



Washington Health Benefit Exchange

FINANCIAL STATEMENTS

and

REQUIRED SUPPLEMENTARY INFORMATION

With Independent Auditor's Report

June 30, 2023



WASHINGTON HEALTH BENEFIT EXCHANGE

June 30, 2023

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Washington Health Benefit Exchange

Report on the Audit of Financial Statements

Opinion

We have audited the financial statements of Washington Health Benefit Exchange (a component unit of the State of Washington) (the Exchange) which comprise the statement of net position as of June 30, 2023, and the statements of revenues, expenses, and changes in net position, and cash flows for the year ended and the related notes to the financial statements, which collectively comprise the Exchange's basic financial statements.

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, 2023, and the changes in its financial position and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with U.S. generally accepted auditing standards (U.S. GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Exchange and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Changes in Accounting Principle

As discussed in Note 1 to the basic financial statements, the Exchange adopted Governmental Accounting Standards Board (GASB) Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*; GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*; and GASB Statement No. 101, *Compensated Absences* during the year ended June 30, 2023. Our opinion is not modified with respect to those matters.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Exchange's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Exchange's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on pages 4 through 13 and the information listed under Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Board of Directors
Washington Health Benefit Exchange

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2023 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Exchange'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 the Exchange's internal control over financial reporting and compliance.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
October 27, 2023

WASHINGTON HEALTH BENEFIT EXCHANGE
Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

Washington Health Benefit Exchange Overview

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

- Online comparisons of Qualified Health Plans (QHP)
- Immediate determination of eligibility for financial assistance and calculation of applicable premium tax credits
- Expert customer support online, by phone or in-person through its assister network program
- Eligibility determinations for enrollment in Washington Apple Health, the State's Medicaid program

The Exchange's mission is to radically improve how Washington residents secure health insurance through innovative and practical solutions, an easy-to-use customer experience, our values of integrity, respect, equity and transparency, and by providing undeniable value to the health care community.

The Exchange's objectives are to provide:

- Innovative and practical solutions
- An easy-to-use customer experience
- Our values of integrity, respect, equity, and transparency
- Undeniable value to the health care community

Key Activities and Operations through June 30, 2023

Establishment – The Washington Health Benefit Exchange was established in 2011. The Exchange was created through Washington State law as a “public-private partnership, separate and distinct from the State” that is governed by an 11-member Governing Board (including the Washington Insurance Commissioner and Director of the Health Care Authority as ex-officio non-voting members). The enabling statute required that a state-based marketplace be established for individuals and small employers to shop for health insurance and access federal tax credits. Implementation guidelines were established for the Exchange, including market rules, requirements for QHPs, essential health benefits and other key Exchange responsibilities, including the requirement that the Exchange be self-sustaining.

WASHINGTON HEALTH BENEFIT EXCHANGE
Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

2023 Washington State Legislative Session - During the 2023 legislative session, bills were passed to:

- Support the 1332 waiver implementation with increased funding for community engagement/outreach and waiver administration
- Explore 1332 waiver amendments to capture federal pass-through funding
- Support Medicaid redetermination efforts with funding for correspondence and call center to promote continuous coverage
- Provide training and resource material to help connect adult family home workers and owners to health care coverage
- Provide pass-through funding to Lead Navigator Organizations to support COFA navigators
- Extend current premium subsidy program for child care workers through PY2023

The 2021 Washington State Legislature enacted Engrossed Second Substitute Senate Bill 5377 which, among other provisions, directed the Exchange to establish a state premium assistance program for Washington residents. The Legislature included in Engrossed Substitute Senate Bill 5092 (Operating Budget), \$50 Million in state funding for the Exchange to implement the premium assistance program for plan year 2023, for individuals with income up to 250 percent of the federal poverty level. 5377 sets the stage to improve the quality, availability, and affordability of the health plans offered through Washington Healthplanfinder. This bill established a state premium assistance program that benefits low-income Washingtonians; increases statewide availability of the state's first-in-nation public option program; and builds on the success of the high-quality Cascade Care standard plans.

Cascade Care Savings (CCS) launched in Open Enrollment 10 for coverage beginning January 1, 2023. 80% of new QHP customers enrolled in a Cascade Care plan in 2023, up from 53% in plan year 2022. As of June 30, 2023, there were over 64,000 Washingtonians actively enrolled in a Cascade Care Savings eligible plan. CCS enrollment continues to grow with the CCS Special Enrollment Period (SEP). The SEP is available to enrollees up to 250% of the federal poverty level who are not already enrolled in a Cascade Care Silver or Gold plan.

On March 10, 2022, the Washington State Legislature passed Engrossed Substitute Senate Bill 5693. This legislation expands upon existing appropriation of \$50M and direction in the 2021 biennial budget, by providing additional funds for activities related to 1332 waiver implementation and the resulting expansion of the CCS program. The following additional provisions were added:

- \$50,000 of the general fund—state appropriation for fiscal year 2022 and \$2,891,000 of the general fund—state appropriation for fiscal year 2023 are provided solely for system updates and community-led engagement activities necessary to implement the waiver.
- \$5,000,000 of the state health care affordability account—state appropriation is provided solely to provide premium assistance for customers ineligible for federal premium tax credits who meet the established eligibility criteria and is contingent upon approval of the applicable waiver.

WASHINGTON HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

On December 9, 2022, the U.S. Department of Health and Human Services (HHS) and the U.S. Department of Treasury announced that Washington state received approval to waive Section 1332(f)(3), which bars persons considered “not lawfully present” from purchasing QHP coverage, including QDP coverage, through Washington Healthplanfinder. An approved waiver allows newly QHP eligible applicants to have the same plan shopping and enrollment experience as those who are currently eligible. This includes accessing the online application, viewing available QHP plan options, viewing available Cascade Care Savings, and accessing decision support tools that help customers compare and select plans. This will be done leveraging current information technology interfaces, operational procedures, and security and privacy safeguards.

Starting in 2024, all uninsured state residents – regardless of immigration status — will be able to access qualified health plans (QHPs) and stand-alone qualified dental plans (QDPs), and benefit from Cascade Care Savings (state subsidies that lower premium costs for customers up to 250% of the federal poverty level (FPL)).

This legislation is consistent with the Exchange's objectives of:

- Increasing access to affordable health plans
- Enhancing health plan competition on value: price, access, quality, service, and innovation
- Organizing a transparent and accountable insurance market to facilitate consumer choice
- Providing an efficient, accurate, and customer-friendly shopping and enrollment experience

COVID-19 - The American Rescue Plan Act (ARPA) significantly increases the amount of tax credits individuals who enroll through Washington Healthpathfinder will receive, which reduces their monthly premiums. ARPA also extends tax credits to middle-income Washingtonians who previously were not eligible for assistance, and provides additional tax credits to all customers who received at least one week of unemployment compensation in 2021.

