



Kentucky Health Benefit Exchange

FINANCIAL STATEMENTS
and
REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2023
With Independent Auditor's Reports



KENTUCKY HEALTH BENEFIT EXCHANGE

JUNE 30, 2023

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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) (KHBE) which comprise the balance sheet as of June 30, 2023, 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 KHBE's basic financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KHBE as of June 30, 2023, 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 KHBE 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 KHBE'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 KHBE'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 KHBE's ability to continue as a going concern for a reasonable period of time.

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

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 June 21, 2024 on our consideration of KHBE'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 KHBE'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 KHBE's internal control over financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
June 21, 2024

KENTUCKY HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

The following narrative and analysis is provided as an overview of the financial activities of the Kentucky Health Benefit Exchange (KHBE) for the fiscal year ended June 30, 2023, 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. In state fiscal year (SFY) 2023, after a cabinet re-organization, the Kentucky Health Benefit Exchange now operates within the Department for Medicaid Services.

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.

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. SFY 2023 revenue generated from a 1% broad based assessment was approximately \$34.6 million.

The Commonwealth of Kentucky's budget for SFY 2023 was approved by the General Assembly in the spring of 2022. Approved within the biennial budget is the budget for the Office of Health Data and Analytics, which includes the Division of Health Benefit Exchange. KHBE did not receive any state general fund appropriations.

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 2023 per their cost sharing agreement.

KENTUCKY HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

Financial Statements

KHBE 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 KBHE'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, 2023, the statement reflects assets of \$20,128,804 with capital assets representing approximately 81% of the total assets due to the development of "kynect". The most significant portion of liabilities was net pension & OPEB liabilities of \$3,674,153, which represented 48% of total liabilities. This liability is the proportionate share of the collective net pension liability determined by an actuarial valuation as of June 30, 2020. Table 1 below presents KHBE's condensed Statement of Net Position as of June 30, 2023, and June 30, 2022, derived from the Statement of Net Position.

	<u>2023</u>	<u>2022</u>	<u>Percentage Increase (Decrease)</u>
Current assets	\$ 3,281,854	\$ 1,314,114	150 %
Non-current assets	501,964	258,128	94 %
Capital assets	<u>16,344,986</u>	<u>17,883,832</u>	<u>(9)%</u>
Total assets	<u>20,128,804</u>	19,456,074	3 %
Deferred outflows of resources	<u>692,284</u>	<u>970,268</u>	<u>(29)%</u>
Total assets and deferred outflows of resources	<u>\$ 20,821,088</u>	<u>\$ 20,426,342</u>	<u>2 %</u>
Current liabilities	\$ 3,781,781	\$ 1,591,966	138 %
Non-current liabilities	<u>3,798,841</u>	<u>3,690,544</u>	<u>3 %</u>
Total liabilities	<u>7,580,622</u>	<u>5,282,510</u>	<u>44 %</u>
Deferred inflows of resources	<u>523,285</u>	<u>603,750</u>	<u>(13)%</u>
Net investment in capital assets	16,344,986	17,883,832	(9)%
Unrestricted	<u>(3,627,805)</u>	<u>(3,343,750)</u>	<u>8 %</u>
Total net position	<u>12,717,181</u>	<u>14,540,082</u>	<u>(13)%</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 20,821,088</u>	<u>\$ 20,426,342</u>	<u>2 %</u>

KENTUCKY HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

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 as of June 30, 2023. The difference (increase or decrease) is presented as the change in net position. Operating revenue totaled \$12,526,324 and operating expenses were \$14,349,225 with no non-operating expenses, resulting in a net position decrease of \$1,822,901 for state fiscal year ending 2023. Table 2 provides a summary of KHBE's revenue, expenses, and change in net position as of June 30, 2023 and June 30, 2022.

	<u>2023</u>	<u>2022</u>	Percentage Increase (Decrease)
Total operating revenues	\$ 12,526,324	\$ 6,916,126	81 %
Total operating expenses	<u>14,349,225</u>	<u>8,392,141</u>	<u>71 %</u>
Change in net position	<u>(1,822,901)</u>	<u>(1,476,015)</u>	24 %
Net position at July 1	<u>14,540,082</u>	<u>16,016,097</u>	<u>(9)%</u>
Net position at June 30	\$ <u>12,717,181</u>	\$ <u>14,540,082</u>	<u>(13)%</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

Since establishing itself as a State-Based Exchange, the Commonwealth has continued to widen its breadth of outreach to unique populations. These efforts and maintaining an up-to-date system will continue to impact KHBE's financials throughout the audit period. 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 has resulted in significant expenses for KHBE as around 70,000 Kentuckians per month are redetermined for Medicaid and thousands enrolled in Qualified Health Plans or renewed Medicaid through the integrated system. 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.

