



Report of Independent Auditors
in Accordance with OMB Circular A-133
and Financial Statements
with Supplementary Information for
Washington Health Benefit Exchange
December 31, 2013 and 2012

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

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CONTENTS

	PAGE
REPORT OF INDEPENDENT AUDITORS	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-11
FINANCIAL STATEMENTS	
Statements of net position	12
Statements of revenues, expenses, and changes in net position	13
Statements of cash flows	14
Notes to financial statements	15-22
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>	23-24
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE	25-26
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	27
SUPPLEMENTARY INFORMATION	
Schedule of expenditures of federal awards	28
Notes to the schedule of expenditures of federal awards	29

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 year ended December 31, 2013, and for the period from inception through December 31, 2012, 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 audit. We conducted our audit 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 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 Exchange'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, 2013 and 2012, and the changes in financial position and, where applicable, cash flows thereof for the year and period 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 11 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 August 19, 2014, 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
August 19, 2014

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, 2013

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. After the legislation was signed 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, for the period September 30, 2010, through September 29, 2012.
- Level 1 Establishment Grant, \$23 million, to the Washington Health Care Authority (HCA), for the period May 23, 2011, through 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 (continued)

Key Activities and Operations through December 31, 2013 (continued)

- Level 2 Establishment Grant, \$128 million, to the Exchange to develop the online insurance marketplace, for the period May 16, 2012, through December 31, 2014. As of December 31, 2013, approximately \$61 million was still available for expenditure under the Level 2 Grant.
- Supplemental grant in the amount of \$8 million for In-Person Assistants and an additional \$21 million for design, development, and implementation of the System Integrator, Deloitte Consulting Group, LLC (SI) for the period April 22, 2013, through December 31, 2013.
- Additional Level 1 Establishment Grant, \$85 million, to the Exchange for January 22, 2014, through December 31, 2014.

Federal grant funds 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 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, 2013, the Exchange had approximately 120 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.

In July 2013, the Exchange relocated its headquarters to an office building with approximately 30,679 square feet of rentable space, located in Olympia, Washington. The Exchange has entered into an agreement to lease the office space for a five-year term.

Communications and transparency - To keep the public and constituents informed relative to the ongoing progress of the Exchange, a new website (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.

Outreach and education - In September 2013, the Exchange launched television, radio, web, and print ads featuring a character named "Chance," who personifies the gamble of going without health insurance. The everyday risks depicted in the Healthplanfinder advertising campaign demonstrate the threat that uninsured Washington residents face to their health and financial security. The television, radio, web, and print ads can be viewed at: www.wahbexchange.org/adcampaign.

WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Key Activities and Operations through December 31, 2013 (continued)

The Exchange continues to maintain social media handles on Facebook (www.facebook.com/WAHealthplanfinder) and Twitter (www.twitter.com/waplanfinder) as well as a YouTube channel (www.youtube.com/user/waplanfinder). On September 30, 2013, the Exchange hosted a Washington Healthplanfinder launch event, which stimulated significant media attention for October 1 Go Live.

At the launch event, Exchange staff provided demonstrations of Healthplanfinder and the Exchange also announced a mobile enrollment tour scheduled for mid-October 2013 featuring a bus equipped with internet-ready laptops and trained In-Person Assisters enrolling people in over ten locations across Washington State.

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 Washington Healthplanfinder. National outlets such as CNBC, Washington Post, New York Times, and USA Today have also covered the work of the Exchange.

Exchange website - The Exchange is committed to building a best-in-class online health insurance marketplace experience for customers through Washington Healthplanfinder. On October 1, 2013, the Exchange successfully launched the Healthplanfinder website and commenced open enrollment for health coverage beginning January 1, 2014. Achieving this historically significant milestone required the following accomplishments:

- Procuring and contracting with the SI;
- Establishing a project team of Exchange employees and contractors;
- Developing standard project management processes for managing scope, schedule, issues, and risks;
- Completing design, development, and testing of the system's software;
- Implementing hardware and infrastructure in Olympia, WA, and remotely at the data center and disaster recovery site;
- Interfacing with several partner systems including the Eligibility Service, Federal Data Services Hub, e-Health (Plan Management component), KeyBank, and K/P Printing;
- Completing federally required testing;
- Loading carrier and plan data;
- Converting and loading of Medicaid data;
- Developing and delivering a "Train the Trainer" program;
- Developing and implementing a security program; and
- Implementing a post implementation support program.

