



Report of Independent Auditors  
in Accordance with OMB Circular A-133  
and Financial Statements  
with Supplementary Information for  
**Washington Health Benefit Exchange**  
December 31, 2014 and 2013

**MOSS ADAMS** LLP

Certified Public Accountants | Business Consultants

## CONTENTS

---

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-12
FINANCIAL STATEMENTS	
Statements of net position	13
Statements of revenues, expenses, and changes in net position	14
Statements of cash flows	15
Notes to financial statements	16-23
REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	24-25
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133	26-28
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	29-32
SUPPLEMENTARY INFORMATION	
Schedule of expenditures of federal awards	33
Notes to the schedule of expenditures of federal awards	34

## REPORT OF INDEPENDENT AUDITORS

To the Board of Directors  
Washington Health Benefit Exchange

### Report on Financial Statements

We have audited the accompanying financial statements of the Washington Health Benefit Exchange (the Exchange) as of and for the years ended December 31, 2014 and 2013, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 December 31, 2014 and 2013, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 12 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 auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the 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 Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 auditing standards generally accepted in the United States of America. 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 23, 2015, 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.

A handwritten signature in black ink that reads "Ross Adams LLP". The signature is written in a cursive, flowing style.

Everett, Washington  
October 23, 2015

# WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS

---

## Washington Health Benefit Exchange Overview

The Washington Health Benefit Exchange (the Exchange or WAHBE) 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 1) simple and quick apples-to-apples comparisons of Qualified Health Plans (QHP); 2) immediate determination of eligibility for financial assistance and calculation of applicable premium tax credits; and 3) expert customer support online, by phone, or in person through its assister network program.

The Exchange seeks to redefine people's experience with health care. Its mission is to radically improve how Washingtonians purchase health insurance through 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 December 31, 2014

**Establishment** - In April 2011, the Washington Legislature passed Senate Bill 5445 (SB 5445), which created the Exchange as a "public-private partnership separate and distinct from the State." The legislation was passed for the purpose of implementing a central marketplace for individuals and small employers to shop for health insurance and access federal tax credits pursuant to the Federal Patient Protection and Affordable Care Act (ACA) of 2010. Subsequent to signing the legislation establishing the Exchange, Governor Christine Gregoire appointed a bipartisan 11-member Governing Board (including the Washington Insurance Commissioner and Executive Director of the Health Care Authority as ex-officio non-voting members) for the Exchange in December 2011. 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 (HB 2319) establishing market rules, requirements for Qualified Health Plans, essential health benefits, and other key Exchange responsibilities.

**Funding** - The Exchange is primarily financed through federal grants to cover start-up costs and provide funding through the first full year of operations in 2014. Washington has received several federal grants to fund the implementation and operations of the Exchange as follows:

- Planning grant, \$1 million, to the Washington Health Care Authority (HCA), for September 30, 2010, to September 29, 2012.
- Level 1 Establishment Grant, \$23 million, to the HCA, for May 23, 2011, to May 22, 2013.
- Effective February 2013, the Level 1 Establishment Grant was transferred from the HCA to the Exchange and an extension of the grant period to December 22, 2013, was also subsequently approved.

## WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### Key Activities and Operations through December 31, 2014 (continued)

- Level 2 Establishment Grant, \$157 million, to the Exchange to develop the online insurance marketplace, from May 16, 2012, to December 31, 2015. As of December 31, 2014, approximately \$12.6 million was still available for expenditure under the Level 2 Grant.
- Additional Level 1 Establishment Grant, \$87 million, to the Exchange for January 22, 2014, through December 31, 2015. As of December 31, 2014, approximately \$76 million was still available for expenditure under the Level 1 Grant.

Both the Level 1 and Level 2 grants are disbursed upon the Exchange's submission of reimbursement requests for costs incurred consistent with the terms of the grant. As part of the grant funding, the Exchange provides quarterly reports to the U.S. Department of Health and Human Services (HHS), Center for Consumer Information and Insurance Oversight (CCIIO).

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

**Staffing and infrastructure** - As of December 31, 2014, the Exchange had approximately 137 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, quality standards development, accounting, and project management.

**Communications and transparency** - To keep the public and constituents informed relative to the ongoing progress of the Exchange, a new website ([wahbexchange.org](http://wahbexchange.org)) was introduced and launched in January 2013. The Exchange complies with open public meetings and public disclosure requirements, but is not subject to other laws that govern state agencies. The Exchange's website contains archived documents from previous meetings of the Exchange Board and associated committees, including supplemental reports and presentations. In addition, the website provides public access to audio recordings from each of the monthly board meetings.