KENTUCKY HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

Currently Known Facts, Decisions, or Conditions

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. Even though the final redeterminations for Medicaid as prescribed by this Act were completed in April 2024 there will still be significant impact as Kentuckians reapply for Medicaid or enroll in Qualified Health Plans.

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, 2023

ASSETS

Current assets	
Cash	\$ 74,910
Interfund receivable, net	3,164,486
Prepaid expenses	<u>42,458</u>
Total current assets	<u>3,281,854</u>
Non-current assets	
Long-term investments	501,964
Capital assets	<u>16,344,986</u>
Total noncurrent assets	<u>16,846,950</u>
Total assets	<u>20,128,804</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources - pension	464,805
Deferred outflows of resources - other post-employment benefits (OPEB)	<u>227,479</u>
Total deferred outflows of resources	<u>692,284</u>
Total assets and deferred outflows of resources	<u>\$ 20,821,088</u>

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

KENTUCKY HEALTH BENEFIT EXCHANGE

Balance Sheet

June 30, 2023

LIABILITIES

Current liabilities	
Accounts payable	\$ 3,678,483
Accrued payroll	62,877
Compensated absences	40,421
Total current liabilities	<u>3,781,781</u>
Non-current liabilities	
Compensated absences	124,688
Net pension liability	3,171,361
Net OPEB liability	502,792
Total noncurrent liabilities	<u>3,798,841</u>
Total liabilities	<u>7,580,622</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources - pension	279,135
Deferred inflows of resources - OPEB	244,150
Total deferred inflows of resources	<u>523,285</u>

NET POSITION

Net position	
Net investment in capital assets	16,344,986
Unrestricted net position	<u>(3,627,805)</u>
Total net position	<u>12,717,181</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>20,821,088</u>

KENTUCKY HEALTH BENEFIT EXCHANGE

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2023

Operating revenues	
Assessment fees from qualified health plans	\$ 12,412,228
Federal grants	103,193
Medicaid agency cost reimbursement	<u>10,903</u>
Total operating revenues	<u>12,526,324</u>
Operating expenses	
Personnel and contracted services	11,704,588
Commodities and supplies	348,760
Utilities, rental, and other services	730,581
Depreciation	1,538,846
Grants and subsidies	26,031
Travel	<u>419</u>
Total operating expenses	<u>14,349,225</u>
Operating loss	(1,822,901)
Beginning net position	<u>14,540,082</u>
Ending net position	<u>\$ 12,717,181</u>

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

KENTUCKY HEALTH BENEFIT EXCHANGE

Statement of Cash Flows

Year Ended June 30, 2023

Cash flows from operating activities	
Cash received from other sources	\$ 10,514,366
Cash received from federal grants	121,892
Cash received from Medicaid reimbursements	14,970
Cash payments to other sources	(20,094)
Cash payments for goods and services	(1,109,536)
Cash payments for personnel and contracted services	<u>(9,214,642)</u>
Net cash provided by operating activities	<u>306,956</u>
Cash flows from investing activities	
Purchase of investment securities	<u>(243,836)</u>
Net cash used in investing activities	<u>(243,836)</u>
Net increase in cash	63,120
Cash at July 1, 2022	<u>11,790</u>
Cash at June 30, 2023	\$ <u>74,910</u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	\$ (1,822,901)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	1,538,846
Increase (decrease) in assets	
Interfund receivable, net	(1,897,862)
Federal grant receivable, net	22,766
Prepaid expenses	(29,524)
Decrease in deferred outflows of resources	288,243
Increase in liabilities	
Accounts payable	2,182,052
Compensated absences	72,412
Pension and OPEB liabilities	43,648
Decrease in deferred inflows of resources	<u>(90,724)</u>
Net cash provided by operating activities	\$ <u>306,956</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, 2023

Nature of Operations

This summary of significant accounting policies of the Kentucky Health Benefit Exchange (KHBE) is presented to assist in understanding KHBE's financial statements. The financial statements and notes are representations of KHBE's management, which is responsible for their integrity and objectivity. These accounting policies conform to U.S. generally accepted accounting principles (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 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. KHBE 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. KHBE has no relationship with other entities that could be considered component units.

