




# Kentucky Health Benefit Exchange

FINANCIAL STATEMENTS  
and  
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2022

With Independent Auditor's Report



# KENTUCKY HEALTH BENEFIT EXCHANGE

JUNE 30, 2022

## TABLE OF CONTENTS

	<u>Page(s)</u>
Independent Auditor's Report	1 - 3
Management's Discussion and Analysis (Unaudited)	4 - 7
Financial Statements	
Balance Sheet	8
Statement of Revenues, Expenses, and Changes in Net Position	9
Statement of Cash Flows	10
Notes to the Financial Statements	11 - 24
Required Supplementary Information	
Schedule of Proportionate Share of the Net Pension Liability	25
Schedule of Pension Contributions	26 - 27
Schedule of Proportionate Share of the Net OPEB Liability	28
Schedule of OPEB Contributions	29
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	30 - 31



## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Kentucky Health Benefit Exchange

### Report on the Audit of Financial Statements

#### *Opinion*

We have audited the financial statements of Kentucky Health Benefit Exchange (a component unit of the Commonwealth of Kentucky) (the Exchange) which comprise the balance sheet as of June 30, 2022, and the statements of revenues, expenses, and changes in net position, and cash flows for the year then ended and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Exchange as of June 30, 2022, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles (U.S. GAAP).

#### *Basis for Opinion*

We conducted our audit in accordance with U.S. generally accepted auditing standards (U.S. GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Exchange and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Exchange's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS and

*Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Exchange's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audits.

### ***Required Supplementary Information***

U.S. GAAP require that the Management's Discussion and Analysis on Pages 4 through 7 and the information listed under Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Board of Directors  
Kentucky Health Benefit Exchange

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated May 31, 2023 on our consideration of the Exchange's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Exchange'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 Exchange's internal control over financial reporting and compliance.

*Berry Dunn McNeil & Parker, LLC*

Manchester, New Hampshire  
May 31, 2023

# KENTUCKY HEALTH BENEFIT EXCHANGE

## Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2022

The following narrative and analysis is provided as an overview of the financial activities of the Kentucky Health Benefit Exchange (KHBE) as of and for the fiscal year ended June 30, 2022, to assist the reader in an assessment of the financial condition of KHBE. Please assess this narrative and analysis in conjunction with KHBE's financial statements and the accompanying notes.

### **Overview**

Section 1311(b) of the Affordable Care Act (Patient Protection and Affordable Care Act, P.L. 111-148, as amended by the Health Care and Education Reconciliation ACT P.L. 111-152, hereafter referred to as "ACA") requires the establishment of an American Health Benefit Exchange in each state and establishes the requirements of a health benefit exchange. KHBE was first authorized by Executive Order on July 17, 2012 as a state agency within the Commonwealth of Kentucky's Cabinet for Health and Family Service. Subsequent executive orders issued each year thereafter continued the establishment and operation of KHBE until 2019, when the Office of Health Data and Analytics was established under a Cabinet re-organization.

The "No Wrong Door" approach was established by the ACA to use a single eligibility determination and enrollment process so consumers would not have to navigate multiple agencies and systems. Kentucky's exchange was designed to accept applications and determine eligibility for Qualified Health Plans (QHP), Medicaid, and Kentucky Children's Health Insurance Program (KCHIP) applicants. As a result, a cost allocation plan (CAP) was developed to meet federal requirements that shared costs be allocated appropriately among the programs utilizing the same services. Therefore, costs associated with all three programs are allocated among KHBE, Medicaid and KCHIP based on the federally approved CAP while costs strictly associated with one program are not cost allocated with others.

In June 2020, the Governor of the Commonwealth of Kentucky notified the Centers for Medicare & Medicaid Services (CMS) of the Commonwealth's intention to transition from a Federal Exchange back to a State-based Exchange (SBE). In September 2021, the Commonwealth of Kentucky received conditional approval from CMS to re-establish its SBE. Conditional approval reflects the progress KHBE has made in demonstrating its readiness as an SBE to provide affordable, quality coverage for consumers for plan year 2022.

### **Funding**

The ACA requires each state to ensure that its Exchange has sufficient funding in order to support its ongoing operations. KHBE's on-going funding is through a broad-based premium assessment on all issuers offering health benefit plans and stop loss policies. State fiscal year (SFY) 2022 revenue generated from a 1% broad based assessment was approximately \$35 million.

The Commonwealth of Kentucky's budget for SFY 2022 was approved by the General Assembly in the spring of 2021. Approved within the biennial budget is the budget for the Office of Health Data and Analytics, of which the Division of Health Benefit Exchange is now a part. KHBE did not receive any state general fund appropriations.

## KENTUCKY HEALTH BENEFIT EXCHANGE

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

Year Ended June 30, 2022

In SFY 2022, the Department of Health and Human Services (HHS) awarded KHBE a State Exchange Modernization grant. This is a one-time federal award for \$650,000 with a budget period of September 10, 2021 to September 9, 2022. Medicaid federal funds were also used in SFY 2022 per their cost sharing agreement.

#### Financial Statements

KHBE's financial statements include the Balance Sheet; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). These financial statements and related note disclosures are designed to provide an overview of KHBE's financial position and activities.