- On March 23, 2021, Centers for Medicare & Medicaid Services (CMS) announced the Special Enrollment Period available with the federal marketplace was extended through August 15, 2021. The Exchange aligned with the federal marketplace SEP date to eliminate potential customer confusion.
- The Exchange automatically extended new ARPA savings to 138,000 existing, eligible customers after May 6, 2021, which lowered their premiums starting in June 2021. On average, this reduced premium costs by \$90 per month per person.
- Customers reporting unemployment income during the year received higher savings averaging \$124/month (~17,000 customers).
- Those over 400% FPL, previously not eligible for subsidies, received over \$200/month on average (~23,000 customers).
- The total number of QHP customers receiving federal premium subsidies increased from 66% to 74% (158,000).

WASHINGTON HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

Funding – The largest source of funding during the fiscal year ended June 30, 2023 came from premium tax and carrier assessment revenues. The premium tax is a two percent tax on health plans that are sold through the Exchange. The assessment is a set rate based on monthly enrollments for qualified health and dental plans offered by carriers on the Exchange. Premium tax and assessment funds are maintained in an account with the Washington State Treasurer, and the account is administered by the Washington State Health Care Authority.

The Exchange also receives a State General Fund appropriation from the Washington State Legislature that is used as a portion of its Medicaid or Children's Health Insurance Program (CHIP) matching funds. Lastly, the Exchange receives General Fund Federal (Medicaid and CHIP) appropriations from the State Legislature for eligible costs under those programs. The Exchange submits Advanced Planning Documents (APD's) through the Health Care Authority that allow it to receive enhanced Medicaid funding for approved operational and implementation costs.

For the 2021-23 biennium, the Legislature provided the Exchange \$1,171,000 of the Coronavirus Response and Relief Supplemental Appropriations Act general fund—federal appropriation (CRRSA) and \$2,595,000 of the general fund—federal appropriation (ARPA) for the Exchange to implement a health care insurance premium assistance program for employees who work in licensed child care facilities.

Additionally, for the 2021-23 biennium, the Legislature provided the Exchange \$55,000,000 of the health care affordability account—state appropriation for the Exchange to administer a premium assistance program, beginning for plan year 2023, as established in Engrossed Second Substitute Senate Bill No. 5377 (standardized health plans).

Staffing and Infrastructure - As of June 30, 2023, the Exchange had approximately 195 budgeted full-time equivalent 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. The Exchange had ten vacant positions as of June 30, 2023.

Communications and Transparency - To keep the public and constituents informed of ongoing progress of the Exchange, the Exchange's website www.wahbexchange.org provides information to stakeholders and the public. The Exchange complies with the Washington open public meetings and public disclosure laws 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 - The Exchange has continued outreach and educational efforts centered on improving health literacy and instructing Washington residents on their coverage options and where to find assistance. To promote the outreach effort, the Exchange has created a number of online resources and printable materials as well as a complete, searchable archive of frequently asked questions and glossary of health insurance terminology. The Exchange has also employed health literacy videos that make people aware of the opportunity to gain health insurance coverage and layout the overall enrollment process.

WASHINGTON HEALTH BENEFIT EXCHANGE
Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

The Exchange continues to leverage the WAPlanfinder, the Healthplanfinder mobile application, to provide additional push notifications to customers to provide them with relevant information and alerts about their coverage.

From October 2022 to January 2023, the Exchange conducted the bulk of their advertising campaign, leaning heavily on predominately digital and radio channels, traditional advertising – such as inside bus advertisement, and gas toppers, and encouraging residents to enroll or re-enroll in health insurance through Washington Healthplanfinder. This campaign was conducted primarily in English and Spanish.

In addition, from mid-November 2022 to April 2023, the Exchange conducted an advertising campaign digitally announcing and introducing Cascade Care Savings, Washington state's new subsidy.

Utilizing social media, native articles, audio and video streaming services including YouTube TV, Spotify and Pandora, these "content on demand" platforms continue to grow in audience size. The campaign's overall messaging was centered on the theme of being "Health Plans for Your Way of Living" to find information and used visuals to show how to use the new Smart Planfinder tool to get health insurance that meets the customer needs. The Exchange continues to maintain a social media presence with handles on Facebook, Instagram, and Twitter. The Exchange also has a YouTube channel.

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

Exchange Website - The Exchange is committed to maintaining a best-in-class online health insurance marketplace experience for customers. Our focus over the past year has been to implement new functionality to support all Washingtonians. Healthplanfinder (HPF) has been significantly modified to launch the Cascade Care program. Shopping and plan selection is now easier and with new options for assistance and support. In addition, teams continued to reduce our technical debt by replacing aging products with modern open-source products and migrating the Exchange's two corporate sites (www.wahbexchange.org, www.wahealthplanfinder.org) to Adobe Experience Manager (AEM), and positioning AEM as the centralized digital experience platform for the Exchange.

Accelerating the upgrade away from proprietary tools to cloud native and open-source products will provide the Exchange with increased flexibility, reduced system complexity, and reduced costs over time. Additionally, implementing microservices capabilities across the ecosystem allows a collection of small applications to work together. These services can be changed, updated, or replaced with minimal impacts to the rest of the application. This approach reduces time in testing, support, development, and minimizes risks to data.

WASHINGTON HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

Navigator Program - The Exchange contracts with eight "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.

Navigator organizations conduct and participate in hundreds of outreach events in communities throughout the state annually, from very large events that reach hundreds of people to small events specifically targeted to hard-to-reach populations. As a result of COVID-19 and the disruption to regular in-person enrollment activities, Lead organizations continue to accommodate customers via a virtual assistance format, in addition to offering in-person enrollment assistance. In a very short period, all eight Lead Organizations adapted their technology and assistance services to assist customers over the phone and with the use of video conferencing technology. The Navigator program continues to offer a robust and skilled network of assisters readily available to help customers enroll and understand their health coverage options.

More than 900 Navigators are trained and certified to help customers shop, apply, and enroll in coverage and to provide consumer education to those who are new to insurance coverage. Navigators explain all aspects of QHP and Washington Apple Health Enrollment, including out-of-pocket expenses, free preventive care available, tax credit eligibility, and related requirements for subsidized customers, using primary care, and much more. Navigators also provide year-round assistance to customers who need to report changes to their application, so their eligibility return results remain current resulting in enrollment in the correct program.