**Outreach and education** - Throughout 2014, the Exchange's outreach efforts centered on spreading health insurance literacy and educating Washington residents on their coverage options. The Exchange's vision for health literacy is as follows: all Washington residents know how and where to access health insurance; all Washington residents understand their health insurance options, their rights, their cost, their responsibilities, and their coverage; and all Washington residents know the value of health insurance in staying healthy across the lifespan. To promote the outreach effort, the Exchange partnered with KING 5 television to create an informative website titled, "Know Your Plan." The website provides explanations of health insurance terminology and an overview of the enrollment process.

## WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### Key Activities and Operations through December 31, 2014 (continued)

Following the success of the initial advertising campaign surrounding open enrollment during late 2013, the Exchange launched a second campaign during February and March of 2014. The second advertising wave highlighted the personal stories of residents who had enrolled in a new health plan through Washington Healthplanfinder and was geared toward young adults. A third advertising campaign was launched in November 2014 to support the 2015 open enrollment period. The Exchange conducted a robust statewide advertising campaign to encourage residents to enroll or reenroll in health insurance through Washington Healthplanfinder. The advertising campaign was centered on the theme "It's About Time You Got Health Insurance" and uses humor to show the lengths people will go to avoid medical bills when they don't have health insurance. Focus group research informed the creative concepts and helped identify top messages that motivate people to enroll: the financial implications of going without health coverage, the availability of free expert help, and the existence of low-cost health plans and financial help. TV ads aired in all three of the Washington's TV markets (Seattle-Tacoma, Spokane, and Yakima), and were on cable to reach residents in the five Washington counties within the Portland TV market. The television, radio, web, and print ads can be viewed at [www.wahbexchange.org/adcampaign](http://www.wahbexchange.org/adcampaign).

As a way to reach Latino audiences, Washington Healthplanfinder partnered with Spanish-language television station Univision. Univision developed a series of 30-second public service announcements, 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](http://www.facebook.com/WAHealthplanfinder)) and Twitter ([www.twitter.com/waplanfinder](http://www.twitter.com/waplanfinder)), as well as a YouTube channel ([www.youtube.com/user/waplanfinder](http://www.youtube.com/user/waplanfinder)).

The Exchange continues to receive considerable 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 Washington Healthplanfinder. National outlets such as CNBC, *Washington Post*, *New York Times*, and *USA Today* have also covered the work of WAHBE.

**Exchange website** - The Exchange is committed to building a best-in-class online health insurance marketplace experience for customers through Washington Healthplanfinder. On October 1, 2013, the Exchange successfully launched the Healthplanfinder website and commenced open enrollment for health coverage beginning January 1, 2014. During 2014, Healthplanfinder received approximately 8.8 million website visits from 1.4 million unique visitors, resulting in 114.7 million page views. Despite the high traffic volume, the system remained up and running and early issues with accounts were resolved. The early part of 2014 focused on identifying technical issues within Healthplanfinder, while the latter part of 2014 focused on implementing solutions to those issues prior to open enrollment. By the end of 2014, Healthplanfinder system performance was strong with the website maintaining an average response time of less than two seconds. The Exchange has established a strong foundation for meeting the challenges and goals of the next generation of Healthplanfinder.

## WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### Key Activities and Operations through December 31, 2014 (continued)

**Plan enrollment** - In October 2014 and March 2015, the Exchange published Health Coverage Enrollment reports, which included cumulative enrollment data as of each date. The following schedule presents details on the total number of enrollees as of each month during 2014:

	Qualified Health Plans	Medicaid Expansion	Total Covered Individuals
January	63,320	276,263	339,583
February	87,838	337,766	425,604
March	102,310	355,584	457,894
April	123,402	382,363	505,765
May	147,154	400,728	547,882
June	145,461	416,147	561,608
July	141,814	431,570	573,384
August	139,618	445,534	585,152
September	136,884	456,571	593,455
October	134,339	469,200	603,539
November	130,722	485,049	615,771
December	123,491	509,646	633,137

As of December 31, 2014, approximately 79,000 individuals had reenrolled for 2015 coverage. A total of 42,048 individuals were disenrolled from health plans during 2014, of which 16,854 were voluntarily and 25,194 were for nonpayment.

**SHOP** - The Small Business Health Options Program (SHOP) went live October 1, 2013, with a limited program in Southwest Washington State (Clark & Cowlitz counties). While a statewide implementation was preferred, the Exchange was pleased to offer a program to small businesses in a portion of Washington State, acting as a pilot program, to learn from experiences and work to build a larger offering for 2015. In order to accomplish the Exchange's goal of a statewide program in 2015, SHOP plans to update its strategy based on new market insight, refine its operations through systems improvements, offer additional product alternatives, and offer improved services to the state's broker/agent community.

