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Kentucky Health Benefit Exchange

FINANCIAL STATEMENTS

and

REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2025

With Independent Auditor's Reports

KENTUCKY HEALTH BENEFIT EXCHANGE

JUNE 30, 2025

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INDEPENDENT AUDITOR'S REPORT

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, 2025, 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, 2025, 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, during the year ended June 30, 2025, KHBE adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 101 and GASB Statement No. 102. Our opinion is not modified with respect to that matter.

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 12 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 4, 2026 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.

BDMP Assurance, LLP

Manchester, New Hampshire
June 4, 2026

KENTUCKY HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2025

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, 2025, 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 Services. 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.

In state fiscal year (SFY) 2023, as part of a cabinet reorganization, the Kentucky Health Benefit Exchange was resituated within the Department for Medicaid Services.

Funding

The ACA requires each state to ensure that its Exchange has sufficient funding 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 2025 revenue generated from a 1% broad based assessment was approximately $37.2 million.

The Commonwealth of Kentucky's budget for SFY 2025 was enacted by the General Assembly in the spring of 2024. Within the biennial budget, funding was allocated in the Medicaid administration budget for HBE related expenses. In SFY 2023, KHBE was reorganized under the Department for Medicaid Services (DMS), and its appropriations were transferred accordingly.

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 U.S. generally accepted accounting principles 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, 2025, the statement reflects assets of $17,008,826 with capital assets representing approximately 78% of the total assets due to the development of "kynect". The most significant portion of liabilities was net pension & OPEB liabilities of $5,523,437, which represented 59% of total liabilities. This liability is the proportionate share of the net pension for the Kentucky Employees Retirement Systems Non-Hazardous Plan. Table 1 below presents KHBE's condensed Statement of Net Position as of June 30, 2025, and June 30, 2024, derived from the balance sheet.

	2025	2024	Percentage Increase (Decrease)
Current assets	**$ 3,025,432**	$ 768,057	294 %
Non-current assets	**716,098**	2,021,286	(65)%
Capital assets	**13,267,296**	14,806,141	(10)%
Total assets	**17,008,826**	17,595,484	(3)%
Deferred outflows of resources	**1,280,511**	1,363,689	(6)%
Total assets and deferred outflows of resources	**$ 18,289,337**	$ 18,959,173	(4)%
Current liabilities	**$ 3,799,066**	$ 2,821,831	35 %
Non-current liabilities	**5,634,632**	5,341,244	5 %
Total liabilities	**9,433,698**	8,163,075	16 %
Deferred inflows of resources	**309,592**	2,461,200	(87)%
Net investment in capital assets	**13,267,296**	14,806,141	(10)%
Unrestricted net position	**(4,721,249)**	(6,471,243)	(27)%
Total net position	**8,546,047**	8,334,898	3 %
Total liabilities, deferred inflows of resources and net position	**$ 18,289,337**	$ 18,959,173	(4)%

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, 2025. The difference (increase or decrease) is presented as the change in net position. Operating revenue totaled $10,746,362 and operating expenses were $10,535,213 with no non-operating expenses, resulting in a net position increase of $211,149 for the year ended June 30, 2025. Table 2 below provides a summary of KHBE's revenue, expenses, and change in net position as of June 30, 2025 and June 30, 2024.

	2025	2024	Percentage Increase (Decrease)
Total operating revenues	**$ 10,746,362**	$ 11,023,385	(3)%
Total operating expenses	**10,535,213**	15,405,668	(32)%
Change in net position	**211,149**	(4,382,283)	(105)%
Net position at July 1	**8,334,898**	12,717,181	(34)%
Net position at June 30	**$ 8,546,047**	$ 8,334,898	3 %

Statement of Cash Flows - The Statement of Cash Flows presents information showing how KHBE's cash 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

The enactment of H.R. 1, together with the suspension of the enhanced premium tax credits originally expanded under the American Rescue Plan has directly affected the Kentucky Health Benefit Exchange (KHBE), operating as Kynect in Kentucky. Reduced federal premium assistance increases projected net costs for many enrollees in Plan Year 2026, creating affordability concerns and requiring increased KHBE workload in handling consumer and issuer concerns.