An automated learning management system (LMS) is used by the Exchange to administer training modules and related exams and to track completion of Navigator requirements. Working with the Exchange's Director of Diversity, Equity and Inclusion, the LMS is populated with resources aimed at ensuring all Navigators have access to the information and materials necessary to serve the Exchange's diverse customers. The Exchange also administers a Certified Application Counselor Program for 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.

WASHINGTON HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

Plan Enrollment - The following table presents enrollment numbers for Washington Apple Health and Qualified Health Plan enrollees from July 1, 2022 through June 30, 2023:

Month/Year	Total QHP Enrollees	Total Medicaid Enrollees
Jul 22	207,361	1,877,536
Aug 22	206,496	1,888,566
Sep 22	205,915	1,898,879
Oct 22	204,759	1,909,217
Nov 22	202,700	1,909,217
Dec 22	198,467	1,934,691
Jan 23	205,842	1,941,213
Feb 23	214,171	1,949,711
Mar 23	213,656	1,959,585
Apr 23	213,446	1,948,253
May 23	213,969	1,918,598
Jun 23	218,263	1,839,736

Customer Support Center (Call Center) - The Exchange call center services are provided under contract with Faneuil, Inc. The 2019 contract re-procurement provided for IT infrastructure, security, telephone, and hardware upgrades, plus training and quality software enhancements. Additionally, the Customer Relationship Management (CRM) software allows access to live chat service for consumers in English and Spanish through the Healthplanfinder web portal application.

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, carriers, navigators, and brokers. Assistance with bi-lingual call center representatives or an interpreter in up to 240 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; and non-subsidized QHP and state medical programs. Call volume and staff number variance is driven primarily by open enrollment cycles and other seasonality variables. The live chat services allows for a CSR to handle two concurrent chats with consumers using the Healthplanfinder web portal.

WASHINGTON HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

In recognition of the Exchange's implementation of the public health emergency (PHE) to address the COVID-19 public health and economic crisis, and to minimize the number of individuals who will lose coverage when the PHE expires and to assist customers transition proactively and successfully to other coverage (or retain Medicaid), an amendment was signed to request additional staff support to provide additional call center services and customer service representatives to contact customers with 'undeliverable' mailing addresses in HPF, attempt to obtain updates, and provide general education for upcoming changes. The capacity that was created through hiring additional staff in the call center is supporting an increase in consumer requests for assistance with special enrollment periods and making application changes related to economic impacts during the public health emergency.

On December 22, 2021, Faneuil announced sale of its Health Benefit Exchange Vertical, including call center services, to TTEC Government Solutions, LLC (TTEC). To assure continued call center services are provided, TTEC and the Exchange agreed to amend the contract language to acknowledge that the Exchange consents to assignment to TTEC, all of Faneuil's right, title and interest in the Contract. Additionally, in the amendment TTEC agreed to all terms and obligations of Faneuil under the Contract, as if TTEC was the original party. Following actions related to acquisition, an amendment to extend the center services contract for 90 days was executed. The 90-day extension provided time necessary to follow with a 5-year extension amendment for the lifecycle of the contract.

- Amendment 8 - 90-day extension: 7/1/2022 - 9/30/2022
- Amendment 9 - 5-year extension: 10/1/2022 - 6/30/2027

Finance and Accounting – Finance continues to utilize Lean daily management and continuous improvement principles in its accounting functions to improve processes, increase transparency, and improve reporting capabilities.

During the year, Finance staff have been highly involved in various State of Washington Health and Human Services Enterprise Coalition (HHS Coalition) committees. The Exchange is one of five member organizations in the HHS Coalition, which was formed to provide strategic direction, cross-organizational information technology (IT) project support, and federal funding guidance across Washington's health and human services organizations. These IT project collaboration efforts will result in improved service coordination that improves the health and well-being of the people, families, and communities of Washington. The collaboration efforts also enhance public stewardship through the shared use of technology across multiple Coalition agencies.

Finance budget staff continue to work closely with state and federal partner agencies to improve processes for approval of the Statewide Medicaid APD. The APDs are submitted for approval by the federal CMS and allow the Exchange to receive enhanced funding for certain Medicaid-related activities, as approved by CMS.

These improved processes have allowed for the Advanced Planning Documents (APD) to be submitted well ahead of CMS deadlines, which enable the Exchange to secure Medicaid funding in a timely manner.

WASHINGTON HEALTH BENEFIT EXCHANGE

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

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 U.S. generally accepted accounting principles 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. The flow of economic resources measurement focus measures all assets that are available to the entity, not only cash or soon to be cash assets. Both long-term assets and long-term liabilities are measured when using economic resources measurement focus. Revenue is recorded when earned, and expenses are recorded when incurred. Exchange 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, liabilities, 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 increased to \$26.4 million as of June 30, 2023. The primary reasons for the increase was Healthplanfinder website enhancements related to Cascade Care Savings. Additionally, in 2022, Washington Department of Retirement Systems updated the assumptions for investment rate of return, salary growth assumptions and retirement factors. This resulted in a decrease in Net Pension Asset and the recognition of a deferred outflow of resources of \$2.4 million. This resulted in an increase in net position of \$4.1 million from the previous year.

Following is a summary of the Exchange's assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position as of June 30 (\$ in millions):

	<u>As of</u> <u>6/30/2023</u>	<u>As of</u> <u>6/30/2022</u>
Current assets	\$ 23.9	\$ 16.2
Subscription assets, net	2.0	0.0
Capital assets, net	26.2	24.4
Other long-term assets	<u>1.9</u>	<u>9.9</u>
Total Assets	54.0	50.5
Deferred outflows of resources	<u>5.9</u>	<u>2.8</u>
Current liabilities	25.4	16.8
Long-term liabilities	<u>2.4</u>	<u>1.8</u>
Total Liabilities	27.8	18.6
Deferred inflow of resources	<u>5.7</u>	<u>12.2</u>
Total Net Position	\$ 26.4	\$ 22.5

WASHINGTON HEALTH BENEFIT EXCHANGE
Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2023

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, an increase or decrease in net position, is presented as the change in net position. As recorded in the attached statement for the fiscal year ended June 30, 2023, the Exchange recognized approximately \$42.3 million in operating revenues. This represents an increase in operating revenue of \$4.8 million when compared to the year ended June 30, 2022. The Exchange also received \$46.5 million in federal Medicaid program matching, state general fund, sponsored premium payments and Cascade Care Savings for the fiscal year ended June 30, 2023, which was an increase of \$15.5 million from the previous fiscal year. Both the increase in operating and non-operating revenue was due primarily to significant work in Qualified Health Plan specific activities, such as Cascade Care Savings, which is not eligible for Medicaid match and, as such, require the Exchange to draw more operating funds.

