



WASHINGTON HEALTH BENEFIT EXCHANGE

FINANCIAL STATEMENTS

and

**SUPPLEMENTARY INFORMATION AND GOVERNMENT REPORTS
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

With Independent Auditor's Report

June 30, 2016



WASHINGTON HEALTH BENEFIT EXCHANGE

June 30, 2016

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Washington Health Benefit Exchange

Report on Financial Statements

We have audited the financial statements of Washington Health Benefit Exchange (a component unit of the state of Washington) (the Exchange) as of and for the eighteen months ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of combined 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 these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 misstatement of the financial statements, whether due to fraud or error. 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 that 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 the Exchange as of June 30, 2016, and the changes in its financial position and its cash flows for the eighteen months then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Change in Accounting Principle

As discussed in Note 1 to the financial statements, during the eighteen months ended June 30, 2016 the Exchange adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions--an amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on Pages 3 through 9 and the information listed under Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise the Exchange's basic financial statements. The schedule of expenditures of federal awards as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2016, on our consideration of the Exchange's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exchange's internal control over financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Portland, Maine

September 19, 2016, except for our report on the schedule of expenditures of federal awards, for which the date is October 17, 2016

WASHINGTON HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

June 30, 2016

Washington Health Benefit Exchange Overview

The Washington Health Benefit Exchange (the Exchange) is a central marketplace for individuals, families and small businesses to find, compare, and enroll in qualified health insurance plans. On October 1, 2013, Washington Healthplanfinder (Healthplanfinder) began offering Washington State residents:

- simple and quick apples-to-apples comparisons of Qualified Health Plans (QHP);
- immediate determination of eligibility for financial assistance and calculation of applicable premium tax credits; and
- expert customer support online, by phone or in-person through its assister network program. The Exchange is also responsible for eligibility determinations for and enrollment in Washington Apple Health, the State's Medicaid program.

The Exchange seeks to redefine people's experience with health care. Its mission is to radically improve how Washingtonians purchase health insurance through an innovative and easy-to-use online customer experience. Objectives include: 1) increasing access to affordable health plan products; 2) organizing a transparent and accountable insurance market to facilitate consumer choice; 3) providing an efficient, accurate and customer-friendly eligibility determination process; and 4) enhancing health plan competition on value: price, access, quality, service and innovation.

Key Activities and Operations through June 30, 2016

Establishment - In April 2011, the Washington Legislature passed Senate Bill 5445, which created the Exchange as a "public-private partnership separate and distinct from the State." The legislation was passed for the purpose of implementing a central marketplace for individuals and small employers to shop for health insurance and access federal tax credits pursuant to the Federal Patient Protection and Affordable Care Act of 2010. Subsequent to signing the legislation establishing the Exchange, Governor Christine Gregoire appointed a bipartisan 11-member Governing Board (including the Washington Insurance Commissioner and Director of the Health Care Authority as ex-officio non-voting members) for the Exchange. In March 2012, the Exchange Board adopted bylaws and assumed authority for all Exchange functions. Also in March 2012, additional legislation was passed via House Bill 2319 establishing market rules, requirements for QHP's, essential health benefits and other key Exchange responsibilities.

Funding - The Exchange was primarily financed through Federal grants to cover start-up costs and provide funding in the first full year of operations through 2014. During the eighteen months ended June 30, 2016, the Exchange had federal grants to fund activities of the Exchange as follows:

- Level 2 Establishment Grant, \$157 million for May 16, 2012, to December 31, 2015. Approximately \$150 million was spent for expenditures under the Level 2 Grant.
- Level 1B Establishment Grant, \$88 million for January 22, 2014 through December 31, 2015. As of December 31, 2015, all the available grant award was expended under the Level 1B Grant.
- Level 1C Establishment Grant, \$27 million for January 1, 2015, through December 31, 2016. As of June 30, 2016, approximately \$10.5 million was available for expenditure under the Level 1C Grant.

WASHINGTON HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

June 30, 2016

The grants are disbursed upon the Exchange's submission of reimbursement requests for costs incurred consistent with the terms of the grant. As part of the grant funding, the Exchange provides quarterly financial and bi-annual programmatic reports to the U.S. Department of Health and Human Services and the Center for Consumer Information and Insurance Oversight.

Beginning in 2015, the Exchange was to be financially self-sustaining through the premium tax collections and assessments received from participating insurers per RCW 43.71.030. To carry this out, in 2013, the Legislature enacted House Bill 1947 that establishes a funding mechanism for the Exchange consisting of 1) premium taxes from plans sold through the Exchange, and 2) an assessment on issuers offering plans through the Exchange, effective January 1, 2015. The bill also made the Exchange budget subject to appropriation in the state budget, requires quarterly reports to the Legislature, and requires a performance audit of Exchange operations that was completed by July 1, 2016.

Premium tax and issuer assessment funds are maintained in an account with the Washington State Treasurer, and the account is administered by the Washington Health Care Authority.

Staffing and Infrastructure - As of June 30, 2016, the Exchange had approximately 113 employees supporting operations; information technology; communications; outreach and marketing; financial management; policy; and legal. In addition, the Exchange contracted for a variety of specialized consulting services, such as actuarial, system development, testing, and project management.

Communications and Transparency - To keep the public and constituents informed of the ongoing progress of the Exchange, wahbexchange.org continues to provide stakeholder information. The Exchange complies with open public meetings and public disclosure requirements, but is not subject to other laws that govern state agencies. The Exchange's website contains archived documents from previous meetings of the Exchange Board and associated Committees, including supplemental reports and presentations. In addition, the website provides public access to audio recordings from each of the Board meetings.

Outreach and Education - Continuing through 2015, the Exchange's outreach efforts centered on improving health insurance literacy and educating Washington residents on their coverage options. To promote the outreach effort, the Exchange referred consumers to an informative website titled "Know Your Plan." The website provides explanations of health insurance terminology and an overview of the enrollment process. A health literacy video campaign was also made available in the summer of 2015 on the Healthplanfinder YouTube account.

From November 2015 to January 2016, the Exchange conducted a mostly digital and radio advertising campaign to encourage residents to enroll or re-enroll in health insurance through Healthplanfinder. The advertising campaign was centered again on the theme "It's About Time You Got Health Insurance" and used humor to show the lengths that people will go to avoid medical bills when they don't have health insurance. The ad campaign can be viewed at: www.wahbexchange.org/adcampaign.

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As a way to reach Latino audiences, Healthplanfinder partnered with Spanish-language television station Univision. Univision developed a series of 30-second PSAs, and anchor Jaime Mendez sat down for interviews with Spanish-speaking navigators to highlight the free, in-person help available. The campaign aired on Univision's Seattle and Yakima stations and included promotion through social media.

The Exchange continues to maintain social media handles on Facebook (www.facebook.com/WAHealthplanfinder) and Twitter (www.twitter.com/waplanfinder) as well as a YouTube channel (www.youtube.com/user/waplanfinder).

