



# **WASHINGTON HEALTH BENEFIT EXCHANGE**

**FINANCIAL STATEMENTS**

and

**REQUIRED SUPPLEMENTARY INFORMATION**

**With Independent Auditor's Report**

**June 30, 2018**



# WASHINGTON HEALTH BENEFIT EXCHANGE

June 30, 2018

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## INDEPENDENT AUDITOR'S REPORT

The Board of Directors  
Washington Health Benefit Exchange

### ***Report on the 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, 2018, 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, 2018, 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**

*Change in Accounting Principle*

As discussed in Note 1 to the financial statements, during the year ended June 30, 2018 the Exchange adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

*Required Supplementary Information*

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis on Pages 3 through 9 and the information listed under Required Supplementary Information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2018 on our consideration of the Exchange's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Exchange's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exchange's internal control over financial reporting and compliance.

*Berry Dunn McNeil & Parker, LLC*

Portland, Maine  
October 1, 2018

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Management's Discussion and Analysis

Year Ended June 30, 2018

### 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 radically improve how Washington residents secure health insurance through:

- innovative and practical solutions;
- an easy-to-use customer experience;
- our values of integrity, respect, equity, and transparency; and
- providing undeniable value to the health care community.

Exchange 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, 2018

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

**Recent Statutory Update** – In 2018, the legislature updated the Exchange enabling statutes to ensure that in the event of significant federal changes to the Affordable Care Act (ACA), the Exchange can continue operating as the state's eligibility and enrollment platform for both QHP and Medicaid populations to obtain health and dental coverage. The legislature also updated outdated provisions, consolidated reporting requirements, and made other changes to align the statutes with Exchange operations.

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Management's Discussion and Analysis

Year Ended June 30, 2018

The Exchange continues to monitor and respond to ongoing federal activity that could impact Exchange operations and the overall stability of individual market.

**Funding** – The largest source of funding during the fiscal year ended June 30, 2018 came from premium tax and carrier assessment revenues. The premium tax is a 2% 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 carriers on the Exchange. Premium tax and assessment funds are maintained in an account with the Washington State Treasurer, and the account is administered by the Washington State Health Care Authority.

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

From its inception through June 30, 2017, the Exchange received establishment grants through the federal Department of Health and Human Services. The final establishment grant expired on June 30, 2017, and the Exchange did not receive any additional federal grant funding for the year ended June 30, 2018.

**Staffing and Infrastructure** – As of June 30, 2018, the Exchange had approximately 129.5 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 ongoing progress of the Exchange, the Exchange's website, [www.wahbexchange.org](http://www.wahbexchange.org), provides information to stakeholders and the public. The Exchange complies with the Washington open public meetings and public disclosure laws, but is not subject to other laws that govern state agencies. The Exchange's website contains archived documents from previous meetings of the Exchange Board and associated committees, including supplemental reports and presentations. In addition, the website provides public access to audio recordings from each of the Board meetings.

**Outreach and Education** – The Exchange has continued outreach and educational efforts centered on improving health literacy and instructing Washington residents on their coverage options and where to find assistance. To promote the outreach effort, the Exchange has created a number of online resources and printable materials as well as a complete, searchable archive of frequently asked questions and glossary of health insurance terminology. The Exchange has also employed health literacy videos that make people aware of the opportunity to gain health insurance coverage and layout the overall enrollment process.

"Go Digital" campaigns were initiated last year to encourage customers to opt-in to electronic notification through Washington Healthplanfinder. As a result, over 60% of our QHP and QDP customers get email alerts from the Exchange. With the launch of the WAPlanfinder mobile application, the Exchange also added push notification as a convenient way for customers to get information and alerts about their coverage.

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Management's Discussion and Analysis

Year Ended June 30, 2018

From October 2017 to January 2018, 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 of being a “source you can trust” to find information and used visuals to show how to use the new Smart Planfinder tool to get health insurance that meets the customer needs.

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](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)). An Instagram handle ([www.instagram.com/waplanfinder](http://www.instagram.com/waplanfinder)) was also added in the last year.

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. In September 2017, the Exchange launched a new feature to Washington Healthplanfinder called Smart Planfinder. Smart Planfinder provides personalized “smart choice” plans that best fit a customer's needs. Customers can use Smart Planfinder when shopping for plans by providing information about their household's expected health care use and up to five doctors/facilities and five prescriptions for coverage. Additionally, information within the provider and facility search has been updated and will be regularly verified through outreach to providers and facilities in Washington State.