These federal changes will continue to affect pricing and participation uncertainty in Kentucky's individual market. New Medicaid provisions will also create abrasion with the insured population. As a result, KHBE faces operational and market stability challenges heading into and through Plan Year 2026.

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, 2025

ASSETS

Current assets	
Cash	$ 141,626
Interfund receivable	2,869,235
Prepaid expenses	14,571
Total current assets	3,025,432
Noncurrent assets	
Long-term investments	716,098
Capital assets	13,267,296
Total noncurrent assets	13,983,394
Total assets	17,008,826

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources - pension	1,046,615
Deferred outflows of resources - other post-employment benefits (OPEB)	233,896
Total deferred outflows of resources	1,280,511
Total assets and deferred outflows of resources	$ 18,289,337

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

LIABILITIES

Current liabilities	
Accounts payable	$ 3,658,836
Accrued payroll	68,123
Compensated absences	72,107
Total current liabilities	3,799,066
Noncurrent liabilities	
Compensated absences	111,195
Net pension liability	5,246,554
Net OPEB liability	276,883
Total noncurrent liabilities	5,634,632
Total liabilities	9,433,698

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources - pension	44,267
Deferred inflows of resources - OPEB	265,325
Total deferred inflows of resources	309,592

NET POSITION

Net position	
Net investment in capital assets	13,267,296
Unrestricted net position	(4,721,249)
Total net position	8,546,047
Total liabilities, deferred inflows of resources, and net position	$ 18,289,337

KENTUCKY HEALTH BENEFIT EXCHANGE

Statement of Revenues, Expenses, and Changes in Net Position

Year Ended June 30, 2025

Operating revenues	
Assessment fees from qualified health plans	$ 10,453,516
Medicaid agency cost reimbursement	292,846
Total operating revenues	10,746,362
Operating expenses	
Personnel and contracted services	7,594,674
Commodities and supplies	371,435
Utilities, rental, and other services	984,496
Depreciation	1,538,845
Grants and subsidies	45,365
Travel	398
Total operating expenses	10,535,213
Operating gain	211,149
Beginning net position	8,334,898
Ending net position	$ 8,546,047

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

KENTUCKY HEALTH BENEFIT EXCHANGE

Statement of Cash Flows

Year Ended June 30, 2025

Cash flows from operating activities	
Cash received from assessment fees from qualified health plans	$ 8,065,591
Cash received from Medicaid reimbursements	283,611
Cash payments to other sources	(41,496)
Cash payments for goods and services	(1,343,618)
Cash payments for personnel and contracted services	(8,393,744)
Net cash used by operating activities	(1,429,656)
Cash flows from investing activities	
Proceeds from sale of investment securities	1,305,188
Net decrease in cash	(124,468)
Cash at July 1, 2024	266,094
Cash at June 30, 2025	$ 141,626
Reconciliation of operating gain to net cash used by operating activities	
Operating gain	$ 211,149
Adjustments to reconcile operating gain to net cash used by operating activities	
Depreciation	1,538,845
(Increase) decrease in assets	
Interfund receivable	(2,397,159)
Prepaid expenses	15,316
Decrease in deferred outflows of resources	83,178
Increase (decrease) in liabilities	
Accounts payable	967,504
Compensated absences	(3,430)
Pension and OPEB liabilities	306,549
Decrease in deferred inflows of resources	(2,151,608)
Net cash used by operating activities	$ (1,429,656)

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

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 (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. 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 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 2025, 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, 2025.

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.

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).

Balance Sheet

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

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, 2025.

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).

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 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.

New Accounting Pronouncements

KHBE adopted GASB Statements No. 101, *Compensated Absences* (GASB 101), and No. 102 *Certain Risk Disclosures* (GASB 102) during the year ended June 30, 2025. GASB 101 establishes standards of accounting and financial reporting for (a) compensated absences and (b) associated salary-related payments, including certain defined contribution pensions and defined contribution OPEB. GASB 102 requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. There was no impact to KHBE's financial statements as a result of the adoption of the new accounting pronouncements.