Total operating expenses were \$84.6 million for the fiscal year ended June 30, 2023. The following table compares expenditures by category (\$ in millions). When comparing the fiscal year ended June 30, 2022 proportionately to the fiscal year ended June 30, 2023, Exchange expenditures increased by \$23.7 million. This is primarily due to Cascade Care Savings program, child care sponsorship payments, increased staffing, software licensing, and depreciation expense.

	Year ended 6/30/2023	Year ended 6/30/2022
System Maintenance and Enhancements	\$ 18.3	\$ 15.6
Professional services	11.3	9.8
Salaries, benefits and payroll taxes	20.8	15.7
Depreciation and amortization	8.0	4.7
Equipment and supplies	4.2	5.2
Call center	9.1	8.2
Occupancy	0.1	0.2
Cascade care savings	10.0	
Other	<u>2.8</u>	<u>1.5</u>
Total Operating Expenses	\$ <u>84.6</u>	\$ <u>60.9</u>

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 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 cash equivalents at June 30, 2023 increased by \$9.9 million as compared to the previous fiscal year. There were significant capital asset additions and payments to vendors related to Healthplanfinder system enhancement. The net increase in cash was primarily due to increase in appropriation for the current biennium that includes funding for Cascade Care Savings subsidy payments to carriers.

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

WASHINGTON HEALTH BENEFIT EXCHANGE

Statement of Net Position

June 30, 2023

ASSETS

Current assets	
Cash and cash equivalents	\$ 15,464,728
Medicaid program cost reimbursement receivable	2,197,687
Accounts receivable	2,727,027
Prepaid expenses	<u>3,547,441</u>
Total current assets	<u>23,936,883</u>
Noncurrent assets	
Prepaid expenses	14,139
Pension asset	1,823,285
Subscription assets	2,039,208
Capital assets	<u>26,206,688</u>
Total noncurrent assets	<u>30,083,320</u>
Total assets	<u>54,020,203</u>

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources - pension	5,411,077
Deferred outflows of resources - OPEB	<u>477,225</u>
Total deferred outflows of resources	<u>5,888,302</u>

LIABILITIES

Current liabilities	
Accounts payable and accrued expenses	8,466,896
Unearned revenue	14,360,053
Current portion of lease liabilities	15,009
Current portion of subscription liabilities	964,385
Payroll liabilities	<u>1,543,267</u>
Total current liabilities	25,349,610
Lease liabilities, excluding current portion	56,689
Subscription liabilities, excluding current portion	638,215
Net other postemployment benefits (OPEB) liability	1,625,651
Long-term unearned revenue	<u>118,173</u>
Total liabilities	<u>27,788,338</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources - pension	4,440,098
Deferred inflows of resources - OPEB	<u>1,239,790</u>
Deferred inflows of resources	<u>5,679,888</u>

NET POSITION

Net position	
Net invested in capital assets	25,333,266
Unrestricted net position	<u>1,107,013</u>
Total net position	<u>\$ 26,440,279</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

Year Ended June 30, 2023

Operating revenues	\$ <u>42,251,202</u>
Operating expenses	
System maintenance and enhancements	18,255,783
Professional services	11,329,254
Salaries, payroll taxes, and benefits	20,763,082
Depreciation and amortization	8,026,885
Equipment and supplies	4,193,247
Call center	9,149,864
Cascade care savings	9,950,344
Occupancy	136,886
Other	<u>2,836,117</u>
Total operating expenses	<u>84,641,462</u>
Operating loss	<u>(42,390,260)</u>
Nonoperating revenues (expenses)	
Interest on lease liabilities	(143,099)
Sponsored premium payments	2,036,672
Cascade care savings	9,950,344
Medicaid program cost and general fund reimbursement	<u>34,653,638</u>
Net nonoperating revenues	<u>46,497,555</u>
Increase in net position	4,107,295
Net position, beginning of year, as previously reported	22,499,287
Cumulative effect of the adoption of new accounting pronouncements	<u>(166,303)</u>
Net position, beginning of year, as restated	<u>22,332,984</u>
Net position, end of year	\$ <u>26,440,279</u>

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

WASHINGTON HEALTH BENEFIT EXCHANGE

Statement of Cash Flows

Year Ended June 30, 2023

Cash flows from operating activities	
Cash received from operations	\$ 60,548,727
Cash payments to suppliers for goods and services	(66,792,280)
Cash payments to employees for services	<u>(22,480,630)</u>
Net cash used by operating activities	<u>(28,724,183)</u>
Cash flows from noncapital financing activities	
Sponsored premium payments	2,036,672
Cascade care savings	9,950,344
Medicaid and general fund reimbursement received	<u>36,377,015</u>
Net cash provided by noncapital financing activities	<u>48,364,031</u>
Cash flows from capital and related financing activities	
Interest paid on lease liabilities	(143,099)
Payments on lease liabilities	(516,539)
Payments on subscription liabilities	(2,030,772)
Acquisition of capital assets	<u>(7,019,724)</u>
Net cash used by capital and related financing activities	<u>(9,710,134)</u>
Net increase in cash and cash equivalents	9,929,714
Cash and cash equivalents, beginning of year	<u>5,535,014</u>
Cash and cash equivalents, end of year	\$ <u><u>15,464,728</u></u>
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (42,390,260)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation and amortization	8,026,885
Loss on disposal of assets	14,325
Noncash pension expense	(1,931,254)
Noncash OPEB expense	178,467
(Increase) decrease in	
Prepaid expenses	(1,652,544)
Accounts receivable	1,834,094
Increase in	
Accounts payable and accrued expenses	1,367,126
Payroll liabilities	35,239
Unearned revenue	<u>5,793,739</u>
Net cash used by operating activities	\$ <u><u>(28,724,183)</u></u>
Noncash investing and capital and financing activities	
Capital asset acquisitions included in accounts payable and accrued expenses	\$ <u><u>801,724</u></u>

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

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

Nature of Activities

The Washington Health Benefit Exchange (the Exchange) was created in Washington 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 responsible for the creation of Washington Healthplanfinder, an online marketplace for individuals, families, and small businesses to find, compare and enroll in Qualified Health Plans (QHP) and Qualified Dental Plans (QDP).

Funding for the operations of the Exchange is a combination of state funding appropriation, premium tax and assessment fees on QHP and QDP issuers, and federal Medicaid. Federal grant funding financed the Exchange’s design, development, and implementation phases, as well as the first full year of operations during 2014.

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 (U.S. GAAP) and are presented on the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recorded when earned and expenses are recorded when a liability is incurred. The Exchange has adopted the pronouncements of the Governmental Accounting Standards Board (GASB) for proprietary funds, 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.

