Oregon Health Insurance Exchange Corporation

3414 Cherry Ave. N.E., Suite 190
Salem, OR 97303
503-373-9417
www.orhix.org

Mission: Improving the health of all Oregonians by providing health coverage options, increasing access to information, and fostering quality and value in the health care system.

Board of Directors

Chair: Liz Baxter, Executive Director, We Can Do Better
Vice Chair: Teri Andrews, Owner, CG Industries
Ken Allen, Executive Director, Oregon AFSCME Council 75
Dr. George Brown, Chief Executive Officer, Legacy Health System
Aelea Christofferson, Owner, ATL Communications
Dr. Bruce Goldberg, Director, Oregon Health Authority
Jose Gonzalez, Principal Broker, Tu Casa Real Estate Corporation
Gretchen Peterson, Vice President of Human Resources, Hanna Andersson
Lou Savage, Acting Administrator, Insurance Division, Oregon Department of Consumer and Business Services

Legislative Oversight and Advisory Committee

Sen. Frank Morse, R-Albany
Sen. Laurie Monnes-Anderson, D-Gresham
Rep. Mitch Greenlick, D-Portland
Rep. Jim Thompson, R-Dallas

Key Staff

Howard "Rocky" King, Executive Director
Amy Fauver, Outreach, Communications and Marketing
Triz delaRosa, Operations
Nora Leibowitz, Policy, Research and Evaluation
Aaron Karjala, Chief Information Officer
Jon Jurevic, Chief Financial Officer
April 2012

On behalf of the Board of Directors of the Oregon Health Insurance Exchange Corporation, I am pleased to present the first Annual Report, covering activities of the Exchange from its formation in June 2011 to present. The mission of the Oregon Health Insurance Exchange is to improve the health of all Oregonians by providing health care options, increasing access to information, and fostering quality and value in the health care system. In October 2013, the Exchange will deliver on this mission when it launches a central marketplace for individuals and small employers to shop for health plans and possibly receive help paying for coverage.

Since the passage of Senate Bill 99 in June 2011, we have made incredible progress, from starting a brand-new organization to developing a business plan to engaging a broad base of stakeholders. Specifically, Oregon has:

- Established a public corporation to operate the Exchange, including convening a board of directors, hiring an executive director and key staff, creating policies and infrastructure, and securing federal grants for operations through August 2012.
- Developed an extensive effort to involve stakeholders, including technical advisory workgroups to help develop Exchange programs, an Individual and Small Employer Consumer Advisory Committee to provide input to the board, a Tribal Technical Workgroup to advise on issues impacting Oregon’s Tribes.
- Began partnership and worked with the Oregon Health Authority on the development of the Exchange’s information technology system.
- Wrote and adopted a formal business plan, which was approved by the Oregon Legislature in February 2012.

This report provides an overview of these and other activities as well as the corporation’s audited financial statements for the last four months of 2011.

Looking ahead, 2012 will be a critical year. Oregon’s Exchange must be certified as “ready” by the federal government by January 2013. We also will be developing our standards for health plans that will be sold in the Exchange and our plan for educating Oregonians about the Exchange and helping them find health coverage that meets their needs.

We look forward to continued collaboration with consumers, small employers, insurance carriers, legislators, and others as we work to make health coverage more accessible to our citizens.

Sincerely,

Liz Baxter
Chair, Oregon Health Insurance Exchange Board of Directors
Oregon Health Insurance Exchange Overview

The Oregon Health Insurance Exchange is a central marketplace where individuals and small employers can shop for health insurance plans and access federal tax credits to help them pay for coverage. The Exchange will be available for open enrollment starting in October 2013, through an easy-to-use website, a toll-free phone number, and through community-based organizations and insurance agents. Coverage for plans will begin Jan. 1, 2014.

The Exchange will provide Oregonians with:

- A central place to shop for insurance plans
- Trusted information and assistance
- Focus on cost and value
- Seamless eligibility and enrollment process
- Help paying for health coverage
- Innovative plan options and simplified plan administration for small employers
- Community-based assistance
- More accessible health coverage

There is no state funding for the Exchange. Start-up funding comes from federal grants, and Senate Bill 99 creates an administrative fee to cover costs once the Exchange is operational. Enrollment and financial projections developed by national and state
experts show the Exchange generating sufficient revenue from the administrative fee to cover its costs as well as to build an adequate reserve.