2. Cash and Investments

The Commonwealth 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 2025. 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’s Annual Comprehensive Financial Report (ACFR). As of June 30, 2025, the carrying value of KHBE’s pooled cash totaled $141,626 and the fair value of KHBE’s investments was $716,098 for a net combined total fair value of $857,724. In accordance with the implementation of GASB Statement No. 72, KBHE’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, 2025. 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, 2025:

Personnel services	$ 140,230
Accounts payable	3,658,836
Total current liabilities	$ 3,799,066

4. Capital Assets

Capital assets consisted of the following:

	Balance June 30, 2024	Increases	Decreases	Balance June 30, 2025
Assets				
Software	$ 30,776,904	$ -	$ -	**$ 30,776,904**
Total all asset types	30,776,904	-	-	**30,776,904**
Accumulated depreciation				
Software	(15,970,763)	(1,538,845)	-	**(17,509,608)**
Total accumulated depreciation	(15,970,763)	(1,538,845)	-	**(17,509,608)**
Total capital assets, net	$ 14,806,141	$ (1,538,845)	$ -	**$ 13,267,296**

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 Office of Management and Budget 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.

6. Commitments

As of June 30, 2025, 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 $8,184,000, $77,000, and $51,000 in the years ending June 30, 2026, 2027, and 2028, 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, 2025 were:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Annual leave	$ 105,492	$ 67,006	$ 46,186	$ 126,312	$ 34,783
Compensatory leave	81,240	35,824	60,074	56,990	37,324
Total	$ 186,732	$ 102,830	$ 106,260	$ 183,302	$ 72,107

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, 2025. The estimated accumulated unused sick leave for the KHBE employees at June 30, 2025 was $185,261.

8. Pension Plan

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

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 occurred 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.

KERS 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 KERS, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, by telephone at (800) 928-4646, or online at www.kyret.ky.gov.

KHBE obtains pension liability information from the Kentucky Public Pensions Authority (KPPA) through the Finance and Administration Cabinet's Office of the Controller (FAC OOC). Pension liability for the year ended June 30, 2025 is based on an actuarial valuation date of June 30, 2024.

Historically, KHBE has allocated its share of pension liability based on its proportion in its department. In the year ended June 30, 2023, KHBE was reorganized from the Office of Health Data and Analytics (OHDA) to the Department for Medicaid Services (DMS). As a result of the reorganization, some payroll costs for KHBE in OHDA were recorded in the year ended June 30, 2023. However, by the time of the reorganization, most OHDA staff had already transitioned to their new departments, resulting in a higher proportion of KHBE salaries and retirement contributions being attributed to OHDA in the year ended June 30, 2023 than in prior years. Since the pension liability allocation is based on these percentages, using the percentages from the year ended June 30, 2023 would have overstated KHBE's share of OHDA's pension liability. To calculate an accurate allocation, KHBE used the percentages from the year ended June 30, 2022, as it represents the last full year of operations before the reorganization.

KERS
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.	10 years or less = 1.10% Greater than 10 years, but no more than 20 years = 1.30%. Greater than 20 years, but no more than 26 years = 1.50%. Greater than 26 years, but no more than 30 years = 1.75%. 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.	
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:	65.75%
Member contribution:	5%
Employer contributions:	$455,689 during the year ended June 30, 2024
As of the measurement date:	
Actuarial valuation date:	June 30, 2023
Measurement date:	June 30, 2024
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:	3.30% to 15.30%, varies by service
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, 2018 - June 30, 2022
Update procedures applied:	Standard roll forward using generally accepted actuary techniques.
Change in assumptions:	Changes in assumptions from the prior year are reflected above.

Membership information as of June 30, 2025 was:

Retirees and beneficiaries receiving benefits	90
Inactive members	85
Active plan members	203
Total	378

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.

	Non-Hazardous Plan	
Asset Class:	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Fixed income		
Core bonds	27.00 %	2.85 %
Specialty credit/high yield	20.00 %	3.82 %
Equity		
Public equity	30.00 %	4.15 %
Private equity	6.00 %	9.10 %
Inflation protected		
Real estate	5.00 %	4.90 %
Real return	10.00 %	5.35 %
Cash	2.00 %	1.70 %
Total	100.00 %	4.14 %
Long-term inflation assumption		2.30 %
Expected minimal return for portfolio		6.44 %

	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 actuarially 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:	$5,246,554
Net pension liability assuming a decrease of 1% in the discount rate:	$6,073,245
Net pension liability assuming an increase of 1% in the discount rate:	$4,561,673
KHBE's proportionate share of the net pension liability:	0.043541%