Through these accomplishments, the Exchange has established a strong foundation for meeting the challenge and goals of the next generation of Healthplanfinder.

WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Key Activities and Operations through December 31, 2013 (continued)

SHOP - The Small Business Health Options Program (SHOP) went live October 1, 2013, with a limited program in Southwest Washington State (Clark & Cowlitz counties). Although 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 Assistors to the structure and federal guidance on Certified Application Assistors (CACs) added an additional category of assistors to the In-Person Assister program. On June 5, 2013, the Exchange announced ten 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 Assistors to work directly with Washington Healthplanfinder customers. In-Person Assistors have been trained, certified, and received their usernames and passwords to enable them to help customers shop, apply, and enroll in coverage through Washington Healthplanfinder.

Customer Support Center (Call Center) - The Exchange selected Faneuil, Inc. to operate the Call Center on March 7, 2013, which opened to Washington State callers on September 3, 2013. Consumers are able to receive assistance through the toll-free phone line and through email. Assistance is available in up to 175 languages and trained representatives are available weekdays 7:30 a.m. to 8:00 p.m. Customer Service Representatives (CSRs) in Spokane, Washington, are trained and available to assist applicants with the application process, answer questions about types of health coverage options, how to access financial help, and what consumers need to know about the enrollment process. CSRs also process paper applications. On the opening day, the Call Center received 884 total calls with over 100 calls within the first hour. By December 31, 2013, the Call Center was receiving up to 20,000 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 increased from approximately 100 individuals in October 2013 to approximately 300 individuals by 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.

WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Key Activities and Operations through December 31, 2013 (continued)

Finance and accounting - During the past year, the Exchange Finance Team has been working to implement day-to-day accounting and finance business processes for insurance premium payments from individuals and small businesses to the carriers when the Exchange became operational in October 2013. During this time period, the Exchange has successfully hired and trained financial staff, closed the books and received unmodified auditor's reports related to the financial statements and federal award audits for the period ended December 31, 2012, and developed and tested integration of its accounting system with the System Integrator and KeyBank. The Finance team continues to focus on development and refinement of business processes that were implemented once premium payments began to be processed in December 2013.

Timeline of Key Activities

September 2010	Washington receives a \$1 million planning grant to assess the development of a state-based exchange.
May 2011	The Washington Health Benefit Exchange is created in Washington State statute through SSB 5445. Washington receives a \$23 million Level 1 Establishment Grant to support Exchange development in Washington State.
December 2011	Governor Gregoire appoints a bipartisan 11-member governing board for the Exchange.
January 2012	Deloitte Consulting Group, LLC is selected as the System Integrator to design, develop, and implement Washington State's Health Benefit Exchange Information Technology system and Healthplanfinder.
May 2012	Exchange receives Level 2 Establishment Grant for \$128 million.
December 2012	The Exchange Board submits a sustainability plan recommendation to the Washington State Legislature. The Exchange receives conditional approval from the federal government to operate Washington Healthplanfinder.
March 7, 2013	Exchange 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	Exchange 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.

WASHINGTON HEALTH BENEFIT EXCHANGE

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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 are 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 increased 270% during the year from \$10.1 million as of December 31, 2012, to \$37.2 million as of December 31, 2013. This was entirely from the increase in net position invested in capital assets due to the build-out of Healthplanfinder and other infrastructure needed for operations.

