



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, 2017

WASHINGTON HEALTH BENEFIT EXCHANGE

June 30, 2017

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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 year ended June 30, 2017, 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, 2017, 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.

Other Matters

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 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. 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 October 3, 2017 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
October 3, 2017

WASHINGTON HEALTH BENEFIT EXCHANGE
Management's Discussion and Analysis
Year Ended June 30, 2017

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:

- 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, and
- eligibility determinations for enrollment in Washington Apple Health, the State's Medicaid program.

The Exchange's mission is to 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, 2017

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 to implement 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. The legislation establishing the Exchange created a bipartisan 11-member Exchange Governing Board (including the Washington Insurance Commissioner and Director of the Health Care Authority as ex-officio non-voting members). 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.

Other Legislation - Beginning in 2015, the Exchange was to be financially self-sustaining through the premium tax collections and assessments received from participating insurers, pursuant to RCW 43.71.030. To carry this out, in 2013, the Legislature enacted House Bill 1947 that established 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, required 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.

In the 2015 legislative session, the legislature enacted Second Engrossed Substitute Bill 6089, which required the Exchange to submit a five-year spending plan that identified potential reductions in per member per month spending. The Exchange is required to update this information quarterly. In addition, the Exchange is required to develop an annual strategic plan as well as report comprehensively on financial and contractual activities.

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In the 2016 legislative session, the Exchange was authorized to establish stand-alone dental plans and collect premium taxes and a carrier assessment to fund the program. The Exchange began offering family dental plans in 2017.

The Exchange continues to monitor and is prepared to respond to impacts of the potential changes that may occur to the Affordable Care Act at the federal level.

Funding - Primary funding in fiscal year 2017 came from premium tax and issuer assessment revenues. The premium tax is a two percent tax on plans that are sold through the Exchange. The assessment is a set rate based on monthly enrollments for qualified health, family dental, and pediatric dental plans offered by issuers on the Exchange. Premium tax and issuer 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 our Medicaid or Children's Health Insurance Program (CHIP) matching funds. Lastly, the Exchange receives General Fund Medicaid and CHIP appropriations from the State Legislature for eligible costs under those entitlements. The Exchange has approved Advanced Planning Documents (APD's) that allow it to receive enhanced Medicaid funding for approved operational and implementation costs.

The Exchange had a \$27 million Level 1C Establishment Grant for January 1, 2015 through June 30, 2017. As of June 30, 2017, approximately \$1.5 million of the grant award was unexpended.

The grant is 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 monthly and 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.

Staffing and Infrastructure - As of June 30, 2017, the Exchange had approximately 131 budgeted 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, the Exchange's website, www.wahbexchange.org, continues to provide 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.

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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.

From November 2016 to January 2017, 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 on the theme "Life Changes Fast" and used visuals to show how life can frequently take an unexpected (or expected) turn that requires you to get health insurance (or wish you had it). The ad campaign can be viewed at: www.wahbexchange.org/adcampaign.

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 maintaining 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 provide users with a decision support tool allowing them to identify the plan which will best meet their health care needs. In addition, we are implementing a more robust provider directory, allowing users to make sure their preferred doctor is covered by the plans they are evaluating.

The Exchange is also giving more tools to customers to allow them to self-serve, which is expected to decrease call center volume. In addition, the Exchange is implementing simplified screen flows and expedited navigation to reduce call duration and improve the customer experience.

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

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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.

Plan Enrollment - The following table presents details on enrollment numbers for Washington Apple Health and Qualified Health Plan enrollees from July 1, 2016 through June 30, 2017:

Month/Year	Total QHP Enrollees	Total Medicaid Enrollees
Jul 16	173,598	1,528,991
Aug 16	172,134	1,540,502
Sep 16	170,151	1,543,933
Oct 16	167,915	1,549,668
Nov 16	162,267	1,545,335
Dec 16	152,275	1,569,187
Jan 17	177,268	1,575,419
Feb 17	190,393	1,555,625
Mar 17	197,733	1,558,588
Apr 17	195,205	1,556,313
May 17	192,542	1,550,232
Jun 17	191,358	1,532,047

SHOP - The Small Business Health Options Program (SHOP) experienced modest growth and strong renewals in the two Southwest Washington counties where coverage was available through the Exchange. No carrier will be offering SHOP plans through the Exchange during 2018.

