

**REPORT OF THE AUDIT OF THE  
KENTUCKY HEALTH BENEFIT EXCHANGE**

**For The Fiscal Year Ended  
June 30, 2019**



**MIKE HARMON  
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MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS

Eric Friedlander, Secretary  
Cabinet for Health and Family Services  
Robert Putt, Executive Director  
Office of Health Data and Analytics

**Independent Auditor's Report**

***Report on the Financial Statements***

We have audited the accompanying basic financial statements of the Kentucky Health Benefit Exchange (KHBE), an enterprise fund of the Commonwealth of Kentucky, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise KHBE's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on the basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error.



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Office of Health Data and Analytics

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KHBE as of June 30, 2019, and the respective changes in its financial position and its cash flows, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis-of-Matter***

#### ***Reporting Entity***

As discussed in Note 1, the financial statements present only KHBE, and are not intended to present fairly the financial position of the Commonwealth of Kentucky, or the results of its operations and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 to 11, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Proportionate Share of the Net OPEB Liability, and the Schedule of Contributions for both Pensions and OPEB on pages 43 to 47 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Eric Friedlander, Secretary  
Cabinet for Health and Family Services  
Robert Putt, Executive Director  
Office of Health Data and Analytics

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2020, on our consideration of KHBE's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

March 20, 2020





## **MANAGEMENT'S DISCUSSION AND ANALYSIS**



**KENTUCKY HEALTH BENEFIT EXCHANGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019**

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, 2019, 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.

Through December 2016, KHBE facilitated the purchase and sale of health plans in the individual market; assisted small employers in facilitating the enrollment of their employees in health plans; provided one-stop shopping by also helping individuals enroll in Medicaid and Kentucky Children's Health Insurance Program (KCHIP) health plans; enabled individuals to receive premium tax credits, premium subsidies, and reduced cost sharing; and qualified small business for tax credits. Kentucky's health benefit exchange was trademarked as "kynect" and referred to as "kynect" or KHBE. Open enrollment in KHBE occurred annually during the months of November through January. Open enrollment for 2016 was the final annual enrollment period provided through the kynect platform. Starting in January 2017, the enrollment and eligibility platform used in Kentucky for Qualified Health Plans and SHOP was HealthCare.gov.

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. The kynect program was decommissioned on January 1, 2017 and the eligibility and enrollment function transitioned to the federal exchange at that time. Some consumer assistance and plan management activities were still performed by KHBE. Kynect SHOP continued to assist SHOP groups until their 2016 plan year ended which ceased by the end of the 2018 state fiscal year.

**KENTUCKY HEALTH BENEFIT EXCHANGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019  
(Continued)**

**FUNDING**

KHBE's funding, to establish "kynect" and fund operations through June 30, 2017, is provided through federal grants awarded by the Department of Health and Human Services (HHS) and restricted funds received from a broad-based premium assessment. The federal grants awarded by HHS include:

- Exchange Planning Grant, \$1,000,000, awarded September 30, 2010;
- First Level 1 Establishment Grant, \$7,670,803, awarded August 15, 2011;
- Second Level 1 Establishment Grant, \$57,896,810, awarded February 22, 2012;
- Third Level 1 Establishment Grant, \$4,423,000, awarded September 27, 2012;
- Level 2 Establishment Grant, \$182,707,738, awarded January 16, 2013 with a supplemental award of \$35,605,175 on December 17, 2014;
- A post-award amendment on August 11, 2016 reducing the total award by \$21,670,360, with a further de-obligation of \$2,525,758 in funds on December 5, 2016; and
- A post-award amendment on March 7, 2018 reducing the total award amount by \$2,213,458, thus closing out all award activity with the final award amount total of \$191,903,336.

The ACA requires each state to ensure that its Exchange has sufficient funding in order to support its ongoing operations beginning January 1, 2015, which coincided with when open enrollment for the 2015 plan year was scheduled to end. However, with the federal government extending the 2015 plan year open enrollment period into 2015, KHBE received HHS approval to continue using federal grant funds until April 30, 2015 for operational expenses. Beginning May 1, 2015, federal grant funds could not be used for operational expenses and were only allowed for design, development and implementation activities. KHBE's on-going funding is through a broad-based premium assessment on all issuers offering health benefit plans and stop loss policies. KHBE did not receive any state general fund appropriations. In addition, KHBE did not receive any federal grants in 2019. Therefore, there are no federal grants receivable or unreimbursed federal grant funds as of June 30, 2019.

The Commonwealth of Kentucky's biennium budget for state fiscal years (SFY) 18 and 19 was approved by the General Assembly in the spring of 2018. Approved within the biennium budget of KHBE was revenue derived from a 1% broad based premium assessment. SFY 2019 revenue projections generated from a 1% broad based assessment are estimated at \$29 million.

**FINANCIAL STATEMENTS**

KHBE financial statements include the Statement of Net Position; 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.

**KENTUCKY HEALTH BENEFIT EXCHANGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019  
(Continued)**

**FINANCIAL STATEMENTS (CONTINUED)**

*Statement of Net Position* – The Statement of Net Position 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, 2019, the statement reflects assets of \$22,696,418 with capital assets representing approximately 99% of the total assets due to the development of "kynect". The most significant portion of liabilities was net pension and OPEB liabilities of \$4,031,423, which represented 97% of total liabilities. This liability is the proportionate share of the collective net pension liability determined by an actuarial valuation as of June 30, 2018. Table 1 below presents KHBE's condensed Statement of Net Position as of June 30, 2019, and June 30, 2018, derived from the Statement of Net Position for the respective years.

**Table 1  
Condensed Statement of Net Position  
As of June 30**

	2019	2018	Percentage Increase (Decrease)
Current Assets	\$ 74,655	\$ 7,627	879%
Non Current Assets	121,396	42,373	186%
Capital Assets	<u>22,500,367</u>	<u>24,085,246</u>	<u>-7%</u>
Total Assets	<u>22,696,418</u>	<u>24,135,246</u>	<u>-6%</u>
Deferred outflows of resources	501,822	1,971,033	-75%
Current Liabilities	122,317	144,597	-15%
Non Current Liabilities	<u>4,033,856</u>	<u>9,551,947</u>	<u>-58%</u>
Total Liabilities	<u>4,156,173</u>	<u>9,696,544</u>	<u>-57%</u>
Deferred inflows of resources	4,979,379	1,438,473	246%
Net investment in capital assets	22,500,367	24,085,246	-7%
Unrestricted	<u>(8,437,679)</u>	<u>(9,113,984)</u>	<u>7%</u>
Total Net Position	<u>\$ 14,062,688</u>	<u>\$14,971,262</u>	<u>-6%</u>

*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, 2019. The difference (increase or decrease) is presented as the change in net position. Operating revenue totaled \$1,594,746 and operating expenses were \$2,457,286 with a non-operating expense of \$(46,034) resulting in a net position decrease of \$(908,574) for state fiscal year ending 2019. Table 2 provides a summary of KHBE's revenue, expenses, and change in net position as of June 30, 2019 and June 30, 2018.

