1,476,210,218	1,358,368,345	1,338,945,276		
Three years later	1,289,627,965	1,396,631,217	1,466,628,596	1,532,536,824	1,536,506,505	1,476,210,218	1,358,368,345			
Four years later	1,289,627,965	1,396,631,217	1,466,628,569	1,532,536,824	1,536,506,505	1,476,210,218				
Five years later	1,289,627,965	1,396,631,217	1,466,628,569	1,532,536,824	1,536,506,505					
Six years later	1,289,627,965	1,396,631,217	1,466,628,569	1,532,536,824						
Seven years later	1,289,627,965	1,396,631,217	1,466,628,569							
Eight years later	1,289,627,965	1,396,631,217								
Nine years later	1,289,627,965									
6 Change in estimated incurred claims from the original estimate using re-estimation as of the end of the most recent fiscal year	$ (2,430,725)	$ 5,291,075	$ (8,672,817)	$ 699,080	$ 6,307,847	$ 15,280,612	$ 11,255,941	$ (9,483,894)	$ (5,823,973)	$

The table above illustrates how the Plan's earned revenues compare to related costs of loss and other expenses assumed by the Plan as of the end of the year. The rows of the table are identified as follows:

1) This line shows the total fiscal year's earned premium revenues.
2) This line shows the fiscal year's administrative fees.
3) This line shows the incurred claims (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 policy year).
4) This line shows the cumulative amount paid as of the end of the successive year for each policy year, net of recoveries.
5) This line shows how the policy year's incurred claims increased or decreased as of the end of the year. 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 amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy 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 policy years.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2015	2016	2017	2018
Proportion of the net pension liability (asset)	0.134989%	0.152453%	0.140373%	0.158439%
Proportionate share of the net pension liability	$ 12,110,673	$ 15,293,546	$ 16,001,487	$ 21,212,020
Covered- employee payroll	$ 2,389,746	$ 2,478,791	$ 2,354,111	$ 2,418,442
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	506.78%	616.98%	679.73%	877.09%
Pension plan fiduciary net position as a percentage of the total pension liability	22.32%	18.83%	14.80%	13.32%

*Note: This schedule is intended to present 10 years of the proportionate share of the net pension liability. Currently, only the years with information available are presented. The amounts presented were determined as of the fiscal year ended. The amounts for covered employee payroll for the fiscal year were determined as of June 30th of the prior year (measurement date).

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS

	2014	2015	2016	2017	2018
Statutorily required contribution	$ 413,193	$ 764,459	$ 726,008	$ 973,181	$ 943,047
Contribution in relation to the statutorily contribution	413,193	764,459	726,008	973,181	943,047
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Covered employee payroll	$ 2,389,746	$ 2,478,791	$ 2,354,111	$ 2,418,442	$ 2,296,756
Contribution as a percentage of covered-employee payroll	17.29%	30.84%	30.84%	40.24%	41.06%
Notes to Schedule					
Valuation date	Not available	June 30, 2014	June 30, 2015	June 30, 2015	June 30, 2015
Methods and assumptions used to determine contributions:					
Actuarial cost method	Not available	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Not available	Level of percentage of pay closed	Level of percentage of pay closed	Level of percentage of pay closed	Level of percentage of pay closed
Asset valuation method	Not available	Five-year smoothed market	Five-year smoothed market	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment return	Not available	7.75%	7.50%	6.75%	6.75%
Inflation	Not available	3.50%	3.25%	3.25%	3.25%
Projected salary increase	Not available	4.0% - 8.20%	4.0% - 8.20%	4.0% average, including inflation	4.0% average, including inflation

Mortality

The rate of mortality is based on the RP-2000 Combined Mortaility Table projected to 2020 using scale AA (set back one year for females) for death after service retirement and beneficiaries. The RP-2000 Disabled Mortality table (set back seven years for males and set forward five years for females) is used for death after disability retirement