Additionally, over the last year, Washington Healthplanfinder has been going through a mobile-friendly redesign to provide a best-fit experience for users visiting on a small screen. This effort has aligned the WAPlanfinder mobile application to the website allowing users to move between the two when viewing coverage status, shopping, applying and renewing coverage.

Healthplanfinder will experience significant enhancements in the coming year. In addition to further improvements for mobile device users, 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 nine “Lead Navigator Organizations” throughout the state to administer the Navigator Program. Each lead organization is responsible for the delivery of Navigator services throughout a designated geographic service area. Lead organizations assess their service area and identify populations who are vulnerable and/or hard to reach and develop an outreach plan designed to enroll this population. To accomplish this outreach and enrollment, lead organizations build a network of community partners who are best suited to serve these target populations, and coordinate outreach efforts among these partners.

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Management's Discussion and Analysis

Year Ended June 30, 2018

Navigator organizations conduct and participate in hundreds of outreach events in communities throughout the state annually, from very large events that reach hundreds of people, to small events specifically targeted to hard-to-reach populations. This year, Navigators will conduct outreach and enrollment assistance for a new state-funded program designed to offer individuals from the three Compact of Free Association island nation's premium and cost-sharing assistance for QHP coverage. This population experiences challenging barriers to enrollment and will require additional navigator training as well as culturally-sensitive outreach strategies.

About 800 Navigators are trained and certified to help customers shop, apply, and enroll in coverage and to provide consumer education to those who are new to insurance coverage. Navigators explain all aspects of QHP and Washington Apple Health Enrollment, including out-of-pocket expenses, free preventive care available, tax credit eligibility and related requirements for subsidized customers, using primary care, and much more.

An automated learning management system is used by the Exchange to administer training modules and related exams and to track completion of Navigator requirements. The Exchange also administers a Certified Application Counselor Program for organizations who are outside a lead organization network, and a Tribal Assister Program for Navigators who are members of Washington tribes and deliver services primarily to their tribal members.

**Plan Enrollment** – The following table presents enrollment numbers for Washington Apple Health and QHP enrollees from July 1, 2017 through June 30, 2018:

<b>Month/Year</b>	<b>Total QHP Enrollees</b>	<b>Total Medicaid Enrollees</b>
Jul 17	173,364	1,568,965
Aug 17	170,705	1,561,575
Sep 17	169,987	1,549,163
Oct 17	170,327	1,543,504
Nov 17	170,310	1,547,011
Dec 17	161,967	1,560,652
Jan 18	199,438	1,566,971
Feb 18	206,580	1,561,231
Mar 18	205,142	1,556,273
Apr 18	202,970	1,553,674
May 18	199,557	1,553,775
Jun 18	195,962	1,553,474

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Management's Discussion and Analysis

Year Ended June 30, 2018

**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 and Wichita, Kansas.

Customer Support Center Representatives (CSRs) are trained and are 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 bi-lingual call center representatives or an interpreter in up to 240 languages is available for limited English proficient persons. CSRs are trained to assist customers with health insurance eligibility, application and enrollment; tax credits and cost sharing reductions; and non-subsidized QHP and state medical programs. Call volume and staff number variance is driven by open enrollment cycles and other seasonality variables.

**Finance and Accounting** – The Exchange continues to make improvements in the configuration of its financial system that was implemented in October 2016. The improvements not only increase efficiency of transactions and reporting, but also are designed to increase transparency of financial information.

In 2017, the Exchange contracted with a consulting firm to help the organization implement Lean principles and methods to improve organizational processes. As part of this effort, Finance completed a Lean process improvement project on its fiscal month close process in January 2018. The results of the project include:

- decreased time to complete monthly close;
- improved tracking of close tasks;
- more efficient approval workflows; and
- performance metrics for key functions

### **Financial Statements**

The 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. Under this method of accounting, an economic resources measurement focus and an accrual basis of accounting is used, similar to private industry. The flow of economic resources measurement focus measures all assets that are available to the entity, not only cash or soon to be cash assets. Both long-term assets and long-term liabilities are measured when using economic resources measurement focus. Revenue is recorded when earned, and expenses are recorded when incurred. Exchange management prepares this Discussion and Analysis to assist the reader of these financial statements.

The Statement of Net Position presents information on the Exchange's assets and deferred outflows of resources 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 to \$4.1 million as of June 30, 2018. The primary reason for the increase was a full year of implementation of our revised capital asset policy that became effective January 1, 2017. The most significant change to the policy was more specifically prescribing how the Exchange capitalizes enhancements to its software, to include the Healthplanfinder. This resulted in an increase in net capital assets of nearly \$8.0 million from the previous year.