**KENTUCKY HEALTH BENEFIT EXCHANGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019  
(Continued)**

**FINANCIAL STATEMENTS (CONTINUED)**

**Table 2  
Condensed Statement of Revenues, Expenses  
and Changes in Net Position  
For the Years Ended June 30**

	2019	2018	Percentage Increase (Decrease)
Total Operating Revenues	\$ 1,594,746	\$ 2,687,522	-41%
Total Operating Expenses	2,457,286	5,496,675	-55%
Total Nonoperating Expenses	46,034	69	66616%
Change in Net Position	<u>(908,574)</u>	<u>(2,809,222)</u>	<u>-68%</u>
Net Position at July 1, 2018	14,971,262	17,780,484	-16%
Net Position at June 30, 2019	<u>\$ 14,062,688</u>	<u>\$ 14,971,262</u>	<u>-6%</u>

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

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

**ECONOMIC FACTORS**

The decision of the Governor of the Commonwealth of Kentucky to transition from a State-Based Marketplace to a State-Based Marketplace using the Federal Platform (SBM-FP) will affect future KHBE financial statements. As a result of scaling back operational activities, expenditures have decreased. As an SBM-FP, Kentucky's exchange collects an assessment from the Commonwealth of Kentucky issuers participating on the Federal Platform.

**KENTUCKY HEALTH BENEFIT EXCHANGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2019  
(Continued)**

**CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS**

On December 30, 2015, the Governor of the Commonwealth of Kentucky notified HHS of the Commonwealth's intention to wind down and cease operations of the Commonwealth's State Based Exchange "kynect" and transition to the Federal Exchange as soon as practical. Staff worked on the transition throughout 2016 so that Kentuckians would be prepared and informed of the transition during the open enrollment for 2017. Effective January 1, 2017, the Commonwealth transitioned to the Federal Exchange. Additionally, kynect SHOP also has transitioned to the Federal exchange.

**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: Kentucky Office of Health Data and Analytics, Division of Health Benefit Exchange, 275 E Main St 4w-e Frankfort, KY 40621.

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## **FINANCIAL STATEMENTS**



**KENTUCKY HEALTH BENEFIT EXCHANGE  
STATEMENT OF NET POSITION**

**June 30, 2019**

Assets

Current Assets:

Cash (Note 2)	\$ 15,658
Interfund receivable	58,997
Total Current Assets	<u>74,655</u>

Non-Current Assets:

Long-Term investments (Note 2)	121,396
Capital assets (Note 4)	
Software	30,776,904
Less: Accumulated depreciation and amortization	<u>(8,276,537)</u>
Total Capital Assets	<u>22,500,367</u>
Total Non-Current Assets	<u>22,621,763</u>
Total Assets	<u>22,696,418</u>

Deferred outflows of resources	<u>501,822</u>
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Liabilities

Current Liabilities:

Accounts payable (Note 3)	76,090
Compensated absences (Note 8)	46,227
Total Current Liabilities	<u>122,317</u>

Non-Current Liabilities

Compensated absences (Note 8)	2,433
Net pension liability (Note 9)	3,443,869
Net OPEB liability (Note 10)	<u>587,554</u>
Total Non-Current Liabilities	<u>4,033,856</u>

Total Liabilities	<u>4,156,173</u>
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Deferred inflows of resources	<u>4,979,379</u>
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Net Position

Net investment in capital assets	22,500,367
Unrestricted	<u>(8,437,679)</u>
Total Net Position	<u>\$ 14,062,688</u>

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

**KENTUCKY HEALTH BENEFIT EXCHANGE  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION**

**For The Year Ended June 30, 2019**

Operating Revenues:	
Assessment fees from Ky Access	\$ 1,594,746
Total Operating Revenues	<u>1,594,746</u>
Operating Expenses:	
Depreciation and amortization	1,538,845
Personnel and contracted services	583,765
Utilities, rental, and other services	297,523
Commodities and supplies	35,212
Travel	1,941
Total Operating Expenses	<u>2,457,286</u>
Operating Income (Loss)	(862,540)
Non-Operating Revenues (Expenses)	
Gain (Loss) on sale of fixed assets	<u>(46,034)</u>
Total Non-Operating Revenues (Expenses)	<u>(46,034)</u>
Income (Loss)	(908,574)
Net Position at July 1, 2018	<u>14,971,262</u>
Net Position at June 30, 2019	<u>\$ 14,062,688</u>

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

**KENTUCKY HEALTH BENEFIT EXCHANGE  
STATEMENT OF CASH FLOWS**

**For The Year Ended June 30, 2019**

Cash Flows from Operating Activities:	
Cash payments from other sources	\$ 1,594,746
Cash payments to other sources	(2,300)
Cash payments for goods and services	(387,118)
Cash payments for personnel and contracted services	(1,118,273)
Net Cash Provided (Used) by Operating Activities	87,055
Cash Flows from Investing Activities:	
Purchase of investment securities	(79,024)
Net Cash Provided (Used) in Investing Activities	(79,024)
Net Increase (Decrease) in Cash and Cash Equivalents	8,031
Cash and Cash Equivalents at July 1, 2018	7,627
Cash and Cash Equivalents at June 30, 2019	\$ 15,658
Reconciliation of Operating Income to Net Cash:	
Provided by Operating Activities:	
Operating income (loss)	\$ (862,540)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation and amortization	1,538,845
(Increase) decrease in assets:	
Interfund receivable	(58,997)
(Increase) decrease in deferred outflows of resources	1,469,212
Increase (decrease) in liabilities:	
Compensated absences	22,852
Accounts payable	(43,989)
Pension and OPEB Liability	(5,519,234)
Increase (decrease) in deferred inflows of resources	3,540,906
Net Cash Provided (Used) by Operating Activities	\$ 87,055

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

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## **NOTES TO THE FINANCIAL STATEMENTS**





**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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 generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

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. Through December 2016, KHBE facilitated the purchase and sale of health plans in the individual market; assisted small employers in facilitating the enrollment of their employees in health plans; provided one-stop shopping by also helping individuals enroll in Medicaid and Kentucky Children’s Health Insurance Program (KCHIP) health plans; enabled individuals to receive premium tax credits, premium subsidies, and reduced cost sharing; and qualified small business for tax credits. Open enrollment in KHBE occurred annually during the months of November through January. Open enrollment for 2016 was the final annual enrollment period provided through the kynect platform. Subsequent executive orders were issued each year thereafter until 2019, when the Office of Health Data and Analytics was established under a Cabinet re-organization.