Senate Bill 99 requires the Exchange board of directors to present a report each year to the Legislative Assembly, the Governor, the Oregon Health Authority, the Oregon Health Policy Board, and the Department of Consumer and Business Services. While this report covers activities from June 2011 to April 2012, subsequent reports will cover the calendar year.

**Timeline of Key Activities**

- June 2011: Legislature enacts Senate Bill 99
- September 2011: Board confirmed, initial staff hired
- November 2011: Detailed review of IT project with federal agencies
- February 2012: Legislature approves business plan
- Summer 2012: Level 2 grant application submitted for funding through 2014
- Fall 2012: Application for federal readiness certification submitted
- January 2013: Federal readiness certification
- Early spring 2013: Final IT systems testing
- October 2013: Open enrollment begins
- January 2014: Coverage begins

---

**Key Activities and Operations Through April 2012**

**Establishment of Corporation**

Governor Kitzhaber in June 2011 signed Senate Bill 99, which established the Oregon Health Insurance Exchange. The Legislature passed the bill with a strong bipartisan vote in both the House and Senate. Senate Bill 99 created a public corporation to operate the Exchange in the public interest for the benefit of the individuals and small employers that purchase insurance through the Exchange.

**Board of directors**

The corporation is governed by a nine-member board of directors who are appointed by the Governor and confirmed by the Senate. The Senate confirmed the Exchange board of directors in September 2011, and the board started meeting monthly. The board adopted bylaws in October 2011 and a policy manual in February 2012.
Senate Bill 99 established an Individual and Small Employer Consumer Advisory Committee to provide perspectives and input to the board. The board also formed two subcommittees to help guide its work: a finance and audit committee and a personnel and executive compensation committee. A third committee focusing on board development is forthcoming.

Board meetings are open to the public and allow for public participation through a public comment period.

**Grant funding**

Oregon has received several federal grants to fund the work of the Exchange:

- Planning grant, $1 million, to the Oregon Health Authority, for September 2010-September 2011.
- Early Innovator grant, $48 million, to the Oregon Health Authority, to develop the IT system.
- Level 1 Implementation Grant, $8.9 million, to the Oregon Health Insurance Exchange Corporation, for August 2011 to August 2012.

As part of the grant funding, the Exchange corporation provides quarterly reports to the U.S. Department of Health and Human Services, Center for Consumer Information and Insurance Oversight.

**Staffing and infrastructure**

The Governor appointed an interim executive director, Rocky King, in July 2011, and the board hired him as permanent director in November 2011. In September, the Exchange Corporation began hiring key staff, including several who were working on the Exchange for the Oregon Health Authority. Other steps to set up the corporation included:

- Putting in place the necessary physical infrastructure, including office space in Salem and Portland, computers, communications systems, and office equipment.
- Developing financial management system and protocols.
- Selecting a secure, web-based payroll system.

The corporation currently has 26 employees focused on operations; information technology; communications, outreach, and marketing; financial management; and policy, research and evaluation. In addition, the corporation has contracted for a variety of specialized services, such as actuarial, quality standards development, accounting, and project management.

**Project management**

The corporation established a program management structure using standard Project Management Body of Knowledge (PMBOK) deliverables to define all aspects of the Exchange business functions including, but not limited to, information technology,
finance, administration, and customer service. The initial focus has been to define the Exchange business functions that will be within the scope of the information technology system, followed by other processes required to operate the business of the Exchange.

**Communications and transparency**

To keep the public informed about the development of the Exchange, the corporation launched a website, at [www.orhix.org](http://www.orhix.org), in late 2011. The site has information about board and committee meetings and links to stream the meetings online. There also is a public forum page where people can submit comments to the Exchange staff and board of directors.

**Legislative and state oversight**

Although the Exchange is a public corporation, it works with the Legislature and the state of Oregon in the following ways:

- A bipartisan Legislative Oversight and Advisory Committee, composed of two representatives and two senators, meets monthly and advises the corporation on matters concerning the implementation of the Exchange.
- The corporation is required to make quarterly and annual reports to the Legislative Assembly on such things as the financial condition of the Exchange and the implementation of the business plan.
- The Secretary of State must conduct a financial audit of the corporation every 12 months and a performance audit every 24 months.
- The corporation’s executive director meets monthly with the Legislative Fiscal Office (LFO), and corporation staff participate in monthly meetings between LFO and Oregon Health Authority staff focused on the information technology project.