Recently Adopted Accounting Pronouncement

During the year ended June 30, 2023, the Exchange adopted new accounting guidance, GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The adoption of the statement and related guidance during the year ended June 30, 2023 did not have a material impact of the financial statements of Exchange.

During the year ended June 30, 2023, the Exchange adopted new accounting guidance, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The retrospective adjustments made to the basic financial statements to comply with the new accounting standards have been reported as a restatement to the beginning net position as of July 1, 2022. The effects of reporting GASB 96 in the financial statements for the year ended June 30, 2023 is as follows:

	<u>As previously reported</u>	Effect of adoption of <u>GASB 96</u>	<u>As restated</u>
Opening Net Position	\$ <u>22,499,287</u>	\$ <u>(166,303)</u>	\$ <u>22,332,984</u>

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

During the year ended June 30, 2023, the Exchange adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. The adoption of the statement and related guidance during the year ended June 30, 2023 did not have a material impact of the financial statements of the Exchange.

Cash and Cash Equivalents

The Exchange 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.

Grants and Medicaid Program Cost Reimbursement Receivable

Medicaid program cost reimbursement receivable represents unreimbursed state funds as of June 30, 2023 for the Washington Health Care Authority (HCA) Medicaid cost reimbursement. Management believes these amounts are properly reimbursable and fully collectible as of year-end; as such, no allowance has been established.

Accounts Receivable

Accounts receivable represents assessments levied on insurance issuers as well as other funding from the State of Washington not yet collected. Management believes these amounts are properly reimbursable and fully collectible as of year-end; as such, no allowance has been established.

Capital Assets

Purchased capital assets are reported at cost. The Exchange capitalization threshold is \$5,000 for furniture and equipment, with depreciation provided on a straight-line basis over an estimated useful life of four years, and \$50,000 for leasehold improvements, with depreciation provided on a straight-line basis over the lesser of the lease term or an estimated useful life of ten years. The Exchange's capitalization threshold for software and other intangible assets is \$160,000 per project with amortization provided on a straight-line basis over an estimated useful life of six years.

Subscription-Based Information Technology Arrangements

The Exchange is party to 13 subscription-based information technology arrangements (SBITAs). The Exchange recognizes a subscription liability and an intangible right of use subscription asset (subscription asset) in the statement of net position. The Exchange reports SBITA current expenditures in the statement of revenues, expenditures, and changes in net position. The Exchange recognizes subscription liabilities with an initial term greater than twelve months. Remaining subscription terms range from 1 to 5 years with fixed payments due monthly, quarterly and annually. For SBITAs with a maximum possible term of 12 months or less at commencement, the Exchange recognizes expenses/expenditures based on the provisions of the arrangement.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

At the commencement of a SBITA, the Exchange initially measures the subscription liability at the present value of expected subscription payments to be made over the SBITA term. Subsequently, the subscription liability is reduced by the principal portion of subscription payments made. The subscription asset is initially measured as the initial measurement of the subscription liability, adjusted for payments associated with the SBITA contract made to the vendor at the commencement of the subscription term, plus any capitalizable initial implementation costs, less any vendor incentives received at the commencement of the subscription term. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the useful life of the IT asset or subscription term.

Key estimates and judgments related to SBITAs include how the Exchange determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) the subscription term, and (3) subscription payments.

The Exchange uses prime rate at the commencement date of the contract as the discount rate. The subscription term includes the noncancellable period during which the Exchange has a noncancellable right to use the underlying IT assets. The subscription term also includes periods covered by an option to extend if reasonably certain the Exchange or vendor will exercise that option or to terminate if it is reasonably certain that the Exchange or vendor will not exercise that option. Subscription payments included in the measurement of the subscription liability are composed of fixed payments only.

The Exchange monitors changes in circumstances that would require a remeasurement of a SBITA and will remeasure the subscription asset and subscription liability if certain changes occur that are expected to significantly affect the amount of the subscription liability.

Subscription assets are reported with noncurrent assets and subscription liabilities are reported with long term liabilities on the statement of net position.

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 invested 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.

Restricted – Net position subject to externally imposed stipulations on its use. The Exchange did not have restricted net position as of June 30, 2023.

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 before unrestricted net position.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

Operating Revenues and Expenses

The Exchange distinguishes operating revenues and expenses from non-operating 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. Non-operating items include Medicaid program cost and general fund reimbursement revenue and federal grant revenue.

Other Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources, and deferred inflows of resources related to OPEB, and OPEB expense information about the fiduciary net position of the Exchange Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

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 U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Subsequent events are those that occur after the statement of net position date, but before financial statements are available to be issued. In its financial statements, the Exchange recognizes 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 October 27, 2023 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, 2023

2. Cash and Cash Equivalents

The carrying amounts, which represent both cost and fair value, of cash and cash equivalents for the Exchange at June 30, 2023 are presented below:

Cash in bank	\$ 15,464,764
Reconciling items, net	<u>(36)</u>
	<u>\$ 15,464,728</u>

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 at June 30, 2023, or in certain noninterest-bearing accounts that are fully insured by the FDIC. At June 30, 2023, the Exchange held cash in excess of FDIC limits. Of the cash in bank noted above, \$250,000 is covered by depository insurance and the balance in excess is uncollateralized.

3. Capital Assets

Capital assets consist of the following:

	<u>June 30,</u> <u>2022</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2023</u>
Capital assets being depreciated/ amortized:					
Software	\$ 69,693,088	\$ -	\$ (2,493,629)	\$ 9,384,288	\$ 76,583,747
Furniture and equipment	1,036,472	5,956	(25,358)	-	1,017,070
Leasehold improvements	1,854,084	-	(261,789)	191,148	1,783,443
Right-to-use lease assets	<u>2,793,937</u>	<u>82,767</u>	<u>(2,793,936)</u>	<u>-</u>	<u>82,768</u>
Total capital assets being depreciated/amortized	<u>75,377,581</u>	<u>88,723</u>	<u>(5,574,712)</u>	<u>9,575,436</u>	<u>79,467,028</u>
Less: Accumulated depreciation amortization for:					
Software	(51,510,577)	(5,021,251)	2,493,629	-	(54,038,199)
Furniture and equipment	(840,862)	(140,071)	23,037	-	(957,896)
Leasehold improvements	(1,539,592)	(322,459)	249,785	-	(1,612,266)
Right-to-use lease assets	(2,257,926)	(548,425)	2,793,936	-	(12,415)
Total accumulated depreciation/amortization	<u>(56,148,957)</u>	<u>(6,032,206)</u>	<u>5,560,387</u>	<u>-</u>	<u>(56,620,776)</u>
Work in process	<u>5,203,148</u>	<u>7,732,724</u>	<u>-</u>	<u>(9,575,436)</u>	<u>3,360,436</u>
Total capital assets	<u>\$ 24,431,772</u>	<u>\$ 1,789,241</u>	<u>\$ (14,325)</u>	<u>\$ -</u>	<u>\$ 26,206,688</u>