Federal grant funding financed KHBE design, development, and implementation phases, as well as operations through April 30, 2015. KHBE, trademarked as “kynect,” was required to be financially self-sustaining using a broad-based premium assessment on all issuers offering health benefit plans and stop loss policies. KHBE did not receive any state general fund appropriations.

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 were allocated among the KHBE, Medicaid and KCHIP based on the federally approved CAP while costs strictly associated with one program were not cost allocated with others. The kynect program was decommissioned on January 1, 2017 and the eligibility and enrollment functions have transitioned to the federal exchange. Some consumer assistance and plan management activities will continue to be performed by KHBE. Kynect SHOP continued to assist SHOP groups until their 2016 plan year ended. All SHOP activity ceased by the end of the 2018 state fiscal year.

**Reporting entity and basis of presentation** – The accompanying financial statements have been prepared in conformity with the United States generally accepted accounting principles (GAAP) and are presented on the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

are recorded when earned and expenses are recorded when liability is incurred. KHBE has adopted the Governmental Accounting Standards Board (GASB) pronouncements, which is the accepted standard governing body for establishing governmental accounting financial reporting principles nationally. KHBE has no relationship with other entities that could be considered component units.

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

**Interfund Receivable** – HBE funds in the amount of \$58,997 were used unintentionally to purchase items that went to another department. The funds are due back to KHBE.

**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. .

**Grants and Medicaid program cost reimbursement receivable** – Federal grants receivable represents unreimbursed federal grant funds as of June 30, 2019, for the Level 2 Establishment Grant and Medicaid grants. During 2019, KHBE did not receive any federal grants. Therefore, there are no federal grants receivable or unreimbursed federal grant funds as of June 30, 2019.

**Capital Assets** – Purchased capital assets are reported at cost. During 2019, no hardware or software assets were purchased by KHBE under contract with Deloitte Consulting.

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 primary government's 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 for period ended June 30, 2019.

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.

Land improvements	10 to 60 years
Buildings	10 to 75 years
Machinery and equipment	3 to 25 years
Infrastructure	20 to 40 years
Intangibles	2 to 40 years

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pensions** – For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense related to the pension plan, information about the fiduciary net position of the Kentucky Retirement System (KRS) and addition to/deductions from KRS’s fiduciary net position have been determined on the same basis as they are reported by KRS. (See Note 9)

**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 Other Post-Employment Benefits plan, information about the fiduciary net position of the Kentucky Retirement System (KRS) and addition to/deductions from KRS’s fiduciary net position have been determined on the same basis as they are reported by KRS. (See Note 10)

**Statement of Net Position** – Net position presents the reporting entity’s 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. In 2019, KHBE did not have restricted net position.

**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 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’s Risk Management Fund to mitigate risk exposure.

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of estimates** – The preparation of financial statements in conformity with generally accepted accounting principles (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.

**NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS**

The Commonwealth of Kentucky follows the practice of pooling cash, cash equivalents 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 2019. 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 Comprehensive Annual Financial Report. As of June 30, 2019, the carrying value of KHBE's pooled cash and cash equivalents totaled \$15,658 and the fair value of the KHBE investments was \$121,396, for a net combined positive total fair value of \$137,054. In accordance with the implementation of GASB No. 72, the KHBE assets are measured as Level 2 within the fair value hierarchy. Please refer to the Commonwealth's CAFR for further information and disclosure.

**NOTE 3 - ACCOUNTS PAYABLE**

Accounts payable are amounts owed by KHBE as of June 30, 2019. The liabilities will be paid within one year and are therefore considered current. The following table shows the disaggregation of the amounts reported as accounts payable for as of June 30, 2019.

<u>Current Payables</u>	
Personal Services	\$ 68,370
Other	<u>7,720</u>
Total Current Payables	<u>\$ 76,090</u>

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 4 – CAPITAL ASSETS**

Capital assets consist of the following at June 30, 2019:

	Balance <u>June 30, 2018</u>	Increases	Decreases	Balance <u>June 30, 2019</u>
Assets:				
Equipment and Machinery	\$ 171,411	\$	\$ (171,411)	\$
Software	30,776,904			30,776,904
Total All Asset Types	<u>30,948,315</u>		<u>(171,411)</u>	<u>30,776,904</u>
Accumulated Depreciation:				
Equipment	(125,377)		125,377	
Software	(6,737,692)	(1,538,845)		(8,276,537)
Total Accumulated Depreciation	<u>(6,863,069)</u>	<u>(1,538,845)</u>	<u>125,377</u>	<u>(8,276,537)</u>
Total Capital Assets, net	<u>\$ 24,085,246</u>	<u>\$ (1,538,845)</u>	<u>\$ (46,034)</u>	<u>\$ 22,500,367</u>

**NOTE 5 – ONLINE MARKETPLACE DEVELOPMENT**

During 2013, 2014, 2015 and 2016, KHBE incurred, respectively, \$19,001,243; \$5,354,421; \$6,552,548; (\$131,308) in costs related to the development of the health benefit exchange online marketplace (kynect) that are being capitalized. The online marketplace has been placed into service; therefore amortization expense was recorded for the period ended June 30, 2019. There were no capitalized costs in 2019.

**NOTE 6 – 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 2 CFR 225 – Cost Principles for State, Local, and Indian Tribal Governments (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. There were no design and implementation activities in 2019. There were no significant design and implementation activities in 2019 that impacted KHBE.

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 7 – COMMITMENTS**

During fiscal year 2019, the Commonwealth renewed and entered into numerous contract agreements relating to the development and operations of KHBE. Any agreements that exceed KHBE's current grant period are contingent upon future grant approval and the broad-based premium assessment levels.

