

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

**For The Fiscal Year Ended
June 30, 2020**



**MIKE HARMON
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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

Eric Friedlander, Secretary
Cabinet for Health and Family Services
Robert E. 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, 2020, 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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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, 2020, 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 10, 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 39 to 43 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 E. 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 5, 2021, 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 5, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

**KENTUCKY HEALTH BENEFIT EXCHANGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020**

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, 2020, 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. The eligibility and enrollment function uses the federal exchange, HealthCare.gov.

FUNDING

The ACA requires each state to ensure that its Exchange has sufficient funding in order to support its ongoing operations. KHBE's ongoing funding is through the broad based premium assessment on all issuers offering health benefit plans and stop loss policies. The Commonwealth of Kentucky's budget for state fiscal year (SFY) 2021 was approved by the General Assembly in the spring of 2020. Approved within the Commonwealth's budget is the budget for the Office of Health Data and Analytics, of which the Division of Health Benefit Exchange is now a part.

KHBE did not directly receive any federal grants in this fiscal year; however, Medicaid federal funds were used per their cost sharing agreement. KHBE did not receive any state general fund appropriations. SFY 2020 revenue generated from a 1% broad based premium assessment was approximately \$30 million.

**KENTUCKY HEALTH BENEFIT EXCHANGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020
(Continued)**

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.

Statement of Net Position – The Statement of Net Position 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, 2020, the statement reflects assets of \$21,075,455 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 Other Post-Employment Benefits (OPEB) liabilities of \$2,285,274, which represented 85% of total liabilities. This liability is the proportionate share of the collective net pension liability determined by an actuarial valuation as of June 30, 2019. Table 1 below presents KHBE's condensed Statement of Net Position as of June 30, 2020, and June 30, 2019, derived from the Statement of Net Position for the respective years.

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

	2020	2019	Percentage Increase (Decrease)
Current Assets	\$ 23,952	\$ 74,655	-68%
Non Current Assets	89,981	121,396	-26%
Capital Assets	20,961,522	22,500,367	-7%
Total Assets	<u>21,075,455</u>	<u>22,696,418</u>	<u>-7%</u>
Deferred outflows of resources	1,661,068	501,822	231%
Current Liabilities	361,631	122,317	196%
Non Current Liabilities	2,328,117	4,033,856	-42%
Total Liabilities	<u>2,689,748</u>	<u>4,156,173</u>	<u>-35%</u>
Deferred inflows of resources	4,495,091	4,979,379	-10%
Net investment in capital assets	20,961,522	22,500,367	-7%
Unrestricted	(5,409,838)	(8,437,679)	-36%
Total Net Position, as restated	<u>\$ 15,551,684</u>	<u>\$ 14,062,688</u>	<u>11%</u>

**KENTUCKY HEALTH BENEFIT EXCHANGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020
(Continued)**

FINANCIAL STATEMENTS (CONTINUED)

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, 2020. The difference (increase or decrease) is presented as the change in net position. Operating revenue totaled \$3,782,465 and operating expenses were \$2,260,883 with a non-operating expense of \$0 resulting in a net position increase of \$1,521,582 for SFY ending 2020. Table 2 provides a summary of KHBE's revenue, expenses, and changes in net position as of June 30, 2020 and June 30, 2019, as restated.

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

	2020	2019	Percentage Increase (Decrease)
Total Operating Revenues	\$ 3,782,465	\$ 1,594,746	137%
Total Operating Expenses	2,260,883	2,457,286	-8%
Total Nonoperating Expenses		(46,034)	-100%
Change in Net Position	<u>1,521,582</u>	<u>(908,574)</u>	<u>-267%</u>
Net Position at July 1, as restated	14,030,102	14,971,262	-6%
Net Position at June 30,	<u>\$ 15,551,684</u>	<u>\$ 14,062,688</u>	<u>11%</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.