For the year ended June 30, 2023, the Exchange incurred \$7,732,724 in additional costs related to enhancements of the health benefit exchange online marketplace (Healthplanfinder) that a portion were in work in process and placed in to service at year end. The Exchange had \$3,360,436 remaining in work in process at June 30, 2023 to be placed in service in the following year related to software enhancements.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

4. Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2023 was as follows:

	<u>June 30, 2022</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2023</u>	<u>Current Portion</u>
Financing leases	\$ 588,237	\$ 71,698	\$ (516,539)	\$ 71,698	\$ 15,009
SBITA liabilities	-	3,633,373	(2,030,773)	1,602,600	964,385
Net OPEB liability	1,476,099	149,552	-	1,625,651	-
Unearned revenue	<u>8,684,437</u>	<u>5,675,566</u>	<u>-</u>	<u>14,478,226</u>	<u>14,360,053</u>
	<u>\$ 10,748,773</u>	<u>\$ 9,530,189</u>	<u>\$ (2,547,312)</u>	<u>\$17,778,175</u>	<u>\$ 15,339,447</u>

5. Medicaid Program Cost Reimbursement

The Exchange has an approved Implementation Advance Planning Document for the design, development, and implementation activities of the Exchange that provide benefit to the State's Medicaid program and an Operational Advanced Planning Document for maintenance and operations activities that provide benefit to the State Medicaid program. These documents are submitted through the State HCA, which serves as the single State Medicaid agency for Washington State, and approved by the Centers for Medicare & Medicaid Services.

During the year ended June 30, 2023, 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 supporting documentation. The total Medicaid/CHIP received by the Exchange was \$29,042,486 in 2023. The revenue is recorded as Medicaid program cost reimbursement in the statement of revenues, expenses, and changes in net position. The total Medicaid receivable as of June 30, 2023 was \$2,197,687.

6. Related Parties

The HCA administers the Washington State Treasurer fund for the health insurance premium tax and carrier assessment revenues (Fund 17T). In addition, the Washington State Legislature appropriates dollars through the State budget bill for the Exchange's Fund 17T, General Fund-State and Federal Medicaid/CHIP expenditures. The Exchange's budgeted appropriations are a subcomponent of HCA's budget. Beginning July 2016, the Legislature directed that half of the Exchange's budgeted expenditures for Fund 17T and General Fund-State be provided to the Exchange by July 31 of each year, and the remaining half by January 31. The Exchange maintains these funds in a bank account as unearned revenue and recognizes revenue as expenditures are incurred. Federal Medicaid and CHIP expenditures continue to be invoiced to the HCA and reimbursed to the Exchange.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

7. Commitments and Contingencies

Vendor Contracts

Since inception, the Exchange has entered into numerous multi-year contract agreements relating to the operation of the Exchange. Most Exchange contracts provide a termination for convenience clause that would allow the Exchange to terminate a contract related to funding limitations, among other reasons.

Litigation

From time to time, the Exchange is involved in pending or threatened lawsuits encountered in the normal course of business. Management of the Exchange believes that the ultimate outcome of these matters, to the extent not covered by insurance, will not have a material impact on the Exchange's financial position or operations.

Medicaid Assistance

The Exchange has received federal Medicaid dollars 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 application federal regulations, including the expenditure of assistance for allowance purposes. Any disallowance resulting from a review or audit may become a liability of the Exchange.

Premium Assistance Program

During the 2022 legislative session, the Exchange was appropriated funding for a new premium assistance program for employees of licensed childcare facilities. The program aims to help these employees afford health coverage through Washington Healthplanfinder. The Exchange was directed to administer this new state-funded sponsorship program on behalf of the state. Employees of licensed childcare facilities who qualify will receive Cascade Care Silver health coverage for \$0 monthly premiums on Washington Healthplanfinder through December 2023.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

Leases

Effective October 10, 2012, the Exchange entered into an agreement to lease approximately 30,679 square feet of office space with accompanying parking located in Olympia, Washington, with the commencement date of the lease scheduled for eight calendar months from the effective date of the agreement. The lease term under the contract is a period of five years from the commencement date. The original lease expired in June 2018, but has been extended to June 2023. There are also various leases for copiers, as well as a lease for additional building storage. In accordance with GASB Statement No. 87, *Leases*, the leases are recorded in the statement of net position as lease liabilities, using a discount rate equal to the Wall Street Journal prime rate as of the date of the lease agreements, which was 7%. The following is a schedule by year of future minimum lease payments as of June 30, 2023:

<u>Year</u>	<u>Payment</u>	<u>Interest</u>	<u>Principal</u>
2024	\$ 19,552	\$ 4,543	\$ 15,009
2025	19,553	3,458	16,095
2026	19,553	2,295	17,258
2027	19,553	1,047	18,506
2028	<u>4,888</u>	<u>56</u>	<u>4,832</u>
Total minimum lease payments	<u>\$ 83,099</u>	<u>\$ 11,399</u>	<u>\$ 71,700</u>

The Exchange has fully amortized the \$2,793,937 of leased assets as of June 30, 2023. Effective October 2022, the Exchange entered into a new lease agreement for its copiers for \$82,767. Accumulated amortization as of June 30, 2023 totaled \$12,415. Lease expenses for 2023 included \$548,425 of amortization expense and \$143,099 of interest on lease liabilities.

Software Subscriptions

The total SBITA right to use assets were \$2,039,208 as of June 30, 2023. During the year ended June 30, 2023, the Exchange incurred \$1,994,680 in SBITA amortization expense.

The following is a schedule by year of future minimum SBITA payments as of June 30, 2023:

<u>Year</u>	<u>Payment</u>	<u>Interest</u>	<u>Principal</u>
2024	\$ 1,022,129	\$ 57,744	\$ 964,385
2025	506,967	22,798	484,169
2026	123,243	3,221	120,022
2027	17,866	1,258	16,608
2028	<u>17,867</u>	<u>451</u>	<u>17,416</u>
Total minimum lease payments	<u>\$ 1,688,072</u>	<u>\$ 85,472</u>	<u>\$ 1,602,600</u>

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

8. 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 6.36%), 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, 2023

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 Revised Code of Washington (RCW).

The Exchange's covered payroll for PERS for the year ended June 30, 2023 totaled \$17,088,445.