**Office lease** – KHBE has entered into an agreement to lease office space in Frankfort, Kentucky with the commencement date for each corresponding to the state fiscal year July 1 through June 30. All leases contain termination clauses for cancellation after 30, 60, or 90 days written notice to the lessors. KHBE office lease space is cost allocated among benefitting programs. KHBE spent \$39 for fiscal year ending June 30, 2019.

**Vendor Contracts** – KHBE has engaged in long-term contracts obligating it to material expenditures in future periods. Remaining obligations under contracts that provide significant service value and could not be easily cancelled within 30 days of notice totaled approximately \$23 million as of June 30, 2019. These long-term obligations represent the total amounts and include expenses that will be cost allocated to Medicaid and KCHIP.

KHBE has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of KHBE. In 2019, KHBE did not receive federal financial assistance.

**NOTE 8 – 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, 2019, are:

	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
Annual Leave	\$ 19,396	\$ 3,936	\$	\$ 23,332	\$ 22,165
Compensatory Leave	6,411	18,917		25,328	24,062
Total	<u>\$ 25,807</u>	<u>\$ 22,853</u>	<u>\$</u>	<u>\$ 48,660</u>	<u>\$ 46,227</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. Sick leave accumulated in excess of six months is added to an employee's years of service at the time of retirement. There is no liability recorded for sick leave at June 30, 2019. The estimated accumulated unused sick leave for the KHBE employees at June 30, 2019 was \$46,559.

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 9 – EMPLOYEE PENSION PLANS**

Under the provisions of Kentucky Revised Statutes (KRS) 61.645, the Board of Trustees of the Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), the Commonwealth contributes to the KERS, a multiple-employer cost sharing defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances.

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.

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 System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646 or online at [www.kyret.ky.gov](http://www.kyret.ky.gov).

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 9 – EMPLOYEE PENSION PLANS (CONTINUED)**

	<b>Kentucky Employees' Retirement System Non-Hazardous Governance KRS 61.510 through KRS 61.705</b>		
	<b>Tier 1</b>	<b>Tier 2</b>	<b>Tier 3</b>
	Participation Prior to 9/1/2008	Participation 9/1/2008 through 12/31/2013	Participation on or after 1/1/2014
<b>Covered Employees:</b>	Substantially all regular full-time members employed in non-hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the system.		
<b>Benefit Formula:</b>	Final Compensation × Benefit Factor × Years of Service		Cash Balance Plan
<b>Final Compensation:</b>	Average of the highest 5 fiscal years (must contain at least 48 months). Includes lump-sum compensation payments (before and at retirement).	5 complete fiscal years immediately preceding retirement; each year must contain 12 months. Lump-sum compensation payments (before and at retirement) are not to be included in creditable compensation.	No Final Compensation
<b>Benefit Factor:</b>	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%. Additional years above 30 = 2.00% (2.00% benefit factor only applies to service earned in excess of 30 years).	No benefit factor. A life annuity can be calculated in accordance with actuarial assumptions and methods adopted by the board based on member's accumulated account balance.
<b>Cost of Living Adjustment (COLA):</b>	No COLA unless authorized by the Legislature with specific criteria. This impacts all retirees regardless of Tier.		
<b>Unreduced Retirement Benefit:</b>	Any age with 27 years of service. Age 65 with 48 months of service. Money Purchase for age 65 with less than 48 months based on contributions and interest.	Rule of 87: Member must be at least age 57 and age plus earned service must equal 87 years at retirement to retire under this provision. Age 65 with 5 years of earned service. No Money Purchase calculations.	
<b>Reduced Retirement Benefit:</b>	Any age with 25 years of service. Age 55 with 5 years of service.	Age 60 with 10 years of service. Excludes purchased service (exception: refunds, omitted, free military).	No reduced retirement benefit



**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 9 – EMPLOYEE PENSION PLANS (CONTINUED)**

All full time employees of KHBE who work more than 100 hours per month participate in a multiple-employer cost sharing defined benefit pension plan. The Kentucky Employees Retirement System (KERS), Kentucky Employee Retirement Non- Hazardous Plan is administered by the Board of Trustees of the Kentucky Retirement Systems. The plan provides retirement, health, disability, and death benefits to plan participants. Cost-of-living adjustments are provided at the discretion of the State Legislature. Employees contribute 5% if participants are in Tier 1 and 6% for all other tiers of creditable compensation. The Board of Trustees determines employer contribution rates necessary for the actuarial soundness of the retirement system as required by Kentucky Revised Statutes 61.510 to 61.705. The employer contribution is subject to approval by the Kentucky General Assembly through the adoption of the Biennial Executive Branch Budget. At June 30, 2019, KHBE reported a liability of \$3,443,869 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of June 30, 2018, and the total pension liability was determined by an actuarial valuation as of the same date.

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 9 – EMPLOYEE PENSION PLANS (CONTINUED)**

**Kentucky Employees Retirement Systems**  
**Non-Hazardous**

<b>Employer Contribution</b>	69.69%
<b>Member Contribution</b>	Tier 1: 5%; Tier 2 & 3: 6%
<b>Employer Contributions made in thousands</b>	\$262,133
<b>Actuarial Valuation Date</b>	June 30, 2017, with standard roll forward
<b>Measurement Date</b>	June 30, 2018
<b>Actuarial Cost Method</b>	Entry age normal
<b>Amortization Method</b>	Level percent of pay
<b>Remaining amortization period</b>	27 years
<b>Asset valuation method</b>	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
<b>Investment rate of return</b>	5.25% unchanged from prior year
<b>Inflation Rate</b>	2.30%
<b>Payroll Growth Assumptions</b>	0.00%
<b>Projected salary increases</b>	KERS Non-Hazardous and State Police Retirement System active member salaries are assumed to increase at the rate of 19.5% in year one and decreasing to 3.55% for year ten and beyond.
<b>Mortality Tables</b>	Pre-retirement mortality: RP-2000 Combined Mortality Table projected with scale BB to 2013 (male mortality rates are multiplied by 50% and female mortality rates are multiplied by 30%.) Post-retirement mortality (non-disabled) : RP-2000 Combined Mortality Table projected with Scale BB to 2013 (female mortality rates are set back one year). Post-retirement mortality (disabled): RP-2000 Combined Disability Mortality Table Projected with Scale BB to 2013. Male mortality rates are set back four years. These mortality assumptions assume a margin for future mortality improvement.
<b>Date of Experience Study</b>	The period July 1, 2008 - June 30, 2013
<b>Update procedures applied</b>	The total pension liability was rolled-forward from the valuation date to the fiscal year end June 30, 2018 using generally accepted actuarial principles.
<b>Change in Assumptions</b>	There have been no changes in actuarial assumptions since June 30, 2017.

