

**REPORT OF THE AUDIT OF THE
KENTUCKY OFFICE OF HEALTH BENEFIT AND
HEALTH INFORMATION EXCHANGE
KENTUCKY ACCESS DIVISION**

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

Carrie Banahan, Executive Director
Kentucky Access Division
Kentucky Office of Health Benefit and Health Information Exchange
Cabinet for Health and Family Services

Independent Auditor's Report

Report on the Financial Statements

We have audited the accompanying financial statements of the Kentucky Access Division (Kentucky Access), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Kentucky Access Program's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Kentucky Access's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Carrie Banahan, Executive Director
Kentucky Access Division
Kentucky Office of Health Benefit and Health Information Exchange
Cabinet for Health and Family Services

Opinion

In our opinion, the financial statements referred to above present fairly, in a material respects, the financial position of Kentucky Access, as of June 30, 2014, 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.

Other Matter

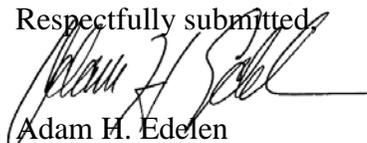
Required Supplementary Information

Management has omitted management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2014 on our consideration of Kentucky Access'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 Kentucky Access'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 Kentucky Access's internal control over financial reporting and compliance.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

November 12, 2014

FINANCIAL STATEMENTS

**KENTUCKY OFFICE OF HEALTH BENEFIT AND
HEALTH INFORMATION EXCHANGE
KENTUCKY ACCESS DIVISION
STATEMENT OF NET POSITION**

June 30, 2014

<u>Assets</u>	
Current Assets:	
Cash and cash equivalents	\$ 14,964,677
Investments	7,840,378
Assessments receivable	909,298
Interest receivable	(934)
Total Current Assets	<u>23,713,419</u>
 Total Assets	 <u>23,713,419</u>
 <u>Liabilities</u>	
Current Liabilities:	
Incurred but not reported claims	1,000,000
Accounts payable	199
Total Current Liabilities	<u>1,000,199</u>
 Total Liabilities	 <u>1,000,199</u>
 <u>Net Position</u>	
Unrestricted	<u>22,713,220</u>
 Total Net Position	 <u>\$ 22,713,220</u>

The accompanying notes are an integral part of this financial statement.

**KENTUCKY OFFICE OF HEALTH BENEFIT AND
HEALTH INFORMATION EXCHANGE
KENTUCKY ACCESS DIVISION
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

For The Year Ended June 30, 2014

Operating Revenues:	
Tobacco fund allocation	\$ 26,657,165
GAP assessment income	13,761,950
Premium income/charges for service	15,577,531
Federal grant	983,522
Total Operating Revenues	<u>56,980,168</u>
Operating Expenses:	
Benefits	36,000,471
Other	2,893,745
IBNR	(7,890,000)
Total Operating Expenses	<u>31,004,216</u>
Income From Operations	<u>25,975,952</u>
Non-Operating Revenues (Expenses):	
Interest income	2,204
Transfer to General Fund	(3,100,000)
Total Non-Operating Revenues (Expenses)	<u>(3,097,796)</u>
Change in Net Position	22,878,156
Net Position at July 1, 2013, As Restated	<u>(164,936)</u>
Net Position at June 30, 2014	<u>\$ 22,713,220</u>

The accompanying notes are an integral part of this financial statement.

**KENTUCKY OFFICE OF HEALTH BENEFIT AND
HEALTH INFORMATION EXCHANGE
KENTUCKY ACCESS DIVISION
KENTUCKY ACCESS PROGRAM
STATEMENT OF CASH FLOWS**