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Management's Discussion and Analysis

Year Ended June 30, 2018

Following is a summary of the Exchange's assets, deferred outflows, liabilities, deferred inflows and net position as of June 30, 2018 (\$ in millions):

	As of 6/30/2018	As of 6/30/2017
Current assets	\$ 15.0	\$ 11.9
Capital assets	12.0	4.0
Other long-term assets	<u>.2</u>	<u>.5</u>
<b>Total Assets</b>	<u>27.2</u>	<u>16.4</u>
Deferred outflows of resources	<u>1.8</u>	<u>2.4</u>
Current liabilities	15.0	11.9
Long-term liabilities	<u>8.2</u>	<u>9.2</u>
<b>Total Liabilities</b>	<u>23.2</u>	<u>21.1</u>
Deferred inflows of resources	<u>1.7</u>	<u>.9</u>
<b>Net Position</b>		
Net invested in capital assets	12.0	4.0
Unrestricted	<u>(7.9)</u>	<u>(7.2)</u>
<b>Total Net Position, as previously reported</b>	<u>\$ 4.1</u>	<u>(3.2)</u>
Impact of new accounting pronouncement		<u>(.7)</u>
<b>Total Net Position, as restated</b>		<u>\$ (3.9)</u>

The Statement of Revenues, Expenses, and Changes in Net Position reports the operating revenues and expenses as well as the non-operating revenues and expenses of the Exchange. The difference, an increase or decrease in net assets, is presented as the change in net position. As recorded in the attached statement for the year ended June 30, 2018, the Exchange recognized approximately \$26.3 million in operating revenues, and \$29.1 million in matching revenues from the Medicaid program. This represents an increase in operating revenue of \$3.2 million when compared to the year ended June 30, 2017. The increase in operating revenue was due to the expenditures previously paid for by federal grants being primarily paid for by operating funds due to the expiration of federal grant awards, and cost allocation impacts from an increase in the percentage of Qualified Health Plan (non-Medicaid) population obtaining insurance on the Exchange. Federal grant awards represented about \$8.8 million in revenue for fiscal year 2017.

Total operating expenses were \$47.7 million for the year ended June 30, 2018.

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Management's Discussion and Analysis

Year Ended June 30, 2018

The following table compares expenditures by category (\$ in millions). When comparing the year ended June 30, 2018 proportionately to the year ended June 30, 2017, Exchange expenditures decreased. This is primarily due to discontinuance of grant funding and increased capitalization of software enhancement costs as discussed in the Statement of Net Position paragraph above.

	<b>12 Months Ended 6/30/2018</b>	<b>12 Months Ended 6/30/2017</b>
System maintenance and enhancements	\$ 9.4	\$ 20.7
Professional services	8.4	8.5
Salaries, benefits, and payroll taxes	13.4	11.5
Depreciation	1.0	3.2
Equipment and supplies	2.9	3.7
Call center	11.1	11.3
Occupancy	0.7	0.6
Other	<u>0.8</u>	<u>0.9</u>
<b>Total Operating Expenses</b>	<b><u>\$ 47.7</u></b>	<b><u>\$ 60.4</u></b>

The Statement of Cash Flows presents information relative to how the Exchange's cash and cash equivalents position changed during the period. The Statement of Cash Flows classifies cash receipts and cash payments resulting from operating activities, capital and related financing activities, noncapital financing activities and investing activities. The net result of those activities is reconciled to the cash balance reported at the end of the period. Total cash and equivalents decreased from \$4.4 million at June 30, 2017 to \$3.5 million at June 30, 2018. Significant capital asset additions relate primarily to Healthplanfinder system enhancements. The net decrease in cash was primarily due to timing differences related to these capital asset additions and receipt of carrier assessment funds and Medicaid reimbursements.