**KENTUCKY HEALTH BENEFIT EXCHANGE
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020
(Continued)**

ECONOMIC FACTORS

On June 16, 2020 the Governor of the Commonwealth of Kentucky submitted a declaration of intent letter to the Centers of Medicare and Medicaid Services to transition to a state-based exchange beginning January 1, 2022. While this is projected to save the Commonwealth millions of dollars per year, it will affect future KHBE financial statements. As a result of increasing operational activities, expenditures will increase. As a State-Based Marketplace (SBM), Kentucky's exchange will continue to collect an assessment from the Commonwealth of Kentucky issuers participating in the kynect state health care exchange.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

Effective January 1, 2017, the Commonwealth transitioned to the Federal Exchange. However, in June of 2020, the Governor of the Commonwealth of Kentucky notified CMS that Kentucky plans to transition back to the kynect system, with a fully state-run exchange operational by late fall of 2021. The initial estimated cost of moving back to a State-Based Exchange is \$5 million with an annual ongoing estimated operational cost being \$1 million to \$2 million.

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.

FINANCIAL STATEMENTS

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

June 30, 2020

Assets

Current Assets:

Cash (Note 2)	\$ 23,952
Total Current Assets	23,952

Non-Current Assets:

Long-Term investments (Note 2)	89,981
Capital assets (Note 4)	
Software	30,776,904
Less: Accumulated depreciation and amortization	(9,815,382)
Total Capital Assets	20,961,522
Total Non-current Assets	21,051,503

Total Assets	21,075,455
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Deferred outflows of resources	1,661,068
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Liabilities

Current Liabilities:

Accounts payable (Note 3)	326,855
Compensated absences (Note 8)	34,776
Total Current Liabilities	361,631

Non-Current Liabilities

Compensated absences (Note 8)	42,843
Net pension liability (Note 9)	1,967,397
Net OPEB liability (Note 10)	317,877
Total Non-Current Liabilities	2,328,117

Total Liabilities	2,689,748
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Deferred inflows of resources	4,495,091
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Net Position

Net investment in capital assets	20,961,522
Unrestricted	(5,409,838)
Total Net Position	\$ 15,551,684

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, 2020

Operating Revenues:	
Assessment fees from Ky Access	\$ 3,336,965
Agency cost reimbursement for Medicaid Program	445,500
Total Operating Revenues	<u>3,782,465</u>
Operating Expenses:	
Personnel and contracted services	3,253,804
Pension and OPEB for personnel services	(3,389,684)
Depreciation and amortization	1,538,845
Utilities, rental, and other services	809,783
Commodities and supplies	46,067
Travel	2,068
Total Operating Expenses	<u>2,260,883</u>
Operating Income (Loss)	1,521,582
Net Position at July 1, 2019, as restated	<u>14,030,102</u>
Net Position at June 30, 2020	<u>\$ 15,551,684</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, 2020

Cash Flows from Operating Activities:	
Cash payments from other sources	\$ 3,336,965
Cash received from Medicaid reimbursements	445,500
Cash payments to other sources	(2,084)
Cash payments for goods and services	(805,595)
Cash payments for personnel and contracted services	(2,997,908)
Net Cash Provided (Used) by Operating Activities	<u>(23,122)</u>
Cash Flows from Investing Activities:	
Purchase of investment securities	<u>31,416</u>
Net Cash Provided (Used) in Investing Activities	<u>31,416</u>
Net Increase (Decrease) in Cash and Cash Equivalents	8,294
Cash and Cash Equivalents at July 1, 2019	15,658
Cash and Cash Equivalents at June 30, 2020	<u>\$ 23,952</u>
Reconciliation of Operating Income to Net Cash:	
Provided by Operating Activities:	
Operating income (loss)	\$ 1,521,582
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	(1,159,246)
Increase (decrease) in liabilities:	
Compensated absences	28,960
Accounts payable	218,178
Pension and OPEB Liability	(1,746,150)
Increase (decrease) in deferred inflows of resources	(484,288)
Net Cash Provided (Used) by Operating Activities	<u>\$ (23,122)</u>

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, 2020**

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.