**Balance Sheet** - The Balance Sheet presents information on KHBE's assets, liabilities, and net position. Over time, net position can serve as a useful indicator whether the financial position of KHBE is improving or deteriorating. As of June 30, 2022, the balance sheet reflects assets of \$19,456,074 with capital assets representing approximately 92% of the total assets due to the development of "kynect". The most significant portion of liabilities was net pension & OPEB liabilities of \$3,630,505, which represented 69% of total liabilities. These liabilities represent the proportionate share of the collective net pension liability and net OPEB liability determined by actuarial valuation as of June 30, 2020. The Table below presents KHBE's condensed Balance Sheet as of June 30, 2022 and June 30, 2021, derived from the Balance Sheet.

	<u>2022</u>	<u>2021</u>	Percentage Increase (Decrease)
Current assets	\$ 1,314,114	\$ 150,389	774 %
Non-current assets	258,128	207,971	24 %
Capital assets	<u>17,883,832</u>	<u>19,422,677</u>	<u>(8)%</u>
Total assets	<u>19,456,074</u>	<u>19,781,037</u>	<u>(2)%</u>
Deferred outflows of resources	<u>970,268</u>	1,263,388	<u>(23)%</u>
Total assets and deferred outflows of resources	<u>\$ 20,426,342</u>	<u>\$ 21,044,425</u>	<u>(3)%</u>
Current liabilities	\$ 1,591,966	\$ 371,199	329 %
Non-current liabilities	<u>3,690,544</u>	<u>3,140,514</u>	<u>18 %</u>
Total liabilities	<u>5,282,510</u>	<u>3,511,713</u>	<u>50 %</u>
Deferred inflows of resources	<u>603,750</u>	1,516,615	<u>(60)%</u>
Net investment in capital assets	17,883,832	19,422,677	(8)%
Unrestricted	<u>(3,343,750)</u>	<u>(3,406,580)</u>	<u>(2)%</u>
Total net position	<u>14,540,082</u>	<u>16,016,097</u>	<u>(10)%</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 20,426,342</u>	<u>\$ 21,044,425</u>	<u>(10)%</u>

# KENTUCKY HEALTH BENEFIT EXCHANGE

## Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2022

**Statement of Revenues, Expenses, and Changes in Net Position** - The Statement of Revenues, Expenses, and Changes in Net Position reports operating revenues and expenses for KHBE for the year ended June 30, 2022. The difference (increase or decrease) is presented as the change in net position. Operating revenue totaled \$6,916,126 and operating expenses were \$8,392,141 resulting in a net position decrease of \$1,476,015 for SFY 2022. The table below provides a summary of KHBE's revenue, expenses, and changes in net position for the years ended June 30, 2022 and June 30, 2021.

	<u>2022</u>	<u>2021</u>	Percentage Increase (Decrease)
Total operating revenues	\$ 6,916,126	\$ 8,743,764	(21)%
Total operating expenses	<u>8,392,141</u>	<u>8,492,273</u>	<u>(1)%</u>
Change in net position	<u>(1,476,015)</u>	251,491	(687)%
Net position at July 1, 2021	<u>16,016,097</u>	<u>15,764,606</u>	<u>2 %</u>
Net position at June 30, 2022	<u>\$ 14,540,082</u>	<u>\$ 16,016,097</u>	<u>(9)%</u>

**Statement of Cash Flows** - The Statement of Cash Flows presents information showing how KHBE's cash and cash equivalents balances changed during the period. The Statement of Cash Flows classifies cash receipts and cash payments as resulting from operating activities, capital and related financing activities, noncapital activities and investing activities. The net result of those activities is reconciled to the cash balance reported at the end of the period. This statement is prepared using the direct method, which allows the reader to easily understand the amount of cash received and how much cash was disbursed.

**Notes to the Financial Statements** - The notes to the financial statements provide additional information that is essential for a complete understanding of the data provided in the financial statements.

### Economic Factors

The decision of the Governor of the Commonwealth of Kentucky to transition from a State-Based Marketplace using the Federal Platform (SBM-FP) to a State-Based Marketplace (SBM) will affect future KHBE financial statements. As a result of increasing operational activities, departmental expenditures have and are expected to continue to increase. As an SBM, Kentucky's exchange will continue to collect a broad-based premium assessment on all issuers offering health benefit plans and stop loss policies.

### Currently Known Facts, Decisions, or Conditions

In SFY 2023, as part of a cabinet re-organization, the Kentucky Health Benefit Exchange was resituated within the Department for Medicaid Services. As part of the Consolidated Appropriations Act, 2023, signed into law on December 29, 2022, Congress set an end of March 31, 2023 for the continuous enrollment provision. This will result in significant future expenses for KHBE as around 70,000 Kentuckians per month are redetermined for Medicaid and thousands enroll in Qualified Health Plans or renew Medicaid through the integrated system.



**KENTUCKY HEALTH BENEFIT EXCHANGE**

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

**Year Ended June 30, 2022**

**Contacting KHBE's Management**

KHBE's financial statements are designed to provide a general overview of the KHBE's finances. Additional information regarding KHBE's financial statements may be obtained from: Department for Medicaid Services, Division of Health Plan Oversight, 275 E Main St 6 E-D Frankfort, KY 40621.