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, 2018

### ASSETS

Current assets	
Cash and cash equivalents	\$ 3,532,607
Cash held for enrollees	2,269
Medicaid program cost reimbursement receivable	4,913,956
Accounts receivable	5,160,522
Prepaid expenses	<u>1,411,615</u>
Total current assets	<u>15,020,969</u>
Capital assets	
Software	51,738,267
Furniture and equipment	3,915,486
Leasehold improvements	739,705
Work in process	<u>1,750,422</u>
	58,143,880
Less accumulated depreciation and amortization	<u>(46,176,410)</u>
Capital assets, net	<u>11,967,470</u>
Other assets	
Prepaid expense	<u>174,870</u>
Total assets	27,163,309

### DEFERRED OUTFLOWS OF RESOURCES

Deferred outflows of resources	<u>1,842,686</u>
Total assets and deferred outflows	<u>\$ 29,005,995</u>

### LIABILITIES

Current liabilities	
Accounts payable and accrued liabilities	\$ 14,157,866
Payroll liabilities	<u>860,615</u>
Total current liabilities	15,018,481
Net pension liability	6,916,972
Net other postemployment benefits (OPEB) liability	1,084,112
Long-term unearned revenue	<u>174,870</u>
Total liabilities	<u>23,194,435</u>

### DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources	<u>1,707,236</u>
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### NET POSITION

Net position	
Net invested in capital assets	11,967,470
Unrestricted net position	<u>(7,863,146)</u>
Total net position	<u>4,104,324</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 29,005,995</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, 2018

Operating revenues	\$ <u>26,333,045</u>
Operating expenses	
System maintenance and enhancements	9,405,066
Professional services	8,428,446
Salaries, payroll taxes, and benefits	13,357,711
Depreciation and amortization	1,001,886
Equipment and supplies	2,852,070
Call center	11,152,350
Occupancy	680,333
Other	<u>783,777</u>
Total operating expenses	<u>47,661,639</u>
Operating loss	<u>(21,328,594)</u>
Nonoperating revenues	
Federal grants	232,691
Medicaid program cost and general fund reimbursement	<u>29,065,020</u>
Total nonoperating revenues	<u>29,297,711</u>
Increase in net position	<u>7,969,117</u>
Net position, beginning of year, as previously reported	(3,150,907)
Effect of new accounting pronouncements (Notes 1 and 8)	<u>(713,886)</u>
Net position, beginning of year, as restated	<u>(3,864,793)</u>
Net position, end of year	\$ <u><u>4,104,324</u></u>

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

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Statement of Cash Flows

Year Ended June 30, 2018

Cash flows from operating activities	
Cash received from operations	\$ 22,555,080
Cash payments to suppliers for goods and services	(29,013,591)
Cash payments to employees for services	<u>(13,667,736)</u>
Net cash used by operating activities	<u>(20,126,247)</u>
Cash flows from noncapital financing activities	
Federal grants received	1,084,064
Medicaid and general fund reimbursement received	<u>27,109,180</u>
Net cash provided by noncapital financing activities	<u>28,193,244</u>
Cash flows from capital and related financing activities	
Acquisition of capital assets	<u>(8,954,847)</u>
Net cash used by capital and related financing activities	<u>(8,954,847)</u>
Net decrease in cash and cash equivalents	(887,850)
Cash and cash equivalents, beginning of year	<u>4,422,726</u>
Cash and cash equivalents, end of year	<u>\$ 3,534,876</u>
Reconciliation to statement of net position	
Cash and cash equivalents	\$ 3,532,607
Cash held for enrollees	<u>2,269</u>
Total cash and cash equivalents	<u>\$ 3,534,876</u>
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (21,328,594)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation and amortization	1,001,886
Loss on disposal of assets	4,611
Noncash pension benefit	(800,162)
Noncash OPEB expense	370,226
Increase in	
Prepaid expenses	(119,807)
Accounts receivable	(2,446,177)
Accounts payable and accrued liabilities	3,071,859
Payroll liabilities	<u>119,911</u>
Net cash used by operating activities	<u>\$ (20,126,247)</u>

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

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Notes to Financial Statements

June 30, 2018

### **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).

Funding for the operations of the Exchange is a combination of state funding appropriation, premium tax and assessment fees on QHP and QDP issuers, and federal Medicaid. Federal grant funding financed the Exchange’s design, development, and implementation phases, as well as the first full year of operations during 2014. The federal grant funding for approved design, development, and implementation work continued through June 30, 2017.

### **1. Summary of Significant Accounting Policies**

#### **Reporting Entity and Basis of Presentation**

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

#### **Cash and Cash Equivalents**

The Exchange considers all highly liquid investment securities purchased with an original maturity of three months or less to be cash equivalents.

#### **Medicaid Program Cost Reimbursement Receivable**

Medicaid program cost reimbursement receivable represents unreimbursed state funds as of June 30, 2018, for the Washington Health Care Authority (HCA) Medicaid cost reimbursement. Management believes these amounts are properly reimbursable and fully collectible as of year-end; as such, no allowance has been established.