The Exchange continues to receive considerable earned media coverage. Local outlets including the Seattle Times, Seattle Post Intelligencer, Spokesman Review, Olympian, Tacoma Tribune, King 5 (NBC affiliate), Komo 4 (ABC affiliate), and Kiro 7 (CBS affiliate) have featured stories on Healthplanfinder. National outlets such as CNBC, Washington Post, New York Times, and USA Today have also covered the work of the Exchange.

Exchange Website - The Exchange is committed to building a best-in-class online health insurance marketplace experience for customers through Healthplanfinder.

The Healthplanfinder website has seen improvements within new releases over the past year, and will experience significant enhancements in the coming year. Upcoming changes will increase the integration between Healthplanfinder and carriers, allowing enrollees who have selected a plan on Healthplanfinder to immediately make a payment on their chosen carrier's website. Until now, individuals had to wait a few days for a carrier invoice to be generated.

The Exchange is also giving more tools to customers to allow them to self-serve, which is expected to decrease call center volume. The Exchange is implementing an account unlock self-service feature to allow locked out users to provide identifying information and regain access to their account without having to contact a representative. The Exchange has also implemented the ability to change content on Healthplanfinder in an expedited fashion to be able to respond to consumer issues and trends.

Navigator Program - The Exchange contracts with ten "Lead Navigator Organizations" throughout the state to administer the Navigator Program. Each lead organization is responsible for the delivery of Navigator services throughout a designated geographic service area. Lead organizations assess their service area and identify populations who are vulnerable and/or hard to reach, and develop an outreach plan designed to enroll this population. To accomplish this outreach and enrollment, lead organizations build a network of community partners who are best suited to serve these target populations, and coordinate outreach efforts among these partners. The lead organizations provide user and system support to Navigators who experience system or account issues and need assistance to resolve the issues on behalf of consumers.

About a thousand Navigators are trained and certified to help customers shop, apply and enroll in coverage through Healthplanfinder. An automated learning management system is used by the Exchange to administer training modules and related exams, and track the completion of requirements by Navigators. The Exchange also administers a Certified Application Counselor Program for those organizations who are outside a lead organization network, and a Tribal Assister Program for Navigators who are members of Washington tribes and deliver services primarily to their tribal members.

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Management’s Discussion and Analysis (Unaudited)

June 30, 2016

Plan Enrollment - The following table presents details on enrollment numbers for Washington Apple Health and Qualified Health Plan enrollees from January 1, 2015 through June 30, 2016:

Month Year	Total QHP Enrollees	Total MAGI Enrollees/CHIP	Total Medicaid Enrollees
Jan-15	98,065	1,422,708	1,633,684
Feb-15	123,086	1,453,415	1,663,081
Mar-15	153,646	1,456,469	1,665,450
Apr-15	155,242	1,466,131	1,677,737
May-15	157,054	1,472,268	1,683,758
Jun-15	155,046	1,478,420	1,690,327
Jul-15	152,590	1,483,887	1,695,912
Aug-15	151,696	1,491,574	1,703,480
Sep-15	151,181	1,497,179	1,709,394
Oct-15	149,843	1,504,334	1,716,203
Nov-15	149,939	1,514,389	1,725,600
Dec-15	145,690	1,532,567	1,742,259
Jan-16	150,093	1,535,796	1,743,544
Feb-16	162,871	1,534,117	1,741,143
Mar-16	171,155	1,532,412	1,738,738
Apr-16	169,321	1,529,070	1,735,429
May-16	168,586	1,526,208	1,732,332
Jun-16	168,363	1,524,687	1,729,990

SHOP - The Small Business Health Options Program (SHOP) experienced modest growth in 2015 and the first quarter of 2016 before the only statewide SHOP carrier announced that it would no longer offer coverage in 2017. As a result, the SHOP program will be limited to two Southwest Washington counties.

Customer Support Center (Call Center) - The Exchange call center services are provided under contract with Faneuil, Inc. The primary site is located in Spokane, WA, with overflow call services provided out of other Faneuil call center locations in Orlando, FL.

Customer Support Center Representatives (CSRs) are trained and available to provide assistance across customer channels (i.e., Healthplanfinder web portal, telephone, email, and mail) to individuals, small employers, carriers, navigators, and brokers. Assistance with bilingual call center representatives or an interpreter in up to 175 languages is available for limited English proficient persons. CSRs are trained to assist customers with health insurance eligibility, application and enrollment; tax credits and cost sharing reductions; SHOP; and, non-subsidized QHP and state medical programs. Call volume and staff number variance is driven by open enrollment cycles and other seasonality variables.

WASHINGTON HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

June 30, 2016

Finance and Accounting - During the last half of 2015 and the first six months of 2016, the Finance Department filled several key positions, including a new Chief Financial Officer, Associate Director of Finance, Associate Director of Budget and Grants, and Contracts Manager. Starting in late 2015, the Exchange Finance Department focused considerable effort on improving business processes and reconciling fund source information.

During 2015 to 2016, the Washington State Auditor conducted a performance audit of the Exchange. The audit found that the Exchange costs were reasonable, but recommended that the Exchange develop a long-term financial plan and establish operating cash reserves. The review found that the Exchange was not adequately reimbursed for the services provided on behalf of Medicaid enrollees. The Exchange has submitted a revised Medicaid spending plan, also called an Advanced Planning Document, which addresses recovery of Medicaid costs prospectively.

Effective July 1, 2016, a new financial chart of accounts went into effect, which will assist the Exchange in recovering allowable Medicaid expenses. Funding was received from the Washington State Legislature to replace the financial system to improve financial management and reporting. The new financial system will go live in October 2016.

Financial Statements

The Washington Health Benefit Exchange financial statements – including the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows – are designed to provide an overview of the Exchange's financial position and activities. 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). Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used, similar to private industry. Revenue is recorded when earned, and expenses are recorded when incurred. Management prepares this Discussion and Analysis to assist the reader of these financial statements.

The Statement of Net Position presents information on the Exchange's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Exchange is improving or deteriorating. The Exchange's total net position decreased to (\$3.2) million as of June 30, 2016. The negative net position was due to three primary reasons:

- Depreciation expense of capital assets was over \$19.4 million. This was due primarily to the depreciation of the Healthplanfinder software, which was placed into service during the fourth quarter of 2013. The software is on a three-year depreciation schedule and is set to fully depreciate in December 2016.
- Adjustments related to the implementation of GASB Statement 68, relating to the reporting of pension liabilities and expenses, resulted in a reduction in the beginning year net assets of \$8.6 million.
- The Exchange receives revenues through reimbursements as it incurs costs and is not currently authorized in Washington statutes to maintain a general working capital balance. As such "non-cash expenditures," such as depreciation or amortization, will result in the Exchange's year-to-year net position change to either be reduced or remain nearly unchanged.