**In-Person Assister Program** - In January 2013, the Exchange Board approved the In-Person Assister Program structure. Federal funding added In-Person Assistants to the structure and federal guidance on Certified Application Assistants (CACs) added an additional category of assistants to the In-Person Assister program. On June 5, 2013, WAHBE announced 10 lead In-Person Assister Organizations to provide education and enrollment support to all regions of Washington State. These lead organizations have been greatly involved in the training and certification of In-Person Assistants to work directly with Washington Healthplanfinder customers. Hundreds of In-Person Assistants have been trained, certified, and have received their usernames and passwords to enable them to help customers shop, apply, and enroll in coverage through Washington Healthplanfinder.

## WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### **Key Activities and Operations through December 31, 2014 (continued)**

**Customer Support Center (Call Center)** - The Exchange selected Faneuil, Inc. to operate the call center that opened to Washington state residents on September 3, 2013. Assistance is available in up to 175 languages and trained representatives are available weekdays 7:30 a.m. to 8:00 p.m. Customer Support Center Representatives (CSRs) in Spokane, Washington, are trained and available to answer questions about types of health coverage options, how to access financial help, and what consumers need to know about the enrollment process. During January 2014, the Call Center was receiving an average of 40,000 calls per day, which dramatically exceeded initial estimates that formed the basis for the original staffing plan. As a result, the Exchange significantly increased the number of CSRs to ensure that a high level of service is met. CSRs employed at the Call Center peaked at approximately 500 individuals during February 2014 and remained above 300 individuals throughout 2014. By December 2014, average wait times for the call center were down to 6.5 minutes, or approximately 50% lower than the average wait time during December 2013.

**Consumer rating system** - The Affordable Care Act and Washington State legislation (Engrossed Second Substitute House Bill 2319) both require the Exchange to collect quality measures on qualified health plans and implement a consumer rating system that utilizes these quality measures. The Exchange Board identified three areas suggested in the Washington legislation on which to focus its Consumer Rating System: prevention, care management, and enrollee satisfaction. After identifying certain metrics to include, the Board will develop a system to display that information to consumers (e.g., a star rating system). The Exchange will use data collected from qualified health plans for the 2014 plan year, incorporate that data into a consumer-friendly display format, and include the consumer rating system data for consumers to use during 2015 open enrollment for 2016 coverage.

**Finance and accounting** - During 2014, the Exchange finance team focused considerable effort on developing and refining financial business processes to accurately process and record insurance premium payments from individuals and small businesses to the carriers. This process included integration of the MIP accounting system with the system integrator and KeyPay banking platform. During this time period, the Exchange successfully hired and trained additional financial staff to assist with enrollee payments and resolving finance-related consumer issues. The Exchange also received an unmodified auditor's report related to the financial statements and major federal award for fiscal year 2013.

## WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### Key Activities and Operations through December 31, 2014 (continued)

#### Timeline of Key Activities

March 7, 2013	WAHBE selects Faneuil, Inc. to operate Call Center
April 2013	Insurance Carriers submit QHP Applications to the Washington State Office of the Insurance Commissioner
June 2013	WAHBE announces selection of Lead Organizations for In-Person Assister Program
September 1, 2013	Washington Healthplanfinder Call Center opens
October 1, 2013	Open Enrollment for Washingtonians through Healthplanfinder
January 1, 2014	Health insurance coverage begins
March 31, 2014	Extended deadline for Open Enrollment
November 15, 2014	Open Enrollment period for 2015 coverage begins
February 15, 2015	Extended deadline for second Open Enrollment period

Effective September 2015, consumers will pay their premiums directly to carriers instead of to the Exchange. This change will improve customer experience, provide more timely payments to carriers, and will simplify Exchange accounting and financial procedures, enabling the Exchange to focus on core financial procedures. Savings from implementing this initiative were assumed in the enacted legislative budget.

## WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### Financial Statements

The Washington Health Benefit Exchange financial statements—including the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows—are designed to provide an overview of the Exchange's financial position and activities. The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used, similar to private industry. Revenue is recorded when earned, and expenses are recorded when incurred. Management prepares this discussion and analysis to assist the reader of these financial statements.

The statement of net position presents information on the Exchange's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Exchange is improving or deteriorating. The Exchange's total net position decreased 39% during the year to \$22.8 million as of December 31, 2014. This was entirely from the decrease in net position invested in capital assets primarily due to the internally developed Healthplanfinder software incurring a full year of depreciation expense for the first time since being placed into service during the fourth quarter of 2013.