#### **Accounts Receivable**

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

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Notes to Financial Statements

June 30, 2018

### Capital Assets

Purchased capital assets are reported at cost. The Exchange capitalization threshold is \$5,000 for furniture and equipment, with depreciation provided on a straight-line basis over an estimated useful life of 4 years, and \$50,000 for leasehold improvements, with depreciation provided on a straight-line basis over the lesser of the lease term or an estimated useful life of 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.

### 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, 2018.

**Restricted** - Net position subject to externally imposed stipulations on its use. The Exchange did not have restricted net position as of June 30, 2018.

**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 running 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.

### 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.

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Notes to Financial Statements

June 30, 2018

### **New Accounting Pronouncement**

GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, became effective for fiscal years beginning after June 15, 2017. This Statement replaces the requirement of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. For purposes of measuring the following items, information about the fiduciary net position of the Exchange Retiree Benefits Plan (the Plan) and additions to and deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan:

1. Net OPEB liability,
2. Deferred inflows and outflows of resources related to OPEB, and
3. OPEB expense

For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

The Exchange adopted this statement in the year ended June 30, 2018 with retroactive application. The impact of adoption of this statement is as follows:

Net position at June 30, 2017, as previously reported before adoption of new accounting principles	\$ (3,150,907)
Adoption of new accounting principles: Accrued other postemployment benefits (OPEB liability) as of June 30, 2017	<u>(713,886)</u>
Net position at June 30, 2017, after adoption of accounting principles	<u>\$ (3,864,793)</u>

### **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.

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Notes to Financial Statements

June 30, 2018

The Exchange has evaluated subsequent events through October 1, 2018, 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, 2018 are presented below:

Cash in bank, including cash held for enrollees	<b>\$ 3,924,890</b>
Outstanding checks	<b><u>(390,014)</u></b>
	<b><u>\$ 3,534,876</u></b>

The Exchange maintains its cash in bank deposits that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000 per depositor at June 30, 2018, or in certain noninterest-bearing accounts that are fully insured by the FDIC. At June 30, 2018, the Exchange held cash in excess of FDIC limits. Of the cash in bank noted above, \$250,000 is covered by depository insurance and the balance in excess is uncollateralized.

### 3. Capital Assets

Capital assets consist of the following at June 30, 2018:

	<u>June 30, 2017</u>	<u>Additions</u>	<u>Disposals</u>	<u>Transfers</u>	<u>June 30, 2018</u>
Software	\$ 44,593,664	\$ 7,144,603	\$ -	\$ -	\$ 51,738,267
Furniture and equipment	4,194,746	77,901	(357,161)	-	3,915,486
Leasehold improvements	<u>636,815</u>	<u>102,890</u>	<u>-</u>	<u>-</u>	<u>739,705</u>
	49,425,225	7,325,394	(357,161)	-	56,393,458
Accumulated depreciation and amortization	(45,527,074)	(1,001,886)	352,550	-	(46,176,410)
Work in process	<u>120,969</u>	<u>1,750,422</u>	<u>-</u>	<u>(120,969)</u>	<u>1,750,422</u>
Total capital assets	<u>\$ 4,019,120</u>	<u>\$ 8,073,930</u>	<u>\$ (4,611)</u>	<u>\$ (120,969)</u>	<u>\$ 11,967,470</u>

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Notes to Financial Statements

June 30, 2018

For the year ended June 30, 2018, the Exchange incurred \$7,144,603 in additional costs related to enhancements of the health benefit exchange online marketplace (Healthplanfinder). The Exchange also had \$1,750,422 in work in process at June 30, 2018 to be placed in service in the following year related to software enhancements.

#### 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 State 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, 2018, 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. The total Medicaid/CHIP received by the Exchange was \$21,778,221 in 2018. The revenue is recorded as Medicaid program cost reimbursement in the statement of revenues, expenses, and changes in net position. The total Medicaid receivable as of June 30, 2018 was \$4,913,956.

#### 5. **Related Parties**

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

#### 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. Most Exchange contracts provide a termination for convenience clause that would allow the Exchange to terminate a contract related to funding limitations, among other reasons.

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2018

**Medicaid Assistance**

The Exchange has received federal Medicaid dollars for specific purposes that are generally subject to review or audit by the grantor agencies. Entitlement to this assistance is generally conditional upon compliance with application federal regulations, including the expenditure of assistance for allowance purposes. Any disallowance resulting from a review or audit may become a liability of the Exchange.