Following is a summary of the changes in the Exchange's assets, liabilities, and net position from inception to December 31, 2012, and from January 1, 2013, to December 31, 2013 (\$ in millions):

	2013	2012	Percentage Change
	<u>2013</u>	<u>2012</u>	<u>Change</u>
Current and other assets	\$ 34.5	\$ 6.9	400.0%
Capital assets	37.2	10.1	268.3%
Other noncurrent assets	-	1.0	-100.0%
Total assets	<u>71.7</u>	<u>18.0</u>	<u>298.3%</u>
Current liabilities	34.5	6.9	400.0%
Long-term liabilities	-	1.0	-100.0%
Total liabilities	<u>34.5</u>	<u>7.9</u>	<u>336.7%</u>
Net position			
Net invested in capital assets	37.2	10.1	268.3%
Unrestricted	-	-	0.0%
Total net position	<u>\$ 37.2</u>	<u>\$ 10.1</u>	<u>268.3%</u>

**WASHINGTON HEALTH BENEFIT EXCHANGE
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Financial Statements (continued)

The statement of revenues, expenses, and changes in net position reports the operating revenues and expenses as well as the nonoperating 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 years ended December 31, 2013 and 2012, respectively, the Exchange recognized approximately \$85.1 and \$18.1 million in revenues from federal grants and approximately \$3.3 and \$0.6 million in matching revenues from the Medicaid program. In 2013, total operating expenses increased by \$49.7 million to \$61.2 million from \$11.5 million in the prior year primarily due to the build-out of Healthplanfinder, development of the Call Center in Spokane, and professional services provided by independent contractors working with the Exchange.

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

	2013	2012	Percentage Change
System development	\$ 11.8	\$ 5.3	122.6%
Professional services	18.5	2.4	670.8%
Salaries, payroll taxes, and benefits	9.0	1.7	429.4%
Depreciation	6.6	1.5	340.0%
Equipment and supplies	1.2	0.2	500.0%
Call Center development	11.6	0.2	5700.0%
Occupancy	1.5	0.1	1400.0%
Other	1.0	0.1	900.0%
	<u>\$ 61.2</u>	<u>\$ 11.5</u>	<u>432.2%</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 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.

WASHINGTON HEALTH BENEFIT EXCHANGE MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Statements (continued)

Total cash and cash equivalents increased approximately \$12.4 million from \$41,000 at December 31, 2012, to \$12,441,000 at December 31, 2013. The net increase was primarily due to cash received from enrollees for QHP and QDP premiums. 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. Excluding the premiums collected on behalf of enrollees, cash and equivalents decreased approximately \$36,000 during the year ended December 31, 2013. Approximately \$43.3 million of net cash was used in operating activities during the year ended December 31, 2013, compared with \$2.5 million of net cash used in operating activities for the period from inception through December 31, 2012. Approximately \$53.1 million of net cash was provided by noncapital financing activities during the year ended December 31, 2013, compared with \$2.6 million of net cash provided by noncapital financing activities for the period from inception through December 31, 2012. Approximately \$2.6 million of net cash was provided by capital and related financing activities during the year ended December 31, 2013, compared with no net change in cash from capital and related financing activities for the period from inception through December 31, 2012.

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,	
	2013	2012
CURRENT ASSETS		
Cash and cash equivalents	\$ 5,279	\$ 41,357
Cash held for enrollees	12,436,039	-
Federal grants receivable	18,429,865	6,258,490
Medicaid program cost reimbursement receivable	3,300,090	571,260
Prepaid expenses	294,293	40,384
	<u>34,465,566</u>	<u>6,911,491</u>
NONCURRENT ASSETS		
Long-term portion of federal grants receivable	-	929,280
Long-term portion of Medicaid program cost reimbursement receivable	-	56,798
	<u>-</u>	<u>986,078</u>
CAPITAL ASSETS		
Software	40,944,570	8,509,182
Computers and network	3,437,420	2,623,769
Furniture and equipment	316,692	-
Leasehold improvements	636,815	-
	45,335,497	11,132,951
Less accumulated depreciation	(8,106,243)	(1,484,645)
Work in progress	-	410,612
	<u>37,229,254</u>	<u>10,058,918</u>
Capital assets, net	<u>37,229,254</u>	<u>10,058,918</u>
Total assets	<u>\$ 71,694,820</u>	<u>\$ 17,956,487</u>