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

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.

Finance and Accounting – In October 2016, the Exchange implemented a new financial system. The system is a modular, web-based enterprise resource planning (ERP) system that integrates general ledger, purchasing/accounts payable, contracts, fixed assets, and other finance-related modules. The system also provides dashboards for users that provide greater transparency and accountability by providing up-to-date reports and graphs on budget, contracts, and purchasing.

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 went 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.

WASHINGTON HEALTH BENEFIT EXCHANGE
Management's Discussion and Analysis
Year Ended June 30, 2017

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 increased by \$5,000 to (\$3.15) million as of June 30, 2017. The negative net position continues to be due to three primary reasons:

- The depreciation of the Healthplanfinder software, which was placed into service during the fourth quarter of 2013. The software was on a three-year depreciation schedule and the initial capitalization of \$32.2 million fully depreciated in October 2016.
- Implementation of GASB Statement 68, relating to the reporting of pension liabilities and expenses, resulted in a long-term net pension liability of over \$9 million.
- The Exchange recognizes revenues as it incurs costs and is not currently authorized in Washington statutes to maintain a general working capital balance. As such, "non-cash" items, such as depreciation or amortization, have a greater impact on the year-to-year net position change.

Following is a summary of the Exchange's assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2017 (\$ in millions):

	As of 6/30/2017	As of 6/30/2016
Current assets	\$ 11.9	\$ 13.3
Capital assets	4.0	4.0
Other long-term assets	<u>.5</u>	<u>-</u>
Total Assets	<u>16.4</u>	<u>17.3</u>
Deferred outflows of resources	<u>2.4</u>	<u>2.0</u>
Current liabilities	11.9	11.8
Long-term liabilities	<u>9.2</u>	<u>9.3</u>
Total Liabilities	<u>21.1</u>	<u>21.1</u>
Deferred inflows of resources	<u>0.9</u>	<u>1.4</u>
Net Position		
Net invested in capital assets	4.0	4.0
Unrestricted	<u>(7.2)</u>	<u>(7.2)</u>
Total Net Position	<u>\$ (3.2)</u>	<u>\$ (3.2)</u>

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Management's Discussion and Analysis

Year Ended June 30, 2017

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. As recorded in the attached statement for the twelve months ended June 30, 2017, the Exchange recognized approximately \$23.2 million in operating revenues, \$8.8 million in federal grants revenue, approximately \$23.4 million in matching revenues from the Medicaid program and \$5.1 million in state general fund revenue. Total operating expenses were \$60.4 million for the year ended June 30, 2017.

The following table compares expenditures by category (\$ in millions). When comparing the 12 months ended June 30, 2017 proportionately to the eighteen-month period ended June 30, 2016, and the year ended December 31, 2015, Exchange expenditures have decreased substantially as the cost of initial design, development, and implementation for Exchange operations has decreased and the related reduction in federal grant funding has occurred.

	12 months ended 6/30/2017	18 months ended 6/30/2016	12 months ended 12/31/2015
System Maintenance and Enhancements	\$ 20.7	\$ 50.8	\$ 39.8
Professional Services	8.5	29.1	23.2
Salaries, Benefits, and Payroll Taxes	11.5	20.0	13.9
Depreciation	3.2	19.5	13.7
Equipment and Supplies	3.7	2.1	1.9
Call Center	11.3	21.3	15.4
Occupancy	0.6	1.4	1.0
Other	<u>0.9</u>	<u>3.1</u>	<u>2.6</u>
Total Operating Expenses	\$ <u>60.4</u>	\$ <u>147.3</u>	\$ <u>111.5</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 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 increased from \$755,000 at June 30, 2016 to \$4.4 million at June 30, 2017. Significant capital asset additions relate primarily to Healthplanfinder system enhancements. The net increase in cash was primarily due to more timely reimbursements of Medicaid funds and the Exchange receiving its fiscal year appropriation of premium tax and carrier assessment and State general fund appropriations in two lump-sum payments during the year.