WASHINGTON HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

June 30, 2016

Following is a summary of the changes in the Exchange's assets, deferred outflows, liabilities, deferred inflows and net position from January 1, 2015 to June 30, 2016 (\$ in millions):

	As of 6/30/2016	As of 12/31/2014
Current Assets	\$13.3	\$30.9
Capital Assets	4.0	22.8
Total Assets	17.3	53.7
Deferred Outflows	2.0	.5
Current Liabilities	11.8	30.9
Long-term Liabilities	9.3	6.3
Total Liabilities	21.1	37.2
Deferred Inflows	1.4	2.8
Net Position:		
Net invested in capital assets	4.0	22.8
Unrestricted	(7.2)	(8.6)
Total Net Position	\$ (3.2)	\$ 14.2

The Statement of Revenues, Expenses and Changes in Net Position reports the operating revenues and expenses as well as the non-operating revenues and expenses of the Exchange. The difference – increase or decrease in net assets – is presented as the change in net position. Please note, the Exchange made the decision to present financial statements for the eighteen-month period January 1, 2015 through June 30, 2016, to begin alignment with its new fiscal year-end, which is June 30. Subsequent fiscal years will revert to twelve month fiscal years ending in June of each year. As reflected in the attached statement for the eighteen months ended June 30, 2016, the Exchange recognized approximately \$37.1 million in operating revenues, \$47.7 million in federal grants revenue, and approximately \$44.9 million in matching revenues from the Medicaid program. Total operating expenses were \$147.3 million for the eighteen months ended June 30, 2016, as compared to \$129.7 million for the year ended December 31, 2014.

WASHINGTON HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

June 30, 2016

The following table compares expenditures by category (\$ in millions). When comparing the 12 months ended December 31, 2014, and December 31, 2015, Exchange expenses decreased \$18.2 million primarily due to reductions in systems development and call center costs:

	18 months ended 6/30/2016	6 months ended 6/30/2016	12 months ended 12/31/2015	12 months ended 12/31/2014
System Maintenance and Enhancements	\$ 50.8	\$ 11.0	\$ 39.8	\$ 43.7
Professional Services	29.1	5.9	23.2	29.3
Salaries, Payroll Taxes, and Benefits	20.0	6.1	13.9	13.4
Depreciation and Amortization	19.5	5.8	13.7	15.1
Equipment and Supplies	2.1	0.2	1.9	2.6
Call Center	21.3	5.9	15.4	21.8
Occupancy	1.4	0.4	1.0	0.9
Other	3.1	0.5	2.6	2.9
Total Operating Expenses	\$147.3	\$ 35.8	\$111.5	\$129.7

The Statement of Cash Flows presents information relative to how the Exchange's cash and cash equivalents position 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 financing activities and investing activities. The net result of those activities is reconciled to the cash balance reported at the end of the period.

Total cash and equivalents decreased from \$8,052,000 at December 31, 2014 to \$755,000 at June 30, 2016. The net decrease was primarily due to the Exchange discontinuing its collection of individual premium payments for Qualified Health Plans and Qualified Dental Plans in September 2015. Insured individuals now pay their premiums directly to the carriers. Up until that time, the Exchange was both collecting and remitting premium payments on behalf of enrollees. These funds were not available for operating use as the Exchange merely acted in an agency capacity and was responsible for remitting the funds to plan issuers on behalf of enrollees.

The notes attached to the financial statements provide the reader with several important disclosures, including a summary of the significant accounting practices used by the Exchange.

WASHINGTON HEALTH BENEFIT EXCHANGE

Statement of Net Position

June 30, 2016

ASSETS

Current assets	
Cash and cash equivalents	\$ 499,637
Cash held for enrollees	255,717
Federal grants receivable	28,386
Medicaid program cost reimbursement receivable	3,564,110
Accounts receivable	8,167,309
Prepaid expenses	<u>766,904</u>
Total current assets	<u>13,282,063</u>
Capital assets	
Software	41,499,264
Computers and network	4,199,596
Furniture and equipment	330,762
Leasehold improvements	<u>636,815</u>
	46,666,437
Less accumulated depreciation and amortization	<u>(42,652,361)</u>
Capital assets, net	<u>4,014,076</u>
Total assets	<u>17,296,139</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources of resources	<u>1,992,613</u>
Total assets and deferred outflows	\$ <u>19,288,752</u>

LIABILITIES

Current liabilities	
Accounts payable and accrued liabilities	\$ 11,078,755
Payroll liabilities	<u>694,848</u>
Total current liabilities	11,773,603
Net pension liability	<u>9,254,011</u>
Total liabilities	<u>21,027,614</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources	<u>1,417,087</u>
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NET POSITION

Net position	
Net invested in capital assets	4,014,076
Unrestricted net position	<u>(7,170,025)</u>
Total net position	<u>(3,155,949)</u>
Total liabilities, deferred inflows of resources and net position	\$ <u>19,288,752</u>

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

WASHINGTON HEALTH BENEFIT EXCHANGE

Statement of Revenues, Expenses, and Changes in Net Position

Eighteen Months Ended June 30, 2016

Operating revenues	\$ <u>37,131,282</u>
Operating expenses	
System maintenance and enhancements	50,804,604
Professional services	29,054,882
Salaries, payroll taxes, and benefits	20,058,426
Depreciation and amortization	19,462,648
Equipment and supplies	2,116,766
Call Center	21,313,448
Occupancy	1,372,325
Other	<u>3,097,322</u>
Total operating expenses	<u>147,280,421</u>
Operating loss	<u>(110,149,139)</u>
Nonoperating revenues	
Federal grants	47,674,528
Medicaid program cost reimbursement	44,909,899
Other income	<u>173,545</u>
Total nonoperating revenues	<u>92,757,972</u>
Decrease in net position	<u>(17,391,167)</u>
Net position, beginning of period, as previously reported	22,841,678
Effect of new accounting pronouncements (Notes 1 and 6)	<u>(8,606,460)</u>
Net position, beginning of period, as restated	<u>14,235,218</u>
Net position, end of period	\$ <u>(3,155,949)</u>

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

WASHINGTON HEALTH BENEFIT EXCHANGE

Statement of Cash Flows

Eighteen Months Ended June 30, 2016

Cash flows from operating activities	
Cash received from operations	\$ 31,053,543
Cash payments to suppliers for goods and services	(128,486,063)
Cash payments to employees for services	<u>(20,142,979)</u>
Net cash used by operating activities	<u>(117,575,499)</u>
Cash flows from noncapital financing activities	
Federal grants received	62,716,705
Medicaid reimbursement received	48,024,846
Other income	<u>173,545</u>
Net cash provided by noncapital financing activities	<u>110,915,096</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(636,106)</u>
Net cash used by capital and related financing activities	<u>(636,106)</u>
Decrease in cash and cash equivalents	(7,296,509)
Cash and cash equivalents, beginning of period	<u>8,051,863</u>
Cash and cash equivalents, end of period	\$ <u>755,354</u>
Reconciliation to statement of net position	
Cash and cash equivalents	\$ 499,637
Cash held for enrollees	<u>255,717</u>
Total cash and cash equivalents	\$ <u>755,354</u>
Reconciliation of operating loss to net cash used	
by operating activities	
Operating loss	(110,149,139)
Adjustments to reconcile operating loss to net cash	
used by operating activities	
Depreciation and amortization	19,462,648
Loss on disposal of assets	1,060
Noncash pension expense	72,025
(Increase) decrease in	
Prepaid expenses	287,881
Accounts receivable	(8,167,309)
Increase (decrease) in	
Unremitted premiums	(6,690,627)
Accounts payable and accrued liabilities	(9,887,435)
Payroll liabilities	(156,578)
Contracts holdback	<u>(2,348,025)</u>
Net cash used by operating activities	\$ <u>(117,575,499)</u>

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

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2016

Nature of Activities

The Washington Health Benefit Exchange (the Exchange) was created in state statute as a "public-private partnership separate and distinct from the state" for the purpose of establishing a state health insurance exchange in compliance with the Patient Protection and Affordable Care Act of 2010. The Exchange is a component unit of the State of Washington. The Exchange is responsible for the creation of Washington Healthplanfinder, an easily accessible, online marketplace for individuals, families, and small businesses to find, compare, and enroll in Qualified Health Plans (QHP) and Qualified Dental Plans (QDP).