The Exchange's contribution rate from July 1, 2022 to August 31, 2022 and from September 1, 2022 to June 30, 2023 expressed as a percentage of covered payroll for employer was 10.07% and 10.21%, respectively, 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 0.18%.

Both the Exchange and its employees made the required contributions. The Exchange's contributions for the year ended June 30, 2023 were \$1,771,664.

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. Following are the significant accounting policies used in the pension plan's financial statements:

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.

From 2022 to 2023, the proportion of the collective net pension liability (asset) has increased by 0.00530% for PERS Plan 1 and decreased by 0.008939% for PERS Plan 2/3.

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 System
P.O. Box 48380
Olympia, WA 98504-8380
Internet address: www.drs.wa.gov

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

Pension Assets/(Liabilities), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2023, the Exchange reported a liability of \$2,457,437 for its proportionate share of the PERS 1 net pension liability, and an asset of \$4,280,712 for its proportionate share of the PERS 2/3 net pension asset. The net pension asset was measured on June 30, 2022, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of June 30, 2021 and rolled forward to the measurement date of June 30, 2022. Washington Health Benefit Exchange's proportion of the net pension asset (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, 2022, the Exchange's proportion was 0.0882580% for PERS 1 and 0.11544210% for PERS 2/3.

For the year ended June 30, 2023, the Exchange recognized pension income of \$103,893 for PERS 1 and PERS 2/3. At June 30, 2023, 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	\$ 1,060,660	\$ 96,904
Changes of assumptions	2,385,906	624,716
Net difference between projected and actual earnings on pension plan investments	-	3,572,029
Changes in proportion and difference between contributions and proportionate share of contributions	192,848	146,449
Plan contributions subsequent to the measurement date of June 30, 2022	<u>1,771,663</u>	<u>-</u>
Total	<u>\$ 5,411,077</u>	<u>\$ 4,440,098</u>

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

The amount of \$1,771,663 reported as deferred outflows of resources related to pensions resulting from PERS contributions subsequent to the measurement date will be recognized as an increase to net pension asset in the year ending June 30, 2024. 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:

2024	\$ (1,138,340)
2025	(1,004,794)
2026	(1,235,017)
2027	1,588,776
2028	504,352
Thereafter	484,339

Actuarial Methods and Assumptions

The total pension liability was determined by the June 30, 2021 actuarial valuation, with the results rolled forward to June 30, 2022, using the following actuarial assumptions, applied to all periods included in the measurement:

Salary increases	3.50% per year
Investment rate of return	7.40% per annum, compounded annually
Cost of living benefit increases	2.75%

Mortality rates were based on the Society of Actuaries Pub.H-2010 table with applied age offsets for each system and projected forward using the long-term MP-2017 general improvement scale.

The assumptions used for investment return, inflation, salary growth, and membership growth were prescribed by the Legislature. The actuaries developed demographic assumptions during the 2013-2018 Demographic Experience Study and the 2019 Economic Experience Study. The Legislature prescribed the actuarial cost and asset valuation methods.

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.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

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, 2022 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%	1.50%
Tangible assets	7%	4.70%
Real estate	18%	5.40%
Global equity	32%	5.90%
Private equity	23%	8.90%

Discount Rate

The discount rate used to measure the total pension asset was 7.0%. 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 non-employer 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 asset calculated using the discount rate of 7.0%, as well as what the Exchange's proportionate share of the net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease <u>(6.0%)</u>	Current Discount <u>Rate</u>	1% Increase <u>(8.0%)</u>
The Exchange's proportionate share of the net pension (liability) asset	\$ <u>(8,324,187)</u>	\$ <u>1,823,285</u>	\$ <u>10,202,351</u>

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

9. **OPEB**

General Information about the OPEB Plan

Plan Description. The Washington Health Benefit Exchange eligible retirees and spouses are entitled to subsidies associated with postemployment medical benefits provided through the Public Employee Benefits Board (PEBB). The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees.

Benefits Provided. Participants are eligible for benefits upon retirement. Benefits are in the form of access to the Exchange's medical plans, as well as a cash subsidy for members over the age of 65 enrolled in Medicare Parts A and B.

Employees covered by benefit terms. At June 30, 2022 (the census date), the benefit terms covered the following employees:

<u>Category</u>	<u>Count</u>
Active employees:	145
Inactive employees, spouses, or beneficiaries currently receiving benefit payments:	12
Inactive employees entitled to, but not yet receiving benefit payments:	0

Contributions. The Exchange does not directly make contributions to the Health Plan for retiree benefits. Retiree health premiums are paid through a subsidized premium for the active employees, the "explicit subsidy" measured in the actuarial valuation.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

Net OPEB Liability

The Exchange's net OPEB liability was measured as of June 30, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2022.

Actuarial Assumptions. The total OPEB liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation: 2.50%

Salary increases: Individual and aggregate salary increases 3.50%

Pre-Medicare healthcare cost trend rates: 5.70% in the first year, trending down to 5.10% over 12 years, trending up to 5.30% over the next 14 years and trending down to 4.30% over the next 25 years thereafter.

Medicare healthcare cost trend rates: 5.20% in the first year, 13.30% in the second year, between 5.20% and 5.30% for the next 14 years, 5.40% in the 15th and 16th years, and trending down to 4.30% over the next 25 years thereafter.

Mortality rates were based on the PubG.H-2010 (General) Mortality tables, using the long-term MP-2017 generational improvement scale, with no offsets.

Discount Rate. The discount rate used to measure the total OPEB liability was 4.11%. The Plan is an unfunded plan; therefore, the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date. "High-quality" is defined as being rated AA or higher (or an equivalent rating). The municipal bond rate used is the average of the Bond Buyer 20 Bond Index, the Fidelity Municipal Go Aa/AA 20-Year and the S&P Municipal Bond 20 Year High Grade Rate Index.