	KERS Non-Hazardous	
Pension expense		$ 1,299,389
Deferred outflows of resources		
Differences between expected and actual experience	$ 99,486	
Change in proportionate share	523,404	
Contributions subsequent to the measurement date	423,725	
		$ 1,046,615
Deferred inflows of resources		
Net difference between projected and actual earning on investments		$ 44,267
		$ 44,267

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, 2026. 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:	
2026	$ 599,432
2027	10,499
2028	(17,810)
2029	(13,498)
Total	$ 578,623

9. Other Post-Employment Benefits (OPEB)

KRS 61.701 created a trust fund to be known as the "Kentucky Employees 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 KERS, 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 KERS 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 KERS, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, by telephone at (800) 928-4646, or online at www.kyret.ky.gov.

KHBE obtains OPEB liability information from KPPA through the FAC OOC. OPEB liability for the year ended June 30, 2025 is based on an actuarial valuation date of June 30, 2024.

Historically, KHBE has allocated its share of OPEB liability based its proportion in its department. In the year ended June 30, 2023, KHBE was reorganized from the OHDA to the DMS. As a result of the reorganization, some payroll costs for KHBE in OHDA were recorded in the year ended June 30, 2023. However, by the time of the reorganization, most OHDA staff had already transitioned to their new departments, resulting in a higher proportion of KHBE salaries and retirement contributions being attributed to OHDA in the year ended June 30, 2023 than in prior years. Since the OPEB liability allocation is based on these percentages, using the percentages from the year ended June 30, 2023 would have overstated KHBE's share of OHDA's OPEB liability. To calculate an accurate allocation, KHBE used the percentages from the year ended June 30, 2022, as it represents the last full year of operations before the reorganization.

KERS 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%	Greater than or equal to 120	$15 per month for each year of service without regard to a maximum dollar amount, adjusted by 1.5% annually	Greater than or equal to 180	$15 per month for each year of service without regard to a maximum dollar amount, adjusted by 1.5% annually
48 to 119 inclusive	25%				
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. Member contribution of 1% of salary.

COLA: Members participating after 2008 receive 1.5% annually.

Membership:

Retirees and beneficiaries receiving benefits	90
Inactive members	85
Active plan members	203
Total	378

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.

	KERS Non-Hazardous
Employer contribution	7.10%
Member contribution	1.00%
State contribution as a percentage of nonemployer special funding situation	0%
Contributions	$60,078 during the year ended June 30, 2024
Experience study	July 1, 2019 - June 30, 2023
Actuarial valuation date	June 30, 2023
Measurement date	June 30, 2024
Inflation	2.5%, prior year 2.3%
Salary increases	3.30% to 15.30%, varies by service, no change from prior year.
Investment rate of return	6.5%, prior year 6.25%
Health cost trend rates	Fiscal Year 2024 used the pre-65 rate of 6.80% January 1, 2025, gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2024 premiums were known at the time of the valuation and were incorporated into the liability measurement. Post-65 Initial trend starting at 8.5% at January 1, 2025 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years. The 2024 premiums were known at the time of the valuation and were incorporated into the liability measurement. Prior year Healthcare Trend Rates: Pre-65: Initial trend starting at 6.30% at January 1, 2023, gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 premiums were known at the time of the valuation and were incorporated into the liability measurement. Post-age 65: Initial trend starting at 6.3% at January 1, 2023 and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. The 2022 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	
Mortality tables	System-specific mortality table based on mortality experience from 2013 to 2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023. Prior year: 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.

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	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Specialty credit/high yield	25.00 %	3.82 %
Public equity	40.00 %	4.15 %
Private equity	8.00 %	9.10 %
Real estate	7.00 %	4.90 %
Core bonds	10.00 %	2.85 %
Real return	8.00 %	5.35 %
Cash	2.00 %	1.70 %
Total	100.00 %	4.43 %
Long-term inflation adjustment		2.50 %
Expected minimal return for portfolio		6.93 %