Federal grant funding financed the Exchange's design, development, and implementation phases, as well as the first full year of operations during 2014. The federal grant funding for approved design, development, and implementation work continued through 2015 and 2016. Funding for the remaining operations of the Exchange was a combination of state funding appropriation, premium tax and assessment fees on QHP and QDP issuers, and Medicaid.

1. Summary of Significant Accounting Policies

Reporting Entity and Basis of Presentation

The accompanying financial statements have been prepared in conformity with U.S. 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. The Exchange has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. The Exchange has no relationship with other entities that could be considered component units.

Cash and Equivalents

The Exchange considers all highly liquid investment securities purchased with an original maturity of three months or less to be cash equivalents. The Exchange maintains its cash in bank deposits that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or in certain noninterest-bearing accounts that are fully insured by the FDIC. The accounts had bank balances of \$2,343,322 at June 30, 2016.

The Exchange maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Deposits totalling \$2,093,322 are exposed to custodial credit risk because they are not covered by depository insurance and are uncollateralized. The Exchange has not experienced any losses in such accounts. Management believes it is not exposed to any significant risk on cash and cash equivalents. There are no legal restrictions on the cash holdings of the Exchange, except as disclosed.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2016

Grants

Grant revenue is recognized and recorded as related expenses are incurred.

Grants and Medicaid Program Cost Reimbursement Receivable

Federal grants receivable represents unreimbursed federal grant funds as of June 30, 2016, for the Establishment Grants. Medicaid program cost reimbursement receivable represents unreimbursed state funds as of June 30, 2016, for the Washington Health Care Authority (HCA) Medicaid cost reimbursement. Management believes these amounts are properly reimbursable and fully-collectible as of period-end; as such, no allowance has been established.

Capital Assets

Purchased capital assets are reported at cost. The Exchange's capitalization threshold is \$5,000 for tangible personal property and leasehold improvements.

Depreciation on owned assets is provided on the straight-line basis over estimated useful lives ranging from 3 to 10 years. Leasehold improvements are depreciated over the shorter of their estimated useful lives or the term of lease. The term of the lease may include the years in the lease renewals that are reasonably assured.

Software development costs incurred during the application development stage were capitalized; however, costs incurred during the preliminary project stage and subsequent to the application development stage were expensed. Amortization is provided on the straight-line basis using an estimated useful life of 3 years.

Net Position

Net position represents all assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. Net position is displayed in the statement of net position in the following categories:

Net investment in capital assets - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. there is no debt attributable to the capital assets as of June 30, 2016.

Restricted - net position subject to externally imposed stipulations on their use. There are no restrictions as of June 30, 2016. The Exchange did not have restricted net position as of June 30, 2016.

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

When both restricted and unrestricted resources are available for the same purpose, restricted net position is considered to be used first over unrestricted net position.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2016

Operating Revenue and Expense

The Exchange distinguishes operating revenues and expenses from nonoperating items. Operating expenses include all expenses directly and indirectly related to establishing and running a health insurance marketplace pursuant to the Patient Protection and Affordable Care Act (ACA). Nonoperating items include Medicaid program cost reimbursement revenue and federal grant revenue.

Risk Management

The Exchange is subject to the risk of loss from various events, including, but not limited to, natural disasters and destruction of assets. The Exchange is currently covered by a commercial insurance program that contains multiple individual policies to mitigate risk exposure.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which was amended by Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. These statements established standards for reporting a pension asset or liability on the statement of net position for a defined benefit plan that is based on the fiduciary plan net position, rather than plan funding. The Exchange's annual pension expense is no longer directly connected to the funding of the plan. This results in pension expense being different from the actuarially determined annual required contributions. The Exchange adopted these two statements in the eighteen months ended June 30, 2016 with retroactive application. The impact of adoption of these statements is as follows:

Net position at January 1, 2015, before adoption of new accounting principles as previously reported	\$ 22,841,678
Adoption of new accounting principles:	
Deferred outflows related to pension contributions	468,318
Deferred inflows related to the net difference between projected and actual earnings on pension plan investments	(2,774,291)
Accrued pension liability	<u>(6,300,487)</u>
Net position at January 1, 2015, after adoption of accounting principles	\$ <u>14,235,218</u>

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2016

Change in Fiscal Year

The Exchange changed its fiscal year from a calendar year basis to a fiscal year ending June 30th. The purpose of this change was to align with the State of Washington's fiscal year. The Exchange receives budget appropriations from the Washington State government and also has reporting requirements to the State; aligning the fiscal year with the State will allow for more effective and efficient fiscal management and reporting. The Exchange made the decision to present financial statements for the eighteen-month period January 1, 2015 through June 30, 2016, to begin alignment with its new fiscal year. Subsequent fiscal years will revert to twelve month fiscal years ending in June of each year.

Subsequent Events

Subsequent events are events or transactions that occur after the statement of net position date, but before financial statements are available to be issued. The Exchange recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of net position, including the estimates inherent in the process of preparing the financial statements. The Exchange's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of net position, but arose after the statement of net position date and before the financial statements are available to be issued.

The Exchange has evaluated subsequent events through September 19, 2016, which is the date the financial statements are available to be issued, and concluded that there were no events that need to be disclosed.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2016

2. Capital Assets

Capital assets consist of the following at June 30, 2016:

	<u>December 31, 2014</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2016</u>
Software	\$ 41,311,446	\$ 187,818	\$ -	\$ -	\$ 41,499,264
Furniture and equipment	330,762	-	-	-	330,762
Leasehold improvements	636,815	-	-	-	636,815
Computers and network	<u>3,758,092</u>	<u>448,288</u>	<u>(6,784)</u>	<u>-</u>	<u>4,199,596</u>
	46,037,115	636,106	(6,784)	-	46,666,437
Accumulated depreciation and amortization	(23,195,437)	(19,462,648)	5,724	-	(42,652,361)
Work in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets	<u>\$ 22,841,678</u>	<u>\$(18,826,542)</u>	<u>\$(1,060)</u>	<u>\$ -</u>	<u>\$ 4,014,076</u>

For the period January 1, 2015 through June 30, 2016, the Exchange incurred approximately \$448,000 in additional costs related to the enhancement of the health benefit exchange online marketplace (Healthplanfinder) which were capitalized. Amortization expense related to Healthplanfinder totaled \$16.2 million for the eighteen months ended June 30, 2016.