LIABILITIES AND NET POSITION

CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 16,838,540	\$ 6,655,802
Due to issuers on behalf of enrollees	12,436,039	-
Contracts holdback liability	4,637,684	-
Payroll liabilities	553,303	255,689
	<u>34,465,566</u>	<u>6,911,491</u>
Total current liabilities	<u>34,465,566</u>	<u>6,911,491</u>
LONG-TERM LIABILITIES		
Contracts holdback liability	-	986,078
	<u>-</u>	<u>986,078</u>
Total liabilities	<u>34,465,566</u>	<u>7,897,569</u>
NET POSITION		
Net invested in capital assets	37,229,254	10,058,918
Unrestricted	-	-
	<u>37,229,254</u>	<u>10,058,918</u>
Total net position	<u>37,229,254</u>	<u>10,058,918</u>
Total liabilities and net position	<u>\$ 71,694,820</u>	<u>\$ 17,956,487</u>

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

	Years Ended December 31,	
	2013	2012
OPERATING REVENUES	\$ -	\$ -
OPERATING EXPENSES		
System development	11,777,636	5,293,800
Professional services	18,526,748	2,429,281
Salaries, payroll taxes, and benefits	9,019,440	1,644,803
Depreciation	6,625,476	1,484,645
Equipment and supplies	1,203,537	239,294
Call Center development	11,557,560	222,000
Occupancy	1,490,566	119,063
Other	1,017,500	60,895
Total operating expenses	<u>61,218,463</u>	<u>11,493,781</u>
Operating loss	(61,218,463)	(11,493,781)
NONOPERATING REVENUES		
Federal grants	85,088,709	18,115,805
Medicaid program cost reimbursement	<u>3,300,090</u>	<u>628,058</u>
Total nonoperating revenues	88,388,799	18,743,863
GAIN BEFORE CAPITAL CONTRIBUTIONS	27,170,336	7,250,082
CAPITAL CONTRIBUTIONS	<u>-</u>	<u>2,808,836</u>
Increase in net position	27,170,336	10,058,918
NET POSITION, beginning of year	<u>10,058,918</u>	<u>-</u>
NET POSITION, end of year	<u><u>\$ 37,229,254</u></u>	<u><u>\$ 10,058,918</u></u>

WASHINGTON HEALTH BENEFIT EXCHANGE STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash payments to suppliers for goods and services	\$ (34,862,609)	\$ (1,115,854)
Cash payments to employees for services	(8,428,323)	(1,398,135)
Net cash from operating activities	<u>(43,290,932)</u>	<u>(2,513,989)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal grants received	40,050,803	2,555,346
Medicaid reimbursement received	628,058	-
Enrollee premiums received	<u>12,436,039</u>	<u>-</u>
Net cash from noncapital financing activities	53,114,900	2,555,346
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Federal grants received	33,916,798	8,372,689
Acquisition of capital assets	<u>(31,340,805)</u>	<u>(8,372,689)</u>
Net cash from capital and related financing activities	<u>2,575,993</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	12,399,961	41,357
CASH AND CASH EQUIVALENTS, beginning of year	<u>41,357</u>	<u>-</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 12,441,318</u>	<u>\$ 41,357</u>
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 5,279	\$ 41,357
Cash held for enrollees	<u>12,436,039</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 12,441,318</u>	<u>\$ 41,357</u>
RECONCILIATION OF INCREASE IN NET POSITION TO NET CASH FROM OPERATING ACTIVITIES		
Operating loss	\$ (61,218,463)	\$ (11,493,781)
Adjustments to reconcile operating loss to net cash from operating activities		
Depreciation	6,622,399	1,484,645
Changes in assets and liabilities		
Prepaid expenses	(253,909)	(40,384)
Accounts payable and accrued liabilities	7,316,318	6,306,561
Payroll liabilities	591,117	242,892
Contracts holdback	<u>3,651,606</u>	<u>986,078</u>
Net cash from operating activities	<u>\$ (43,290,932)</u>	<u>\$ (2,513,989)</u>
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES		
Change in capital assets included in accounts payable and payroll liabilities	<u>\$ 3,159,923</u>	<u>\$ 362,038</u>
Capital contribution from Health Care Authority	<u>\$ -</u>	<u>\$ 2,808,836</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 commenced 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, 2013, 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, 2013, for the Level 2 Establishment Grant. Medicaid program cost reimbursement receivable represents unreimbursed state funds as of December 31, 2013, 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, 2013 and 2012.