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 9 – EMPLOYEE PENSION PLANS (CONTINUED)**

The long-term expected rate of return was determined by using a building block method 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>U.S. Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
<b>Global Bonds</b>	<b>4.00%</b>	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
<b>Private Equity</b>	<b>10.00%</b>	6.50%
<b>Real Estate</b>	<b>5.00%</b>	9.00%
<b>Absolute Return</b>	<b>10.00%</b>	5.00%
<b>Real return</b>	<b>10.00%</b>	7.00%
<b>Cash</b>	<b>2.00%</b>	1.50%
Total	100.00%	6.09%

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 9 – EMPLOYEE PENSION PLANS (CONTINUED)**

The discount rate used to measure the total pension liability of HBE (KERS non-hazardous) was 5.25%. The projection of cash flow used to determine the discount rate assumed that employers would contribute the actuarially determined contribution rate in all future years. Contributions are projected to be sufficient to finance all the future benefit payments of the current plan members. The discount rate determination does not use a municipal bond rate. The following presents the net pension liability of HBE, calculated using the discount rate of 5.25%, as well as what the net position liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher.

	<b>KERS Non-Hazardous</b>		
	<b>1% Decrease (4.25%)</b>	<b>Current Discount Rate (5.25%)</b>	<b>1% Increase (6.25%)</b>
Net Pension Liability	\$ 3,923,355	\$ 3,443,869	\$ 3,044,517

For the Year Ended June 30, 2019, KHBE recognized pension expense of (\$2,171,258) and deferred outflows and deferred inflows related to pensions are from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 24,530	\$ 9,633
Changes in assumptions	153,796	
Net difference between projected and actual earnings on investments	25,811	22,524
Change in proportionate share	58,862	4,057,778
Contributions subsequent to the measurement date	116,829	
Total	<u>\$ 379,828</u>	<u>\$ 4,089,935</u>

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 9 – EMPLOYEE PENSION PLANS (CONTINUED)**

The \$116,829 reported as deferred outflows of resources related to pensions resulting from contributions after the measurement date will be recognized as a reduction of net pension liability during the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized as pension expense as follows:

Year ended June 30	
2020	\$ (2,449,320)
2021	(1,368,686)
2022	(6,798)
2023	(2,132)

**NOTE 10 – OTHER POST EMPLOYMENT BENEFITS**

Kentucky Revised Statutes (KRS) 61.701, created a trust fund known as “Kentucky Retirement Systems insurance trust fund.” It is a cost sharing OPEB plan. Contribution rates for employer and employees are established by Kentucky Revised Statutes. 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 Employees Retirement System and State Police Retirement System, and to certain of their dependents or beneficiaries, including but not limited to qualified beneficiaries as described in 42 U.S.C. secs. 300bb-1 et seq. The employers participating in the trust fund are limited to the Commonwealth, political subdivisions of the Commonwealth, and entities whose income is exempt from taxation under 26 U.S.C. sec.115.

The board of trustees of the Kentucky Employees Retirement System 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 the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by telephone at (502)564-4646 or on-line at [www.kyret.ky.gov](http://www.kyret.ky.gov).

At June 30, 2019 KHBE reported a liability of \$587,554 for its proportionate share of the collective Net OPEB Liability.

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Governance KRS 61.701 to 61.705**  
**Cost Sharing Multi-Employer Defined Benefit**

**Plan Administrator:** The plan is administered by Kentucky Retirement Systems (KRS).

**Covered Employees:** Members of KRS currently receiving benefits.

<b>Benefit Factor:</b>	<b>Participation prior to July 2003</b>		<b>Participation between July 2003 and August 2008</b>		<b>Participation on or after September 2008</b>	
	<b>Months of Service</b>	<b>Percent of premium paid</b>	<b>Months of Service</b>	<b>Percent of premium paid</b>	<b>Months of Service</b>	<b>Percent of premium paid</b>
	<48	0%	Greater than or equal to 120	\$10 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	\$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%				
	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).

**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.

**Cost of Living**

**Adjustment (COLA):** Members participating after 2008 receive 1.5% increase annually.

**Membership:**

<b>Retirees and beneficiaries receiving benefits</b>	29,032
<b>Inactive members</b>	5,884
<b>Active plan members</b>	37,100
<b>Total</b>	<u>72,016</u>

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

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

	<b>Kentucky Employees Retirement System</b>
	<b>Non-Hazardous</b>
	<b>OPEB Plan</b>
<b>Employer Contribution</b>	11.81%
<b>Member Contribution</b>	1.00%
<b>Contributions</b>	\$ 44,383
<b>Proportionate Share of Collective Liability</b>	
<b>As a Percentage</b>	0.0248%
<b>As a Dollar Amount</b>	\$ 587,554
<b>Experience Study</b>	July 1, 2008 - June 30, 2013
<b>Actuarial Valuation Date</b>	June 30, 2017
<b>Inflation</b>	2.3%, no change from prior year.
<b>Salary Increases</b>	0%, no change from prior year.
<b>Investment rate of return</b>	6.25%, no change from prior year.
<b>Health cost trend rates</b>	Underlying assumptions: 1). A short run period-this is a period for which anticipated health care trend rates are manually set based on local information as well as plan-specific and carrier information. 2). Long term real GDP Growth- 1.75%. 3). Long term rate of inflation- 2.3%. 4). Long term nominal GDP growth- 4.05%. 5). Year that excess rate converges to 0-15 years from the valuation. Health Care Cost Trends are thus the manually set rates for the short run period and rates which decline to an ultimate trend rate which equals the assumed nominal long term GDP growth rate.
<b>Actuarial Cost Method</b>	Entry age normal
<b>Asset valuation method</b>	5 years smoothing
<b>Investment rate of return</b>	6.25%
<b>Mortality Tables</b>	The mortality table used for active members is RP-2000 Combined Mortality Table projected with scale BB to 2013 (multiplied by 50% for males and 30% for females.) Post retirement mortality (non-disabled) used RP-2000 Combined Mortality Table projected with Scale BB to 2013. Set back one year for females. Post-retirement disabled members RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 Male mortality rates set back four years for male.
<b>Update procedures applied</b>	Standard roll forward methods using generally accepted actuarial techniques.