3. Medicaid Program Cost Reimbursement

The Exchange has an approved Implementation Advance Planning Document (IAPD) for the design, development, and implementation activities of the Exchange that provides benefit to the state's Medicaid program and an Operational Advanced Planning Document (OAPD) for maintenance and operations activity that provides benefit to the state Medicaid program. These documents are submitted through the Washington State Health Care Authority, as the single state Medicaid agency for Washington, and approved by the Center for Medicare and Medicaid Services (CMS).

During the eighteen month period ended June 30, 2016, the Exchange submitted A19 invoice vouchers to HCA providing the total reimbursable federal Medicaid and Children's Health Insurance Program (CHIP) disbursements, along with required backup documentation. For the eighteen months ended June 30, 2016, the total Medicaid/CHIP received by the Exchange was \$31.99 million. The revenue is recorded as Medicaid program cost reimbursement in the statement of revenues, expenses, and changes in net position. Total Medicaid receivable at June 30, 2016 was \$3.56 million.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2016

4. Related Parties

HCA administers the Washington State Treasurer Fund for health insurance premium tax and carrier assessment revenues (17T). In addition, the Washington State Legislature appropriates dollars through the state budget bill for the Exchange's 17T, General Fund-State, and Federal Medicaid/CHIP expenditures. The Exchange's budgeted appropriations are a subcomponent of HCA's budget. Through June 30, 2016, the Health Care Authority reimbursed the Exchange for its 17T, General Fund-State, and Federal Medicaid/CHIP related-expenditures through invoices submitted by the Exchange to HCA. Beginning in July 2017, the Legislature directed that half of the Exchange's budgeted expenditures for 17T and General Fund-State are to be provided to the Exchange by July 31st of each year, and the remaining half by January 31st. The Exchange will maintain these funds in a bank account as unearned revenue and recognize revenue as expenditures are incurred. Federal Medicaid and CHIP reimbursements will continue to be invoiced to the HCA.

5. Commitment and Contingency

Office Lease

The Exchange leases approximately 30,679 square feet of office space located in Olympia, Washington. The lease term under the contract is a period of five years expiring in June 2018. The following is a schedule by year of future minimum lease payments as of June 30, 2016:

2017	\$ 537,000
2018	<u>537,000</u>
Total minimum lease payments	\$ <u>1,074,000</u>

Federal Grants

The Exchange 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 the 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 the Exchange.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2016

6. Employee Pension Plans

Public Employees' Retirement system (PERS)

Substantially all of the Exchange's full-time and qualifying part-time employees participate in PERS. This is a statewide local government retirement system administered by the Washington State Department of Retirement System (DRS), under cost-sharing, multiple-employer defined benefit public employee retirement plans. The PERS system includes three plans.

Participants who joined the system by September 30, 1977, are PERS Plan 1 members. Those joining thereafter are enrolled in PERS Plan 2. In March 2000, the then Governor signed into law a new retirement plan option for members of the PERS Plan 2. The new plan, titled PERS Plan 3, provides members with a "two-part, hybrid retirement plan," which includes a defined benefit component and a defined contribution component.

PERS Plan 1 - Members are eligible for retirement at any age after 30 years of service, at age 60 with five years of service, or at age 55 with 25 years of service. The annual pension is 2% of the average final compensation per year of service, capped at 60%. The average final compensation is based on the greatest compensation earned during any 24 eligible consecutive compensation months.

PERS Plan 2 - Members may retire at age 65 with five years of service or at age 55 with 20 years of service. The annual pension is 2% of the average final compensation per year of service. PERS Plan 2 retirements prior to 65 are actuarially reduced. On July 1 of each year following the first full year of retirement service, the benefit will be adjusted by the percentage change in the Consumer Price Index of Seattle, capped at 3% annually.

PERS Plan 3 - Members may retire at age 65 with five years of service or at age 55 with 10 years of service for the defined benefit allowance. PERS Plan 3 retirements prior to 65 are actuarially reduced. PERS Plan 3 is structured as a dual benefit program that will provide members with the following benefits:

A defined benefit allowance similar to PERS Plan 2 calculated as 1% of the average final compensation per year of service (versus a 2% formula) and funded entirely by employer contributions.

A defined contribution account consisting of member contributions plus the full investment return on those contributions.

Each biennium, the State Pension Funding Council adopts PERS Plan 1 employer contribution rates and PERS Plan 2 employer and employee contribution rates. Employee contribution rates for PERS Plan 1 are established by statute at 6% and do not vary from year-to-year. The employer and employee contribution rates for PERS Plan 2 are set by the Director of the DRS, based on recommendations by the Office of the State Actuary, to continue to fully fund PERS Plan 2. Unlike PERS Plan 2, which has a single contribution rate (which is currently 6.12%), with PERS Plan 3, the employee chooses how much to contribute from six contribution rate options. Once an option has been selected, the contribution rate choice is irrevocable unless the employee changes employers.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2016

All employers are required to contribute at the level established by State law. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.26 RCW.

The Exchange's covered payroll for PERS for the eighteen months ended June 30, 2016, was \$15,083,704.

The Exchange's contribution rate from July 1, 2015 to June 30, 2016 expressed as a percentage of covered payroll for employer was 11.00% for PERS Plan 1, PERS Plan 2, and PERS Plan 3. The employer rate does not include the employer administrative expense fee currently set at .18%. The Exchange's contribution rate from January 1, 2015 to June 30, 2015 was 9.03%, and the administrative fee was .18%.

Both the Exchange and its employees made the required contributions. The Exchange's required contributions for the eighteen months ended June 30, 2016 were as follows:

	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>	<u>Total</u>
2016 employer contribution	\$11,948	\$1,144,676	\$420,059	\$1,576,683

The pension plan's fiduciary net position has been determined on the same basis used by the pension plan. The retirement plans are accounted for in pension trust funds using the flow-of-economic-resources measurement focus and the accrual basis of accounting.

Plan member contributions are recognized as revenues in the period in which the contributions are earned. Employer contributions to each 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 the terms of each plan. Investments are reported at fair value. Unrealized gains and losses are included as investment income.

The proportion of the collective net pension liability has increased by 0.01% and 0.02% for PERS Plan 1 and PERS Plan 2/3 respectively.

Historical trend information regarding all of these plans is presented in Washington State Department of Retirement System's annual financial report. A copy of this report may be obtained at:

Department of Retirement Systems
P.O. Box 48380
Olympia, WA 98504-8380
Internet address: www.drs.wa.gov

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2016

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Exchange reported a liability of \$4,962,269 for its proportionate share of the PERS1 net pension liability, and \$4,291,742 for its proportionate share of the PERS 2/3 net pension liability. The net pension liability was measured on June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Washington Health Benefit Exchange's proportion of the net pension liability was based on a projection of its long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2015, the Exchange's proportion was 0.094864% for PERS1 and 0.120114% for PERS 2/3.