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, 2017

ASSETS

Current assets	
Cash and cash equivalents	\$ 4,278,053
Cash held for enrollees	144,673
Federal grants receivable	851,373
Medicaid program cost reimbursement receivable	2,958,116
Accounts receivable	2,305,178
Prepaid expenses	<u>1,332,417</u>
Total current assets	<u>11,869,810</u>
Capital assets	
Software	44,593,664
Furniture and equipment	4,194,746
Leasehold improvements	636,815
Work in process	<u>120,969</u>
	49,546,194
Less accumulated depreciation and amortization	<u>(45,527,074)</u>
Capital assets, net	<u>4,019,120</u>
Other assets	
Prepaid expense	134,261
Due from State agency	<u>409,167</u>
Total other assets	<u>543,428</u>
Total assets	16,432,358

DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources	<u>2,376,312</u>
Total assets and deferred outflows	<u>\$ 18,808,670</u>

LIABILITIES

Current liabilities	
Accounts payable and accrued liabilities	\$ 11,126,616
Payroll liabilities	<u>740,704</u>
Total current liabilities	11,867,320
Net pension liability	9,095,135
Long-term deferred revenue	<u>134,261</u>
Total liabilities	<u>21,096,716</u>

DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources	<u>862,861</u>
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NET POSITION

Net position	
Net invested in capital assets	4,019,120
Unrestricted net position	<u>(7,170,027)</u>
Total net position	<u>(3,150,907)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 18,808,670</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, 2017

Operating revenues	\$ <u>23,150,618</u>
Operating expenses	
System maintenance and enhancements	20,695,690
Professional services	8,561,596
Salaries, payroll taxes, and benefits	11,468,810
Depreciation and amortization	3,209,321
Equipment and supplies	3,655,562
Call center	11,302,671
Occupancy	581,537
Other	<u>959,929</u>
Total operating expenses	<u>60,435,116</u>
Operating loss	<u>(37,284,498)</u>
Nonoperating revenues	
Federal grants	8,769,155
Medicaid program cost and general fund reimbursement	<u>28,520,385</u>
Total nonoperating revenues	<u>37,289,540</u>
Increase in net position	5,042
Net position, beginning of year	<u>(3,155,949)</u>
Net position, end of year	\$ <u><u>(3,150,907)</u></u>

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

WASHINGTON HEALTH BENEFIT EXCHANGE

Statement of Cash Flows

Year Ended June 30, 2017

Cash flows from operating activities	
Cash received from operations	\$ 28,220,227
Cash payments to suppliers for goods and services	(45,884,687)
Cash payments to employees for services	<u>(12,519,755)</u>
Net cash used by operating activities	<u>(30,184,215)</u>
Cash flows from noncapital financing activities	
Federal grants received	7,946,168
Medicaid and general fund reimbursement received	<u>29,126,379</u>
Net cash provided by noncapital financing activities	<u>37,072,547</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(3,220,960)</u>
Net cash used by capital and related financing activities	<u>(3,220,960)</u>
Net increase in cash and cash equivalents	3,667,372
Cash and cash equivalents, beginning of year	<u>755,354</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,422,726</u></u>
Reconciliation to statement of net position	
Cash and cash equivalents	\$ 4,278,053
Cash held for enrollees	<u>144,673</u>
Total cash and cash equivalents	<u><u>\$ 4,422,726</u></u>
Reconciliation of operating loss to net cash used	
by operating activities	
Operating loss	\$ (37,284,498)
Adjustments to reconcile operating loss to net cash	
used by operating activities	
Depreciation and amortization	3,209,321
Loss on disposal of assets	6,595
Noncash pension benefit	(1,096,801)
(Increase) decrease in	
Prepaid expenses	(699,774)
Accounts receivable	5,043,797
Due from State agency	409,167
Increase in	
Accounts payable and accrued liabilities	182,122
Payroll liabilities	<u>45,856</u>
Net cash used by operating activities	<u><u>\$ (30,184,215)</u></u>