Note: This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

	2017	2018
Proportion of the Net OPEB Liability (asset)	0.140373%	0.158439%
Proportionate share of the Net OPEB Liability	$ 3,400,600	$ 4,017,953
Covered-Employee Payroll	$ 2,354,111	$ 2,418,442
Proportionate share of the Net OPEB Liability (asset) as a percentage of its covered-employee payroll	144.45%	166.14%
Plan Fiduciary Net Position as a percentage of the total	24.48%	24.37%

*Note: This schedule is intended to present 10 years of the proportionate share of the net OPEB liability. Currently, only those years with information available are presented. The amounts presented above were determined as of the fiscal year ended above. The amounts presented above for the fiscal year were determined as of June 30 for the year prior (the measurement date).

KENTUCKY PUBLIC EMPLOYEE HEALTH INSURANCE PROGRAM
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS

	2016	2017	2018
Statutorily required contribution	$ 186,681	$ 201,940	$ 193,157
Contribution in relation to the statutorily contribution	186,681	201,940	193,157
Contribution deficiency (excess)	$ -	$ -	$ -
Covered employee payroll	$ 2,354,111	$ 2,418,442	$ 2,296,756
Contribution as a percentage of covered-employee payroll	7.93%	8.35%	8.41%
Notes to Schedule			
Valuation date	Not available	June 30, 2017 with roll forward procedures	June 30, 2017 with roll forward procedures
Methods and assumptions used to determine contributions:			
Actuarial cost method	Not available	Entry Age Normal	Entry Age Normal
Amortization method	Not available	Level of percentage of pay closed	Level of percentage of pay closed
Asset valuation method	Not available	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized	20% of the difference between the market value of assets and the expected acturarial value of assets is recognized
Amortization period	Not available	28 Years, Closed	28 Years, Closed
Investment return	Not available	7.50%	7.50%
Inflation	Not available	3.25%	3.25%
Projected salary increase	Not available	4.00% average	4.00% average
Healthcare Trend Rates (Pre-65)	Not available	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.	Initial trend starting at 7.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 5 years.
Healthcare Trend Rates (Post-65)	Not available	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.	Initial trend starting at 5.50% and gradually decreasing to an ultimate trend rate of 5.00% over a period of 2 years.

Mortality: RP-2000 Combined Mortaility Table, projected to 2013 with Scale BB (set back 1 year for females)

Note: This is a 10 year schedule. Years will be added to this schedule in future fiscal years until 10 years of information is available.

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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*

MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

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*

Independent Auditor's Report

Thomas B. Stephens, Secretary
Personnel Cabinet
501 High Street
Frankfort, KY 40601

We have audited, 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, the financial statements of the Kentucky Public Employee Health Insurance Program (Plan) of the Personnel Cabinet as of and for the years ended June 30, 2018 and June 30, 2017, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements, and have issued our report thereon dated November 26, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Plan'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we do not express an opinion on the effectiveness of the Plan'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 over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be a significant deficiency identified as 2018-01.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Plan'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*.

The Department's Response to the Findings and Recommendations

The Department of Employee Insurance's (Department) response to the finding identified in our audit is described in the accompanying Schedule of Findings and Recommendations. The Department's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

Mike Harmon
Auditor of Public Accounts

November 26, 2018

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

DEPARTMENT OF EMPLOYEE INSURANCE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2018

FINDING 2018-01: The Department Of Employee Insurance Did Not Have Internal Controls In Place For The Annual Open Enrollment Period With Regards To Dependent Eligibility

During fiscal year 2018 the Kentucky Employees Health Plan (KEHP) contracted with a 3rd party vendor to conduct a dependent eligibility audit. A dependent eligibility audit verifies that the dependents covered by KEHP meet the definition of an eligible dependent for the plan. The KEHP Administration Manual defines an eligible dependent as an employee or retiree's spouse or child under the age of 26, or a disabled dependent who is over the age of 26.