**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 expired 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, 2018:

2019	\$ 572,341
2020	572,341
2021	572,341
2022	572,341
2023	<u>572,341</u>
Total minimum lease payments	<u>\$ 2,861,705</u>

Lease expense for the year ended June 30, 2018 was \$557,773.

7. **Public Employees' Retirement System (PERS)**

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

Participants who joined the system by September 30, 1977, are PERS Plan 1 members. Those joining thereafter are enrolled in PERS Plan 2. In March 2000, the then Governor signed into law a new retirement plan option for members of 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.

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Notes to Financial Statements

June 30, 2018

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

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

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

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

Each biennium, the State Pension Funding Council adopts PERS Plan 1 employer contribution rates and PERS Plan 2 employer and employee contribution rates. Employee contribution rates for PERS Plan 1 are established by statute at 6% and do not vary from year-to-year. The employer and employee contribution rates for PERS Plan 2 are established as part of the state legislative budget process. The Office of the State Actuary performs valuations of retirement plans and recommends employer and employee contribution rates to the State Pension Funding Council. The Pension Funding Council evaluates and adopts pension funding assumptions and recommended contribution rates. Unlike PERS Plan 2, which has a single employee contribution rate (7.38% as of June 30, 2018), 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 year ended June 30, 2018 totaled \$10,026,977.

The Exchange's contribution rate from July 1, 2017 to June 30, 2018, expressed as a percentage of covered payroll for employer, was 12.52% for PERS Plan 1, PERS Plan 2, and PERS Plan 3. The employer rate does not include the employer administrative expense fee currently set at 0.18%.

**WASHINGTON HEALTH BENEFIT EXCHANGE**

**Notes to Financial Statements**

**June 30, 2018**

Both the Exchange and its employees made the required contributions. The Exchange's required contributions for the year ended June 30, 2018 were as follows:

	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>	<u>Total</u>
2018 employer contribution	\$ 2,447	\$ 876,546	\$ 394,434	\$ 1,273,427

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

Plan member contributions are recognized as revenues in the period in which the contributions are earned. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investments are reported at fair value. Unrealized gains and losses are included as investment income.

From 2017 to 2018, the proportion of the collective net pension liability has decreased by 0.001% for PERS Plan 1 and by 0.003% for PERS Plan 2/3.

Historical trend information regarding all of these plans is presented in Washington State 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](http://www.drs.wa.gov)

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

At June 30, 2018, the Exchange reported a liability of \$3,609,713 for its proportionate share of the PERS 1 net pension liability, and \$3,307,259 for its proportionate share of the PERS 2/3 net pension liability. The net pension liability was measured on June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2018, the Exchange's proportion was 0.0760730% for PERS 1 and 0.0951860% for PERS 2/3.

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Notes to Financial Statements

**June 30, 2018**

For the year ended June 30, 2018, the Exchange recognized pension expense of \$464,984 for PERS 1 and PERS 2/3. At June 30, 2018, the Exchange reported deferred outflows of resources and deferred inflows of resources related to the PERS Plans from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 335,104	\$ 108,769
Changes of assumptions	35,130	-
Net difference between projected and actual earnings on pension plan investments	-	1,016,340
Changes in proportion and difference between contributions and proportionate share of contributions	199,025	582,127
Plan contributions subsequent to the measurement date of June 30, 2017	<u>1,273,427</u>	<u>-</u>
Total	<u>\$ 1,842,686</u>	<u>\$ 1,707,236</u>

The amount of \$1,273,427 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, 2019. 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:

2019	\$ (527,169)
2020	(47,438)
2021	(135,065)
2022	(428,305)

The following table shows the components of the Exchange's annual pension expense for the year ended June 30, 2018, the amount actually contributed to the plan, and other changes in the Exchange's net pension liability:

Contributions made subsequent to measurement date	\$ (1,005,248)
Change in deferred outflows of resources, net	(793,524)
Change in deferred inflows of resources, net	(844,375)
Pension expense	1,265,146
Noncash pension benefit	<u>(800,162)</u>
Decrease in net pension liability	(2,178,163)
Net pension liability, beginning of year	<u>9,095,135</u>
Net pension liability, end of year	<u>\$ 6,916,972</u>

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Notes to Financial Statements

June 30, 2018

### Actuarial Methods and Assumptions

The total pension liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP2000 Combined Mortality Tables for Males or Females, as appropriate, projected forward using 100% Scale BB.