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

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2017

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 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 June 30, 2017. 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 federal 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, 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 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

Federal grants receivable represents unreimbursed federal grant funds as of June 30, 2017, for the Level 1 Establishment Grant. Medicaid program cost reimbursement receivable represents unreimbursed state funds as of June 30, 2017, 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.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2017

Capital Assets

Purchased capital assets are reported at cost. The Exchange updated its capitalization thresholds and depreciation schedules for certain assets during 2017. The capitalization threshold is \$5,000 for furniture and equipment with depreciation provided on a straight-line basis over an estimated useful life of 4 years. The threshold for capitalization of leasehold improvements is \$50,000 (formerly \$5,000) with depreciation provided on a straight-line basis over the lesser of the lease term or an estimated useful life of 10 years. The Exchange's capitalization threshold for software and other intangible assets is \$250,000 per project with amortization provided on a straight-line basis over an estimated useful life of 10 years (formerly 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 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. There is no debt attributable to the capital assets as of June 30, 2017.

Restricted - Net position subject to externally imposed stipulations on its use. The Exchange did not have restricted net position as of June 30, 2017.

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.

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 operating a health insurance marketplace pursuant to the Patient Protection and Affordable Care Act. Non-operating 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.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2017

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 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 3, 2017, which is the date the financial statements are available to be issued, and concluded that there were no events that need to be disclosed.

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, 2017 are presented below:

Cash in bank, including cash held for enrollees	\$ 5,119,355
Outstanding checks	(698,485)
Other reconciling items	<u>1,856</u>
	<u>\$ 4,422,726</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, or in certain noninterest-bearing accounts that are fully insured by the FDIC. At June 30, 2017, the Exchange held cash in excess of FDIC limits. Of the cash in bank noted above, \$250,000 is covered by depository insurance up to \$250,000 at June 30, 2017 and the balance in excess is uncollateralized.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2017

3. Capital Assets

Capital assets consist of the following at June 30, 2017:

	<u>June 30, 2016</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2017</u>
Software	\$ 41,499,264	\$ 3,094,400	\$ -	\$ -	\$ 44,593,664
Furniture and equipment*	330,762	5,591	(341,203)	4,199,596	4,194,746
Leasehold improvements	636,815	-	-	-	636,815
Computers and network*	<u>4,199,596</u>	<u>-</u>	<u>-</u>	<u>(4,199,596)</u>	<u>-</u>
	46,666,437	3,099,991	(341,203)	-	49,425,225
Accumulated depreciation and amortization	(42,652,361)	(3,209,321)	334,608	-	(45,527,074)
Work in process	<u>-</u>	<u>3,215,369</u>	<u>-</u>	<u>(3,094,400)</u>	<u>120,969</u>
Total capital assets	\$ <u>4,014,076</u>	\$ <u>3,106,039</u>	\$ <u>(6,595)</u>	\$ <u>(3,094,400)</u>	\$ <u>4,019,120</u>

*Computers and Network were combined with Furniture and Equipment as of July 1, 2016.

For the year July 1, 2016 through June 30, 2017, the Exchange incurred \$3,215,369 in additional costs related to the development of the health benefit exchange online marketplace (Healthplanfinder). Of these costs, \$3,094,400 have been capitalized and \$120,969 are in work in process for capitalization in the following year. Healthplanfinder was placed into service effective October 1, 2013. Amortization expense related to Healthplanfinder totaled \$2,848,802 for the year ended June 30, 2017. Healthplanfinder's depreciable value remaining to be taken in future years totals \$3,196,127 as of June 30, 2017.