Following is a summary of the changes in the Exchange's assets, liabilities, and net position as of December 31 (\$ in millions):

	2014	2013	Percentage Change
Current and other assets	\$ 30.9	\$ 34.5	-10.4%
Capital assets	22.8	37.2	-38.7%
Total assets	<u>53.7</u>	<u>71.7</u>	<u>-25.1%</u>
Current liabilities	<u>30.9</u>	<u>34.5</u>	<u>-10.4%</u>
Total liabilities	<u>30.9</u>	<u>34.5</u>	<u>-10.4%</u>
Net position			
Net invested in capital assets	22.8	37.2	-38.7%
Unrestricted	<u>-</u>	<u>-</u>	<u>0.0%</u>
Total net position	<u>\$ 22.8</u>	<u>\$ 37.2</u>	<u>-38.7%</u>

## WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### Financial Statements (continued)

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 for the fiscal year. The difference—increase or decrease in net assets—is presented as the change in net position for the fiscal year. As reflected in the attached statement of revenues, expenses, and changes in net position for the year ended December 31, 2014, the Exchange recognized approximately \$108.2 million in revenues from federal grants and approximately \$7.2 million in matching revenues from the Medicaid program. Total operating expenses increased by \$68.5 million (112%) from the prior year primarily due to 2014 being the first full year of operations for the Exchange, which resulted in additional costs incurred for operating and staffing the Call Center in Spokane, continued development of the Healthplanfinder system, and professional services provided by independent contractors working with the Exchange.

The following table compares expenditures by category (\$ in millions):

	2014	2013	Percentage Change
System development	\$ 43.7	\$ 11.8	270.3%
Professional services	29.3	18.5	58.4%
Salaries, payroll taxes, and benefits	13.4	9.0	48.9%
Depreciation	15.1	6.6	128.8%
Equipment and supplies	2.6	1.2	116.7%
Call Center development	21.8	11.6	87.9%
Occupancy	0.9	1.5	-40.0%
Other	2.9	1.0	190.0%
	<u>\$ 129.7</u>	<u>\$ 61.2</u>	<u>111.9%</u>

The statement of cash flows presents information relative to how the Exchange's cash and cash equivalents position changed during the year. 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 year. This statement is prepared using the direct method, which allows the reader to easily understand the amount of cash received and how much cash was used.

Total cash and equivalents decreased approximately \$4.3 million from \$12,441,000 at December 31, 2013, to \$8,052,000 at December 31, 2014. The net decrease was primarily due to a reduction in the amount of cash received from enrollees near year-end for QHP and QDP premiums. During the fourth quarter of 2013, the Exchange was collecting premium payments for open enrollment but did not remit the majority of funds to carriers until January 2014. During 2014, however, the Exchange was both collecting and remitting premium payments on behalf of enrollees on a monthly basis, thereby reducing the amount of cash held for enrollees at December 31, 2014. These funds are not available for operating use as the Exchange merely acts in an agency capacity and is responsible for remitting the funds to plan issuers on behalf of enrollees.

## WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS

---

### Financial Statements (continued)

Excluding the premiums collected on behalf of enrollees, cash and equivalents increased approximately \$1.4 million from the prior year. Approximately \$110 million of net cash was used in operating activities during the year ended December 31, 2014, compared with \$43.3 million of net cash used in operating activities for the year ended December 31, 2013. Approximately \$108.9 million of net cash was provided by noncapital financing activities during the year ended December 31, 2014, compared with \$53.1 million of net cash provided by noncapital financing activities for the year ended December 31, 2013. Approximately \$3.2 million of net cash was provided by capital and related financing activities during the year ended December 31, 2013, compared with \$2.6 million of net cash provided by capital and related financing activities for the year ended December 31, 2013.

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**  
**STATEMENTS OF NET POSITION**

---

**ASSETS**

	December 31,	
	<u>2014</u>	<u>2013</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,361,236	\$ 5,279
Cash held for enrollees	6,690,627	12,436,039
Federal grants receivable	15,070,563	18,429,865
Medicaid program cost reimbursement receivable	6,679,057	3,300,090
Prepaid expenses	<u>1,054,785</u>	<u>294,293</u>
Total current assets	<u>30,856,268</u>	<u>34,465,566</u>
<b>CAPITAL ASSETS</b>		
Software	41,311,446	40,944,570
Computers and network	3,758,092	3,437,420
Furniture and equipment	330,762	316,692
Leasehold improvements	<u>636,815</u>	<u>636,815</u>
	46,037,115	45,335,497
Less accumulated depreciation	<u>(23,195,437)</u>	<u>(8,106,243)</u>
Capital assets, net	<u>22,841,678</u>	<u>37,229,254</u>
Total assets	<u>\$ 53,697,946</u>	<u>\$ 71,694,820</u>

**LIABILITIES AND NET POSITION**

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 20,966,190	\$ 16,838,540
Due to issuers on behalf of enrollees	6,690,627	12,436,039
Contracts holdback liability	2,348,025	4,637,684
Payroll liabilities	<u>851,426</u>	<u>553,303</u>
Total current liabilities	30,856,268	34,465,566
<b>NET POSITION</b>		
Net invested in capital assets	<u>22,841,678</u>	<u>37,229,254</u>
Total liabilities and net position	<u>\$ 53,697,946</u>	<u>\$ 71,694,820</u>