Cash

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

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 2023, no hardware or software assets were purchased by KHBE.

The policy of KHBE 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, 2023.

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.

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

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.

Pension

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 Employees Retirement System (KERS) and addition to/deductions from KERS's fiduciary net position have been determined on the same basis as they are reported by KERS. (See Note 8)

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 KERS and addition to/deductions from KERS's fiduciary net position have been determined on the same basis as they are reported by KERS. (See Note 9)

Statement of Net Position

Net position presents the non-fiduciary assets and liabilities with the difference between the two shown as net position. Net position is reported in three categories:

- 1. Net investment in capital assets** consist of capital assets net of accumulated depreciation and further reduced by debt net of cash balances for debt related to the acquisition, construction, or improvement of those assets.
- 2. Restricted net position** result from constraints placed on net position by creditors, grantors, contributors, and other external parties including those constraints imposed by law through constitutional provisions or enabling legislation.
- 3. Unrestricted net position** are those net positions that do not meet the definition of restricted net position or net investment in capital assets.

When restricted assets and unrestricted assets are both available for a particular purpose, KHBE's objective is to use any restricted funds first, since unrestricted funds are available for any purpose and provide for greater financial flexibility. KHBE did not have restricted net position as of June 30, 2023.

Operating Revenue and Expense

KHBE 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).

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

Risk Management

KHBE 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. KHBE utilizes the Commonwealth of Kentucky's (the Commonwealth) Risk Management Fund to mitigate risk exposure.

Use of Estimates

The preparation of financial statements in conformity with 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 and Investments

The Commonwealth of Kentucky follows the practice of pooling cash and investments for some of its governmental funds and component units in order to provide better physical custody and control of cash, to enhance operational efficiency, and to maximize investment opportunities. KHBE was included in the pooling of cash during fiscal year 2023. Therefore, it follows the Commonwealth's policies for all pooled cash and investments. The risk disclosures related to deposits and investments are reported in the Commonwealth of Kentucky's Annual Comprehensive Financial Report (ACFR). As of June 30, 2023, the carrying value of KHBE's pooled cash totaled \$74,910 and the fair value of the KHBE's investments was \$501,964, for a net combined positive total fair value of \$576,874. In accordance with the implementation of GASB No. 72, KHBE's assets are measured as Level 2 within the fair value hierarchy. Please refer to the Commonwealth's ACFR for further information and disclosure.

3. Current Liabilities

Accounts payable are amounts owed by KHBE as of June 30, 2023. 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, 2023.

Current Liabilities

Personnel services	\$ 103,298
Accounts payable	<u>3,678,483</u>
Total current liabilities	<u>\$ 3,781,781</u>

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

The Commonwealth mandates a policy of recording accruals for services performed during the fiscal year only for invoices received through July 31. For presentation of its stand-alone financial statements, KHBE accrues expenses incurred during the fiscal year. A reconciliation of these amounts is shown below.

Accounts payable as presented on the Commonwealth's records as of June 30, 2023	\$ 1,104,336
Additional invoices received after July 31, 2023	<u>2,574,147</u>
Accounts payable as of June 30, 2023	<u>\$ 3,678,483</u>
Accounts receivable as presented on the Commonwealth's records as of June 30, 2023	\$ 590,339
Additional invoices received after July 31, 2023 to be reimbursed	<u>2,574,147</u>
Accounts receivable as of June 30, 2023	<u>\$ 3,164,486</u>

4. Capital Assets

Capital assets consist of the following:

	Balance <u>June 30, 2022</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2023</u>
Assets				
Software	\$ <u>30,776,904</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>30,776,904</u>
Total all asset types	<u>30,776,904</u>	<u>-</u>	<u>-</u>	<u>30,776,904</u>
Accumulated depreciation				
Software	<u>(12,893,072)</u>	<u>(1,538,846)</u>	<u>-</u>	<u>(14,431,918)</u>
Total accumulated depreciation	<u>(12,893,072)</u>	<u>(1,538,846)</u>	<u>-</u>	<u>(14,431,918)</u>
Total capital assets, net	<u>\$ 17,883,832</u>	<u>\$ (1,538,846)</u>	<u>\$ -</u>	<u>\$ 16,344,986</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 KHBE to allocate a portion of qualifying expenditures to Medicaid and KCHIP at a pre-agreed upon rate. Subsequently, KHBE 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 KHBE 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.