4. 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 HCA, which serves as the single State Medicaid agency for Washington, and approved by the Centers for Medicare & Medicaid Services.

During the year ended June 30, 2017, 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. As of June 30, 2017, the total Medicaid/CHIP received by the Exchange was \$24,051,740. The revenue is recorded as Medicaid program cost reimbursement in the statement of revenues, expenses, and changes in net position. Total Medicaid receivable as of June 30, 2017 was \$2,958,116.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2017

5. Related Parties

The HCA administers the Washington State Treasurer fund for the 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. Beginning July 2016, the Legislature directed that half of the Exchange's budgeted expenditures for 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 deferred 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.

6. Commitments and Contingencies

Vendor Contracts

Since inception, the Exchange has entered into numerous multi-year contract agreements relating to the operation of the Exchange. Any agreements that exceed the Exchange's current grant period are contingent upon future grant approval or appropriated funding by the State government.

Office Lease

Effective October 10, 2012, the Exchange entered into an agreement to lease approximately 30,679 square feet of office space 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 will expire in June 2018, but has been extended to June 2023. The following is a schedule by year of future minimum lease payments as of June 30, 2017:

2018	\$ 548,446
2019	598,261
2020	598,261
2021	598,261
2022	598,261
2023	<u>598,261</u>
Total minimum lease payments	<u>\$ 3,539,751</u>

Lease expense for the year ended June 30, 2017 approximated \$468,000.

Federal Grants

The Exchange has received federal financial assistance for specific purposes that is 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, 2017

7. Public Employees' Retirement System

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 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 ratifies 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 (6.12% as of June 30, 2017), 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, 2017

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 year ended June 30, 2017 totaled \$9,477,936.

The Exchange's contribution rate from July 1, 2016 to June 30, 2017, 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%.

Both the Exchange and its employees made the required contributions. The Exchange's required contributions for the year ended June 30, 2017 were as follows:

	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>	<u>Total</u>
2017 employer contribution	\$12,628	\$ 731,797	\$315,209	\$1,059,634

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.

The proportion of the collective net pension liability has decreased by 0.02% for both PERS Plan 1 and PERS Plan 2/3 from 2016 to 2017.

Historical trend information regarding all of these plans is presented in DRS' 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, 2017

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

At June 30, 2017, the Exchange reported a liability of \$4,164,800 for its proportionate share of the PERS 1 net pension liability, and \$4,930,335 for its proportionate share of the PERS 2/3 net pension liability. The net pension liability was measured on June 30, 2016, 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, 2017, the Exchange's proportion was 0.077550% for PERS 1 and 0.097923% for PERS 2/3.

For the year ended June 30, 2017, the Exchange recognized pension benefit of \$116,265 for PERS 1 and PERS 2/3. At June 30, 2017, the Exchange reported deferred outflows of resources and deferred inflows of resources related to the PERS Plans from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 262,537	\$ 162,759
Changes of assumptions	50,959	-
Net difference between projected and actual earnings on pension plan investments	708,572	-
Changes in proportion and difference between contributions and proportionate share of contributions	340,715	700,102
Plan contributions subsequent to the measurement date of June 30, 2016	<u>1,013,529</u>	<u>-</u>
Total	<u>\$ 2,376,312</u>	<u>\$ 862,861</u>

The amount of \$1,013,529 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, 2018. 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:

2018	\$ (99,138)
2019	(99,138)
2020	395,720
2021	302,478

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2017

The following table shows the components of the Exchange's annual pension expense for 2017, 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	416,974
Change in deferred inflows of resources, net	554,226
Pension expense	1,013,529
Noncash pension benefit	<u>(1,096,801)</u>
Decrease in net pension liability	(158,876)
Net pension liability, beginning of year	<u>9,254,011</u>
Net pension liability, end of year	<u>\$ 9,095,135</u>