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
<b>U.S. Equity</b>	<b>17.50%</b>	
US Large Cap	5.00%	4.50%
US Mid Cap	6.00%	4.50%
US Small Cap	6.50%	5.50%
<b>Non US Equity</b>	<b>17.50%</b>	
International Developed	12.50%	6.50%
Emerging Markets	5.00%	7.25%
<b>Global Bonds</b>	<b>4.00%</b>	3.00%
<b>Credit Fixed</b>	<b>24.00%</b>	
Global IG Credit	2.00%	3.75%
High Yield	7.00%	5.50%
EMD	5.00%	6.00%
Illiquid Private	10.00%	8.50%
<b>Private Equity</b>	<b>10.00%</b>	6.50%
<b>Real Estate</b>	<b>5.00%</b>	9.00%
<b>Absolute Return</b>	<b>10.00%</b>	5.00%
<b>Real return</b>	<b>10.00%</b>	7.00%
<b>Cash</b>	<b>2.00%</b>	1.50%
Total	100.00%	6.09%



**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

The single discount rate used to measure the total OPEB liability for Kentucky Employees Retirement System was 5.86% for the non-hazardous plan. The single discount rate is based on expected rate of return on OPEB plan investments of 6.25% and a municipal bond rate of 3.62%, as reported in Fidelity Index's "20-Year Municipal Go AA Index" as of June 30, 2018. 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, which is determined using a closed funding period (25 years as of June 30, 2018) and the actuarial assumptions and methods adopted by the Board of Trustees. Based on those assumptions, the plan's fiduciary net position, future contributions, and investment earnings are projected to be sufficient to pay benefits payments of the retirement system. However, the cost associated with the implicit employer subsidy is not currently being included in the calculation of the System's actuarial determined contributions, and the subsidy will not be paid out of the System's trust.

The following presents the net OPEB liability calculated using a discount rate as well as what the liability would be if it were using a discount rate that is 1% point lower or 1% point higher than the current rate:

	<b>1%</b> <b>Decrease</b> <b>(4.86%)</b>	<b>Current</b> <b>Discount</b> <b>Rate (5.86%)</b>	<b>1%</b> <b>Increase</b> <b>(6.86%)</b>
Net OPEB Liability	\$ 689,371	\$ 587,554	\$ 502,817

The following table presents the new OPEB liability of the KRS OPEB Plan calculated using a healthcare cost trend rate that is 1% point lower or 1% point higher than the current rate:

	<b>1% Decrease</b>	<b>Current</b> <b>Healthcare</b> <b>Trend Rate</b> <b>Current Rate</b>	<b>1% Increase</b>
Net OPEB Liability	\$ 499,544	\$ 587,554	\$ 693,400

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

For the year ended June 30, 2019, KHBE recognized OPEB expense of (\$156,233). Deferred outflows and deferred inflows related to OPEB are from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$	\$ 38,364
Changes in assumptions	61,765	2,221
Net difference between projected and actual earnings on investments		8,606
Change in proportionate share		840,253
Contributions subsequent to the measurement date	<u>60,229</u>	
Total	<u>\$ 121,994</u>	<u>\$ 889,444</u>

The \$60,229 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, 2020. Other amounts reported as deferred outflows and deferred inflows related to OPEB will be recognized as pension expense as follows:

Year ended June 30	
2020	\$ (206,528)
2021	(206,528)
2022	(206,528)
2023	(208,095)

**NOTE 11 – FEDERAL CONTRIBUTION**

Section 1311 of the ACA makes grant funds available to all state-based exchanges, including KHBE, to assist them in planning, establishing, and operating their own state-based marketplaces. Consistent with the ACA, such federal funds must be spent in accordance with grant requirements. KHBE received a federal extension to continue using federal grant funds for design, development and implementation activities through December 31, 2017. The corresponding final Federal Financial Report was submitted in January 2018, closing HBE's federal grant extension and deobligating the grant's remaining funds. Therefore, no federal funds were expending in fiscal year 2019. In addition, the ACA requires that state-based marketplaces be financially self-sustaining and as approved by the federal government; KHBE discontinued using federal funds for operational expenses beginning May 1, 2015.

**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**June 30, 2019**  
**(Continued)**

**NOTE 12 – SMALL BUSINESS HEALTH OPTIONS PROGRAM (SHOP)**

KHBE was required to establish and operate a SHOP exchange to assist qualified employers and facilitate the enrollment of qualified employees into QHPs (45 CFR 155.700). The SHOP exchange was aimed at easing the administrative burden for employers that administer group health plans. Through the SHOP, employers were issued a single, aggregated monthly bill itemizing the health plan selected by each employee, the employer contribution, the employee contribution and the total amount due to each QHP issuer. KHBE collects the premiums billed to the employers and then distributes those payments to the issuers. The kynect SHOP program continued to assist SHOP groups until their 2016 plan year ended. All new SHOP groups were transitioned to the Federal exchange. Individual market eligibility and enrollments transitioned to the federal Platform during open enrollment for plan year 2017. Kynect SHOP enrollments for plan Year 2016 ended on or before November 30, 2017.

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**REQUIRED SUPPLEMENTARY INFORMATION**



**KENTUCKY HEALTH BENEFIT EXCHANGE  
REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2019**

**Schedule of Proportionate Share of the Net Pension Liability**

	<u>2019<sup>a</sup></u>	<u>2018<sup>b</sup></u>	<u>2017<sup>c</sup></u>	<u>2016<sup>d</sup></u>	<u>2015<sup>e</sup></u>
Proportionate share of the net pension liability (asset) as a percentage	0.025316%	0.059129%	0.074877%	0.096380%	0.070682%
Proportionate share of the net pension liability (asset) in dollars	\$ 3,443,869	\$ 7,916,426	\$ 8,535,622	\$ 9,668,781	\$ 6,341,498
Covered-employee payroll	\$ 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 its covered-employee payroll	900.94%	835.52%	698.92%	649.64%	568.74%
Plan fiduciary net position as a percentage of the total pension liability	12.84%	13.30%	15.00%	18.83%	22.32%

This is a ten-year schedule. Years will be added to this schedule in future years until ten years of information is available to be presented.

<sup>a</sup> This column is based on the measurement date of June 30, 2018.

<sup>b</sup> This column is based on the measurement date of June 30, 2017.

<sup>c</sup> This column is based on the measurement date of June 30, 2016.