**Business Plan and 2012 Legislation**

Senate Bill 99 required the Oregon Health Insurance Exchange Corporation to submit a [formal business plan](http://www.orhix.org) to the Legislature for approval in February 2012. The corporation underwent an extensive public input and stakeholder outreach process as it developed the business plan, including:

- Reviewed by Exchange board of directors.
- Public testimony at board meetings.
- Reviewed by Individual and Small Employer Consumer Advisory Committee at public meeting.
- Presented to House and Senate health care committees.
- Individual meetings with members of the Exchange’s Legislative Oversight and Advisory Committee and other legislators.
• Solicited public comments about the business plan through website and e-mail address.
• Numerous meetings with stakeholder groups, including consumer advocacy and community organizations, business associations, insurance carriers, and agents.

The Exchange board of directors approved the business plan in January 2012, and it was submitted to the Legislature as part of House Bill 4164. The bill passed with strong bipartisan support (House: 55 to 4; Senate: 26 to 4) and was signed into law by Governor Kitzhaber on March 8, 2012, at the Exchange board of directors meeting.

In addition to approving the business plan, the bill made several technical fixes to SB 99 and opened the Exchange to Oregon school districts starting in 2015.

**Stakeholder Involvement**

In designing an Exchange that meets the needs of Oregon individuals and small employers, engaging stakeholders and the public has been critical. Since its inception, the Oregon Health Insurance Exchange Corporation has been consulting regularly with consumer groups, business associations, insurance carriers, and its state partners. Besides participating in numerous presentations, workshops, and one-on-one meetings, the Exchange corporation has established many formal outlets to involve stakeholders.

**Individual and Employer Consumer Advisory Committee**

The Individual and Employer Consumer Advisory Committee serves in an advisory capacity to the Oregon Health Insurance Exchange Board of Directors. The committee is charged with providing the board with diverse perspectives on Exchange issues and operations, drawing on their experiences as consumers and small employers. When requested by the board or Exchange staff, the committee will analyze issues and provide opinions and recommendations. Monthly committee meetings are open to the public and streamed online.

**SHOP/Individual Market Workgroup**

The SHOP/Individual Market Workgroup consists of representatives from Oregon’s major health insurance carriers. The group has been providing input to the Exchange corporation on the development of the portion of the web portal that will serve small employers, known as SHOP (Small Business Health Options Program). As the group winds down its work on SHOP, it will focus on the services and plans that will be available to individuals through the Exchange.

**Actuarial Workgroup**

Composed of actuaries from Oregon’s major health insurance carriers, the Actuarial Workgroup is providing input to the Exchange corporation and the Insurance Division on a variety of risk, pricing, and selection issues that may occur in the individual and small group markets when federal reforms take effect in 2014. For example, the expanded options to be offered to small employers in the Exchange likely will cause some
imbalances in the market as some insurance companies get disproportionate numbers of higher-cost members. The group is discussing risk adjustment programs – both federal and Oregon-specific – that could help stabilize premiums and level the playing field.

**Carrier Technology Workgroup**

The Exchange corporation is meeting regularly with key technology representatives from Oregon’s major health insurance carriers to keep them informed about the development of the Exchange IT system and to plan how the Exchange's system can best work with the carriers' technology environments.

**Tribal Technical Workgroup**

The Affordable Care Act provides special protections and benefits to American Indians and Alaskan Natives. The Tribal Technical Workgroup consists of experts on the tribal health system and Exchange corporation staff working through technical issues, such as how the Exchange will verify who is an American Indian or Alaskan Native. The goal of the workgroup is to establish a working partnership with the tribes and ensure the Exchange can fully integrate the protections and benefits afforded to the tribes.

**State Partners**

The Exchange corporation works closely with the Oregon Health Authority, the Department of Human Services, and the Department of Consumer and Business Services. The Exchange executive director meets regularly with the directors of the three state agencies to discuss issues that cross all the organizations.

The corporation has a formal intergovernmental agreement with the Department of Consumer and Business Services that defines roles and responsibilities related to qualified health plans and risk adjustment. Staff members from the two organizations meet biweekly, and the Exchange hired a liaison who works for both the Exchange and the department’s Insurance Division.