Actuarial Methods and Assumptions

The total pension liability in the June 30, 2016 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 2017 using 100% 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.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2017

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, 2017, 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%

Discount Rate

The discount rate used to measure the total pension liability was 7.5% for PERS 1 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 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 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:

	<u>1% Decrease (6.5%)</u>	<u>Current Discount Rate</u>	<u>1% Increase (8.5%)</u>
The Exchange's proportionate share of the net pension liability	\$14,099,983	\$ 9,095,135	\$ 860,267

8. Concentrations

During the year ended June 30, 2017, approximately 53% of the Exchange's revenue was from government agencies, and 38% was from Premium Tax and Carrier Assessments. In addition, at June 30, 2017, 48% of receivables were Medicaid receivables, and 20% 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, 2017

Last 10 Fiscal Years *

	<u>2017</u>		<u>2016</u>	
	PERS Plan 1	PERS Plans 2/3	PERS Plan 1	PERS Plans 2/3
Washington Health Benefit Exchange (the Exchange) proportion of the net pension liability	0.078 %	0.098 %	0.095 %	0.120 %
The Exchange's proportionate share of the net pension liability	\$ 4,164,800	\$ 4,930,335	\$ 4,962,269	\$ 4,291,742
The Exchange's covered-employee payroll	\$ 112,951	\$ 9,364,985	\$ 97,821	\$10,655,736
The Exchange's proportionate share of the net pension liability as a percentage of its covered-employee payroll	3,687.26 %	52.65 %	5,072.81 %	40.28 %
Plan fiduciary net position as a percentage of the total pension liability	57.03 %	85.82 %	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, 2017

Last 10 Fiscal Years *

	<u>2016</u>		<u>2015</u>	
	PERS Plan 1	PERS Plans 2/3	PERS Plan 1	PERS Plans 2/3
Actuarially determined contributions	\$ 483,450	\$ 649,130	\$ 430,691	\$ 555,046
Contributions in relation to the actuarially determined contributions	<u>439,783</u>	<u>565,302</u>	<u>435,992</u>	<u>535,052</u>
Contribution deficiency (excess)	\$ <u>43,667</u>	\$ <u>83,828</u>	\$ <u>(5,301)</u>	\$ <u>19,994</u>
Washington Health Benefit Exchange's covered-employee payroll	\$ 112,951	\$ 9,364,985	\$ 97,821	\$10,655,736
Contributions as a percentage of covered-employee payroll	389.36 %	6.04 %	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

Year Ended June 30, 2017

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>8,769,155</u>
Total expenditures of federal awards		\$ <u><u>8,769,155</u></u>

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

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Schedule of Expenditures of Federal Awards

Year Ended June 30, 2017

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 year ended June 30, 2017. 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 Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Costs Principles, and Audit Requirements for Federal Awards*, 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, 2017, 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 3, 2017.

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 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 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 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
October 3, 2017



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

The 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 year ended June 30, 2017. 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 year ended June 30, 2017.

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 the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 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.

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

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 3, 2017

WASHINGTON HEALTH BENEFIT EXCHANGE

Schedule of Findings and Questioned Costs

Year Ended June 30, 2017

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:

\$750,000

Auditee qualified as low-risk auditee?

☐

Yes

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No

WASHINGTON HEALTH BENEFIT EXCHANGE
Schedule of Findings and Questioned Costs, Concluded
Year Ended June 30, 2017

Section II. Financial Statement Findings

None

Section III. Federal Award Findings

None

WASHINGTON HEALTH BENEFIT EXCHANGE
Summary Schedule of Prior Audit Findings and Questioned Costs
Year Ended June 30, 2017

Finding 2016-001

Condition

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. 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.

Status

Resolved.

Finding 2016-002

Condition

Single audit reports are to be completed and submitted within nine months of the end of the reporting period. The single audit report for the year ended December 31, 2014 was issued on October 23, 2015.

Status

Resolved.

Finding 2016-003

Condition

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. 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.

Status

Resolved.