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 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 and equivalents

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 federal government agencies are subject to review and audit by such agencies.

Capital Assets

Purchased capital assets are reported at cost. During 2020, 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 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 the period ended June 30, 2020.

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, 2020
(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 OPEB 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 non-fiduciary assets and responsibilities 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 SFY 2020, 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, 2020
(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 in fiscal year 2020. 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, 2020, the carrying value of KHBE's pooled cash and cash equivalents totaled \$23,952 and the fair value of the KHBE investments was \$89,981, for a net combined positive total fair value of \$113,933. 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, 2020. 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 as of June 30, 2020.

<u>Current Payables</u>	
Personnel Services	\$ 307,548
Other	<u>19,307</u>
Total Current Payables	<u>\$ 326,855</u>

**KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(Continued)**

NOTE 4 – CAPITAL ASSETS

Capital assets consist of the following at June 30, 2020:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020
Assets:				
Software	\$ 30,776,904	\$	\$	\$ 30,776,904
Total All Asset Types	<u>30,776,904</u>	<u></u>	<u></u>	<u>30,776,904</u>
Accumulated Depreciation:				
Software	(8,276,537)	(1,538,845)		(9,815,382)
Total Accumulated Depreciation	<u>(8,276,537)</u>	<u>(1,538,845)</u>	<u></u>	<u>(9,815,382)</u>
Total Capital Assets, net	<u>\$ 22,500,367</u>	<u>\$ (1,538,845)</u>	<u>\$</u>	<u>\$ 20,961,522</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, 2020. There were no capitalized costs in SFY 2020.

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. KHBE incurred \$445,500 in costs on such activities during FY 2020.

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 7 – COMMITMENTS

During fiscal year 2020, 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 \$6,208 for fiscal year ending June 30, 2020.

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 \$30.5 million as of June 30, 2020. These long-term obligations represent the total amounts and include expenses that will be cost allocated to Medicaid and KCHIP.

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, 2020, are:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Annual Leave	\$ 23,332	\$ 14,652	\$ 7,236	\$ 30,748	\$ 14,984
Compensatory Leave	25,328	44,956	23,413	46,871	19,793
Total	<u>\$ 48,660</u>	<u>\$ 59,608</u>	<u>\$ 30,649</u>	<u>\$ 77,619</u>	<u>\$ 34,777</u>

It is the policy of the Commonwealth to record the cost of sick leave when paid. Generally, sick leave is paid only when an employee is absent due to illness, injury, or related family death. There is no liability recorded for sick leave at June 30, 2020. The estimated accumulated unused sick leave for the KHBE employees at June 30, 2020 was \$53,650.

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.

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 9 – EMPLOYEE PENSION PLANS (CONTINUED)

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.

Note 9 continues on the following page.

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 9 – EMPLOYEE PENSION PLANS (CONTINUED)

Kentucky Employees Retirement System
Governance KRS 61.510 through KRS 61.705

	Tier 1 Participation Prior to 9/1/2008	Tier 2 Participation 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).	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
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%. 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.
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 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.	
Reduced Retirement Benefit:	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65 or has less than 27 years of service, whichever is smaller.	Reduced by 6.5% per year for the first 5 years and 4.5% per year for the next 5 years for each year the member is younger than age 65, or does not meet the rule of 87 (age plus service) and is younger than age 57, whichever is smaller.	No reduced retirement benefit

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 9 – EMPLOYEE PENSION PLANS (CONTINUED)

Employer Contribution	71.03%	
Member Contribution	Tier 1: 5%; Tier 2 & 3: 6%	
Employer Contributions made in thousands	\$185,657	
Actuarial Valuation Date	June 30, 2018	
Measurement Date	June 30, 2019	
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	KERS Non-Hazardous salaries are assumed to increase at the rate of 15.55% in year one and decreasing to 3.55% for year ten and beyond.	
Mortality Tables	RP-2000 Combined Mortality Table, projected with scale BB to 2013 (set back one year for females).	
Date of Experience Study	The period July 1, 2013 - June 30, 2018	
Update procedures applied	The total pension liability was rolled-forward from the valuation date to the fiscal year ending June 30, 2019, using generally accepted actuarial principles.	
Change in Assumptions	There have been no changes in actuarial assumption since June 30, 2018.	
Membership Information		
Retirees and beneficiaries receiving benefits		46,526
Inactive members		50,435
Active plan members		35,139
Total		<u>132,100</u>
Number of participating employers		329