For The Year Ended June 30, 2014

Cash flows from operating activities:	
Cash received from customers	\$ 26,922,574
Cash received from others	27,640,687
Cash payments for goods and services	(38,894,026)
Net cash used by operating activities	<u>15,669,235</u>
Cash flows from noncapital financing activities:	
Transfer to General Fund	<u>(3,100,000)</u>
Net cash used by noncapital financing activities	<u>(3,100,000)</u>
Cash flows from investing activities:	
Income from investments	2,204
Change in equity portion of pooled investments	(4,314,656)
Net cash used by investing activities	<u>(4,312,452)</u>
Net change in cash and cash equivalents	8,256,783
Cash and cash equivalents, beginning of year	<u>6,707,894</u>
Cash and cash equivalents, end of year	<u>\$ 14,964,677</u>
Reconciliation of income from operations to net cash flows from operating activities:	
Income from operations	\$ 25,975,952
(Increase) decrease in operating assets:	
Accounts receivable	58,490
Increase (decrease) in operating liabilities:	
Accounts payable	<u>(10,365,207)</u>
Net cash used by operating activities	<u>\$ 15,669,235</u>

The accompanying notes are an integral part of this financial statement.

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NOTES TO THE FINANCIAL STATEMENTS

**KENTUCKY OFFICE OF HEALTH BENEFIT AND
HEALTH INFORMATION EXCHANGE
KENTUCKY ACCESS DIVISION
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2014**

Note 1 - Description of Organization and Summary of Significant Accounting Policies

A. Organization

The Kentucky Access Program (Kentucky Access) began operations January 1, 2001, by KRS 304.17B-001 to 304.17B-031 for the purpose of implementing a state sponsored “high risk” pool, as well as implementing an acceptable alternative mechanism within the meaning of 42 U.S.C. sec.300gg-44 (a)(1) so that Kentucky may preserve the flexibility over the regulation of health insurance coverage allowed by federal law.

Due to new regulations associated with the Patient Protection and Affordable Care Act (PPACA), it is expected that Kentucky Access will be dissolved as an organization within the next couple of years. Membership participation was terminated on December 31, 2013; however, Kentucky Access will remain operational for an undetermined period of time to process any claims or appeals, which should last through calendar year 2015.

No referral fees are paid to Kentucky Access; however, Kentucky Access does pay a referral fee to those agents who enroll members into the program. A provider network is then established, or a provider network is created by contracting with an insurer for a statewide provider network. Under KRS 304.17B-011 the established provider network is available and limited only to Kentucky Access enrollees.

A third-party administrator, chosen through the state bidding process, administers Kentucky Access. The administrator develops and establishes policies and procedures for enrolled participants and potential enrollees. However, premium rates charged do not fully cover health care costs; thus, claims exceeding premium rates are covered by the Kentucky Access fund.

The Guaranteed Acceptance Program (GAP) was established April 10, 1998, by KRS 304.17A-400 to 304.17A-480. The purpose of GAP is to assist participating insurance companies in recouping losses incurred through insuring individuals who meet the statutory definition of “high risk.” The GAP fund of \$14,873,831 that existed at January 1, 2001, was transferred to the Kentucky Access Program. GAP is still in existence with approximately 15 insureds and is no longer accepting insureds. GAP will cease to exist when all insureds no longer participate in the program.

Under GAP, participating insurers are reimbursed up to the amount of their program plan losses from funds of GAP. The GAP participating insurer for the year ended June 30, 2014 was Anthem.

**KENTUCKY OFFICE OF HEALTH BENEFIT AND
HEALTH INFORMATION EXCHANGE
KENTUCKY ACCESS DIVISION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)**

Note 1 - Description of Organization and Summary of Significant Accounting Policies (Continued)

B. Organization's Significant Accounting Policies

1) Basis of Presentation

In June 2013, Kentucky Access was reorganized within the Cabinet for Health and Family Services within the Office of Health Benefit and Health Information Exchange. Kentucky Access has one fund, an enterprise fund that accounts for monies held by the Commonwealth to be distributed for specific operations of the state sponsored "high risk" pool.