For the eighteen months ended June 30, 2016, the Exchange recognized pension expense of \$1,621,556 for PERS1 and PERS 2/3. At June 30, 2016, the Exchange reported deferred outflows of resources and deferred inflows of resources related to the PERS Plans from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 456,215	\$ -
Changes of assumptions	6,915	-
Net difference between projected and actual earnings on pension plan investments	-	1,417,087
Changes in proportion and difference between contributions and proportionate share of contributions	482,679	-
Plan contributions subsequent to the measurement date of June 30, 2015	<u>1,046,804</u>	<u>-</u>
Total	<u>\$1,992,613</u>	<u>\$1,417,087</u>

The amount of \$1,046,804 reported as deferred outflows of resources related to pensions resulting from PERS contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and (deferred inflows of resources) related to the Plan will be recognized in pension expense as follows:

2017	\$ (76,093)
2018	(76,093)
2019	(76,092)
2020	(243,000)

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2016

The following table shows the components of the Exchange's annual pension expense for the period, the amount actually contributed to the plan, and changes in the Exchange's net pension liability:

Contributions made subsequent to measurement date	\$ 1,046,804
Change in deferred outflows of resources, net	477,492
Change in deferred inflows of resources, net	1,357,203
Noncash pension expense	<u>72,025</u>
Increase in net pension liability	2,953,524
Net pension liability, beginning of period	<u>6,300,487</u>
Net pension liability, end of period	\$ <u>9,254,011</u>

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

Salary increases	3.75% per year
Investment rate of return	7.50% per annum, compounded annually
Cost of living benefit increases	3.00%

Mortality rates were based on the RP2000 Combined Mortality Tables for Males or Females, as appropriate, projected forward to 2016 using Scale BB.

The economic assumptions and mortality table were adopted by the Board of Trustees of the System as a result of the latest experience study review completed in November 2014 and covering the period July 1, 2007 through June 30, 2012.

The long-term expected rate of return on pension plan assets was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class of assets. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed income	20%	1.70%
Tangible assets	5%	4.40%
Real estate	15%	5.80%
Global equity	37%	6.60%
Private equity	23%	9.60%

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2016

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for PERS1 and PERS 2/3. 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 and nonemployer contributions will be made at contractually required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity

The following presents the Exchange's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Exchange's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.5%) or one percentage point higher (8.5%) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount <u>Rate</u>	1% Increase <u>(8.5%)</u>
The Exchange's proportionate share of the net pension liability	\$18,590,867	\$ 9,254,011	\$ 2,003,405

7. Concentrations

During the eighteen months ended June 30, 2016, approximately 61% of the Exchange's revenue was from United States government agencies, 29% was from Premium Tax and Carrier Assessments and 10% was from the State general fund. In addition, at June 30, 2016, 30% of receivables were Medicaid receivables, 37% were due from Premium Tax and Carrier Assessments, and 32% were pass through receivables with an offsetting liability to the State of Washington's general fund. Grants from government agencies are subject to the review and audit of the grantor. Loss of this funding could have a material effect on the Exchange; however, management of the Exchange does not anticipate a significant loss of such funding.

REQUIRED SUPPLEMENTARY INFORMATION

WASHINGTON HEALTH BENEFIT EXCHANGE

Required Supplementary Information

Schedule of Washington Health Benefit Exchange's Proportionate Share of the Net Pension Liability

Washington Public Employees Retirement System

June 30, 2016

Last 10 Fiscal Years *

	<u>2016</u>	
	PERS Plan 1	PERS Plans 2/3
Washington Health Benefit Exchange (the Exchange) proportion of the net pension liability	0.09 %	0.12 %
The Exchange's proportionate share of the net pension liability	\$ 4,962,269	\$ 4,291,742
The Exchange's covered-employee payroll	\$ 97,821	\$10,655,736
The Exchange's proportionate share of the net pension liability as a percentage of its covered-employee payroll	5,072.81 %	40.28 %
Plan fiduciary net position as a percentage of the total pension liability	59.10 %	89.20 %

* The amounts presented for each year were determined as of June 30 of the previous year. This schedule is designed to provide information for 10 years. However, until a full 10-year trend is compiled, information for those years for which information is available is presented.

WASHINGTON HEALTH BENEFIT EXCHANGE

Required Supplementary Information

Schedule of Washington Health Benefit Exchange's Contributions

Washington Public Employees Retirement System

June 30, 2016

Last 10 Fiscal Years *

	2015	
	PERS Plan 1	PERS Plans 2/3
Actuarially determined contributions	\$ 430,691	\$ 555,046
Contributions in relation to the actuarially determined contributions	<u>435,992</u>	<u>535,052</u>
Contribution deficiency (excess)	<u><u>\$ (5,301)</u></u>	<u><u>\$ 19,994</u></u>
Washington Health Benefit Exchange's covered- employee payroll	\$ 97,821	\$10,655,736
Contributions as a percentage of covered-employee payroll	445.70 %	5.02 %

* This schedule is designed to provide information for 10 years. However, until a full 10-year trend is compiled, information for those years for which information is available is presented.

SUPPLEMENTARY INFORMATION

WASHINGTON HEALTH BENEFIT EXCHANGE

Schedule of Expenditures of Federal Awards

Eighteen Months Ended June 30, 2016

Federal Grantor/Pass-Through <u>Grant/Program Title</u>	Federal CFDA <u>Number</u>	Federal <u>Expenditures</u>
U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services Direct award State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	\$ <u>47,674,528</u>
Total expenditures of federal awards		\$ <u>47,674,528</u>

See accompanying notes to the schedule of expenditures of federal awards.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to the Schedule of Expenditures of Federal Awards

Eighteen Months Ended June 30, 2016

1. **Basis of Presentation**

The schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the Washington Health Benefit Exchange (the Exchange) under programs of the federal government for the eighteen months ended June 30, 2016. The information in the Schedule is presented in accordance with Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of the Exchange, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Exchange.

2. **Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in 2 CFR Part 225, *Cost Principles for State, Local, and Indian Tribal Governments* (previously Office of Management and Budget Circular A-87), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Exchange has elected not to use the 10% de minimis indirect cost rate.

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

The Board of Directors
Washington Health Benefit Exchange

We have audited, in accordance with U.S generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Washington Health Benefit Exchange, which comprise the statement of net position as of June 30, 2016, and the related statements of revenues, expenses, and changes in net position, and cash flows for the eighteen months then ended, and the related notes to the financial statements, which collectively comprise Washington Health Benefit Exchange's basic financial statements, and have issued our report thereon dated September 19, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Washington Health Benefit Exchange'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 that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as finding 2016-001.

Washington Health Benefit Exchange's Response to the Finding

Washington Health Benefit Exchange's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Washington Health Benefit Exchange'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 results of that testing, and not to provide an opinion on the effectiveness of Washington Health Benefit Exchange's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Washington Health Benefit Exchange's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
September 19, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE**

Board of Directors
Washington Health Benefit Exchange

Report on Compliance for the Major Federal Program

We have audited Washington Health Benefit Exchange's compliance with the types of compliance requirements described in the Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on Washington Health Benefit Exchange's major federal program for the eighteen months ended June 30, 2016. Washington Health Benefit Exchange's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal award applicable to its federal program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Washington Health Benefit Exchange's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program occurred. An audit includes examining, on a test basis, evidence about Washington Health Benefit Exchange's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Washington Health Benefit Exchange's compliance.