The corporation also has an intergovernmental agreement with the Oregon Health Authority, spelling out roles and responsibilities related to issues such as Medicaid eligibility and enrollment and the use of application assistors or navigators. In addition, the Oregon Health Authority is developing the information technology infrastructure for the Exchange, and the two organizations are collaborating on establishing requirements for the system.
**Information Technology**

Through the Oregon Health Insurance Exchange, individuals will be able to fill out one application to apply for and enroll in both private and public health coverage. To accomplish that, Oregon is developing a single web portal for the Exchange (commercial insurance plans) and public programs such as the Oregon Health Plan. Steps taken to implement the web portal include:

- In early 2011, the Oregon Health Authority (OHA) received a federal Early Innovator Grant to develop the information technology infrastructure to support the Exchange. Oregon was one of five states to receive one of these grants.
- OHA purchased a commercial, off-the-shelf (COTS) Oracle product for the Exchange. This approach allows Oregon to configure an existing proven product to meet its needs rather than building a new system from scratch.
- Oregon has successfully completed several required federal “gate” reviews with the Center for Consumer Information and Insurance Oversight, to ensure the project is on target.
- Exchange staff members are currently engaged in an intense effort to develop business requirements to be used in the development of the information technology system.
- Oregon is one of 11 states participating in the Enroll UX2014 project, a public-private partnership of national and state foundations, the federal government and the participating states working with design firm IDEO, to develop design standards and prototypes for a world-class user experience.
- Oregon plans to contract with a web design firm, which will use the Enroll UX2014 guidance as a base to create a uniquely Oregon web portal and user experience for individuals and small employers.

**Program Development**

The Oregon Health Insurance Exchange Corporation spent much of its first year developing programs that will shape how the Exchange will operate and serve Oregonians. Areas of focus included:

- **Small employers.** The corporation has developed four options for small employers (with 50 or fewer employees) to offer their employees through the Exchange:
  - Traditional. The employer chooses one insurance company and plan that their employees must enroll in.
  - Plan bundling. The employer chooses one insurance company but lets their employees select from all plans offered by that company.
  - Multiple companies/one plan. The employer selects a benefit plan level and the employees can select a plan from all companies.
• Full choice. Employees can select from all companies and all plans.

These options, particularly “full choice,” have resonated with the business community, and the corporation is working with insurance carriers to address the technical challenges that some of these options create.

• **Plan management.** The corporation will be certifying “Qualified Health Plans” that will be sold on the Exchange and grading those plans on a variety of criteria. The corporation is working with stakeholders on developing the certification requirements and process and is contracting with Oregon Health Care Quality Corporation to develop quality measures that are aligned with other Oregon health reform efforts. In addition, the Exchange is participating in Oregon’s process to design the essential health benefits that will be required in all individual and small group plans starting in 2014.

• **Customer service (navigators and agents).** The Exchange corporation is developing its customer service program, which will include a call center, community-based “navigators,” and insurance agents. The corporation met with insurance agents around the state in late 2011 and early 2012, and it is developing an Agent Management Program that creates a network of agents trained to sell all plans offered through the Exchange.

• **Risk adjustment, reinsurance, and risk corridors.** Reforms that are part of the federal Affordable Care Act will have a significant impact on the health insurance market. For example, beginning in 2014, insurance companies will no longer be able to deny coverage to anyone regardless of their medical history. In addition, the options the Exchange plans to offer small employers may cause some imbalances in the small group market. To address these issues, the corporation has:
  o Created a workgroup made of up actuaries from the major health insurance carriers.
  o Hired a liaison who works with both the Exchange and the Insurance Division on market selection issues.

In addition, the Insurance Division has contracted with Wakely Consulting Group to help determine the impact of reforms on Oregon’s market.

• **Communications and marketing.** Educating Oregonians throughout the state about the Exchange will be key to its success. Much of the outreach during the Exchange’s first year has been geared toward engaging stakeholders, but the corporation is developing a broader communications plan to reach all Oregonians starting in 2013. The corporation contracted with Sandstrom Partners, which conducted focus groups with consumers, small employers, and insurance agents in early 2012 to guide the development of the communications plan as well as the Exchange brand.
• **Financial management.** The Exchange corporation set up its internal financial management and accounting structure, but is starting to develop a more robust system in anticipation of providing premium billing and aggregation for small employers.

• **Tribal requirements.** The Affordable Care Act provides special benefits and protections for American Indians and Alaskan Natives. In early 2012, the corporation adopted a consultation policy that formally lays out how the corporation will receive meaningful input from the Tribes on issues that affect them. The policy includes a Tribal Technical Workgroup that meets monthly and a consultation process between Tribal Chairs and Exchange leadership. The corporation also has contracted with the Northwest Portland Area Indian Health Board for research on Tribal health insurance issues.