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(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:

<u>Asset Class</u>	<u>KERS Non-Hazardous</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	15.75%	4.30%
Non U.S. Equity	15.75%	4.80%
Core Bonds	20.50%	1.35%
High Yield	15.00%	2.60%
Private Equity	7.00%	6.65%
Opportunistic	3.00%	2.97%
Real Estate	5.00%	4.85%
Real Return	15.00%	4.10%
Cash	3.00%	0.20%
Total	<u>100.00%</u>	

**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.

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	\$1,967,397
Net Pension Liability	
Assuming a Decrease of 1% in the Discount Rate	\$2,255,359
Net Pension Liability/ (Asset)	
Assuming an Increase of 1% in the Discount Rate	\$1,729,422

HBE's Proportionate Share of the Net Pension Liability (Asset)

0.0139%

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 9 – EMPLOYEE PENSION PLANS (CONTINUED)

KERS
Non-Hazardous

Pension Expense (Income)	\$ (2,949,509)
Deferred Outflows of Resources:	
Differences Between Expected and Actual Experience	\$ 11,636
Change in Assumptions	59,903
Net Difference Between Projected and Actual Earnings on Investments	
Change in Proportionate Share	1,063,844
Contributions Subsequent to the Measurement Date	185,657
	<u>\$ 1,321,040</u>
Deferred Inflows of Resources:	
Differences Between Expected and Actual Experience	\$
Change in Assumptions	
Net Difference Between Projected and Actual Earnings on Investments	4,010
Change in Proportionate Share	3,350,907
	<u>\$ 3,354,917</u>

The amounts 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, 2021. Other amounts reported as deferred outflows and deferred inflows related to pensions will be recognized as pension expense/income in future years.

Deferred Outflows of Resources and Deferred Inflows of Resources arising from differences between projected and actual pension plan investments have been aggregated and reported as a net Deferred Outflow of Resources or as a net Deferred Inflow of Resources, per GASB 68 par. 33b and 71b.

Future Amortization:
Year Ended June 30,

2021	\$ (1,900,473)
2022	(317,660)
2023	(1,285)
2024	(116)
Total	<u>\$ (2,219,534)</u>

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(Continued)

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.

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(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.

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	\$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

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.
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Cost of Living Adjustment (COLA): Members participating after 2008 receive 1.5% increase annually.

Membership:

Retirees and beneficiaries receiving	29,940
Inactive members	5,971
Active plan members	<u>34,973</u>
Total	<u><u>70,884</u></u>

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

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Kentucky Employees Retirement System
Non-Hazardous
OPEB

Employer Contribution	12.40%
Member Contribution	1%
Contributions	\$35,532
Proportionate Share of Collective Liability	
As a Percentage	0.0143%
As a Dollar Amount	\$317,877
Experience Study	July 1, 2013-June 30, 2018
Actuarial Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Inflation	2.3%, no change from prior year.
Salary Increases	3.55% to 15.55%, varies by service, change from prior year rate of 0%
Investment rate of return	6.25%, no change from prior year.
Health cost trend rates	Pre-65: Starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years. Post 65: Starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years.
Actuarial Cost Method	Entry age normal
Asset valuation method	20% of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment rate of return	5.25%, a change from prior year rate of 6.25%
Mortality Tables	Pre-retirement mortality: PUB-2010 General Mortality table, for the Non-Hazardous System, and the PUB-2010 Public Safety Mortality table for the Hazardous System, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010. Post-retirement mortality (non-disabled): System-specific mortality table based on mortality experience from 2013-2018, projected with the ultimate rates from MP-2014 mortality improvement scale using a base year of 2019. Post-retirement mortality (disabled): PUB-2010 Disabled Mortality table, with a 4-year set-forward for both male and female rates, projected with the ultimate rates from the MP-2014 mortality improvement scale using a base year of 2010.
Update procedures applied	Standard roll forward methods using generally accepted actuarial techniques.