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.

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, 2013 and 2012, is reflected as a current liability and long-term liability, respectively.

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, 2013 and 2012. 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, 2013 and 2012.

Restricted - Net position subject to externally imposed stipulations on their use. There are no restrictions as of December 31, 2013 and 2012.

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, 2013 and 2012.

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.

Capital contributions - Capital contributions include contributions of capital assets or resources required to be used to acquire or construct capital assets. During 2012, hardware and software assets valued at \$2,808,836 were purchased by the HCA using Level 1 Establishment Grant funds and subsequently transferred to the Exchange shortly after execution of contract No. HBE001 with the HCA. The assets transferred from the HCA were included in the 2012 statement of revenues, expenses, and changes in net position as capital contributions. There were no capital contributions during the year ended December 31, 2013.

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 - The Exchange has evaluated subsequent events through August 19, 2014, the date on which the financial statements were available to be issued.

WASHINGTON HEALTH BENEFIT EXCHANGE
NOTES TO FINANCIAL STATEMENTS

Note 1 - Summary of Significant Accounting Policies (continued)

Effective January 22, 2014, a new Level 1 establishment grant was awarded to the Exchange. The amount awarded under the grant totaled \$84,636,761 and covers the period from January 22, 2014, through December 31, 2014. Of the total award amount, approximately \$7.2 million is earmarked for the Washington Department of Social and Health Services (DSHS) for upgrading the state's existing Medicaid eligibility system to support the operations of the Exchange.

Effective March 26, 2014, the Exchange executed Amendment #5 to Contract HBE-028 with Faneuil, Inc. The amendment increased the maximum amount payable under the contract by \$5 million in order to accommodate additional full-time employees needed at the Exchange's Call Center in Spokane.

Note 2 - Capital Assets

Capital assets consist of the following at December 31, 2013 and 2012:

	Beginning of Period	Additions	Disposals	Transfers	End of Period
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	<u>2,623,769</u>	<u>817,529</u>	<u>(3,878)</u>	<u>-</u>	<u>3,437,420</u>
	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	<u>410,612</u>	<u>-</u>	<u>-</u>	<u>(410,612)</u>	<u>-</u>
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>

	Inception	Additions	Disposals	Transfers	End of Period
Software	\$ -	\$ 8,509,182	\$ -	\$ -	\$ 8,509,182
Computers and network	<u>-</u>	<u>2,623,769</u>	<u>-</u>	<u>-</u>	<u>2,623,769</u>
	-	11,132,951	-	-	11,132,951
Accumulated depreciation	-	(1,484,645)	-	-	(1,484,645)
Work in progress	<u>-</u>	<u>410,612</u>	<u>-</u>	<u>-</u>	<u>410,612</u>
Total capital assets, net	<u>\$ -</u>	<u>\$ 10,058,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,058,918</u>

During 2013 and 2012, the Exchange incurred \$31,938,237 and \$410,612, 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 \$2,680,359 for the year ended December 31, 2013.

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.

Subsequent to December 31, 2013, 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, 2013, the receivable totaled \$3,300,090, all of which is classified as a current asset. The related revenue of \$3,300,090 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 Washington State Health Care Authority (HCA). In December 2011, the Executive Director of HCA was appointed as an ex-officio non-voting member of the Exchange Board.