KERS Non-Hazardous	
Discount rate	6.25 %
Change in discount rate from prior valuation	0.31 %
Rates incorporated in the discount rate	
Long-term rate of return	6.50 %
Period applied	All periods
Municipal bond rate	5.20 %
Sensitivity of the net OPEB liability to changes in the discount rate	
Net OPEB liability	$ 276,883
Net OPEB liability assuming a decrease of 1% in the discount rate	$ 382,569
Net OPEB liability assuming an increase of 1% in the discount rate	$ 187,542
Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates	
Net OPEB liability	$ 276,883
Net OPEB liability assuming a decrease of 1% in the healthcare cost trend rate	$ 205,375
Net OPEB liability assuming an increase of 1% in the healthcare cost trend rate	$ 359,700
KHBE's proportionate share of the OPEB liability	0.038294%

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 expense (income)	$ 68,636
Deferred outflow of resources	
Differences between expected and actual experience	$ 21,749
Changes in assumptions	16,904
Change in proportionate share	173,687
Contributions subsequent to the measurement date	21,556
	$ 233,896
Deferred inflow of resources	
Differences between expected and actual experience	$ 228,915
Changes in assumptions	10,134
Net difference between projected and actual earnings on investments	20,558
Change in proportionate share	5,717
	$ 265,325

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, 2025. 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:	
2026	$ (79,735)
2027	18,406
2028	13,820
2029	(5,476)
Total	$ (52,985)

REQUIRED SUPPLEMENTARY INFORMATION

KENTUCKY HEALTH BENEFIT EXCHANGE

Schedule of Proportionate Share of the Net Pension Liability

Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Proportionate share of the net pension liability	0.043541 %	0.040151 %	0.023904 %	0.023090 %	0.018332 %	0.013930 %	0.025316 %	0.059129 %	0.074877 %	0.096380 %
Proportionate share of the collective net pension liability	$ 5,246,554	$ 4,946,052	$ 3,171,361	$ 3,074,900	$ 2,596,714	$ 1,967,397	$ 3,443,869	$ 7,916,426	$ 8,535,622	$ 9,668,781
Covered payroll	$ 772,092	$ 590,078	$ 310,730	$ 332,805	$ 300,680	$ 206,986	$ 382,253	$ 947,485	$ 1,221,266	$ 1,488,340
Proportionate share of the net pension liability as a percentage of covered payroll	679.52 %	838.20 %	1,020.62 %	923.93 %	863.61 %	950.50 %	900.94 %	835.52 %	698.92 %	649.64 %
Pension plan fiduciary net position as a percentage of the total pension liability	25.96 %	22.32 %	18.51 %	18.48 %	14.01 %	13.66 %	12.84 %	13.30 %	15.00 %	18.83 %

KENTUCKY HEALTH BENEFIT EXCHANGE

Schedule of Pension Contributions

Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Actuarially determined contribution	$ 423,725	$ 455,689	$ 394,268	$ 290,705	$ 243,490	$ 205,213	$ 267,181	$ 374,808	$ 467,094	$ 502,092
Contributions in relation to the actuarially determined contribution	423,725	455,689	418,498	309,555	220,338	185,657	262,133	407,485	566,920	502,808
Contribution deficiency (excess)	$ -	$ -	$ (24,230)	$ (18,850)	$ 23,152	$ 19,556	$ 5,048	$ (32,677)	$ (99,826)	$ (716)
Covered payroll	$ 897,855	$ 772,092	$ 590,078	$ 397,163	$ 300,680	$ 288,911	$ 376,152	$ 892,589	$ 1,199,340	$ 1,488,340
Contributions as a percentage of covered payroll	47.19%	59.02%	69.80%	77.94%	73.28%	64.26%	69.69%	45.65%	47.27%	33.78%
Notes to Schedule as of the measurement date:										
Valuation date	June 30, 2022	June 30, 2020	June 30, 2020	June 30, 2019	June 30, 2017	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2015
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	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	Level percentage of payroll closed	Level percentage of payroll closed

KENTUCKY HEALTH BENEFIT EXCHANGE

Schedule of Pension Contributions

Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
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	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
Investment return	5.25%	5.25%	5.25%	5.25%	5.25%	5.25%	6.75%	7.50%	6.75%	7.50%
Inflation	2.30%	2.30%	2.30%	2.30%	2.30%	2.30%	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	3.3% 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

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.