The assumptions used for investment return, inflation, salary growth, and membership growth were prescribed by the Legislature. The actuaries developed demographic assumptions during the 2007-2012 Demographic Experience Study. The Legislature prescribed the actuarial cost and asset valuation methods.

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

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, 2018 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	4.90
Real estate	15	5.80
Global equity	37	6.30
Private equity	23	9.30

### Changes in Methods and Assumptions

The plan actuary corrected how they value terminated vested member death benefits. Prior to this correction, they applied factors at the time of termination, rather than at the time of death. They also improved how they value the Basic Minimum COLA in PERS Plan 1 for legal order payees (third party benefit recipients).

WASHINGTON HEALTH BENEFIT EXCHANGE

Notes to Financial Statements

June 30, 2018

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 1% point lower (6.5%) or 1% point higher (8.5%) than the current rate:

	1% Decrease <u>(6.5%)</u>	Current Discount <u>Rate</u>	1% Increase <u>(8.5%)</u>
The Exchange's proportionate share of the net pension liability	\$ 13,307,433	\$ 6,916,972	\$ 1,644,045

8. OPEB

General Information about the OPEB Plan

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

The Washington Health Benefit Exchange Health Plan (the Health Plan) is a single-employer defined benefit healthcare plan administered by the Exchange. The Health Plan provides access to the Exchange's medical plans and a cash subsidy for retirees eligible for Medicare. The Health Plan does not issue a separate stand-alone financial report.

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

*Employees covered by benefit terms.* At June 30, 2017 (the census date), the benefit terms covered the following employees:

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Notes to Financial Statements

June 30, 2018

<u>Category</u>	<u>Count</u>
Active employees:	120
Inactive employees, spouses, or beneficiaries currently receiving benefit payments:	3
Inactive employees entitled to, but not yet receiving benefit payments:	0

### OPEB Liabilities and OPEB Expense

The Exchange's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

*Actuarial assumptions.* The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation: 2.50%

Salary increases: Individual and aggregate salary increases 3.50%

Pre-Medicare healthcare cost trend rates: 6.70% in the first year, trending down to 4.80% over 77 years of age.

Medicare healthcare cost trend rates: 6.80% in the first year, trending down to 4.80% over 77 years of age.

Mortality rates were based on RP 2000 Mortality tables, with mortality improvement scales applied.

*Discount rate.* The discount rate used to measure the total OPEB liability was 3.25%. The Plan is an unfunded plan; therefore, the discount rate was set to the rate of tax-exempt, high-quality 20-year municipal bonds, as of the valuation date. "High-quality" is defined as being rated AA or higher (or an equivalent rating).

Changes in the net OPEB liability for the year ended June 30, 2018 are as follows:

	Increases (Decreases)		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance as of June 30, 2017	\$ 713,886	\$ -	\$ 713,886
Change for the year:			
Service cost	336,101	-	336,101
Interest	34,125	-	34,125
Employer contributions	4,610	-	4,610
Implicit rate subsidy fulfilled	(3,682)	-	-
Administrative expenses	<u>(982)</u>	<u>-</u>	<u>(982)</u>
Net changes/expense	<u>370,172</u>	<u>-</u>	<u>370,172</u>
Balance as of report date June 30, 2018	<u>\$ 1,084,058</u>	<u>\$ -</u>	<u>\$ 1,084,058</u>

# WASHINGTON HEALTH BENEFIT EXCHANGE

## Notes to Financial Statements

June 30, 2018

The net OPEB liability of the Exchange, as well as what the Exchange's net OPEB liability would be if it were calculated using a discount rate that is 1% point lower (2.25%) or 1% point higher (4.25%), follows:

	1% Decrease ( <u>2.25%</u> )	Current Discount Rate ( <u>3.25%</u> )	1% Increase ( <u>4.25%</u> )
Net OPEB liability	\$ <u>1,384,311</u>	\$ <u>1,084,112</u>	\$ <u>859,906</u>

The net OPEB liability of the Exchange, as well as what the Exchange's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% point lower (5.70%) or 1% point higher (7.70%) than current healthcare cost trend rates, follows:

	1% Decrease ( <u>5.70%</u> decreasing to <u>3.80%</u> )	Trend Rate ( <u>6.70%</u> decreasing to <u>4.80%</u> )	1% Increase ( <u>7.70%</u> decreasing to <u>5.80%</u> )
Net OPEB liability	\$ <u>816,785</u>	\$ <u>1,084,112</u>	\$ <u>1,465,212</u>

### OPEB Expense

For the year ended June 30, 2018, the Exchange recognized an OPEB expense of \$370,226.