**KENTUCKY HEALTH BENEFIT EXCHANGE**

**Balance Sheet**

**June 30, 2022**

**ASSETS**

Current assets	
Cash	\$ 11,790
Interfund receivable, net	1,266,624
Federal grant receivable, net	22,766
Prepaid expenses	<u>12,934</u>
Total current assets	<u>1,314,114</u>
Non-current assets	
Long-term investments	258,128
Capital assets	<u>17,883,832</u>
Total noncurrent assets	<u>18,141,960</u>
Total assets	<u>19,456,074</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred outflows of resources - pension	599,190
Deferred outflows of resources - other post-employment benefits (OPEB)	<u>371,078</u>
Total deferred outflows of resources	<u>970,268</u>
Total assets and deferred outflows of resources	<u>\$ 20,426,342</u>

---

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

# KENTUCKY HEALTH BENEFIT EXCHANGE

## Balance Sheet

June 30, 2022

### LIABILITIES

Current liabilities	
Accounts payable	\$ 1,524,281
Accrued payroll	35,027
Compensated absences	<u>32,658</u>
Total current liabilities	<u>1,591,966</u>
Non-current liabilities	
Compensated absences	60,039
Net pension liability	3,074,900
Net OPEB liability	<u>555,605</u>
Total noncurrent liabilities	<u>3,690,544</u>
Total liabilities	<u>5,282,510</u>

### DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources - pension	81,316
Deferred inflows of resources - OPEB	<u>522,434</u>
Total deferred inflows of resources	<u>603,750</u>

### NET POSITION

Net position	
Net investment in capital assets	17,883,832
Unrestricted net position	<u>(3,343,750)</u>
Total net position	<u>14,540,082</u>
Total liabilities, deferred inflows of resources and net position	\$ <u><u>20,426,342</u></u>

---

# KENTUCKY HEALTH BENEFIT EXCHANGE

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

Year Ended June 30, 2022

Operating revenues	
Assessment fees from qualified health plans	\$ 6,323,378
Federal grants	546,807
Medicaid agency cost reimbursement	<u>45,941</u>
Total operating revenues	<u>6,916,126</u>
Operating expenses	
Personnel and contracted services	6,621,240
Commodities and supplies	115,134
Utilities, rental, and other services	114,854
Depreciation	1,538,845
Travel	<u>2,068</u>
Total operating expenses	<u>8,392,141</u>
Operating loss	(1,476,015)
Beginning net position	<u>16,016,097</u>
Ending net position	<u>\$ 14,540,082</u>

---

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

# KENTUCKY HEALTH BENEFIT EXCHANGE

## Statement of Cash Flows

Year Ended June 30, 2022

Cash flows from operating activities	
Cash received from other sources	\$ 5,153,629
Cash received from federal grants	528,108
Cash received from Medicaid reimbursements	47,747
Cash payments to other sources	(2,066)
Cash payments for goods and services	(268,111)
Cash payments for personnel and contracted services	<u>(5,432,916)</u>
Net cash provided by operating activities	<u>26,391</u>
Cash flows from investing activities	
Purchase of investment securities	<u>(50,157)</u>
Net cash used in investing activities	<u>(50,157)</u>
Net decrease in cash and cash equivalents	(23,766)
Cash and cash equivalents at July 1, 2021	<u>35,556</u>
Cash and cash equivalents at June 30, 2022	\$ <u>11,790</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (1,476,015)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	1,538,845
Increase (decrease) in assets	
Interfund receivable	(1,169,749)
Federal grant, receivable, net	(16,893)
Prepaid expenses	(849)
Decrease in deferred outflows of resources	293,120
Increase (decrease) in liabilities	
Accounts payable	1,213,033
Compensated absences	(11,340)
Pension and OPEB liabilities	569,104
Decrease in deferred inflows of resources	<u>(912,865)</u>
Net cash provided by operating activities	\$ <u>26,391</u>

---

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

# KENTUCKY HEALTH BENEFIT EXCHANGE

## Notes to the Financial Statements

Year Ended June 30, 2022

### **Nature of Operations**

This summary of significant accounting policies of the Kentucky Health Benefit Exchange (the Exchange) is presented to assist in understanding the Exchange's financial statements. The financial statements and notes are representations of the Exchange's management, which is responsible for their integrity and objectivity. These accounting policies conform to U.S. generally accepted accounting principles (U.S. GAAP) and have been consistently applied in the preparation of the financial statements.

#### **1. Summary of Significant Accounting Policies**

##### **Reporting Entity and Basis of Presentation**

The accompanying financial statements have been prepared in conformity with U.S. GAAP and are presented on the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recorded when earned and expenses are recorded when a liability is incurred. The Exchange has adopted the Governmental Accounting Standards Board (GASB) pronouncements, which is the accepted standard governing body for establishing governmental accounting and financial reporting principles nationally. The Exchange has no relationship with other entities that could be considered component units.

##### **Cash and Equivalents**

The Exchange considers all highly liquid investment securities purchased with an original maturity of three months or less to be cash equivalents.

##### **Grants**

Grant revenue is recognized and recorded as related expenses are incurred. Costs reimbursed by United States government agencies are subject to review and audit by such agencies.

##### **Capital Assets**

Purchased capital assets are reported at cost. During 2022, no hardware or software assets were purchased by the Exchange.