**Role of Insurance Producers (Agents) in the Exchange**

Senate Bill 99 requires the Exchange to annually provide a description of the role of insurance producers in the Exchange. The corporation is developing an Agent Management Program that will create a network of agents certified to sell plans in the Exchange. The plan will be finalized in the summer of 2012, and a complete description of the Agent Management Program will be included in the 2012 Annual Report.
Audited Financial Statements

The Oregon Health Insurance Exchange Corporation completed its first annual independent financial audit in early 2012. The audit covered Sept. 1, 2011 through Dec. 31, 2011, during which the corporation was funded by a “Level One” federal implementation grant. The attached financial statements include an unqualified opinion of the auditor and a brief discussion and analysis prepared by management, which gives an overview of the financial result.
INDEPENDENT AUDITORS’ REPORT

To the Board of Directors
Oregon Health Insurance Exchange Corporation
Portland, Oregon

We have audited the accompanying financial statements of Oregon Health Insurance Exchange Corporation (the Exchange), as of December 31, 2011 and for the period from inception (September 1, 2011) to December 31, 2011, which collectively comprise the Exchange’s basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Exchange’s management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Oregon Health Insurance Exchange Corporation, as of December 31, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated April 9, 2012, on our consideration of the Oregon Health Insurance Exchange Corporation’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 and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on page 3 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.
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Oregon Health Insurance Exchange Corporation’s basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also 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 relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

AKT LLP

Salem, Oregon
April 9, 2012
The Oregon Health Insurance Exchange Corporation (the Exchange) financial statements -- including the Balance Sheet; the Statement of Revenues, Expenses, and Changes in Fund Equity; and the Statement of Cash Flows -- are designed to provide an overview of the Exchange’s financial position and activities. Management prepares this Discussion and Analysis to assist the reader of these financial statements.

In June 2011 the Oregon Legislature passed Senate Bill (SB) 99, creating the Exchange as a public corporation to implement a central marketplace for individuals and small employers to shop for health insurance and access federal tax credits pursuant the Federal Patient Protection and Affordable Care Act (ACA) of 2010. There is no state funding for the Exchange. Federal grants will fund start-up costs and the first year of operations, 2014. SB 99 allows the Exchange to assess participating insurance carriers an administrative fee, based on a percentage of earned premium for enrollees in the Exchange plans, to cover its operating costs and to build an operating reserve. In 2015, the Exchange must be financially self-sustaining though this assessment.

Financial Statements

The Exchange began operations in September 2011. Prior to this date, and in anticipation of SB 99, the Oregon Health Authority (OHA) began to research and plan for the formation of the Exchange with a $1 million federal grant. Upon incorporation, OHA advanced the Exchange $250,000 to fund initial operations. This advance was increased to $499,000 in October 2011. Meanwhile, the Exchange secured an initial "Level 1" federal grant of $8.9 million to cover start-up activities through August 2012. The federal grant is funded monthly upon the Exchange’s submission of an invoice for costs incurred. The Exchange is preparing for the submission of the "Level 2" grant to fund operations through 2014.

As shown in the attached Statement of Revenues, Expenses and Changes in Fund Equity, $1.1 million in federal grant revenue was recognized in the four-month-period ended December 31, 2011. The Exchange incurred operating expenses of approximately $997,000, 90 percent of which were for staff salaries and benefits, and consulting expenses. Approximately $90,000 was incurred for the acquisition of IT equipment and leasehold improvements (see the Statement of Cash Flows and Footnote 3).

The Balance Sheet shows that the Exchange has $555,000 in cash and a $107,000 receivable from the federal grant as of December 31, 2011. Accounts payable and payroll liabilities for incurred but unpaid operating expenses were $141,000 and $21,000, respectively. Fund equity, representing the net book value of funds invested in capital assets stands at $85,000.

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. A comparative analysis will be provided in future years when prior year information is available.
OREGON HEALTH INSURANCE EXCHANGE CORPORATION
Balance Sheet
December 31, 2011

ASSETS
Current assets:
Cash $ 555,172
Federal grants receivable 106,563
Total Current Assets 661,735

Capital assets:
Leasehold improvements 23,138
Furniture and equipment 66,392
Less accumulated depreciation (4,037)
Capital assets, net 85,493

Total Assets $ 747,228

LIABILITIES AND FUND EQUITY
Current liabilities:
Accounts payable $ 141,433
Payroll liabilities 21,302
Total Current Liabilities 162,735

Noncurrent liabilities:
Interagency advance 499,000
Total Liabilities 661,735

Fund equity:
Invested in capital assets 85,493

Total Liabilities and Fund Equity $ 747,228

See accompanying notes to financial statements.
OREGON HEALTH INSURANCE EXCHANGE CORPORATION