**WASHINGTON HEALTH BENEFIT EXCHANGE**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**

---

	Years Ended December 31,	
	2014	2013
OPERATING REVENUES	\$ -	\$ -
OPERATING EXPENSES		
System development	43,673,562	11,777,636
Professional services	29,315,250	18,526,748
Salaries, payroll taxes, and benefits	13,400,974	9,019,440
Depreciation	15,096,427	6,625,476
Equipment and supplies	2,600,373	1,203,537
Call Center development	21,791,728	11,557,560
Occupancy	914,373	1,490,566
Other	2,942,171	1,017,500
Total operating expenses	129,734,858	61,218,463
Operating loss	(129,734,858)	(61,218,463)
NONOPERATING REVENUES		
Federal grants	108,180,017	85,088,709
Medicaid program cost reimbursement	7,167,265	3,300,090
Total nonoperating revenues	115,347,282	88,388,799
Increase (decrease) in net position	(14,387,576)	27,170,336
NET POSITION, beginning of year	37,229,254	10,058,918
NET POSITION, end of year	\$ 22,841,678	\$ 37,229,254

# WASHINGTON HEALTH BENEFIT EXCHANGE

## STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash payments to suppliers for goods and services	\$ (96,931,500)	\$ (34,862,609)
Cash payments to employees for services	(13,102,851)	(8,428,323)
Net cash from operating activities	<u>(110,034,351)</u>	<u>(43,290,932)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Federal grants received	110,830,467	40,050,803
Medicaid reimbursement received	3,788,298	628,058
Net unremitted premiums	(5,745,412)	12,436,039
Net cash from noncapital financing activities	<u>108,873,353</u>	<u>53,114,900</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Federal grants received	716,085	33,916,798
Acquisition of capital assets	(3,944,542)	(31,340,805)
Net cash from capital and related financing activities	<u>(3,228,457)</u>	<u>2,575,993</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(4,389,455)	12,399,961
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<u>12,441,318</u>	<u>41,357</u>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<u>\$ 8,051,863</u>	<u>\$ 12,441,318</u>
<b>RECONCILIATION TO STATEMENT OF NET POSITION</b>		
Cash and cash equivalents	\$ 1,361,236	\$ 5,279
Cash held for enrollees	6,690,627	12,436,039
Total cash and cash equivalents	<u>\$ 8,051,863</u>	<u>\$ 12,441,318</u>
<b>RECONCILIATION OF INCREASE IN NET POSITION TO NET CASH FROM OPERATING ACTIVITIES</b>		
Operating loss	\$ (129,734,858)	\$ (61,218,463)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	15,096,427	6,622,399
Changes in assets and liabilities		
Prepaid expenses	(760,492)	(253,909)
Accounts payable and accrued liabilities	7,356,108	7,316,318
Payroll liabilities	298,123	591,117
Contracts holdback	(2,289,659)	3,651,606
Net cash from operating activities	<u>\$ (110,034,351)</u>	<u>\$ (43,290,932)</u>
<b>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES</b>		
Change in capital assets included in accounts payable and payroll liabilities	<u>\$ (3,228,458)</u>	<u>\$ 3,159,923</u>

# WASHINGTON HEALTH BENEFIT EXCHANGE

## NOTES TO FINANCIAL STATEMENTS

---

### **Note 1 - Summary of Significant Accounting Policies**

The Washington Health Benefit Exchange (the Exchange) was created in state statute as a “public-private partnership separate and distinct from the state” for the purpose of establishing a state health insurance exchange in compliance with the Patient Protection and Affordable Care Act of 2010. The Exchange is 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). Initial open enrollment began on October 1, 2013, for coverage effective January 2014, and continued through March 31, 2014.

Federal grant funding will finance the Exchange’s design, development, and implementation phases, as well as the first full year of operations during 2014. Beginning in 2015, the Exchange must be financially self-sustaining through a combination of state funding appropriation, premium tax assessments on QHP and QDP issuers, and administrative fee assessments on QHP and QDP issuers selling in the Exchange.

**Reporting entity and basis of presentation** - The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and are presented on the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenues are recorded when earned and expenses are recorded when a liability is incurred. The Exchange has adopted the pronouncements of the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles nationally. The Exchange has no relationship with other entities that could be considered component units.

**Cash and equivalents** - The Exchange considers all highly liquid investment securities purchased with an original maturity of three months or less to be cash equivalents. The Exchange maintains its cash in bank deposits that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor or in certain noninterest-bearing accounts that are fully insured by the FDIC. At December 31, 2014, the Exchange held cash in excess of FDIC limits.

**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 December 31, 2014, for the Level 2 Establishment Grant. Medicaid program cost reimbursement receivable represents unreimbursed state funds as of December 31, 2014, for the Washington Health Care Authority (HCA) Medicaid cost reimbursement. Management believes these amounts are properly reimbursable and fully collectible as of period-end; as such, no allowance has been established.