The policy of the Exchange is to capitalize assets when the useful life is greater than one year and the acquisition cost meets the capitalization threshold. The capitalization threshold is \$5,000 for tangible personal property and improvements to land. Intangible capital assets are capitalized when the cost is \$100,000 or more except software, which has a threshold of \$500,000. There were no acquisitions of land or other real property during the year ended June 30, 2022.

# KENTUCKY HEALTH BENEFIT EXCHANGE

## Notes to the Financial Statements

Year Ended June 30, 2022

Cost of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the period of sale or retirement, and the resulting gain or loss is included in operations. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives. The estimated useful life for software is 20 years.

### **Pensions**

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

### **Other Post-Employment Benefits**

For purposes of measuring the net Other Post-Employment Benefits (OPEB) liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense related to the OPEB plan, information about the fiduciary net position of KRS and addition to/deductions from KRS's fiduciary net position have been determined on the same basis as they are reported by KRS.

### **Net Position**

Net position presents the non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between these amounts shown as net position. Net position is reported in three categories, if applicable:

**Net invested in capital assets** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

**Restricted** - Net position subject to externally imposed stipulations on its use.

**Unrestricted** - All remaining net position that does not meet the definition of "net investment in capital assets" or "restricted."

When restricted assets and unrestricted assets are both available for a particular purpose, the Exchange's objective is to use any restricted funds first, since unrestricted funds are available for any purpose and provide for greater financial flexibility. The Exchange did not have restricted net position as of June 30, 2022.

# KENTUCKY HEALTH BENEFIT EXCHANGE

## Notes to the Financial Statements

Year Ended June 30, 2022

### Operating Revenues and Expenses

The Exchange distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses include all items directly and indirectly related to establishing and running a health insurance marketplace pursuant to the Affordable Care Act (ACA).

### Risk Management

The Exchange is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Exchange utilizes the Commonwealth of Kentucky's (the Commonwealth's) Risk Management Fund to mitigate risk exposure.

### Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## 2. Cash, Cash Equivalents, and Investments

The Commonwealth maintains an internal cash and investment pool that is available for use by all funds under the auspices of the State Investment Commission as authorized under Kentucky Revised Statute 42.500 et al. The Exchange was included in the pooling of cash during fiscal year 2022. Therefore, it follows the Commonwealth's policies for all internal pooled cash and investments. The risk disclosures related to deposits and investments are reported in the Commonwealth's Annual Comprehensive Financial Report (ACFR). As of June 30, 2022, the carrying value of the Exchange's pooled cash totaled \$11,790 and the fair value of the Exchange's investments was \$258,128, for a net combined positive total fair value of \$269,918. Please refer to the Commonwealth's ACFR for further information and disclosures.

## 3. Current Liabilities

Current liabilities are amounts owed by the Exchange as of June 30, 2022. The liabilities will be paid within one year and are therefore considered current. The following table shows the disaggregation of the amounts reported as current liabilities as of June 30, 2022.

### Current Liabilities

Personnel services	\$ 67,685
Accounts payable	<u>1,524,281</u>
Total current liabilities	<u>\$ 1,591,966</u>



# KENTUCKY HEALTH BENEFIT EXCHANGE

## Notes to the Financial Statements

Year Ended June 30, 2022

### 4. Capital Assets

Capital assets consist of the following:

	Balance June 30, 2021	Increases	Decreases	Balance June 30, 2022
Assets				
Software	\$ 30,776,904	\$ -	\$ -	\$ 30,776,904
Total all asset types	<u>30,776,904</u>	<u>-</u>	<u>-</u>	<u>30,776,904</u>
Accumulated depreciation				
Software	<u>(11,354,227)</u>	<u>(1,538,845)</u>	<u>-</u>	<u>(12,893,072)</u>
Total accumulated depreciation	<u>(11,354,227)</u>	<u>(1,538,845)</u>	<u>-</u>	<u>(12,893,072)</u>
Total capital assets, net	<u>\$ 19,422,677</u>	<u>\$ (1,538,845)</u>	<u>\$ -</u>	<u>\$ 17,883,832</u>

### 5. Medicaid Program Cost Reimbursement

On August 10, 2011, the federal government announced a time-limited, specific exception to the cost allocation requirements set forth in OMB Circular A-87 (Section C.3) that requires benefiting programs to pay their share of the cost associated with building state based information technology systems. This allowed the Exchange to allocate a portion of qualifying expenditures to Medicaid and KCHIP at a pre-agreed upon rate. Subsequently, the Exchange worked to discuss, review, and determine the cost allocation methodology for any Medicaid/KCHIP eligible expenditures. On March 20, 2012, the Center for Medicare and Medicaid Services (CMS) approved the Exchange's Implementation Advance Planning Document (I-APD) for the design, development, and implementation activities of the state's health insurance exchange that provides a benefit to the state's Medicaid program and KCHIP programs. Updates to the I-APD have been submitted on an annual basis to CMS for continued approval of the project's design, development, and implementation activities.

### 6. Commitments

As of June 30, 2022, the Commonwealth renewed and entered into numerous contract agreements relating to the development and operations of the Exchange. Any agreements are contingent on broad-based premium assessment levels.

#### Vendor Contracts

The Exchange has engaged in long-term contracts obligating it to expenditures totaling approximately \$3,112,000 and \$116,000 in the years ending June 30, 2023 and 2024, respectively.