The dependent eligibility audit verified 113,528 dependents met the definition of eligible for plan coverage through the October 7 final appeal date. However, the audit also identified 3,570 dependents who failed verification after all appeals and another 1,272 dependents who voluntarily dropped coverage when asked to verify eligibility. An additional 2,768 dependents were verified by the 3rd party vendor but were later voluntarily removed from the plan due to a qualifying event.

The KEHP does not have a process in place to verify eligible dependents during the open enrollment period. Due to the volume of plan members and dependents, along with the decreased workforce at KEHP, the ability to verify all new dependents during open enrollment hasn't been possible.

The dependent eligibility audit performed during the fiscal year was not the first time KEHP has contracted for this type of work. However, due to the cost, the last time a similar process was performed was eight years ago.

If there are people erroneously on an insurance plan, it can cost the Commonwealth of Kentucky (Commonwealth) unnecessary dollars in both claims and administrative expense. Verifying each dependent's eligibility is a way to control insurance costs without asking employees to pay more to support the plan. KEHP has a fiscal responsibility to the plan and the plan participants. If there are excess claim dollars under these plans that are being unjustly paid out, it is inequitable not only to the Commonwealth but to all of the employees who support the plan financially.

For the fiscal year the total amount of paid medical and pharmaceutical claims equaled $16,238,645 for ineligible plan dependents. The break-out, by claim type and dependent category, is below:

Medical Claims		
Dependent Category	**Number of Claims**	**Cost of Claims**
Failed	20,554	$ 8,457,924
Voluntarily Dropped	9,074	5,230,713
Medical total	**29,628**	**$ 13,688,637**
Pharmaceutical Claims		
Failed	14,825	$ 1,716,531
Voluntarily Dropped	7,260	833,477
Pharmaceutical total	**22,085**	**2,550,008**
Total Claims	**51,713**	**$ 16,238,645**

FINDING 2018-01: The Department Of Employee Insurance Did Not Have Internal Controls In Place For The Annual Open Enrollment Period With Regards To Dependent Eligibility (Continued)

Adequate internal controls is the responsibility of management and demands proper attention be given to assess the risk within the entity. Verification of dependent eligibility is an effective and organized method to ensure all dependents remain eligible for health insurance benefits. Periodic review of all dependent eligibility should be performed including a review of the eligibility requirements and a verification that all dependents currently receiving benefits under the plan are eligible to receive such benefits.

Recommendation

We recommend KEHP:

- Assess the risks of ineligible dependents being added to the plan and design controls that are both effective and cost efficient to the Commonwealth.
- Document and implement procedures for reviewing dependent eligibility during open enrollment.
- Implement new controls to ensure ineligible members are not enrolled in the plan. This can be done by creating system edits that would flag new dependents added during open enrollment.
- Perform dependent eligibility verification on a biennial or more consistent basis.

Management's Response and Corrective Action Plan

The Personnel Cabinet strongly endorses an ongoing dependent eligibility verification process to preserve the integrity of the Kentucky Employees' Health Plan (KEHP) membership and to reduce financial risks generated by ineligible dependents. In response to the auditor's recommendations, the Cabinet has instituted controls and will implement additional controls by December 1, 2018.

Controls have been in place since 2006 to verify the addition of spouses and newborns added to the plan due to a qualifying event. Starting in the third quarter of 2017, DEI implemented additional controls to verify dependents added to the plan during new hire and qualifying event processes. Then, in the spring of 2018, DEI contracted with a third party vendor to perform a total dependent eligibility verification audit. In the fourth quarter of 2018, DEI contracted with the vendor to perform ongoing dependent eligibility verification effective December 1, 2018, including all dependents added to the plan during open enrollment or throughout the year.

Previously, system and workforce limitations prevented eligibility verification of new dependents added during the annual open enrollment season. This inability to verify the eligibility of new dependents added during open enrollment created a known gap in eligibility verification and was why the Personnel Cabinet, on its own, contracted for a verification audit.