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(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:

<u>Asset Class</u>	KERS	
	Non-Hazardous	
	OPEB	
	Target	Long-Term
	Allocation	Expected Real
		Rate of Return
U.S. Equity	18.75%	4.30%
Non US Equity	18.75%	4.80%
High Yield	15.00%	2.60%
Opportunistic	3.00%	2.97%
Private Equity	10.00%	6.65%
Real Estate	5.00%	4.85%
Core Bonds	13.50%	1.35%
Real Return	15.00%	4.10%
Cash	1.00%	0.20%
Total	<u>100.00%</u>	

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Kentucky Employees Retirement System
Non-Hazardous
OPEB

Discount Rate	5.73%
Change in Discount Rate from Prior Valuation	-0.13%
Plan Cash Flow Assumption	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.
Rates Incorporated in the Discount Rate:	
Long-Term Rate of Return	6.25%
Period Applied	All Periods
Municipal Bond Rate	3.13%
Sensitivity of the Net OPEB Liability to Changes in the Discount Rate:	
Net OPEB Liability	\$317,877
Net OPEB Liability	
Assuming a Decrease of 1% in the Discount Rate	\$378,499
Net OPEB Liability	
Assuming an Increase of 1% in the Discount Rate	\$267,972
Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates:	
Net OPEB Liability	\$317,877
Net OPEB Liability	
Assuming a Decrease of 1% in the Healthcare Cost Trend Rate	\$270,058
Net OPEB Liability	
Assuming an Increase of 1% in the Healthcare Cost Trend Rate	\$375,721
KHBE's Proportionate Share of the OPEB Liability	0.0143%

KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(Continued)

NOTE 10 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

KERS
Non-Hazardous

OPEB Expense (Income)	\$ (238,043)
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Deferred Outflows of Resources:

Differences Between Expected and Actual Experience	\$	
Change in Assumptions		41,688
Net Difference Between Projected and Actual Earnings on Investments		
Change in Proportionate Share		257,711
Contributions Subsequent to the Measurement Date		35,532
Total	\$	<u>334,931</u>

Deferred Inflows of Resources:

Differences Between Expected and Actual Experience	\$	50,703
Change in Assumptions		956
Net Difference Between Projected and Actual Earnings on Investments		2,085
Change in Proportionate Share		1,081,332
Total	\$	<u>1,135,076</u>

The amounts reported as deferred outflows of resources related to OPEB resulting from contributions after the measurement date will be recognized as a reduction of net OPEB liability during the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows related to OPEB will be recognized in future years.

Deferred Outflows of Resources and Deferred Inflows of Resources arising from differences between projected and actual OPEB plan investments have been aggregated and reported as a net Deferred Outflow of Resources or as a net Deferred Inflow of Resources, per GASB 75 par. 43b and 86b.

Future Amortization:
Year Ended June 30,

2021	\$ (264,579)
2022	(264,579)
2023	(259,026)
2024	(47,493)
Total	<u>\$ (835,677)</u>

**KENTUCKY HEALTH BENEFIT EXCHANGE
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2020
(Continued)**

NOTE 11 – SUBSEQUENT EVENTS

In June of 2020, the Governor of the Commonwealth of Kentucky notified CMS that Kentucky plans to transition back to the kynect system, with a fully state-run exchange operational by the fall of 2021. The initial estimated cost of moving back to a State Based Exchange is \$5 million with an annual ongoing estimated operational cost being \$1 million to \$2 million.

NOTE 12 – PRIOR PERIOD ADJUSTMENT

The accompanying financial statements have been restated to correct an error made in the prior year. Due to an error, accounts payable was misstated and as a result, net position was restated, the effect of which is a decrease of \$32,586.