**KENTUCKY HEALTH BENEFIT EXCHANGE**

**Notes to the Financial Statements**

**Year Ended June 30, 2022**

**7. Compensated Absences**

The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave accumulates at amounts ranging from 7.5 to 16 hours per month, determined by the length of service, with maximum accumulations ranging from 30 to 60 days. The estimated liability and change in the estimated liability for compensated absences for the Exchange as of June 30, 2022, are:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Annual leave	\$ 42,136	\$ 20,769	\$ 17,795	\$ 45,110	\$ 11,117
Compensatory leave	<u>61,901</u>	<u>12,492</u>	<u>26,806</u>	<u>47,587</u>	<u>21,541</u>
Total	<u>\$104,037</u>	<u>\$ 33,261</u>	<u>\$ 44,601</u>	<u>\$ 92,697</u>	<u>\$ 32,658</u>

It is the policy of the Commonwealth to record the cost of sick leave when paid. Generally, sick leave is paid only when an employee is absent due to illness, injury, or related family death. There is no liability recorded for sick leave at June 30, 2022. The estimated accumulated unused sick leave for the the Exchange employees at June 30, 2022 was \$87,467.

**8. Pension Plan**

Under the provisions of Kentucky Revised Statutes (KRS) 61.645, the Board of Trustees of the KRS administers the Kentucky Employees Retirement System (KERS).

The Commonwealth contributes to the KERS, a multiple-employer cost sharing defined benefit pension plan that covers 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 the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances.

House Bill 76 passed during the 2022 legislative session changes the frequency and scope of actuarial studies for the state's pension plans. The bill requires the Legislators Retirement Plan, the Judicial Retirement Plan, KRS, and the Teachers' Retirement System to perform an actuarial investigation of economic assumptions (inflation rate, investment return, payroll growth assumptions, etc.) once every two years rather than once every five years. The first actuarial investigation of economic assumptions will occur prior to the 2023 actuarial valuations. A review of demographic assumptions (mortality tables, withdrawal rates, retirement rate assumptions, etc.) will continue to be conducted once every five years.

The KRS issues a publicly available financial report that includes financial statements and required supplementary information for the above mentioned retirement systems. That report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (800) 928-4646 or (502) 564-4646 or online at [www.kyret.ky.gov](http://www.kyret.ky.gov).

**KENTUCKY HEALTH BENEFIT EXCHANGE**

**Notes to the Financial Statements**

**Year Ended June 30, 2022**

**Kentucky Retirement System  
Governance KRS 61.510 through KRS 61.705  
Cost Sharing Multiple Employer Defined Benefit  
Non-Hazardous**

	<b>Tier 1</b> Participation Prior to 9/1/2008	<b>Tier 2</b> Participation Prior to 9/1/2008 through 12/31/2013	<b>Tier 3</b> Participation on or after 1/1/2014
Covered employees:	Substantially, all regular full-time members employed in non-hazardous positions of any state department, board, or any agency directed by Executive Order to participate in the system.		
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 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% or 2.0% for those retiring with service for all months between 1/1998 and 1/1999,	Less than 11 years = 1.10% 11 to 20 years = 1.30%. 21 to 26 years = 1.50%. 27 to 30 years = 1.75%. Over 30 years = 2.00%.	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
Cost of living adjustment (COLA):	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		

# KENTUCKY HEALTH BENEFIT EXCHANGE

## Notes to the Financial Statements

**Year Ended June 30, 2022**

	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
Unreduced retirement benefit:	Any age with 27 years of service. Age 65 with 1 month of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.		
Reduced retirement benefit:	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65 or has less than 27 years of service, whichever is smaller.	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65, or does not meet the rule of 87 (age plus service) and is younger than age 57, whichever is smaller.	No reduced retirement benefit

### Kentucky Employees Retirement System (KERS) Non-Hazardous Pension Plan

Employer contribution:	78.69%
Member contribution:	5%
Employer contributions:	\$261,895
As of the measurement date:	
Actuarial valuation date:	June 30, 2020
Measurement date:	June 30, 2021
Actuarial cost method:	Entry age normal
Amortization method:	Level percent of pay
Asset valuation method:	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment rate of return:	5.25%
Inflation rate:	2.30%
Payroll growth assumptions:	0%
Projected salary increases:	Active member salaries are assumed to increase at the rate of 3.30% to 15.30% for KERS
Mortality tables:	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019
Date of experience study:	The period July 1, 2013 - June 30, 2018
Update procedures applied:	The total pension liability was rolled forward from the valuation date to the fiscal year ending June 30, 2021, using generally accepted actuarial principles.
Change in assumptions:	There have been no changes in actuarial assumptions.