Opinion on the Major Federal Program

In our opinion, Washington Health Benefit Exchange complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the eighteen months ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as findings 2016-002 and 2016-003. Our opinion on the major federal program is not modified with respect to these matters.

Washington Health Benefit Exchange's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Washington Health Benefit Exchange's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Washington Health Benefit Exchange is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Washington Health Benefit Exchange's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Washington Health Benefit Exchange's internal control over compliance.

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

Board of Directors
Washington Health Benefit Exchange

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs related to federal awards as findings 2016-002 and 2016-003, that we consider to be significant deficiencies.

Washington Health Benefit Exchange's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Washington Health Benefit Exchange's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Berry Dunn McNeil & Parker, LLC

Portland, Maine
October 17, 2016

WASHINGTON HEALTH BENEFIT EXCHANGE

Schedule of Findings and Questioned Costs

Eighteen Months Ended June 30, 2016

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Material weakness(es) identified?

Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None reported

Noncompliance material to financial statements noted?

Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified:

Yes No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?

Yes None reported

Type of auditor's report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?

Yes No

Identification of major federal programs:

CFDA Number

Name of Federal Program or Cluster

93.525

State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges

Dollar threshold used to distinguish between Type A and Type B programs:

\$1,430,236

Auditee qualified as low-risk auditee?

Yes No

WASHINGTON HEALTH BENEFIT EXCHANGE
Schedule of Findings and Questioned Costs, Continued
Eighteen Months Ended June 30, 2016

Section II. Financial Statement Findings

Finding 2016-001

Criteria

A non-Federal entity that expends \$750,000 or more during the non-Federal entity's fiscal year in Federal awards must have a single or program-specific audit conducted for that year in accordance with the provisions of Title 2 U.S. Code of Federal Regulations (2 CFR) Part 200.501.

Condition and Context

No single or program-specific audit was performed for the period January 1, 2015 through December 31, 2015. Results of a separate audit for that time period were thus not available to interested parties.

Cause and Effect

A lack of internal policies and procedures to ensure compliance with audit requirements resulted in noncompliance with the audit requirements of 2 CFR 200.501.

Recommendation

Management should ensure that audits are conducted as required in 2 CFR 200.501.

Questioned Costs

Not applicable

Identification of Repeat Findings

Not applicable

Views of Responsible Officials and Planned Corrective Actions

Management agrees with the finding. See Corrective Action Plan for specific actions taken to remediate the finding.

Responsible Official: Carole Holland, CFO Phone: (360) 688-7720

WASHINGTON HEALTH BENEFIT EXCHANGE
Schedule of Findings and Questioned Costs, Continued
Eighteen Months Ended June 30, 2016

Section III. Federal Award Findings

Finding 2016-002

Information on the Federal Program Impacted

CFDA No. 93.525 - U.S. Department of Health and Human Services, State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges

Grants affected: 6 HBEIE120121-01-12 (grant period: 5/26/2012 - 12/31/2015), 6 HBEIE140191-01-09 (grant period: 1/22/2014 - 12/31/2015), 4 HBEIE150218-01-04 (grant period: 12/22/2014 - 7/31/2016)

Specific Criteria

Single audit reports are to be completed and submitted within nine months of the end of the reporting period.

Condition and Context

The single audit report for the year ended December 31, 2014 was issued on October 23, 2015.

Cause and Effect

A lack of internal policies and procedures to ensure timely completion of the single audit resulted in noncompliance. Results of the audit were thus not available to interested parties on a timely basis.

Recommendation

Management should ensure that audits are completed and the reports issued within the reporting deadline.

Questioned Costs

None

Identification of Repeat Findings

Not applicable

Views of Responsible Officials and Planned Corrective Actions

Management agrees with the finding. See Corrective Action Plan for specific actions taken to remediate the finding.

Responsible Official: Carole Holland, CFO Phone: (360) 688-7720

WASHINGTON HEALTH BENEFIT EXCHANGE
Schedule of Findings and Questioned Costs, Concluded
Eighteen Months Ended June 30, 2016

Finding 2016-003

Information on the Federal Program Impacted

CFDA No. 93.525 - U.S. Department of Health and Human Services, State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges

Grants affected: 6 HBEIE120121-01-12 (grant period: 5/26/2012 - 12/31/2015), 6 HBEIE140191-01-09 (grant period: 1/22/2014 - 12/31/2015), 4 HBEIE150218-01-04 (grant period: 12/22/2014 - 7/31/2016)

Specific Criteria

The Exchange is required to file quarterly and annual financial reports, as well as semi-annual and monthly progress reports. The reports should reconcile to supporting documentation, be filed timely, and be reviewed/approved in accordance with policies.

Condition and Context

In the sample of eight reports tested, five were found to be materially late (>10 days) and three were found to have contained inaccurate data. Review of the reports was not documented.

Cause and Effect

A lack of adherence to internal policies and procedures to ensure timely and accurate filing resulted in noncompliance with reporting requirement guidelines. Report users were thus provided untimely and, in some instances, inaccurate information.

Recommendation

Management should develop a tracking file outlining the due dates for reporting requirements and use that file to track timeliness and preparation and review of reports to be filed.

Questioned Costs

None

Identification of Repeat Findings

2014-002

Views of Responsible Officials and Planned Corrective Action

Management agrees with the finding. See Corrective Action Plan for specific actions taken to remediate the finding.

Responsible Official: Carole Holland, CFO Phone: (360) 688-7720

**Washington State Health Benefit Exchange
Summary Schedule of Prior Audit Findings
Eighteen Months Ended June 30, 2016**

This schedule only addresses findings previously reported that would be reportable under the revised OMB Circular A-133. It reflects agency corrective action status as of June 30, 2016.

Finding and Corrective Action Plan

2014-001 Financial Close and Reporting Process – Significant Deficiency

Criteria - The Washington Health Benefit Exchange (the Exchange) should have controls designed and operating effectively for appropriate and timely preparation and review of journal entries and account reconciliations.

Condition - We identified a significant deficiency related to the Exchange's controls in place to timely and effectively prepare and review journal entries and account reconciliations. Per inquiry with management and evidenced through our test of operating effectiveness, we identified journal entries that did not have the appropriate and timely preparation, review, and approval. In addition, we noted certain account reconciliations were not completed and/or reviewed in a timely manner.

Cause/effect - Certain reconciliations and journal entries were prepared and reviewed after the first and second quarter of 2015. While there were no significant adjustments identified during the audit, there is an increased risk of material misstatements or omissions in the financial statements with the delay in preparation and review of journal entries and reconciliations.

Recommendation - We recommend the Exchange refine controls over financial reporting, specifically relating to implementation of appropriate preventative controls to prepare, review, and approve journal entries and account reconciliations in a timely manner. In addition, we recommend all reviews be documented.

Management response - Management concurs with this finding. As of September 1, 2015, a new CEO and CFO were on board. With the change in leadership, efforts are underway to identify areas of risk, including the timeliness and controls related to financial closing. Management expects that monthly closing and reconciliation entries will be current by December 31, 2015, and will occur on a monthly basis thereafter.