Statement of Revenues, Expenses, and Changes in Fund Equity
Inception (September 1, 2011) to December 31, 2011

<table>
<thead>
<tr>
<th>Operating Revenues:</th>
<th>$ 1,082,036</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal grants</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Operating Expenses:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries, payroll taxes, and benefits</td>
<td>761,890</td>
</tr>
<tr>
<td>Professional services</td>
<td>140,995</td>
</tr>
<tr>
<td>Equipment and supplies</td>
<td>42,227</td>
</tr>
<tr>
<td>Occupancy</td>
<td>23,957</td>
</tr>
<tr>
<td>Travel</td>
<td>13,690</td>
</tr>
<tr>
<td>Depreciation and other</td>
<td>13,784</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td>996,543</td>
</tr>
</tbody>
</table>

Increase in Fund Equity | 85,493

Fund Equity - Beginning of Period | -

Fund Equity - End of Period | $ 85,493

See accompanying notes to financial statements.
OREGON HEALTH INSURANCE EXCHANGE CORPORATION

Statement of Cash Flows

Inception (September 1, 2011) to December 31, 2011

<table>
<thead>
<tr>
<th>Cash Flows from Operating Activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal grants received</td>
<td>$975,473</td>
</tr>
<tr>
<td>Cash paid for materials and services</td>
<td>(89,183)</td>
</tr>
<tr>
<td>Cash paid to employees and for taxes and benefits</td>
<td>(740,588)</td>
</tr>
<tr>
<td>Net Cash Provided by Operating Activities</td>
<td>145,702</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash Flows from Capital and Related Financing Activities:</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition of capital assets</td>
<td>(89,530)</td>
</tr>
<tr>
<td>Proceeds from intergovernmental agreement</td>
<td>499,000</td>
</tr>
<tr>
<td>Net Cash Provided by Capital and Related Financing Activities</td>
<td>409,470</td>
</tr>
</tbody>
</table>

Net Increase in Cash

555,172

Cash - Beginning

-

Cash - Ending

$555,172

Reconciliation of Increase in Fund Equity to Net Cash Provided by Operating Activities:

| Increase in fund equity                                                  | $85,493 |
| Adjustments to reconcile increase in fund equity income to net cash provided by operating activities |     |
| Depreciation                                                             | 4,037 |

Changes in assets and liabilities:

| Accounts receivable                                                     | (106,563) |
| Accounts payable                                                        | 141,433 |
| Payroll liabilities                                                     | 21,302 |

Net Cash Provided by Operating Activities

$145,702

See accompanying notes to financial statements.
Note 1 - Description of the Business & Regulatory Environment

The Oregon Health Insurance Exchange Corporation (the Exchange) is a central marketplace where consumers and small employers can shop for health insurance plans and find help paying for coverage. Starting in October of 2013 (for coverage effective January 2014), Oregonians will be able to easily compare plans, find out if they are eligible for tax credits and other financial assistance, and enroll for health insurance coverage through the Exchange website. In 2011, the Oregon Legislature passed Senate Bill 99 which created a public corporation to operate the Exchange in the public interest for the benefit of the people and businesses that obtain health insurance coverage for themselves, their families, and their employees through the Exchange. The Exchange began operations in September 2011. The Exchange is governed by a Board of Directors whose members are appointed by the Governor and confirmed by the Senate. Although independent of state government, the Exchange is required to provide regular updated to the Oregon legislature and meets regularly with a Legislative Oversight Committee.

Federal grant funding finances the start-up phase and the first year of operations, 2014. In 2015, the Exchange must be financially self-sustaining via administrative fee assessments on insurance plans sold through the Exchange. Senate Bill 99 sets a maximum fee of between 3 and 5 percent of earned premium depending on the enrollment. Because the Exchange will begin with zero enrollees, it will initially charge the maximum fee of 5 percent. The fee will adjust downward each year as enrollment grows. Senate Bill 99 further stipulates that revenue generated by the assessment in excess of what is necessary to fund operations will be used to build a six-month operating reserve. Any excess beyond that is required to be refunded to the participating insurance carriers.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting
The Exchange’s financial statements are presented on the economic resources measurement focus and the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America for proprietary (enterprise) funds. Accordingly, revenues are recorded when earned and expenses are recorded when a liability is incurred. The Exchange complies with all applicable Governmental Accounting Standards Board (GASB) pronouncements, as well as the Financial Accounting Standards Board (FASB) codification as applied on or before November 30, 1989, unless those contradict GASB pronouncements. In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Fund Accounting, the Exchange only follows Statements of Financial Accounting Standards Board issues prior to November 30, 1989.