<sup>d</sup> This column is based on the measurement date of June 30, 2015.

<sup>e</sup> This column is based on the measurement date of June 30, 2014.

**KENTUCKY HEALTH BENEFIT EXCHANGE  
REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2019  
(Continued)**

**Schedule of Pension Contributions**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 267,181	\$ 374,808	\$ 467,094	\$ 502,092	\$ 368,089
Contributions in relation to the actuarially determined contribution	<u>262,133</u>	<u>407,485</u>	<u>566,920</u>	<u>502,808</u>	<u>209,811</u>
Contribution deficiency (excess)	<u>\$ 5,048</u>	<u>\$ (32,677)</u>	<u>\$ (99,826)</u>	<u>\$ (716)</u>	<u>\$ 158,278</u>
Covered-employee payroll	\$ 376,152	\$ 892,589	\$ 1,199,830	\$ 1,488,340	\$ 1,115,012
Contributions as a percentage of covered-employee payroll	69.69%	45.65%	47.25%	33.78%	18.82%

This is a ten-year schedule. Years will be added to this schedule in future years until ten years of information is available to be presented.

**Notes to RSI Pension Contributions**

**Notes to Schedule**

Valuation date	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2015	June 30, 2014
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**Methods and assumptions used to determine contributions:**

Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age
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
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	Five-year smoothed Market	Five-year smoothed Market	Five-year smoothed Market
Investment Return	6.75%	7.50%	6.75%	7.50%	7.75%
Inflation	3.25%	3.25%	3.25%	3.25%	3.25%
Projected Salary Increase	4.0%, average	4.0%, average	4.0%, average, including inflation	4.0%, average, including inflation	4.5%, per annum

**Mortality**

RP-2000 Combined Mortality Table, projected to 2013 with scale BB Set Back year for females.



**KENTUCKY HEALTH BENEFIT EXCHANGE**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2019**  
**(Continued)**

**Schedule of Proportionate Share of the Net OPEB Liability**

	<u>2019<sup>a</sup></u>	<u>2018<sup>b</sup></u>
Proportionate Share of the Net OPEB Liability (Asset)	0.0248%	0.0644%
Proportionate Share of the Collective Net OPEB Liability (Asset)	\$ 587,554	\$ 1,634,231
Covered-employee Payroll	\$ 390,039	\$ 1,026,627
Proportionate share of the net OPEB liability (asset) as a percentage of covered-employee payroll	150.64%	159.18%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	27.32%	24.40%

This is a ten-year schedule. Years will be added to this schedule in future years until ten years of information is available to be presented.

<sup>a</sup> This column is based on the measurement date of June 30, 2018.

<sup>b</sup> This column is based on the measurement date of June 30, 2017.

**KENTUCKY HEALTH BENEFIT EXCHANGE  
 REQUIRED SUPPLEMENTARY INFORMATION  
 June 30, 2019  
 (Continued)**

**Schedule of Employer's Contributions OPEB**

	<u>2019</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 46,619	\$ 95,595
Contributions in Relation to the Actuarially Determined Contribution	44,383	98,522
Contribution Deficiency (Excess)	<u>\$ 2,236</u>	<u>\$ (2,927)</u>
Covered-employee Payroll	375,956	1,136,359
Contributions as a Percentage of Covered- employee Payroll	11.81%	8.67%

This is a ten-year schedule. Years will be added to this schedule in future years until ten years of information is available to be presented.

**KENTUCKY HEALTH BENEFIT EXCHANGE  
REQUIRED SUPPLEMENTARY INFORMATION  
June 30, 2019  
(Continued)**

**Notes to RSI OPEB Contributions**

	<u>2019</u>	<u>2018</u>
Notes to Schedule as of the Measurement Date		
Valuation Date	June 30, 2016	June 30, 2016
Methods and assumptions used to determine contributions :		
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Pay, 27 Years, Closed	Level Percent of Pay, 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
Investment Return	7.50%	6.25%
Inflation	3.25%	2.30%
Projected Salary Increase	0%	0%

**Mortality for 2018**

RP-2000 Combined Mortality Table, projected to 2013 with scale BB Set Back year for females.

**Health care Trend Rates**

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

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





MIKE HARMON  
AUDITOR OF PUBLIC ACCOUNTS

Report On Internal Control Over Financial Reporting And On Compliance  
And Other Matters Based On An Audit Of Financial Statements  
Performed In Accordance With Government Auditing Standards

Independent Auditor's Report

Eric Friedlander, Secretary  
Cabinet for Health and Family Services  
Robert Putt, Executive Director  
Office of Health Data and Analytics

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Kentucky Health Benefit Exchange (KHBE) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise KHBE's basic financial statements, and have issued our report thereon dated March 20, 2020.

***Internal Control Over Financial Reporting***

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weakness or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and recommendations, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and recommendations as item 2019-KHBE-01 to be a material weakness.

Eric Frelander, Secretary  
Cabinet for Health and Family Services  
Robert Putt, Executive Director  
Office of Health Data and Analytics

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the KHBE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying schedule of findings and responses as item 2019-KHBE-02.

### ***Kentucky Health Benefits Exchange's Responses to Findings***

KHBE's responses to the findings identified in our audit are described in the accompanying schedule of findings and recommendations. KHBE's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

March 20, 2020



## **SCHEDULE OF FINDINGS AND RECOMMENDATIONS**



**KENTUCKY HEALTH BENEFIT EXCHANGE  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2019**

**2019-KHBE-001: The Kentucky Health Benefit Exchange Incorrectly Reported Expenditures**

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During the fiscal year 2019 audit of the Kentucky Health Benefit Exchange (KHBE), expenditures were coded to the agency in error. The accounting system assigns specific accounting codes to each state agency; however, internal controls were not in place to identify that expenditures were erroneously coded to KHBE. KHBE initially reported expenditures of \$58,997; however, upon the auditor's inquiry, KHBE investigated and determined this amount should have been recorded to a different department.

KHBE personnel were unaware of the additional expenditures coded to their department.

The financial statement expenditure amount was decreased by \$58,997 as a result of the error. Failure to record expenditures in the correct department could result in misstated expenditures in the financial statements.

45 Code of Federal Regulations § 155.1200 states in part:

- (a) General Requirement. A State Exchange must:
- (1) Keep an accurate accounting of Exchange receipts and expenditures in accordance with generally accepted accounting principles (GAAP).