**Capital assets** - Purchased capital assets are reported at cost. The Exchange’s capitalization threshold is \$1,000 for tangible personal property and leasehold improvements. There were no acquisitions of land or other real property for the periods ended December 31, 2014 and 2013.

# WASHINGTON HEALTH BENEFIT EXCHANGE

## NOTES TO FINANCIAL STATEMENTS

---

### Note 1 - Summary of Significant Accounting Policies (continued)

Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the period of sale or retirement, and the resulting gain or loss is included in the statement of revenues, expenses, and changes in net position. Other costs incurred for repairs and maintenance are expensed as incurred.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Computers and network	3 to 5 years
Software	3 to 5 years
Furniture and equipment	5 to 10 years
Leasehold improvements	5 to 10 years

Leasehold improvements will be depreciated over the shorter of their estimated useful lives or the term of lease. The term of the lease may include the years in the lease renewals that are reasonably assured.

Software development costs incurred during the application development stage were capitalized; however, costs incurred during the preliminary project stage and subsequent to the application development stage were expensed.

**Contracts holdback liability** - Effective April 19, 2012, Contract K521 with Deloitte Consulting Group, LLC (SI) was executed for the purpose of purchasing systems integrator services to develop and implement a Health Benefits Exchange System. Under the contract, the Exchange is required to retain a holdback of 10% of the purchase price for each deliverable until six months after the acceptance of the Exchange system deliverable. Because the delivery date of the Exchange system occurred during October 2013, the balance of contract holdbacks as of December 31, 2014 and 2013, is reflected as a current liability.

**Net position** - Net position represents all assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources. The Exchange does not have any amount required to be reported as deferred outflows/inflows of resources as of December 31, 2014 and 2013. Net position is displayed in the statement of net position in the following categories:

**Net investment in capital assets** - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. There is no debt attributable to the capital assets as of December 31, 2014 and 2013.

**Restricted** - Net position subject to externally imposed stipulations on their use. There are no restrictions as of December 31, 2014 and 2013.

**Unrestricted** - All remaining net position that does not meet the definition of "net investment in capital assets" or "restricted." There is no unrestricted net position as of December 31, 2014 and 2013.

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

# WASHINGTON HEALTH BENEFIT EXCHANGE

## NOTES TO FINANCIAL STATEMENTS

---

### Note 1 - Summary of Significant Accounting Policies (continued)

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

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

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

**New accounting pronouncements** - In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*. This statement revises and establishes new financial reporting requirements for entities participating in single-employer and multiple-employer defined benefit pension plans, cost-sharing plans, and defined contribution plans. This statement requires entities providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. This includes changes in the methods and assumptions used to project pension payments, discount projected payments to their present values, and attribute those present values to periods of employee service. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. This statement is effective for periods beginning after June 15, 2014, and will be effective for the Exchange for the year ended December 31, 2015. As a member of a Washington PERS cost sharing plan, the Exchange will recognize its proportionate share of the PERS net pension liability on the statement of net position at December 31, 2015. The Exchange is currently evaluating the impact of the adoption of this standard on its financial statements.

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

The Exchange has evaluated subsequent events through October 23, 2015, which is the date the financial statements are available to be issued, and concluded that there were no events that need to be disclosed with the exception of one event. Effective September 2015, consumers will pay their premiums directly to carriers instead of to the Exchange.

# WASHINGTON HEALTH BENEFIT EXCHANGE

## NOTES TO FINANCIAL STATEMENTS

### Note 2 - Capital Assets

Capital assets consist of the following at December 31, 2014 and 2013:

	January 1, 2014	Additions	Disposals	Transfers	December 31, 2014
Software	\$ 40,944,570	\$ 366,876	\$ -	\$ -	\$ 41,311,446
Furniture and equipment	316,692	14,070	-	-	330,762
Leasehold improvements	636,815	-	-	-	636,815
Computers and network	3,437,420	327,905	(7,233)	-	3,758,092
	45,335,497	708,851	(7,233)	-	46,037,115
Accumulated depreciation	(8,106,243)	(15,096,427)	(7,233)	-	(23,195,437)
Work in progress	-	-	-	-	-
Total capital assets, net	<u>\$ 37,229,254</u>	<u>\$ (14,387,576)</u>	<u>\$ (14,466)</u>	<u>\$ -</u>	<u>\$ 22,841,678</u>
	January 1, 2013	Additions	Disposals	Transfers	December 31, 2013
Software	\$ 8,509,182	\$ 32,024,776	\$ -	\$ 410,612	\$ 40,944,570
Furniture and equipment	-	316,692	-	-	316,692
Leasehold improvements	-	636,815	-	-	636,815
Computers and network	2,623,769	817,529	(3,878)	-	3,437,420
	11,132,951	33,795,812	(3,878)	410,612	45,335,497
Accumulated depreciation	(1,484,645)	(6,622,398)	(800)	-	(8,106,243)
Work in progress	410,612	-	-	(410,612)	-
Total capital assets, net	<u>\$ 10,058,918</u>	<u>\$ 27,173,414</u>	<u>\$ (4,678)</u>	<u>\$ -</u>	<u>\$ 37,229,254</u>

During 2014 and 2013, the Exchange incurred zero and \$31,938,237, respectively, in costs related to the development of the health benefit exchange online marketplace (Healthplanfinder) that are being capitalized. Healthplanfinder was placed into service effective October 1, 2013. Amortization expense related to Healthplanfinder totaled \$10,782,950 and \$2,680,359 for the years ended December 31, 2014 and 2013, respectively.