The \$23 million Level 1 Establishment Grant was initially awarded to HCA in May 2011 to support the Exchange development. From July 1, 2011, through October 31, 2012, HCA expended approximately \$15 million of Level 1 funds toward the development of the Exchange. During 2012, hardware and software assets were purchased by the HCA under contract with the SI using Level 1 Establishment Grant funds. These assets were acquired on behalf of the Exchange, and were legally transferred from the HCA to the Exchange shortly after execution of Contract No. HBE001 with HCA. These transferred assets totaled \$2.8 million for the period ended December 31, 2012, and are reflected as Capital Contributions on the statement of revenues, expenses, and change in net position. Effective February 21, 2013, the Level 1 Establishment Grant was transferred from HCA to the Exchange, at which point approximately \$7.8 million of unused federal funds were still available under the grant. As of December 31, 2013, there were no remaining unused federal funds available under the Level 1 Establishment Grant.

WASHINGTON HEALTH BENEFIT EXCHANGE
NOTES TO FINANCIAL STATEMENTS

Note 5 - Commitments

During 2013, 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, 2013:

2014	\$ 656,000
2015	656,000
2016	646,000
2017	537,000
2018	<u>292,000</u>
Total minimum lease payments	<u>\$ 2,787,000</u>

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 \$60,229,000 and \$34,913,000 as of December 31, 2013 and 2012, 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.

WASHINGTON HEALTH BENEFIT EXCHANGE

NOTES TO FINANCIAL STATEMENTS

Note 6 - Employee Pension Plans (continued)

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.

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.

WASHINGTON HEALTH BENEFIT EXCHANGE
NOTES TO FINANCIAL STATEMENTS

Note 6 - Employee Pension Plans (continued)

The Exchange's covered payroll for PERS for the years ended December 31, 2013 and 2012, was \$6,964,000 and \$1,325,000, respectively.

The Exchange's contribution rates during 2013 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. During 2012, the Exchange's contribution rate expressed as a percentage of covered payroll for employer was 7.08% for PERS Plan 1, PERS Plan 2, and PERS Plan 3. The employer rate does not include the employer administrative expense fee currently set at 0.18%.

Both the Exchange and its employees made the required contributions. The Exchange's required contributions for 2013 and 2012 were as follows:

	<u>Plan 1</u>	<u>Plan 2</u>	<u>Plan 3</u>	<u>Total</u>
2013 employer contributions	\$ 4,563	\$ 414,753	\$ 163,122	\$ 582,438
2012 employer contributions	\$ -	\$ 55,927	\$ 38,496	\$ 94,423

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

Note 7 - Concentrations

During the years ended December 31, 2013 and 2012, respectively, approximately 96% of the Exchange's grant and contract revenue was from United States government agencies. In addition, at December 31, 2013 and 2012, respectively, 85% and 92% 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 the Washington Health Benefit Exchange as of and for the year ended December 31, 2013, 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 August 19, 2014.

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. 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 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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
August 19, 2014

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Washington Health Benefit Exchange

Report on Compliance for 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, 2013. The 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.

Opinion on Major Federal Program

In our opinion, 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 its major federal program for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the 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 the Washington Health Benefit Exchange's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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 the Washington Health Benefit Exchange's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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
August 19, 2014

**WASHINGTON HEALTH BENEFIT EXCHANGE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2013**

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 program:

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 Program

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	Unmodified

Dollar threshold used to distinguish between type A and type B programs: \$2,552,661

Auditee qualified as low-risk auditee? Yes No

Section II - Financial Statement Findings

None reported

Section III - Federal Award Findings and Questioned Costs

None reported

SUPPLEMENTARY INFORMATION

**WASHINGTON HEALTH BENEFIT EXCHANGE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2013**

Federal Grantor/Pass-Through Grant/Program Title	Federal Award Year	Federal CFDA Number	Pass-Through Number	Federal Expenditures
U.S. Department of Health and Human Services				
State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges	2/21/2013 - 12/22/2013	93.525	1 HBEIE130162-01-00	\$ 7,767,747
State Planning and Establishment Grants for the Affordable Care Act (ACA) Exchanges	5/16/2012 - 5/15/2014	93.525	1 HBEIE120121-01-00	<u>77,320,962</u>
Total expenditures of federal awards				<u>\$ 85,088,709</u>

WASHINGTON HEALTH BENEFIT EXCHANGE
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2013

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, 2013. 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.