DEPARTMENT OF EMPLOYEE INSURANCE
SCHEDULE OF FINDING AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)

FINDING 2018-01: The Department Of Employee Insurance Did Not Have Internal Controls In Place For The Annual Open Enrollment Period With Regards To Dependent Eligibility (Continued)

Management's Response and Corrective Action Plan (Continued)

To close the gap created by dependents added during open enrollment, in the spring of 2018 the KEHP underwent a dependent eligibility verification audit by a third party vendor. DEI used the public procurement process to contract with the vendor. Except for handling some outlying individual appeal issues, the vendor completed the eligibility verification audit of 121,138 dependents in October 2018. Initially 1,272 dependents were voluntarily removed by plan holders with 42% (534) of the dropped dependents turning 26 years old and aging out of the plan in 2018. At the close of the audit, 9,483 dependents were involuntarily removed from KEHP coverage. During the Level 1 and Level 2 Appeals process, 64% (6,041) of the involuntarily dropped dependents were added back to the plan after providing proof of eligibility to the vendor.

Of the 3,442 remaining dependents who were removed from the plan involuntarily, evidence suggests that many of these dependents were eligible, but plan holders simply failed to verify their dependents' status, or the dependents included children being raised by extended family members. A common example that emerged through the audit process was grandchildren of plan holders who were being raised in their grandparents' homes. The plan holder, in many cases a grandparent, had not sought a change in legal status from a court of law establishing legal dependency. The Personnel Cabinet believes this may be the result of several factors including knowledge of the requirement or even a lack of funds.

Under federal rules regarding rescission of coverage, dependents determined to be ineligible for health insurance coverage as a result of an eligibility audit may not be retroactively removed from the plan absent a showing of fraud or intentional material misrepresentation. As a result, ineligible dependents are removed from the plan prospectively, eliminating the ability of the health plan to recoup paid claims and the necessity to refund paid premiums. As the auditor noted, the dependents who were ineligible for coverage incurred claims that, had the dependents not been added to the plan, would not have been claims payable by the KEHP. It should be noted that during fiscal year 2018 the KEHP billed plan holders of dependents who failed the eligibility audit approximately $70 million in health insurance premiums.

The Personnel Cabinet contracted with the third party vendor to provide ongoing dependent eligibility verification services for the KEHP. Beginning in December 2018, the vendor will verify the eligibility of all dependents added to the KEHP, including dependents added during open enrollment. The vendor will require verification for dependents added during the 2018 open enrollment period who were not verified during the 2018 eligibility audit and any new dependents added since the audit closed. On an ongoing basis, the vendor will audit 100% of children and spouses added to the plan. In addition, previously verified spouses of Commonwealth employees covered under the KEHP will be re-verified every 24 months. The vendor's contract provides for ongoing dependent eligibility verification services through June 30, 2020.

DEPARTMENT OF EMPLOYEE INSURANCE
SCHEDULE OF FINDING AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2018
(Continued)

FINDING 2018-01: The Department Of Employee Insurance Did Not Have Internal Controls In Place For The Annual Open Enrollment Period With Regards To Dependent Eligibility (Continued)

Management's Response and Corrective Action Plan (Continued)

DEI will enhance current processes and implement ongoing eligibility audit procedures by December 1, 2018, addressing all corrective actions related to the auditor's recommendations.

Auditor Reply

The control weakness identified by the APA relates to the annual open-enrollment process and not qualifying events (QEs) process as mentioned by management's response. Also, management's response identified $70 million in premiums billed to plan holders with dependents who failed the eligibility audit. However, it should be noted that these premiums paid do not always equate to a specific dependent, such as in the case of family and parent plus plans when more than one dependent child is in the household. The APA did not perform audit procedures to determine if the $70 million of premiums paid by plan holders mentioned in management's response were attributed directly to these dependents due to limited time and system constraints.

DEPARTMENT OF EMPLOYEE INSURANCE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

Reference Number	Summary of Finding	Status
2017-01	The Department Of Employee Insurance Did Not Provide Adequate Management Oversight Or Review Of The Accounts Receivable Records Used In Preparing Financial Statements Of The Kentucky Employees Health Plan	Resolved