# KENTUCKY HEALTH BENEFIT EXCHANGE

## Notes to the Financial Statements

Year Ended June 30, 2022

Membership information as of June 30, 2022 was:

Retirees and beneficiaries receiving benefits	2
Inactive members	1
Active plan members	18
Total	21

The long-term expected rate of return was determined by using a building block method in which best estimate ranges of expected future real rates 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 is summarized in the table below. The current long-term inflation assumption is 2.30% per annum.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Growth	54.50%	
US equity	16.25%	5.70%
Non-US equity	16.25%	6.35%
Private equity	7.00%	9.70%
Specialty credit/high yield	15.00%	2.80%
Liquidity	25.50%	
Core bonds	20.50%	0.00%
Cash	5.00%	-0.61%
Diversifying strategies	20.00%	
Real estate	10.00%	5.40%
Opportunistic	0.00%	N/A
Real return	10.00%	4.55%
Expected real return	100.00%	4.02%
Long-term inflation assumption		2.30%
Expected nominal return for portfolio		6.32%

**KENTUCKY HEALTH BENEFIT EXCHANGE**

**Notes to the Financial Statements**

**Year Ended June 30, 2022**

**KERS  
Non-Hazardous  
Pension Plan**

Discount rate:	5.25%
Change in discount rate from prior valuation:	0%

Plan cash flow assumption: The projection of cash flow used to determine the single discount rate assumed that employers would contribute the actuary determined contribution rate in all future years in accordance with the current funding policy as revised by House Bill 8 during the 2021 legislative session.

Rates incorporated in the discount rate	
Long-term rate of return:	5.25%
Period applied:	All periods
Municipal bond rate:	N/A

Sensitivity of the net pension liability to changes in the discount rate	
Net pension liability:	\$3,074,900
Net pension liability assuming a decrease of 1% in the discount rate:	\$3,542,147
Net pension liability assuming an increase of 1% in the discount rate:	\$2,690,717
Kentucky Health Benefit Exchange's (KHBE) proportionate share of the net pension liability:	0.023090%

**KERS  
Non-Hazardous**

Pension expense	\$ 321,481
Deferred outflows of resources	
Differences between expected and actual experience	\$ 3,069
Change in proportionate share	286,566
Contributions subsequent to the measurement date	<u>309,555</u>
	<u>\$ 599,190</u>
Deferred inflows of resources	
Differences between expected and actual experience	\$ 15,958
Net difference between projected and actual earning on investments	65,297
Change in proportionate share	<u>61</u>
	<u>\$ 81,316</u>

**KENTUCKY HEALTH BENEFIT EXCHANGE**

**Notes to the Financial Statements**

**Year Ended June 30, 2022**

The amounts reported as deferred outflows of resources related to pensions from contributions after the measurement date will be recognized as a reduction of net pension liability during the year ending June 30, 2023. Other amounts reported as deferred outflows and deferred inflows related to pensions will be amortized and recognized as pension expense/(income) in future years.

Future amortization  
Year ending June 30:

2023	\$ 229,993
2024	11,325
2025	(14,990)
2026	<u>(18,009)</u>
Total	<u>\$ 208,319</u>

**9. Other Post Employment Benefits**

KRS 61.701 created a trust fund to be known as the “Kentucky Retirement Systems insurance trust fund.” Trust fund assets are dedicated for use for health benefits as provided in KRS 61.702 and as permitted under 26 United States Code (U.S.C.) secs. 105 and 106, to retired recipients and employees of employers participating in the KRS, and to certain of their dependents or beneficiaries, including but not limited to qualified beneficiaries as described in 42 U.S.C. secs. 300bb-1 et seq. The employers participating in the trust fund are limited to the Commonwealth, political subdivisions of the Commonwealth, and entities whose income is exempt from taxation under 26 U.S.C. sec.115.

The board of trustees of the KRS administers the trust fund and the board serves as trustee of the fund. The board manages the assets of the fund in the same manner in which it administers the retirement funds, except that separate accounting and financial reporting shall be maintained for the trust fund. The financial reports can be obtained by writing Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, by telephone at (800) 928-4646, or online at [www.kyret.ky.gov](http://www.kyret.ky.gov).

The financial statements are prepared using the accrual basis of accounting which is the same method used by all retirement plans of the Commonwealth. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate is based on appraisals. Investments that do not have an established market are reported at estimated fair value.

**KENTUCKY HEALTH BENEFIT EXCHANGE**

**Notes to the Financial Statements**

**Year Ended June 30, 2022**

**Kentucky Retirement Systems OPEB Plan  
Governance KRS 61.701 to 61.705  
Cost Sharing Multi-Employer Defined Benefit  
Kentucky Employee Retirement System Non-Hazardous**

Plan Administrator: The plan is administered by KRS.

Covered Employees: Members of KRS currently receiving benefits.

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%		\$10 per month for each year of service without regard to a maximum dollar amount, adjusted by 1.5% annually		\$10 per month for each year of service without regard to a maximum dollar amount, adjusted by 1.5% annually
	48 to 119 inclusive	25%	Greater than or equal to 120		Greater than or equal to 180	
	120 to 179 inclusive	50%				
	180 to 239 inclusive	75%				
	240 or more	100%				

There has been no change in actuarial assumptions since June 30, 2017 (other than the blended discount rate used to calculate the Total OPEB liability). House bill 185 was enacted during the 2018 General Assembly Regular Session, which updated the benefits provisions for active members who die in the line of duty.

Contribution Rate:	Contribution rates for the employer are actuarially determined. No member contribution.	Contribution rates for the employer are actuarially determined. No member contribution.	Contribution rates for the employer are actuarially determined. No member contribution.
--------------------	---	---	---

COLA: Members participating after 2008 receive 1.5% annually.

Membership:

Retirees and beneficiaries receiving benefits	2
Inactive members	1
Active plan members	<u>18</u>
Total	<u>21</u>

Publicly available financial report can be accessed at [www.kyret.ky.gov](http://www.kyret.ky.gov).