**WASHINGTON HEALTH BENEFIT EXCHANGE**  
**NOTES TO FINANCIAL STATEMENTS**

---

**Note 3 - Medicaid Program Cost Reimbursement**

On August 10, 2011, the federal government announced a time-limited, specific exception to the cost allocation requirements set forth in OMB Circular A-87 (Section C.3) that requires benefitting programs to pay their share of the costs associated with building state-based information technology systems. This allowed the Exchange to allocate a portion of qualifying expenditures to Medicaid and the Children's Health Insurance Program (CHIP) at a pre-agreed-upon rate. Subsequently, the Exchange and the HCA worked cooperatively to discuss, review, and determine the cost allocation methodology for any Medicaid/CHIP eligible expenditure. On April 18, 2012, the Center for Medicare and Medicaid Services (CMS) approved the Washington State Health Care Authority Implementation Advance Planning Document (I-APD) for the design, development, and implementation activities of the state's health insurance Exchange that provides a benefit to the state's Medicaid program.

During 2014, the Exchange submitted an A19 invoice voucher to HCA providing the total reimbursable Medicaid/CHIP disbursements, along with required backup documentation. The total amount owed from HCA to the Exchange is reflected as Medicaid program cost reimbursement receivable in the statement of net position. As of December 31, 2014, the receivable totaled \$6,679,057, all of which is classified as a current asset. The related revenue of \$7,167,265 is recorded as Medicaid program cost reimbursement in the statement of revenues, expenses, and changes in net position.

**Note 4 - Related Parties**

Prior to the Exchange Board adopting bylaws and assuming responsibility for all Exchange functions, operations relating to implementation of the Patient Protection and Affordable Care Act of 2010 were performed through the HCA. In December 2011, the Executive Director of the HCA was appointed as an ex-officio nonvoting member of the Exchange Board.

**Note 5 - Commitments**

During 2014, the Exchange entered into numerous multi-year contract agreements relating to the development of an Exchange. Any agreements that exceed the Exchange's current grant period are contingent upon future grant approval and appropriated funding by the state government, which is dependent on premium tax and issuer assessment levels.

**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 following is a schedule by year of future minimum lease payments as of December 31, 2014:

2015	\$ 537,000
2016	537,000
2017	537,000
2018	<u>292,000</u>
Total minimum lease payments	<u>\$ 1,903,000</u>

## WASHINGTON HEALTH BENEFIT EXCHANGE

### NOTES TO FINANCIAL STATEMENTS

---

#### Note 5 - Commitments (continued)

**Vendor contracts** - The Exchange has engaged in long-term contracts obligating it to material expenditures in future periods. Remaining obligations under noncancelable contracts total approximately \$34,786,000 and \$60,229,000 as of December 31, 2014 and 2013, respectively.

The Exchange has received federal financial assistance for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance resulting from a review or audit may become a liability of the Exchange.

#### Note 6 - Employee Pension Plans

**Public Employees' Retirement System (PERS)** - Substantially all of the Exchange's full-time and qualifying part-time employees participate in PERS. This is a statewide local government retirement system administered by the Washington State Department of Retirement Systems (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, Governor Gary Locke 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 (CPI) of Seattle, capped at 3% annually.

**WASHINGTON HEALTH BENEFIT EXCHANGE  
NOTES TO FINANCIAL STATEMENTS**

---

**Note 6 - Employee Pension Plans (continued)**

**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 4.92%), 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.

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 years ended December 31, 2014 and 2013, was \$10,083,045 and \$6,964,000, respectively.

The Exchange's contribution rates during 2014 expressed as a percentage of covered payroll for employer was 9.03% for PERS Plan 1, PERS Plan 2, and PERS Plan 3. During 2013, the Exchange's contribution rate expressed as a percentage of covered payroll for employer was 6.41% for PERS Plan 1, 8.22% for PERS Plan 2, and 8.19% for 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 required contributions for 2014 and 2013 were as follows:

	Plan 1	Plan 2	Plan 3	Total
2014 employer contributions	\$ 7,243	\$ 652,185	\$ 251,071	\$ 910,499
2013 employer contributions	\$ 4,563	\$ 414,753	\$ 163,122	\$ 582,438

## **WASHINGTON HEALTH BENEFIT EXCHANGE NOTES TO FINANCIAL STATEMENTS**

---

### **Note 6 - Employee Pension Plans (continued)**

The pension obligation was calculated on a pension system basis and cannot be disclosed on a plan basis. PERS does not make separate measurements of assets and pension obligations for individual employers.