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REQUIRED SUPPLEMENTARY INFORMATION

**KENTUCKY HEALTH BENEFIT EXCHANGE
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2020**

Schedule of Proportionate Share of the Net Pension Liability

	<u>2020^a</u>	<u>2019^b</u>	<u>2018^c</u>	<u>2017^d</u>	<u>2016^e</u>	<u>2015^f</u>
Proportionate share of the net pension liability (asset) as a percentage	0.01393%	0.025316%	0.059129%	0.074877%	0.096380%	0.070682%
Proportionate share of the net pension liability (asset) in dollars	\$ 1,967,397	\$ 3,443,869	\$ 7,916,426	\$ 8,535,622	\$ 9,668,781	\$ 6,341,498
Covered-employee payroll	\$ 206,986	\$ 382,253	\$ 947,485	\$ 1,221,266	\$ 1,488,340	\$ 1,115,012
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	950.50%	900.94%	835.52%	698.92%	649.64%	568.74%
Plan fiduciary net position as a percentage of the total pension liability	13.66%	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.

^a This column is based on the measurement date of June 30, 2019.

^b This column is based on the measurement date of June 30, 2018.

^c This column is based on the measurement date of June 30, 2017.

^d This column is based on the measurement date of June 30, 2016.

^e This column is based on the measurement date of June 30, 2015.

^f This column is based on the measurement date of June 30, 2014.

**KENTUCKY HEALTH BENEFIT EXCHANGE
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2020
(Continued)**

Schedule of Pension Contributions

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 205,213	\$ 267,181	\$ 374,808	\$ 467,094	\$ 502,092	\$ 368,089
Contributions in relation to the actuarially determined contribution	<u>185,657</u>	<u>262,133</u>	<u>407,485</u>	<u>566,920</u>	<u>502,808</u>	<u>209,811</u>
Contribution deficiency (excess)	\$ <u>19,556</u>	\$ <u>5,048</u>	\$ <u>(32,677)</u>	\$ <u>(99,826)</u>	\$ <u>(716)</u>	\$ <u>158,278</u>
Covered-employee payroll	\$ 288,911	\$ 376,152	\$ 892,589	\$ 1,199,830	\$ 1,488,340	\$ 1,115,012
Contributions as a percentage of covered-employee payroll	64.26%	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	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2014
Valuation date	June 30, 2017	June 30, 2016	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2014
Methods and assumptions used to determine contributions :						
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
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
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	Five-year smoothed market	Five-year smoothed market
Investment Return	5.25%	6.75%	7.50%	6.75%	7.50%	7.75%
Inflation	2.30%	3.25%	3.25%	3.25%	3.25%	3.50%
Projected Salary Increase	3.55% to 15.55%, varies by service	4.0%, average	4.0%, average	4.0%, average, including inflation	4.0%, average, including inflation	4.5% per annum

Mortality

RP-2000 Combined Mortality Table, projected to 2013 with scale BB (set back one year for females).

KENTUCKY HEALTH BENEFIT EXCHANGE
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2020
(Continued)

Schedule of Proportionate Share of the Net OPEB Liability

	<u>2020^a</u>	<u>2019^b</u>	<u>2018^c</u>
Proportionate Share of the Net OPEB Liability (Asset)	0.0143%	0.0248%	0.0644%
Proportionate Share of the Collective Net OPEB Liability (Asset)	\$ 317,877	\$ 587,554	\$ 1,634,231
Covered-employee Payroll	\$ 216,784	\$ 390,039	\$ 1,026,627
Proportionate share of the net OPEB liability (asset) as a percentage of covered-employee payroll	146.63%	150.64%	159.18%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	30.92%	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.

^a This column is based on the measurement date of June 30, 2019.

^b This column is based on the measurement date of June 30, 2018.

^c This column is based on the measurement date of June 30, 2017.