# KENTUCKY HEALTH BENEFIT EXCHANGE

## Notes to the Financial Statements

Year Ended June 30, 2022

	<b>KERS Non-Hazardous</b>
Employer contribution	12.85%
Member contribution	1.00%
State contribution as a percentage of nonemployer special funding situation	0%
Contributions	\$49,015
Experience study	July 1, 2013 - June 30, 2018
Actuarial valuation date	June 30, 2019
Measurement date	June 30, 2021
Inflation	2.3%, no change from prior year
Salary increases	3.30% to 15.30%, varies by service, change from prior year rate of 3.55% to 19.555%
Investment rate of return	6.25%, no change from prior year
Health cost trend rates	Pre age 65 initial trend starting at 6.25% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability measurement. Post age 65 initial trend starting at 5.50% at January 1, 2021 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2020 premiums were known at the time of the valuation and were incorporated into the liability.
Actuarial cost method	Entry age normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Actuarial assumptions	
Investment rate of return	6.25%, no change from prior year
Mortality tables	System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. Prior year assumption pre-retirement mortality: PUB-2010 General Mortality table, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. Post-retirement mortality (non-disabled): System specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. Post-retirement mortality (disabled): PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Updated procedures applied	Standard roll forward methods using generally accepted actuarial techniques.

# KENTUCKY HEALTH BENEFIT EXCHANGE

## Notes to the Financial Statements

Year Ended June 30, 2022

The long-term expected rate of return was determined using a building block method in which 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 asset allocation and best estimates of expected real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US equity	21.75 %	5.70 %
Non-US equity	21.75 %	6.35 %
Specialty credit/high yield	15.00 %	2.80 %
Private equity	10.00 %	9.70 %
Real estate	10.00 %	5.40 %
Core bonds	10.00 %	0.00 %
Real return	10.00 %	4.55 %
Cash	1.50 %	-0.60 %
Total	<u>100.00 %</u>	

### KERS Non-Hazardous

Discount rate	5.26 %
Change in discount rate from prior valuation	-0.17 %
Rates incorporated in the discount rate	
Long-term rate of return	6.25 %
Period applied	All periods
Municipal bond rate	1.92 %
Sensitivity of the net pension liability to changes in the discount rate	
Net OPEB liability	\$ 555,605
Net OPEB liability assuming a decrease of 1% in the discount rate	\$ 678,513
Net OPEB liability assuming an increase of 1% in the discount rate	\$ 454,837
Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates	
Net OPEB liability	\$ 555,605
Net OPEB liability assuming a decrease of 1% in the healthcare cost trend rate	\$ 458,987
Net OPEB liability assuming an increase of 1% in the healthcare cost trend rate	\$ 671,969
KHBE's proportionate share of the OPEB Liability	0.0244%

# KENTUCKY HEALTH BENEFIT EXCHANGE

## Notes to the Financial Statements

Year Ended June 30, 2022

### Plan Cash Flow Assumptions

The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contribution will be at the actuarial contribution rate. The actuarial contribution was calculated in accordance with the current funding policy revised by House Bill 8, passed during the 2021 legislative session.

<b>KERS</b>	
<b>Non-Hazardous</b>	
OPEB income	\$ (152,643)
Deferred outflow of resources	
Differences between expected and actual experience	\$ 32,179
Changes in assumptions	54,649
Change in proportionate share	235,235
Contributions subsequent to the measurement date	49,015
	<u>\$ 371,078</u>
Deferred inflow of resources	
Differences between expected and actual experience	\$ 76,958
Changes in assumptions	521
Net difference between projected and actual earning on investments	31,202
Change in proportionate share	413,753
	<u>\$ 522,434</u>

The amounts reported as deferred outflows of resources related to OPEB resulting from contributions after the measurement date will be recognized as a reduction of net OPEB liability during the year ended June 30, 2023. Other amounts reported as deferred outflows and deferred inflows related to OPEB will be amortized and recognized as OPEB expenses/(income) in future years.

Future amortization  
Year ending June 30:

2023	\$ (197,486)
2024	2,931
2025	4,021
2026	<u>(9,836)</u>
Total	<u>\$ (200,370)</u>

**REQUIRED SUPPLEMENTARY INFORMATION**

## KENTUCKY HEALTH BENEFIT EXCHANGE

## Schedule of Proportionate Share of the Net Pension Liability

Year Ended June 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportionate share of the net pension liability	0.023090 %	0.018332 %	0.013930 %	0.025316 %	0.059129 %	0.074877 %	0.096380 %	0.070682 %
Proportionate share of the collective net pension liability	\$ 3,074,900	\$ 2,596,714	\$ 1,967,397	\$ 3,443,869	\$ 7,916,426	\$ 8,535,622	\$ 9,668,781	\$ 6,341,498
Covered payroll	\$ 332,805	\$ 300,680	\$ 206,986	\$ 382,253	\$ 947,485	\$ 1,221,266	\$ 1,488,340	\$ 1,115,012
Proportionate share of the net pension liability asset as a percentage of covered payroll	923.93 %	863.61 %	950.50 %	900.94 %	835.52 %	698.92 %	649.64 %	568.74 %
Pension plan fiduciary net position as a percentage of the total pension liability	18.48 %	14.01 %	13.66 %	12.84 %	13.30 %	15.00 %	18.83 %	22.32 %