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

Department of Retirement Systems  
P.O. Box 48380  
Olympia, WA 98504-8380

Internet address: [www.drs.wa.gov](http://www.drs.wa.gov)

### **Note 7 - Concentrations**

During the years ended December 31, 2014 and 2013, approximately 93% and 96%, respectively, of the Exchange's grant and contract revenue was from United States government agencies. In addition, at December 31, 2014 and 2013, respectively, 69% and 85% of all receivables were due from United States government agencies. These funds 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.

**REPORT OF INDEPENDENT AUDITORS 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***

Board of Directors  
Washington Health Benefit Exchange

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Washington Health Benefit Exchange as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Washington Health Benefit Exchange's basic financial statements, and have issued our report thereon dated October 23, 2015.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Washington Health Benefit Exchange's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Washington Health Benefit Exchange's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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; therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001 that we consider to be a significant deficiency.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Washington Health Benefit 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 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*.

## **Washington Health Benefit Exchange's Response to Findings**

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

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Ross Adams LLP". The signature is written in a cursive, flowing style.

Everett, Washington  
October 23, 2015

## **REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133**

Board of Directors  
Washington Health Benefit Exchange

### **Report on Compliance for Each Major Federal Program**

We have audited the Washington Health Benefit Exchange's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Washington Health Benefit Exchange's major federal program for the year ended December 31, 2014. 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 laws, regulations, contracts, and grants applicable to its federal programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for the 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 auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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 the Washington Health Benefit Exchange's compliance.

### ***Basis for Qualified Opinion on the Major Federal Program***

As described in the accompanying schedule of findings and questioned costs, Washington Health Benefit Exchange did not comply with requirements regarding the reporting requirement as documented in finding 2014-002 for the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (93.525). Compliance with such requirements is necessary, in our opinion, for the Washington Health Benefit Exchange to comply with the requirements applicable to that program.

### ***Qualified Opinion on the Major Federal Program***

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the 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 the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges (93.525) for the year ended December 31, 2014.

### ***Report on Internal Control Over Compliance***

Management of Washington Health Benefit Exchange is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Washington Health Benefit Exchange's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies; therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-002 to be a material weakness.

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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2014-003 to be a significant deficiency.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Ross Adams LLP". The signature is written in a cursive, flowing style.

Everett, Washington  
October 23, 2015

**WASHINGTON HEALTH BENEFIT EXCHANGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2014**

---

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified?  Yes  None reported

Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

Internal control over major federal programs:

Material weakness(es) identified?  Yes  No

Significant deficiency(ies) identified?  Yes  None reported

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  Yes  No

**Identification of Major Federal Programs**

CFDA Numbers	Name of Federal Program or Cluster	Type of Auditor's Report Issued
93.525	State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	Qualified
Dollar threshold used to distinguish between type A and type B programs: \$3,000,000		
Auditee qualified as low-risk auditee? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		

**WASHINGTON HEALTH BENEFIT EXCHANGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2014**

---

**Section II - Financial Statement Findings**

**FINDING 2014-001 - Financial Close and Reporting Process - Significant Deficiency**

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

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

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

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

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

**WASHINGTON HEALTH BENEFIT EXCHANGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2014**

---

**Section III - Federal Award Findings and Questioned Costs**

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

**Federal Agency** - U.S. Department of Health and Human Services

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

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

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

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

**Questioned costs** - No questioned costs were noted.

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

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

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

**WASHINGTON HEALTH BENEFIT EXCHANGE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2014**

---

**Section III - Federal Award Findings and Questioned Costs (continued)**

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

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

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

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

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

**Questioned costs** - None.

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

**Effect** - No suspension/debarment check was performed.

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

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

**SUPPLEMENTARY INFORMATION**

---

**WASHINGTON HEALTH BENEFIT EXCHANGE  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2014**

---

Federal Grantor/Pass-Through Grant/Program Title	Federal CFDA Number	Federal Expenditures
U.S. Department of Health and Human Services Centers for Medicare & Medicaid Services Direct awards State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	<u>\$ 108,180,017</u>
Total from U.S. Department of Health and Human Services		<u>\$ 108,180,017</u>
Total expenditures of federal awards		<u><u>\$ 108,180,017</u></u>

**WASHINGTON HEALTH BENEFIT EXCHANGE**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2014**

---

**Note 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 to December 31, 2014. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. 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.

**Note 2 - Summary of Significant Accounting Policies**

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