2) Measurement Focus/Basis of Accounting

Kentucky Access's financial statements are prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. The financial statements report information on all of the activities of Kentucky Access using the economic resources measurement focus and the accrual basis of accounting, as is required for proprietary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. As permitted by GASB Statement No. 20 for enterprise funds, KY Access has elected not to adopt FASB Statements or Interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

Since Kentucky Access is engaged in a single program reported in a proprietary fund, generally accepted accounting principles permit a single-column approach for reporting fund financial statement information and entity-wide information. Proprietary funds' revenues and expenses are divided into operating and non-operating, and are then further characterized by function (personal services, depreciation expense, travel expense, etc).

3) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**KENTUCKY OFFICE OF HEALTH BENEFIT AND
HEALTH INFORMATION EXCHANGE
KENTUCKY ACCESS DIVISION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)**

**Note 1 - Description of Organization and Summary of Significant Accounting Policies
(Continued)**

B. Organization's Significant Accounting Policies (Continued)

4) Sources of Revenue

Funding for Kentucky Access is provided by statute and is composed of appropriations from the Tobacco Settlement Agreement Fund; enrollee premium payments; assessments on insurers; premium taxes collected under KRS Chapter 136 from any insurer and any retaliatory taxes collected under KRS 304.3-270 from any insurer, for accident and health premiums that are in excess of the amount of the premium taxes and retaliatory taxes collected for the calendar year 1997; gifts, grants, or other voluntary contributions; and interest or other earnings on the investment of monies in the Kentucky Access fund.

5) Net Position

The Statement of Net Position presents Kentucky Access's assets and liabilities, with the difference between the two shown as net position. Net position may be reported in one of three categories: invested in capital assets net of related debt, restricted, or unrestricted.

The net position of Kentucky Access at June 30, 2014, was a positive balance and therefore is reported as unrestricted.

Note 2 - Cash and Investments

Kentucky Access participates in the Commonwealth of Kentucky's cash and investment pool, which is available for use by all funds under the auspices of the State Investment Commission as authorized under KRS 42.500 et al. Therefore, it follows the policies established by the Commonwealth for pooled cash and investments.

The disclosure of risk related to deposits and investments are reported in the Commonwealth's Comprehensive Annual Report. At June 30, 2014, the carrying amount of the Kentucky Access Program's pooled deposits was \$22,786,344.

In addition, Kentucky Access had deposits outside the investment pool in two accounts residing at Key Bank and Farmers Bank. Balances in these accounts as of June 30, 2014 totaled \$300 and \$18,412, respectively.

**KENTUCKY OFFICE OF HEALTH BENEFIT AND
HEALTH INFORMATION EXCHANGE
KENTUCKY ACCESS DIVISION
NOTES TO FINANCIAL STATEMENTS
June 30, 2014
(Continued)**

Note 5 - Premium Income

Premium income is prorated over the term of the contract, with the earned premium representing the expired term of the policies.

Note 6 – Transfers

Kentucky Access transferred \$3,100,000 during FY 14 to the Commonwealth's General Fund. This transfer was required to comply with House Bill 406.

Note 7 – Restatement

Kentucky Access's Net Position as of June 30, 2013 has been restated to correct the ending balance in cash at June 30, 2013. Cash should have been reported as \$6,707,894 instead of \$6,713,854, resulting in a decrease of \$5,960 in Kentucky Access's Net Position as of June 30, 2013. Kentucky Access's Net Position as of June 30, 2013 was restated to (\$164, 936).

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***



ADAM H. EDELEN
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

Carrie Banahan, Executive Director
Kentucky Access Division
Kentucky Office of Health Benefit and Health Information Exchange
Cabinet for Health and Family Services

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 financial statements of the Kentucky Access Program (KY Access) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KY Access's basic financial statements, and have issued our report thereon dated November 12, 2014.

Internal Control Over Financial Reporting

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



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*
(Continued)

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 over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

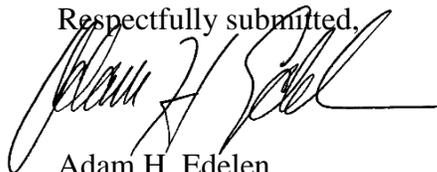
Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

November 12, 2014