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

6. Commitments

As of June 30, 2023, the Commonwealth renewed and entered into numerous contract agreements relating to the development and operations of KHBE. Any agreements are contingent on broad-based premium assessment levels.

Vendor Contracts

KHBE has engaged in long-term contracts obligating it to expenditures totaling approximately \$7,018,000 and \$300,000 in the years ending June 30, 2024 and 2025, respectively.

7. Compensated Absences

The policy of the Commonwealth of Kentucky 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 KHBE as of June 30, 2023, are:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Annual leave	\$ 45,110	\$ 75,895	\$ 29,963	\$ 91,042	\$ 17,154
Compensatory leave	<u>47,587</u>	<u>60,970</u>	<u>34,490</u>	<u>74,067</u>	<u>23,267</u>
Total	<u>\$ 92,697</u>	<u>\$136,865</u>	<u>\$ 64,453</u>	<u>\$165,109</u>	<u>\$ 40,421</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, 2023. The estimated accumulated unused sick leave for the KHBE employees at June 30, 2023 was \$140,354.

8. Pension Plan

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

The Commonwealth contributes to 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.

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

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.

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, KERS, and the Teachers' Retirement System (TRS) 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.

House Bill 8, passed during the 2021 legislative session, changed how employer contributions are allocated and collected from the participating employers in the KERS Non-Hazardous Plan. As a result of this legislation, there are several employers that will experience a relatively large change in proportionate share of the Collective Pension Amounts in the KERS Non-Hazardous Plan from 2020 to 2021.

House Bill 1, passed during the 2019 special legislative session allowed certain agencies in the KERS Non-Hazardous Plan to elect to cease in participating in the KERS Non-Hazardous Plan as of June 30, 2020. Senate Bill 249, passed during the 2020 legislative session, delayed the effective date of cessation for these provisions until June 30, 2021. There is no material impact on the total pension liability due to this legislation.

The Kentucky Retirement System 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 Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, by telephone at (800) 928-4646 or (502) 564-4646, or online at www.kyret.ky.gov.

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

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

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation Prior to 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 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.		
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.	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.	

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Tier 3</u>
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

KERS Non-Hazardous Pension Plan

Employer contribution:	77.94%
Member contribution:	5%
Employer contributions:	\$309,555
As of the measurement date:	
Actuarial valuation date:	June 30, 2020
Measurement date:	June 30, 2022
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:	Standard roll forward using generally accepted actuary techniques.
Change in assumptions:	There have been no actuarial assumptions or method changes since June 30, 2021. House Bill 259 passed during the 2022 legislative session and will increase the benefits in the Tier 3 cash balance pay credits at the end of each fiscal year. Similarly, House Bill 259 will also allow the conversion of a member's balance of unused sick leave to cash balance pay credits upon termination of employment. The total pension liability as of June 30, 2022 is determined using these updated benefit provisions. There have been no other plan provision changes that would materially impact the total pension liability since June 30, 2021.

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

Membership information as of June 30, 2023 was:

Retirees and beneficiaries receiving benefits	7
Inactive members	6
Active plan members	<u>181</u>
Total	<u><u>194</u></u>

KERS does not report standalone membership for KHBE, therefore the disclosed membership totals include two departments, Health Data and Analytics and the Department for Medicaid Service, which include KHBE's employees.

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.

Asset Class:	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income		
Core Bonds	20.50%	0.28%
Specialty Credit/High Yield	15.00%	2.28%
Equity		
Public Equity	32.50%	4.45%
Private Equity	7.00%	10.15%
Inflation protected		
Real Estate	10.00%	3.67%
Real return	10.00%	4.07%
Cash	<u>5.00%</u>	<u>(0.91)%</u>
 Total	 100.00%	 3.28%
Long-term inflation assumption		<u>2.30%</u>
Expected minimal return for portfolio		<u>5.58%</u>

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

**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.
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:	\$3,171,361
Net pension liability assuming a decrease of 1% in the discount rate:	\$3,647,581
Net pension liability assuming an increase of 1% in the discount rate:	\$2,779,237
Kentucky Health Benefit Exchange's (KHBE) proportionate share of the net pension liability:	0.023904%