Proper internal controls require management to have sufficient procedures to ensure accurate accounting. Control activities should ensure the prevention, detection, and correction of errors and/or misstatements.

**Recommendation**

We recommend KHBE strengthen its internal control procedures to ensure errors are detected timely.

**Management's Response and Planned Corrective Action**

*In late 2017, the Office of Administrative Services (OAS) staff worked with former KHBE Director to find new workspace in CHR for Exchange staff. This space was located on the 2<sup>nd</sup> floor of the CHR building. The area was designed to accommodate the offices needed for the 9 staff members of KHBE along with a conference room, storage room, breakroom etc. Installation of the furniture took place in May 2018, also during this time a reorganization moved KHBE into the Office of Health Data and Analytics (OHDA), thus the newly planned space on the 2<sup>nd</sup> floor could no longer accommodate all employees in OHDA.*

*Due to over ordering of materials by the vendor, OAS facility team along with Finance procurement delayed payment of invoice until vendor corrected their mistake. Once the corrected invoice was received, OAS facilities group should have notified procurement to remove KHBE funding from the original purchase request/delivery order. This error was discovered and JV 721 20\*3328 was completed on 12/5/19 to return the money to KHBE.*

**KENTUCKY HEALTH BENEFIT EXCHANGE  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2019  
(Continued)**

**2019-KHBE-001: The Kentucky Health Benefit Exchange Incorrectly Reported Expenditures  
(Continued)**

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**Management's Response and Planned Corrective Action (Continued)**

*Corrective Action: Prior to submission of invoices for payment on behalf of agencies, OAS Facilities team will verify with the agencies that funding is still accurate. This process will be in place for future orders.*

*Also, KHBE will work with OAS and the Budget Office to provide monthly expenditure reports for review in an effort to identify any unnecessary expenditures in a more timely manner.*

**KENTUCKY HEALTH BENEFIT EXCHANGE  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2019  
(Continued)**

**2019-KHBE-002: The Kentucky Health Benefit Exchange Does Not Monitor DOI To Ensure Compliance With 45 CFR 155 Subpart K**

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The Kentucky Health Benefit Exchange (KHBE) is established under KRS § 194A.099 to administer the provisions of the Patient Protection and Affordable Care Act (ACA) of 2010. KHBE is responsible for ensuring compliance with 45 Code of Federal Regulations (CFR) Part 155, the regulation establishing the “exchange” and other standards under the ACA. KHBE, as the exchange for the Commonwealth, has the ultimate responsibility for compliance with the 45 CFR Part 155. However, KHBE deferred responsibility to the Department of Insurance (DOI) for performing key functions of 45 CFR 155 Subpart K (Exchange Functions: Certification of Qualified Health Plans) and did not monitor DOI’s performance to ensure compliance.

There is no memorandum of understanding or contract in place between KHBE and DOI to allow KHBE to monitor DOI’s internal controls or procedures to ensure compliance with the CFR.

KHBE indicated they do not have authority over DOI and therefore cannot monitor DOI in any manner due to 900 KAR 10:200 Section 7 and KRS Chapter 304, which establish the responsibilities of DOI. However, KHBE has the responsibility to ensure compliance with the federal regulations, regardless of state statutes and regulations.

The sections within subpart K establish requirements for the exchange, in summary:

- 45 CFR § 155.1000 provides criteria for the exchange to offer certified health plans or plans deemed Qualified Health Plans (QHP),
- 45 CFR 155.1010 requires the exchange to establish procedures for certification of QHPs and monitor the QHPs for ongoing compliance,
- 45 CFR 155.1030 establishes QHP certification standards the exchange must ensure are met,
- 45 CFR 155.1040 requires the exchange to collect transparency information and monitor if a QHP issuer has made cost sharing information available,
- 45 CFR § 155.1050 requires the exchange to ensure provider network adequacy of each QHP,
- 45 CFR § 155.1055 requires the exchange to have a process to evaluate the service areas of QHPs, and
- 45 CFR 155.1065 requires the exchange to allow the offering of dental plans that meet certain requirements.

Without monitoring procedures over DOI activities related to the CFR, KHBE cannot verify compliance with all sections of Subpart K. Relying on DOI to perform the functions required by the Federal regulations is allowable as long as that reliance is appropriate and documented, and the scope of what DOI is doing fits the requirements imposed on the exchange by federal law. However, without a memorandum of understanding and monitoring procedures in place, KHBE cannot ensure compliance with subpart K.

As a general requirement, 45 CFR 155.1000 (b) states “The Exchange must offer only health plans which have in effect a certification issued or are recognized as plans deemed certified for participation in an Exchange as a QHP, unless specifically provided for otherwise,” and (c) continues with, “The Exchange may certify a health plan as a QHP in the Exchange if....” The requirements for certification are the responsibility of KHBE.

**KENTUCKY HEALTH BENEFIT EXCHANGE  
SCHEDULE OF FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2019  
(Continued)**

**2019-KHBE-002: The Kentucky Health Benefit Exchange Does Not Monitor DOI To Ensure Compliance With 45 CFR 155 Subpart K (Continued)**

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KRS § 194A.099 (3) state The office may enter into contracts and other agreements with appropriate entities, including but not limited to federal, state, and local agencies, as permitted under 45 CFR 155.110 to the extent necessary to carry out the duties and responsibilities of the office, provided that the agreements incorporate adequate protections with respect to the confidentiality of any information to be shared.”

900 KAR 10:200 assigns KHBE certain responsibilities, based on various requirements in federal law. KHBE could meet those responsibilities through direct administration, or it could, given the exigencies of efficiency or expertise, use the authority granted in 194A.099 (3) to contract with another agency, such as DOI, to meet some of those requirements. From a federal perspective, however KHBE performs its responsibilities, it is the ultimate responsibility of KHBE to see that those responsibilities are met.

**Recommendation**

We recommend KHBE develop:

- Monitoring procedures to ensure compliance with 45 CFR Part 155 and
- A memorandum of understanding or contract with DOI for services related to compliance.

**Management’s Response and Planned Corrective Action**

*KHBE and DOI will enter a Memorandum of Understanding (MOU) stating that the DOI will review, approve, and certify a Qualified Health Plan application (QHP) only if the QHP complies with state law and 45 CFR 155 subpart K. DOI and KHBE will continue to have calls and discussions during the certification review period as in the past to inform both parties of any concerns or issues relating to QHP applications. DOI will provide documentation to KHBE annually regarding the review and certification of QHPs in accordance with the MOU.*