KENTUCKY HEALTH BENEFIT EXCHANGE

Schedule of Proportionate Share of the Net OPEB Liability

Year Ended June 30, 2024

	2025	2024	2023	2022	2021	2020	2019	2018
Proportionate share of the net OPEB liability	0.0383 %	0.0345 %	0.0227 %	0.0244 %	0.0183 %	0.0143 %	0.0248 %	0.0644 %
Proportionate share of the collective net OPEB liability	$ 276,883	$ 270,836	$ 502,792	$ 555,605	$ 464,687	$ 317,877	$ 587,554	$1,634,231
Covered payroll	$ 841,038	$ 680,056	$ 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	32.92 %	39.83 %	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	69.13 %	70.95 %	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, 2024

	2025	2024	2023	2022	2021	2020	2019	2018
Actuarially determined contribution	$ 21,556	$ 60,078	$ 48,413	$ 47,691	$ 45,390	$ 26,287	$ 46,619	$ 95,595
Contributions in relation to the actuarially determined contribution	21,556	60,078	54,227	49,015	42,581	35,532	44,383	98,522
Contribution deficiency (excess)	$ -	$ -	$ (5,814)	$ (1,324)	$ 2,809	$ (9,245)	$ 2,236	$ (2,927)
Covered payroll	$ 1,351,791	$ 840,252	$ 694,785	$ 500,668	$ 381,893	$ 300,861	$ 375,956	$ 1,136,359
Contributions as a percentage of covered payroll	1.55%	7.15%	7.80%	9.79%	11.15%	11.81%	11.81%	8.67%
Notes to Schedule as of the measurement date								
Valuation date	June 30, 2023	June 30, 2021	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	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	Level Percent of Pay	Level Percent of Pay
Amortization period	30 year closed period at June, 2019	30 year closed period at June, 2019	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	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	6.50%	6.25%	6.25%	6.25%	5.25%	6.25%	7.50%	6.25%
Inflation	2.50%	2.30%	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	3.30% 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 2025
System-specific mortality table based on mortality experience from 2013-2022, projected with the ultimate rates from MP-2020 mortality improvement scale using a base year of 2023.
Mortality Table for 2024 and 2023
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.
Mortality Table for 2022
System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2012 mortality improvement sale using a base year of 2019.
Mortality Table for 2021, 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.

BerryDunn
BDMP Assurance, LLP

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*

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, 2025, 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 4, 2026.

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 KHBE'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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a deficiency in internal control, as described in the accompanying schedule of findings and responses as item 2025-001 that we consider to be a material weakness.

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*.

KHBE's Response to the Finding

Government Auditing Standards requires the auditor to perform limited procedures on KHBE's response to the finding identified in our audit and described in the accompanying schedule of findings and responses. KHBE's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

BDMP Assurance, LLP

Manchester, New Hampshire
June 4, 2026

KENTUCKY HEALTH BENEFIT EXCHANGE

Schedule of Findings and Responses

Year Ended June 30, 2025

Finding 2025-001

Criteria

KHBE is responsible for designing, implementing, and maintaining effective internal controls over financial reporting that provide reasonable assurance that the internal controls will prevent misstatements or detect and correct misstatements on a timely basis, intentional or unintentional, from occurring.

Condition

Certain transactions were not recorded in the proper fiscal year in accordance with U.S. generally accepted accounting principles.

Cause and Effect

Due to its lower materiality threshold relative to the Commonwealth of Kentucky (the Commonwealth), KHBE records manual adjustments to accrue transactions incurred during the fiscal year which were recorded in the subsequent fiscal year in the records of the Commonwealth. When recording these manual adjustments, KHBE did not implement sufficient review to identify errors that resulted in understatements of cash by $2,646,670 and accounts payable by $125,018, and overstatements of accounts receivable by $2,771,688, assessment fees from qualified health plans by $3,767,864, and operating expenses by $3,767,864.

Recommendation

We recommend that, KHBE implement a process of reviewing transactions sufficient to identify errors making manual adjustments when preparing its stand-alone financial statements.

Views of Responsible Officials and Planned Corrective Actions

Management agrees with the finding. See Management's corrective action plan.

Health Benefit Exchange: Corrective Action Plan

We acknowledge the recording errors during the preparation and review of KHBE's trial balance and draft financial statements. We will update our preparation and review procedures to prevent future adjustments. An additional reviewer will be added to the review process and all staff involved in preparing and reviewing HBE's trial balance and draft financial statements will receive additional training.

Responsible person: Melissa Rife

Expected completion date: June 30, 2026