**KERS
Non-Hazardous**

Pension expense	\$ 205,470
Deferred outflows of resources	
Net difference between projected and actual earnings on investments	\$ 12,291
Change in proportionate share	34,016
Contributions subsequent to the measurement date	<u>418,498</u>
	<u>\$ 464,805</u>
Deferred inflows of resources	
Differences between expected and actual experience	\$ 3,715
Change in proportionate share	<u>275,420</u>
	<u>\$ 279,135</u>

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

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 ended June 30, 2024. 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:

2024	\$ (239,855)
2025	(5,413)
2026	(3,101)
2027	<u>15,541</u>
Total	<u>\$ (232,828)</u>

9. Other Post-Employment Benefits (OPEB)

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 U.S.C. secs. 105 and 106, to retired recipients and employees of employers participating in the Kentucky Retirement Systems, 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.

House Bill 1, passed during the 2019 special legislative session allowed certain agencies in the KERS Non-Hazardous Plan to elect to cease in participating in the KERS Non-Hazardous Plan as of June 30, 2020. Senate Bill 249, passed during the 2020 legislative session, delayed the effective date of cessation for these provisions until June 30, 2021. There is no material impact on the total OPEB liability due to this legislation.

The Board of Trustees of the Kentucky Retirement Systems 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.

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

**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 KERS.

Covered Employees: Members of KERS 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	7
Inactive members	6
Active plan members	<u>181</u>
Total	<u>194</u>

KERS does not report standalone membership for KHBE, therefore the disclosed membership totals include two departments, Health Data and Analytics and the Department for Medicaid Service, which include KHBE's employees.

Publicly available financial report can be accessed at www.kyret.ky.gov.

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

	KERS Non-Hazardous
Employer contribution	9.79%
Member contribution	1.00%
State contribution as a percentage of nonemployer special funding situation	0%
Contributions	\$54,227
Experience study	July 1, 2013 - June 30, 2018
Actuarial valuation date	June 30, 2020
Measurement date	June 30, 2022
Inflation	2.3%, no change from prior year
Salary increases	3.30% to 15.30%, varies by service, no change from prior year.
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, 2022 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 14 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability measurement. Post age 65 initial trend starting at 6.30% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2021 premiums were known at the time of the valuation and were incorporated into the liability. Additionally, Humana provided "Not to Exceed" 2022 Medicare premiums, which were incorporated and resulted in an assumed 2.90% increase in Medicare premiums at January 2, 2022. Fiscal year 2022 used the pre age 65 rate of 6.25% over a period of 13 years to reach the trend rate of 4.05% and the post age 65 had an initial rate of 5.50% decreasing to 4.05% over 14 years.
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.
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, 2023

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:

KERS Non-Hazardous, Hazardous, and KSPRS

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Specialty credit/high yield	15.00 %	2.82 %
Public equity	43.50 %	4.45 %
Private equity	10.00 %	10.15 %
Real estate	10.00 %	3.67 %
Core bonds	10.00 %	0.28 %
Real return	10.00 %	4.50 %
Cash	<u>1.50 %</u>	<u>(0.91)%</u>
Total	<u>100.00 %</u>	4.08 %
Long-term inflation adjustment		<u>2.30 %</u>
Expected minimal return for portfolio		<u>6.58 %</u>

**KERS
Non-Hazardous**

Discount rate	5.72 %
Change in discount rate from prior valuation	0.46 %
Rates incorporated in the discount rate	
Long-term rate of return	6.25 %
Period applied	All periods
Municipal bond rate	3.69 %
Sensitivity of the net pension liability to changes in the discount rate	
Net OPEB liability	\$ 502,792
Net OPEB liability assuming a decrease of 1% in the discount rate	\$ 601,930
Net OPEB liability assuming an increase of 1% in the discount rate	\$ 411,559
Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates	
Net OPEB liability	\$ 502,792
Net OPEB liability assuming a decrease of 1% in the healthcare cost trend rate	\$ 413,379
Net OPEB liability assuming an increase of 1% in the healthcare cost trend rate	\$ 598,815
KHBE's proportionate share of the OPEB Liability	0.022729%

KENTUCKY HEALTH BENEFIT EXCHANGE

Notes to the Financial Statements

Year Ended June 30, 2023

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, as established in Statute. The municipal bond rate is based on Fidelity Index's "20-Year Municipal GO AA Index."