Cash
The Exchange maintains its cash either in bank deposit accounts that are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of $250,000 per depositor or incertain non-interest bearing accounts that are fully insured by the FDIC. Further, ORS 295 was established to provide a shared liability pool, increasing the protection to public funds, while allowing banks to pledge collateral more accurately reflecting their actual public funds deposited. As of December 31, 2011 the Exchange did not have any cash in any one bank that exceeded the FDIC limit due to the Public Funds Collateralization Program administered by the Oregon Office of the State Treasurer as the Exchange only deposits money in qualified depositories in order to meet the collateral requirements established by ORS 295.

The Exchange has not experienced any losses on such accounts and believes it is not exposed to any significant credit risk on cash.

For purposes of the statement of cash flows, the Exchange considers all highly liquid investments (including restricted assets) with a maturity when purchased of three months or less to be cash.
Note 2 - Summary of Significant Accounting Policies, continued

Federal Grant Receivable
Federal Grant Receivable represents unreimbursed federal grant funds as of December 31, 2011 for the Level 1 Establishment Grant. Management believes this amount is fully collectible, as such no allowance for uncollectible receivables has been established. The total grant award is $8,969,600 which expires in August 2012.

Fair Value of Financial Instruments
The Exchange’s financial instruments, none of which are held for trading purposes, include cash, receivables, and accounts payable. The Exchange estimates that the fair value of all of these non-derivative financial instruments at December 31, 2011 does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying balance sheet.

Capital Assets
Purchased capital assets are reported at cost. No estimates were made for historic costs and no assets were donated which would require an estimate of fair market value at the date received. The Exchange’s capitalization levels are $5,000 for tangible personal property and leasehold improvements. There are no acquisitions of land or other real property.

Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement, and the resulting gain or loss is included in the operating statement of the related fund. 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:

<table>
<thead>
<tr>
<th>Years</th>
<th>Description</th>
</tr>
</thead>
</table>
|       | Leasehold improvements           | 5
|       | Furniture and equipment          | 3

Fund Equity
Fund equity comprises the various net earnings from operations, non-operating revenues, expenses and contributions of capital. Fund equity is classified in the following two categories:

- Invested in capital assets, net of related debt – consist of all capital assets, net of accumulated depreciation, reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of the assets. There were no such borrowings as of December 31, 2011.
- Unrestricted fund net assets – consist of all other fund net assets that are not included in the other categories previously mentioned. There were no unrestricted net assets at December 31, 2011.

Operating Revenue and Expense
The Exchange distinguishes operating revenues and expenses from non-operating items. Operating revenues include federal grant funds received. Operating expenses include all expenses directly and indirectly related to establishing and running a health exchange. There were no non-operating items in the period ended December 31, 2011.

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 under the State of Oregon’s self-insurance and commercial insurance program, administered by the Department of Administrative Services, Risk Management Division.
Note 2 - Summary of Significant Accounting Policies, continued

Estimates
The Exchange uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. The preparation of the financial statements require management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events
The Exchange has evaluated subsequent events through April 9, 2012, which is the date the financial statements were available to be issued.

Note 3 Capital Assets
Capital assets consisted of the following as of December 31, 2011:

<table>
<thead>
<tr>
<th></th>
<th>Beginning of period</th>
<th>Additions</th>
<th>Retirements</th>
<th>End of period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leasehold improvements</td>
<td>$</td>
<td>$ 23,138</td>
<td>$ -</td>
<td>$ 23,138</td>
</tr>
<tr>
<td>IT equipment</td>
<td>-</td>
<td>$ 66,392</td>
<td>$ -</td>
<td>$ 66,392</td>
</tr>
<tr>
<td>Total capital assets</td>
<td>-</td>
<td>$ 89,530</td>
<td>$ -</td>
<td>$ 89,530</td>
</tr>
<tr>
<td>Accumulated depreciation</td>
<td>-</td>
<td>$ 4,037</td>
<td>$ -</td>
<td>$ 4,037</td>
</tr>
<tr>
<td>Total capital assets, net</td>
<td>$</td>
<td>-</td>
<td>$ 85,493</td>
<td></td>
</tr>
</tbody>
</table>