Current status - The Exchange implemented specific month-end closing procedures beginning in December 2015. These procedures include timely monthly reconciliation of bank and general ledger accounts. Extensive work was done in getting the Exchange current on reconciliations, and, as a result, the Exchange is now fully implementing month-end close procedures and is up-to-date on its reconciliations. In addition, the Exchange has implemented controls to ensure it is documenting approvals of journal entries and other accounting transactions.

**Washington State Health Benefit Exchange
Summary Schedule of Prior Audit Findings
Eighteen Months Ended June 30, 2016**

This schedule only addresses findings previously reported that would be reportable under the revised OMB Circular A-133. It reflects agency corrective action status as of June 30, 2016.

Finding and Corrective Action Plan

2014-002 Reporting, Material Weakness in Internal Controls Over Compliance, and Material Instance of Noncompliance

Federal agency - U.S. Department of Health and Human Services

Federal program - 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges

Criteria - The Exchange is required to file quarterly and annual financial reports, as well as semi-annual and monthly progress reports. The reports should reconcile to supporting documentation, be filed timely, and be reviewed/approved in accordance with policies.

Condition/context - During our testing of this compliance requirement, we noted the Exchange could not provide support that reconciled to all sampled reports; they did not submit all reports timely and could not provide verification of review/approval.

Cause - Lack of effective process/procedures and staff turnover contributed to the issues discussed above.

Questioned costs - No questioned costs were noted.

Effect - Required reports were not all supported by documentation, they were not all filed timely, and there was a lack of evidence that they were reviewed/approved.

Recommendation - The Exchange should establish a control system to ensure all reports are prepared, submitted, supported, and reviewed/approved in accordance with the federal requirements.

Management response - Management concurs with this finding. The Exchange will implement improved procedures for documenting and retaining submittals of monthly federal reporting and requests for drawing down federal funds by November 30, 2015. The Exchange will also implement procedures for submittal approvals.

Current status - Beginning November 2015, the Exchange implemented controls for ensuring appropriate written approvals for drawing federal funds and approval of grant-related expenditures. The Exchange did have significant turnover in 2015 and early 2016 with regard to positions responsible for grant reporting. As a result, the Exchange was granted extensions for completing the required grant close out reports for the two establishment grants that closed on

**Washington State Health Benefit Exchange
Summary Schedule of Prior Audit Findings
Eighteen Months Ended June 30, 2016**

This schedule only addresses findings previously reported that would be reportable under the revised OMB Circular A-133. It reflects agency corrective action status as of June 30, 2016.

December 31, 2015. The controls implemented were not in place for a portion of the audit period, and that condition was identified in finding 2016-003. However, subsequent to the filing of the reports identified in that finding, the Exchange implemented controls, and has controls in place currently, to ensure its remaining grant is reconciled and reports are submitted in a timely manner. The current monthly and quarterly reporting process includes preparation and reconciliation of grant expenditures each month with separate review and approval before submission to CMS.

Reason for recurrence - Prior management planned to implement improved procedures for documenting and retaining submittals of monthly federal reporting and requests for funding draw downs, as well as procedures for submittal approvals. Those procedures were not implemented at the beginning of the fiscal period.

Finding and Corrective Action Plan

2014-003 Procurement, Suspension and Debarment, and Significant Deficiency in Internal Controls Over Compliance

Federal agency - U.S. Department of Health and Human Services

Federal program - 93.525 State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges

Criteria - In accordance with 2 CFR Part 180, nonfederal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods that are expected to equal or exceed \$25,000, or that meet certain other specified criteria. Federal procurement regulations require grantees to verify that vendors with contracts over \$25,000 are not suspended or debarred. This verification may be accomplished through checking the System for Award Management (SAM) website (www.sam.gov) maintained by the General Services Administration, collecting a certification from the entity, or adding a clause to the contractual agreement specifying that the contractor warrants that they are not a suspended or debarred entity.

Condition/context - During our testing of this compliance requirement, we noted that there was no evidence that the Exchange performed verification procedures to determine whether a vendor was not suspended or debarred.

Questioned costs - None.

Cause - The Exchange did not have controls in place to verify suspension and debarment.

**Washington State Health Benefit Exchange
Summary Schedule of Prior Audit Findings
Eighteen Months Ended June 30, 2016**

This schedule only addresses findings previously reported that would be reportable under the revised OMB Circular A-133. It reflects agency corrective action status as of June 30, 2016.

Effect - No suspension/debarment check was performed.

Recommendation - We recommend the Exchange develop and implement policies and procedures to ensure suspension/debarment verification is performed and that documentation for the verification is retained.

Management response - Management concurs with this finding. The Exchange has drafted a contract policy and procedure that will be in place by November 30, 2015. The policy will address internal controls for contracting, clarify roles and responsibilities in the contracting process, and clarify the responsibilities for suspension/debarment verification.

Current status: The Exchange implemented new policy and procedures for ensuring vendors with contracts that are or expected to be over \$25,000 are not suspended or debarred. The Exchange checks the federal SAM database prior to awarding of contracts, when amending contract dollar values, and at contract renewal to verify that vendors are not suspended or debarred. In addition, HBE checks the status of each vendor in the SAM database each January and July to ensure suspension and debarment has not occurred between renewal or amendment intervals.

Corrective Action Plan

FINDING #2016-001

The Exchange was not able to meet the reporting deadline because the audit for the period ending December 31, 2014 was not completed until October 2015. Since this time, the Exchange replaced its key finance positions to emphasize stronger internal controls and the accuracy and timeliness of reporting. This includes ensuring financial, uniform guidance, and programmatic audits are completed in time to comply with all state and federal reporting requirements. The Exchange has worked with its external auditors to schedule future audits to ensure submission deadlines for annual financial statements are met.

FINDING #2016-002

The Exchange Board changed its fiscal year end from a calendar year to state fiscal year, which begins on July 1st and ends June 30th of each year. In December 2015, the Exchange notified Center for Consumer Information and Insurance Oversight (CCIIO) representatives that it would be changing its fiscal year pending Board approval and that the Exchange would conduct an 18-month audit for the period January 1, 2015, through June 30, 2016. The Exchange engaged a qualified audit firm to perform annual financial and programmatic audits and to ensure future audits are completed in time to meet federal reporting requirements.

FINDING #2016-003

WAHBE Budget & Grants Team has developed a schedule to ensure monthly, quarterly, and annual reports are submitted to the federal cognizant agency in a timely manner. Specifically, a schedule has been developed with a goal of preparing those reports two weeks prior to the federal reporting deadline and having the reports reviewed, approved, and submitted one week prior to the deadline. As a result, the last five monthly OLDC reports and last two quarterly reports have been submitted in a timely manner. As an additional control, all reports are prepared by an analyst and submitted to the Associate Director of Grants & Budget for review for completeness and accuracy prior to submittal. The Associate Director of Grants & Budget validates and submits the reports on the website. The review, validation, and submittal trail is maintained electronically and a hard copy is filed by the analyst preparing the report.

WAHBE Policy Department continues to manage the semi-annual progress reports, which have been submitted on time and accurately. WAHBE Policy developed a process to coordinate responsibilities for completion of various portions of the report, and timelines to ensure preparation, review, approval, and submittal of the semi-annual progress reports by the established federal deadline.