KERS	
Non-Hazardous	
OPEB income	\$ (180,937)
Deferred outflow of resources	
Differences between expected and actual experience	\$ 12,250
Changes in assumptions	28,262
Net difference between projected and actual earnings on investments	10,259
Change in proportionate share	122,481
Contributions subsequent to the measurement date	<u>54,227</u>
	<u>\$ 227,479</u>
Deferred inflow of resources	
Differences between expected and actual experience	\$ 40,272
Changes in assumptions	33,357
Change in proportionate share	<u>170,521</u>
	<u>\$ 244,150</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, 2024. 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:

2024	\$ (24,658)
2025	(32,755)
2026	(21,612)
2027	<u>8,127</u>
Total	<u>\$ (70,898)</u>

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY HEALTH BENEFIT EXCHANGE

Schedule of Proportionate Share of the Net Pension Liability

Year Ended June 30, 2023

	<u>2023</u>	<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	0.023904 %	0.023090 %	0.018332 %	0.013930 %	0.025316 %	0.059129 %	0.074877 %	0.096380 %	0.070682 %
Proportionate share of the collective net pension liability	\$ 3,171,361	\$ 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	\$ 310,730	\$ 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	1,020.62 %	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	18.51 %	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, 2023

	<u>2023</u>	<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	\$ 394,268	\$ 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>418,498</u>	<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>(24,230)</u>	\$ <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	\$ 599,567	\$ 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	69.80%	77.94%	73.28%	64.26%	69.69%	45.65%	47.27%	33.78%	18.82%
Notes to Schedule as of the measurement date:									
Valuation date	June 30, 2020	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	Entry Age Normal
Amortization method	Level	Level	Level	Level	Level	Level	Level	Level	Level
	percentage of payroll closed	percentage of payroll closed	percentage of payroll closed	percentage of payroll closed	percentage of payroll closed	percentage of payroll closed	percentage of payroll closed	percentage of payroll closed	percentage of payroll closed

KENTUCKY HEALTH BENEFIT EXCHANGE

Schedule of Pension Contributions

Year Ended June 30, 2023

	<u>2023</u>	<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	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%	5.25%	6.75%	7.50%	6.75%	7.50%	7.75%	
Inflation	2.30%	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	3.3% 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, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportionate share of the net OPEB liability	0.0227 %	0.0244 %	0.0183 %	0.0143 %	0.0248 %	0.0644 %
Proportionate share of the collective net OPEB liability	\$ 502,792	\$ 555,605	\$ 464,687	\$ 317,877	\$ 587,554	\$ 1,634,231
Covered payroll	\$ 406,517	\$ 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	123.68 %	156.94 %	178.07 %	146.63 %	150.64 %	159.18 %
OPEB plan fiduciary net position as a percentage of the total OPEB liability	66.14 %	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, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 48,413	\$ 47,691	\$ 45,390	\$ 26,287	\$ 46,619	\$ 95,595
Contributions in relation to the actuarially determined contribution	<u>54,227</u>	<u>49,015</u>	<u>42,581</u>	<u>35,532</u>	<u>44,383</u>	<u>98,522</u>
Contribution deficiency (excess)	<u><u>(5,814)</u></u>	<u><u>(1,324)</u></u>	<u><u>2,809</u></u>	<u><u>(9,245)</u></u>	<u><u>2,236</u></u>	<u><u>(2,927)</u></u>
Covered payroll	\$ 694,785	\$ 500,668	\$ 381,893	\$ 300,861	\$ 375,956	\$ 1,136,359
Contributions as a percentage of covered payroll	7.80%	9.79%	11.15%	11.81%	11.81%	8.67%
Notes to Schedule as of the measurement date						
Valuation date	June 30, 2020	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	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	Level Percent of Pay
Amortization period	30 year closed period at June, 2019	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	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment return	6.25%	6.25%	5.25%	6.25%	7.50%	6.25%
Inflation	2.30%	2.30%	2.30%	2.30%	3.25%	2.30%
Projected Salary Increase	3.30% to 15.30%, varies by service	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) (KHBE), which comprise the balance sheet as of June 30, 2023, 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 KHBE's basic financial statements, and have issued our report thereon dated June 21, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KHBE'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 KHBE's internal control. Accordingly, we do not express an opinion on the effectiveness of KHBE'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 KHBE'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 KHBE's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KHBE's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
June 21, 2024

KENTUCKY HEALTH BENEFIT EXCHANGE

Schedule of Findings and Responses

Year Ended June 30, 2023

None noted.