Note 4 - Pension Plan

Defined Benefit Plan

Plan Description
The Exchange participates in the Oregon Public Employees Retirement System (PERS), an agent multiple-employer defined benefit pension plan and the Oregon Public Service Retirement Plan (OPSRP), an agent multiple-employer hybrid pension plan. Both PERS and OPSRP are governed by the Public Employees’ Retirement Board (PERB) under the provisions of Oregon Revised Statues 238. PERS provides benefits under a variety of benefit options, as selected by retiring employees, and provides death and disability benefits. OPSRP provides a combination of retirement benefits under a defined pension plan and individual account program (IAP), the balance of which will be paid out in either a lump sum or over a 5, 10, 15, or 20-year-period. Employees hired on or after August 29, 2003 participate only in OPSRP. Beginning January 1, 2004, active PERS members hired before August 29, 2003 became members of IAP of OPSRP. These members retain their existing PERS account, however any future member contributions will be placed in the OPSRP IAP. Exchange employees are eligible to participate after completing six months of service.

For the period ended December 31, 2011, the Exchange’s total payroll for all employees and the Exchange’s total covered payroll amounted to $586,174. Covered payroll refers to all compensation paid by the Exchange to active employees and covered by PERS and OPSRP on which contributions are based.
Note 4 - Retirement Plans, continued

Plan Description, continued
A copy of the Oregon Public Employees’ Retirement System annual financial report may be obtained by writing to Public Employees’ Retirement System, P.O. Box 23700, Tigard, OR 97281-3700, by calling (503) 598-7377 or at www.oregon.gov/PERS.

Funding Policy:
The Exchange contribution rate for members is set by state statute. Covered employees are required by state statutes to contribute 6% of their annual salary to the system. The Exchange has chosen to pay the employee contribution. The contribution rate for the Exchange is set by the PERB and is periodically changed based upon actuarial computations of the amount needed to adequately provide for benefits. The Exchange’s 2011 contribution rate as a percentage of member salaries for PERS and OPSRP was 9.55% and 8.05%, respectively.

Annual Pension Cost:
Total contributions, including member and employer contributions, paid by the Exchange for 2011 were $74,490. Annual pension costs have equaled the annual required contributions.

Employer contribution rates for the two-year-period ended June 30, 2013 are based on the actuarial valuation dated December 31, 2009. The fair market value method is used to determine the actuarial value of the plan’s assets. The actuarial assumptions include:

- Investment return of 8%, net of investment expenses.
- Postretirement benefit increases of 2%.
- Projected salary increases of 3.75%.
- Inflation rate of 2.75%.

Employer contribution rates are set using the entry age actuarial cost method. This method produces an employer contribution rate consisting of:

- An amount for normal cost (the estimated amount necessary to finance benefits earned by the employees during the current service year).
- An amount for amortization of the unfunded actuarial accrued liability, if any, over a period of 30 years.
- An actuarially determined amount for funding post-employment healthcare subsidies.

An expected value of assets is projected using the assumed rate of investment yield, currently.

Deferred Compensation Plan
The Exchange has a deferred compensation plan (the Plan) created in accordance with the Internal Revenue Code Section 457, as amended. The Plan is administered by the independent plan administrators Oregon Savings Growth Program and ING. The Plan is available to all employees of the Exchange. Employees defer a portion of their salary until future years. Deferred compensation is not available to employees until termination, retirement, death, or financial hardship.

The Plan’s assets are held in a custodial account for the exclusive benefit of participants and beneficiaries and are not subject to the claims of the Exchange’s creditors, nor can they be used by the Exchange for any purpose other than the payments of benefits to the Plan’s participants.
Note 5 - Interagency Advance

In 2011 the Exchange entered into an intergovernmental agreement with the Oregon Health Authority to provide an advance of funds for initial operating and start-up costs prior to the receipt of federal grant funds. The initial agreement was amended in October 2011 increasing the amount of the advance to $499,000. The entire amount of operating capital advanced under this agreement is due no later than June 30, 2013.

Note 6 - Leases

During 2011 the Exchange entered into two separate leases for office space in Portland and Salem. These leases vary in length from 17 to 60 months. Lease expenses for the period ended December 31, 2011, including amounts paid for real estate taxes, parking, and operating expenses, were $22,649.

Future minimum payments under all operating leases are as follows:

<table>
<thead>
<tr>
<th>Year ending December 31,</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$198,003</td>
</tr>
<tr>
<td>2013</td>
<td>168,814</td>
</tr>
<tr>
<td>2014</td>
<td>165,993</td>
</tr>
<tr>
<td>2015</td>
<td>169,873</td>
</tr>
<tr>
<td>2016</td>
<td>159,052</td>
</tr>
</tbody>
</table>