KENTUCKY HEALTH BENEFIT EXCHANGE
REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2020
(Continued)

Schedule of Employer's Contributions OPEB

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially Determined Contribution	\$ 26,287	\$ 46,619	\$ 95,595
Contributions in Relation to the Actuarially Determined Contribution	35,532	44,383	98,522
Contribution Deficiency (Excess)	<u>\$ (9,245)</u>	<u>\$ 2,236</u>	<u>\$ (2,927)</u>
Covered-employee Payroll	300,861	375,956	1,136,359
Contributions as a Percentage of Covered-employee Payroll	11.81%	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, 2020
(Continued)**

Notes to RSI OPEB Contributions

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Notes to Schedule as of the Measurement Date			
Valuation Date	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
Amortization Method	Level Percent of Pay, 26 Years, Closed	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	20 % of the difference between the market value of assets and the expected actuarial value of assets is recognized
Investment Return	6.25%	7.50%	6.25%
Inflation	2.30%	3.25%	2.30%
Projected Salary Increase	3.55% to 15.55%, varies by service	0%	0%
Mortality	RP-2000 Combined Mortality Table, projected to 2013 with Scale BB (set back 1 year for females).		
Healthcare Trend Rates			
Healthcare Trend Rates (Pre - 65)	Starting at 7.25% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 13 years.	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)	Starting at 5.10% at January 1, 2019, and gradually decreasing to an ultimate trend rate of 4.05% over a period of 11 years	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 E. 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, 2020, and the related notes to the financial statements, which collectively comprise KHBE's basic financial statements, and have issued our report thereon dated March 5, 2021.

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.

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

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

Eric Freeland, Secretary
Cabinet for Health and Family Services
Robert E. 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 matter that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Recommendations as item 2020-KHBE-001.

Kentucky Health Benefits Exchange's Responses to Findings

KHBE's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Recommendations. KHBE's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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,



Mike Harmon
Auditor of Public Accounts

March 5, 2021

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

**KENTUCKY HEALTH BENEFIT EXCHANGE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2020**

2020-KHBE-001: The Kentucky Health Benefit Exchange Does Not Monitor The Department Of Insurance To Ensure Compliance With 45 CFR 155 Subpart K

This is a repeat of finding 2019-KHBE-002 as reported in the fiscal year (FY) 2019 audit of the Kentucky Health Benefit Exchange (KHBE).

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) 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 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 was no memorandum of understanding (MOU) or contract in place between KHBE and DOI during FY 2020 to allow KHBE to monitor DOI’s internal controls or procedures to ensure compliance with the CFR. However, KHBE and DOI entered into an MOU effective July 1, 2020 through June 30, 2021.

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 155.1020 requires the exchange to establish procedures to ensure the QHP issuer submits a justification for rate increases and posts to the website,
- 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 155.1045 requires the exchange to establish an accreditation timeline for QHP issuers who are not already accredited,
- 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 MOU and monitoring procedures in place during FY 2020, KHBE could not ensure compliance with subpart K.

**KENTUCKY HEALTH BENEFIT EXCHANGE
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2020
(Continued)**

2020-KHBE-001: The Kentucky Health Benefit Exchange Does Not Monitor The Department Of Insurance To Ensure Compliance With 45 CFR 155 Subpart K (Continued)

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.

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 KRS 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 155; and,
- A MOU or contract with DOI for services related to compliance with 45 CFR 155.

Management’s Response and Planned Corrective Action

KHBE received this finding from the auditors last year with less than three months remaining in the fiscal year. KHBE immediately began discussions with the Department of Insurance (DOI) and crafted a Memorandum of Understanding (MOU) agreeable to both parties that addressed the auditor’s concerns. Since the MOU contracting process and signatures began with only days remaining in FY 2020, the MOU was entered for FY 2021. This MOU states 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. During the year DOI and KHBE had calls and discussions during the certification review period for any concerns or issues relating to QHP applications. DOI has agreed to provide documentation to KHBE annually regarding the review and certification of QHPs. KHBE staff have already begun revising the MOU for FY 2022. KHBE will continue to have a MOU in place going forward.