Changes in the net OPEB liability for the year ended June 30, 2023, are as follows:

	Net OPEB <u>Liability</u>
Balance as of June 30, 2022	\$ 1,476,099
Change for the year:	
Service cost	160,414
Interest	64,819
Difference in experience	-
Change of assumptions	(27,016)
Benefit payments	<u>(48,665)</u>
Net changes	<u>149,552</u>
Balance as of June 30, 2023	\$ <u>1,625,651</u>

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

The net OPEB liability of the Exchange, as well as what the Exchange's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.11%) or one percentage point higher (5.11%), follows:

	<u>1% Decrease</u>	<u>Current Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ <u>1,943,592</u>	\$ <u>1,625,651</u>	\$ <u>1,375,295</u>

The net OPEB liability of the Exchange, as well as what the Exchange's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% point lower or 1% point higher than current healthcare cost trend rates follows:

	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ <u>1,329,370</u>	\$ <u>1,625,651</u>	\$ <u>2,021,272</u>

OPEB Expense and Deferred Inflows of Resources and Outflows of Resources Related to OPEB

For the year ended June 30, 2023, the Exchange recognized an OPEB expense of \$122,749. At June 30, 2023, the Exchange reported deferred outflows of resources and deferred inflows of resources related to OPEB Plan from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 361,751	\$ 214,805
Changes of assumptions	<u>115,474</u>	<u>1,024,985</u>
Total	\$ <u>477,225</u>	\$ <u>1,239,790</u>

The amounts reported as deferred inflows of resources related to the Plan will be recognized in OPEB expense as follows:

2024	\$ (53,819)
2025	(53,819)
2026	(53,819)
2027	(53,819)
2028	(53,819)
Thereafter	(493,470)

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2023

10. Concentrations

During the year ended June 30, 2023, approximately 52% of the Exchange's revenue was from government agencies, and 48% was from Premium Tax and Carrier Assessments. In addition, at June 30, 2023, 45% of receivables were Medicaid receivables, and 23% were receivables with an offsetting liability to the State of Washington's general fund. These receivables relate to carrier assessments which will be remitted to the 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 - Unaudited

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

Washington Public Employees Retirement System

Measurement Date June 30

Last 10 Fiscal Years *

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Washington Health Benefit Exchange (the Exchange) proportion of the net pension (asset) liability	0.081 %	0.095 %	0.092 %	0.085 %	0.087 %	0.086 %	0.088 %	0.107 %
The Exchange's proportionate share of the net pension (asset) liability	\$(1,823,285)	\$(9,594,209)	\$ 4,131,427	\$ 3,768,556	\$ 5,038,130	\$ 6,916,972	\$ 9,095,135	\$ 9,254,011
The Exchange's covered-employee payroll	\$14,579,548	\$12,735,771	\$11,602,537	\$10,831,147	\$10,026,977	\$ 9,477,936	\$ 9,516,402	\$10,753,557
The Exchange's proportionate share of the net pension (asset) liability as a percentage of its covered-employee payroll	(12.51)%	(75.33)%	35.61 %	34.79 %	50.25 %	72.98 %	95.57 %	86.06 %
Plan fiduciary net position as a percentage of the total pension liability	106.73 %	115.66 %	92.70 %	92.48 %	89.60 %	84.94 %	79.55 %	82.16 %

*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 - Unaudited

Schedule of Washington Health Benefit Exchange's Contributions

Washington Public Employees Retirement System

Years Ended June 30

Last 10 Fiscal Years *

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contributions	\$ 1,771,664	\$ 1,494,407	\$ 1,649,543	\$ 1,492,086	\$ 1,387,396	\$ 1,273,427	\$ 1,059,634	\$ 1,046,804	\$ 971,046
Contributions in relation to the actuarially determined contributions	<u>1,771,664</u>	<u>1,494,407</u>	<u>1,649,543</u>	<u>1,492,086</u>	<u>1,387,396</u>	<u>1,273,427</u>	<u>1,059,634</u>	<u>1,046,804</u>	<u>971,046</u>
Contribution deficiency	\$ <u> -</u>								
Washington Health Benefit Exchange's covered-employee payroll	\$ <u>17,088,664</u>	\$ <u>14,579,548</u>	\$ <u>12,732,771</u>	\$ <u>11,602,537</u>	\$ <u>10,831,147</u>	\$ <u>10,026,977</u>	\$ <u>9,477,936</u>	\$ <u>9,516,402</u>	\$ <u>10,753,557</u>
Contributions as a percentage of covered-employee payroll	10.37 %	10.25 %	12.96 %	12.86 %	12.81 %	12.70 %	11.18 %	11.00 %	9.03 %

*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 - Unaudited

Schedule of Washington Health Benefit Exchange's Changes in Net OPEB Liability and Related Ratios

Washington Public Employees Retirement System

Year Ended June 30

Last 10 Fiscal Years *

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability						
Service cost	\$ 160,414	\$ 249,905	\$ 248,163	\$ 318,851	\$ 347,865	\$ 336,101
Interest	64,819	46,758	38,697	41,639	46,439	34,125
Contributions - employer	-	-	-	-	-	4,664
Administrative expense	-	-	-	-	-	(982)
Change of benefit terms	-	-	-	-	-	-
Differences in experience	-	403,792	-	(273,378)	-	-
Changes of assumptions	(27,016)	(1,025,526)	120,501	19,712	(146,828)	-
Benefit payments	(48,665)	(17,386)	(16,939)	(5,668)	-	-
Explicit rate subsidy fulfilled	-	-	-	-	(3,628)	-
Implicit rate subsidy fulfilled	-	-	-	-	(982)	(3,682)
	<u>149,552</u>	<u>(342,457)</u>	<u>390,422</u>	<u>101,156</u>	<u>242,866</u>	<u>370,226</u>
Net change in total OPEB liability						
	149,552	(342,457)	390,422	101,156	242,866	370,226
Total OPEB liability-beginning	<u>1,476,099</u>	<u>1,818,556</u>	<u>1,428,134</u>	<u>1,326,978</u>	<u>1,084,112</u>	<u>713,886</u>
Total OPEB liability-ending	<u>\$ 1,625,651</u>	<u>\$ 1,476,099</u>	<u>\$ 1,818,556</u>	<u>\$ 1,428,134</u>	<u>\$ 1,326,978</u>	<u>\$ 1,084,112</u>
Net change in plan fiduciary net position	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plan fiduciary net position-beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Plan fiduciary net position-ending	<u>\$ -</u>					
Net OPEB liability-ending	<u>\$ 1,625,651</u>	<u>\$ 1,476,099</u>	<u>\$ 1,818,556</u>	<u>\$ 1,428,134</u>	<u>\$ 1,326,978</u>	<u>\$ 1,084,112</u>
Plan fiduciary net position as a percentage of total OPEB liability	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %
Covered employee payroll	\$ 14,157,908	\$ 13,679,138	\$ 12,533,223	\$ 12,109,395	\$ 11,009,172	\$ 9,388,703
Net OPEB liability as a percentage of covered payroll	11.48 %	10.79 %	14.51 %	11.79 %	12.05 %	11.55 %

*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.

**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 (a component unit of the State of Washington) (the Exchange), which comprise the statement of net position as of June 30, 2023, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise Washington Health Benefit Exchange's basic financial statements, and have issued our report thereon dated October 27, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Exchange's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Exchange's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Exchange's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 the Exchange's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Berry Dunn McNeil & Parker, LLC

Manchester, New Hampshire
October 27, 2023