### 9. Concentrations

During the year ended June 30, 2018, approximately 43% of the Exchange's revenue was from government agencies, and 47% was from Premium Tax and Carrier Assessments. In addition, at June 30, 2018, 49% of receivables were Medicaid receivables, and 44% 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, 2018**

**Last 10 Fiscal Years \***

	<u>2018</u>		<u>2017</u>		<u>2016</u>	
	<u>PERS</u> <u>Plan 1</u>	<u>PERS</u> <u>Plans 2/3</u>	<u>PERS</u> <u>Plan 1</u>	<u>PERS</u> <u>Plans 2/3</u>	<u>PERS</u> <u>Plan 1</u>	<u>PERS</u> <u>Plans 2/3</u>
Washington Health Benefit Exchange (the Exchange) proportion of the net pension liability	<b>0.076 %</b>	<b>0.095 %</b>	0.078 %	0.098 %	0.095 %	0.120 %
The Exchange's proportionate share of the net pension liability	<b>\$ 3,609,713</b>	<b>\$ 3,307,259</b>	\$ 4,164,800	\$ 4,930,335	\$ 4,962,269	\$ 4,291,742
The Exchange's covered-employee payroll	<b>\$ 19,272</b>	<b>\$ 10,007,705</b>	\$ 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	<b>18,730.35 %</b>	<b>33.05 %</b>	3,687.26 %	52.65 %	5,072.81 %	40.28 %
Plan fiduciary net position as a percentage of the total pension liability	<b>61.24 %</b>	<b>90.79 %</b>	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, 2018**

**Last 10 Fiscal Years \***

	<u>2017</u>		<u>2016</u>		<u>2015</u>	
	<u>PERS Plan 1</u>	<u>PERS Plan 2/3</u>	<u>PERS Plan 1</u>	<u>PERS Plans 2/3</u>	<u>PERS Plan 1</u>	<u>PERS Plans 2/3</u>
Actuarially determined contributions	\$ 499,537	\$ 667,033	\$ 483,450	\$ 649,130	\$ 430,691	\$ 555,046
Contributions in relation to the actuarially determined contributions	<u>457,595</u>	<u>581,385</u>	<u>439,783</u>	<u>565,302</u>	<u>435,992</u>	<u>535,052</u>
Contribution deficiency (excess)	<u>\$ 41,942</u>	<u>\$ 85,648</u>	<u>\$ 43,667</u>	<u>\$ 83,828</u>	<u>\$ (5,301)</u>	<u>\$ 19,994</u>
Washington Health Benefit Exchange's covered-employee payroll	<u>\$ 19,272</u>	<u>\$ 10,007,705</u>	<u>\$ 112,951</u>	<u>\$ 9,364,985</u>	<u>\$ 97,821</u>	<u>\$ 10,655,736</u>
Contributions as a percentage of covered-employee payroll	<b>2,374.40 %</b>	<b>5.81 %</b>	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.

**WASHINGTON HEALTH BENEFIT EXCHANGE**

**Required Supplementary Information**

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

**Washington Public Employees Retirement System**

**June 30, 2018**

**Last 10 Fiscal Years \***

<b>Total OPEB Liability</b>	
Service cost	\$ 336,101
Interest	34,125
Contributions - employer	4,664
Administrative expense	<u>(982)</u>
Implicit rate subsidy fulfilled	<u>(3,682)</u>
<b>Net change in total OPEB liability</b>	370,226
<b>Total OPEB liability-beginning</b>	<u>713,886</u>
<b>Total OPEB liability-ending</b>	<u><u>\$ 1,084,112</u></u>
<b>Net change in plan fiduciary net position</b>	\$ -
<b>Plan fiduciary net position-beginning</b>	<u>-</u>
<b>Plan fiduciary net position-ending</b>	<u><u>\$ -</u></u>
Net OPEB liability-ending	\$ 1,084,112
Plan fiduciary net position as a percentage of total OPEB liability	0.00 %
Covered payroll	\$ 9,388,703
Net OPEB liability as a percentage of covered payroll	11.55 %

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

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

The Board of Directors  
Washington Health Benefit Exchange

We have audited, in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Washington Health Benefit Exchange (a component unit of the State of Washington) (the Exchange), which comprise the statement of net position as of June 30, 2018, 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 1, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Exchange's internal control over financial reporting (internal control) 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 the Exchange's internal control. Accordingly, we do not express an opinion on the effectiveness of the Exchange's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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 the 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 1, 2018