\*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 HEALTH BENEFIT EXCHANGE

## Schedule of Pension Contributions

Year Ended June 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 290,705	\$ 243,490	\$ 205,213	\$ 267,181	\$ 374,808	\$ 467,094	\$ 502,092	\$ 368,089
Contributions in relation to the actuarially determined contribution	<u>309,555</u>	<u>220,338</u>	<u>185,657</u>	<u>262,133</u>	<u>407,485</u>	<u>566,920</u>	<u>502,808</u>	<u>209,811</u>
Contribution deficiency (excess)	\$ <u>(18,850)</u>	\$ <u>23,152</u>	\$ <u>19,556</u>	\$ <u>5,048</u>	\$ <u>(32,677)</u>	\$ <u>(99,826)</u>	\$ <u>(716)</u>	\$ <u>158,278</u>
Covered payroll	\$ 397,163	\$ 300,680	\$ 288,911	\$ 376,152	\$ 892,589	\$ 1,199,340	\$ 1,488,340	\$ 1,115,012
Contributions as a percentage of covered payroll	77.94%	73.28%	64.26%	69.69%	45.65%	47.25%	33.78%	18.82%
Notes to Schedule as of the measurement date:								
Valuation date	June 30, 2019	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2015	June 30, 2014
Methods and assumptions used to determine contributions:								
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level percentage of payroll closed	Level percentage of payroll closed	Level percentage of payroll closed	Level percentage of payroll closed	Level percentage of payroll closed	Level percentage of payroll closed	Level percentage of payroll closed	Level percentage of payroll closed

## KENTUCKY HEALTH BENEFIT EXCHANGE

## Schedule of Pension Contributions

Year Ended June 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Asset valuation method	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	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	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized	Five-year smoothed Market	Five-year smoothed Market	Five-year smoothed Market
Investment return	5.25%	5.25%	5.25%	6.75%	7.50%	6.75%	7.50%	7.75%
Inflation	2.30%	2.30%	2.30%	3.25%	3.25%	3.25%	3.25%	3.25%
Projected Salary Increase	3.3% to 15.30%, varies by service	3.55% to 15.55%, varies by service	3.55% to 15.55%, varies by service	4.0%, average	4.0%, average	4.0%, average, including inflation	4.0%, average, including inflation	4.5%, per annum

**Mortality**

System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019.

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 HEALTH BENEFIT EXCHANGE**  
**Schedule of Proportionate Share of the Net OPEB Liability**  
**Year Ended June 30, 2022**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportionate share of the net OPEB liability	0.0244 %	0.0183 %	0.0143 %	0.0248 %	0.0644 %
Proportionate share of the collective net OPEB liability	\$ 555,605	\$ 464,687	\$ 317,877	\$ 587,554	\$ 1,634,231
Covered payroll	\$ 354,021	\$ 260,954	\$ 216,784	\$ 390,039	\$ 1,026,627
Proportionate share of the net OPEB liability as a percentage of its covered payroll	156.94 %	178.07 %	146.63 %	150.64 %	159.18 %
OPEB plan fiduciary net position as a percentage of the total OPEB liability	38.15 %	29.47 %	30.92 %	27.32 %	24.40 %

\*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 HEALTH BENEFIT EXCHANGE

## Schedule of OPEB Contributions

Year Ended June 30, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 47,691	\$ 45,390	\$ 26,287	\$ 46,619	\$ 95,595
Contributions in relation to the actuarially determined contribution	<u>49,015</u>	<u>42,581</u>	<u>35,532</u>	<u>44,383</u>	<u>98,522</u>
Contribution deficiency (excess)	<u>(1,324)</u>	<u>2,809</u>	<u>(9,245)</u>	<u>2,236</u>	<u>(2,927)</u>
Covered payroll	\$ 500,668	\$ 381,893	\$ 300,861	\$ 375,956	\$ 1,136,359
Contributions as a percentage of covered payroll	9.79%	11.15%	11.81%	11.81%	8.67%
Notes to Schedule as of the measurement date					
Valuation date	June 30, 2019	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016
Methods and assumptions used to determine					
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Pay	Level Percent of Pay	Level Percent of Pay	Level Percent of Pay	Level Percent of Pay
Amortization period	30 year closed period at June, 2019	26 years, closed	26 years, closed	27 years, closed	27 years, closed
Asset valuation method	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	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	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment return	6.25%	5.25%	6.25%	7.50%	6.25%
Inflation	2.30%	2.30%	2.30%	3.25%	2.30%
Projected Salary Increase	3.30% to 15.30%, varies by service	3.55% to 15.55%, varies by service	3.55% to 15.55%, varies by service	0%	0%

Mortality Table for 2020, 2019, 2018, and 2017

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

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



**INDEPENDENT AUDITOR'S 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***

The Board of Directors  
Kentucky Health Benefit Exchange

We have audited, in accordance with U.S. generally accepted auditing standards 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 Kentucky Health Benefit Exchange (a component unit of the Commonwealth of Kentucky) (the Exchange), which comprise the balance sheet as of June 30, 2022, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements, and have issued our report thereon dated May 31, 2023.

**Report on Internal Control Over Financial Reporting**

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

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

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

## **Report on Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Berry Dunn McNeil & Parker, LLC*

Manchester, New Hampshire  
May 31, 2023