

**NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND**

(A Component Unit of the State of New Jersey)

**FINANCIAL STATEMENTS**

June 30, 2020

**NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND**  
(A Component Unit of the State of New Jersey)

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**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

# NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND

(A Component Unit of the State of New Jersey)

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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This section of the New Jersey State Based Health Exchange Trust Fund's (the "Exchange") annual financial report presents our discussion and analysis of the Exchange's financial performance during the fiscal year ended on June 30, 2020. Comparative information between the current year and the prior year is not presented in this management's discussion and analysis ("MD&A") due to this being the Exchange's first year of operations. The MD&A should be read in conjunction with the Exchange's basic financial statements, which follow this section.

### BACKGROUND

In June 2019, Governor Phil Murphy signed legislation (P.L. 2019 c. 141) to establish a state-based health exchange for the State of New Jersey. The purpose of the Exchange is to provide a centralized location where individuals and small businesses can anonymously shop for a health insurance plan, entering the platform by way of a landing page, creating an account, receiving an assessment or determination of eligibility for any applicable financial assistance, appropriate referral to the State Medicaid agency, and selection of a health insurance plan, as appropriate.

The Health Insurance Exchange Trust Fund (the "Fund") will be the repository for all monies collected, including grants or federal funds, or state funds appropriated for the purpose of supporting health insurance outreach and enrollment efforts through an exchange. Under the enabling legislation the Commissioner of the Department of Banking and Insurance has the authority to apply monthly assessments to each individual health benefits plan offered by a health insurance carrier sold in the individual market and approve all disbursements of the Fund.

The Fund's operations began on November 1, 2019, when the Exchange began conducting outreach and advertising as a state-based exchange on the federal platform. The Fund's operating activity and initial startup was funded solely by State of New Jersey Treasury appropriations. This included expenditures related to design, development and implementation, including outreach and advertising activities designed to attract new enrollees. The funds appropriated by the state were to be reimbursed to the Treasury when the Fund was able to begin collecting revenues from participating insurance carriers.

### FINANCIAL HIGHLIGHTS

The assets of the Fund exceeded its liabilities at the close of the fiscal year by \$2.5 million. Net Position increased by \$2.5 million compared to the beginning net position balance of \$0 due to operating revenues related to carrier assessments exceeding related operating and startup expenses.

The Fund did not have any assets considered investments or cash balances at June 30, 2020. Additionally, the Fund had combined \$5.5 million in receivables from the State Treasury and insurance carriers at the fiscal year end. Much of this amount related to amounts due from insurance carriers for uncollected assessments. The full amount of funds receivable was collected subsequent to the June 30, 2020, year end.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of two parts – *required supplementary information* including the management's discussion and analysis (this section) and the *basic financial statements*.

Required Components of the Exchange's annual financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements, consisting of:
  - Statement of Net Position
  - Schedule of Revenues, Expenses, and Change in Net Position
  - Notes to Financial Statements

**NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND**  
(A Component Unit of the State of New Jersey)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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**FINANCIAL INFORMATION**

The summarized financial information as of and for the year ended June 30, 2020, is as follows:

**Condensed Statement of Net Position**

	<u>2020</u>
Total Assets	\$ 5,535,691
Total Liabilities	3,022,648
Total Net Position	2,513,043

**Condensed Statement of Revenues, Expenses and Change in Net Position**

Total Revenues	\$ 10,437,950
Total Expenses	7,924,907
Change in Net Position	<u>2,513,043</u>
Net Position - July 1, 2019	-
Net Position - June 30, 2020	<u>\$ 2,513,043</u>

**PROGRAM CHANGES**

On January 1, 2021, the Exchange increased its assessment on monthly insurance premiums charged to insurance carriers from 1 percent for state-based exchanges using the federal platform to 3.5 percent for states operating on a state-based exchange.

**CONTACTING THE NEW JERSEY STATE BASED HEALTH EXCHANGE MANAGEMENT**

This financial report is designed to provide the health insurance customers, New Jersey citizens, investors and creditors with a general overview of the Exchange's finances and to demonstrate the Exchange's accountability as a self-supporting entity. If you have questions about this report or need additional financial information, you can contact the New Jersey Department of Banking and Insurance at 20 West State Street, Floor 10, Trenton, NJ 08625, (609) 292-7272 or visit our website at <https://www.state.nj.us/dobi/index.html>.

## **INDEPENDENT AUDITORS' REPORT**

## **INDEPENDENT AUDITORS' REPORT**

The Program Director of the New Jersey State Based Health Exchange Trust Fund and  
New Jersey Department of Banking and Insurance

### **Report on the Financial Statements**

We have audited the accompanying financial statements of New Jersey State Based Health Exchange Trust Fund (the “Exchange” or “Fund”), a component unit of the State of New Jersey, as of and for the year ended June 30, 2020, and the related notes to financial statements, which comprise the Fund’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.

### **Auditors' 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Banking and Insurance. 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 auditors' 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 June 30, 2020, and the changes in its financial position and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

## **INDEPENDENT AUDITORS' REPORT (CONTINUED)**

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents, be presented to supplement the 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 listed in the table of contents 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 financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2021, on our consideration of the Exchange's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Exchange's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exchange's internal control over financial reporting and compliance.

*Mercedien, P.C.*

*Certified Public Accountants*

June 2, 2021



## **BASIC FINANCIAL STATEMENTS**

**NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND**  
(A Component Unit of the State of New Jersey)

STATEMENT OF NET POSITION  
June 30, 2020

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	<u>2020</u>
<b>ASSETS</b>	
Assessments Receivable	\$ 5,093,552
Due from State Resources	<u>442,138</u>
Total Assets	<u>5,535,691</u>
<b>LIABILITIES</b>	
Accounts Payable	2,681,996
Accrued Liabilities	<u>340,651</u>
Total Liabilities	<u>3,022,648</u>
<b>NET POSITION</b>	
Restricted	<u>2,513,043</u>
Total Net Position	<u>2,513,043</u>
Total Liabilities and Net Position	<u><u>\$ 5,535,691</u></u>

**NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND**  
(A Component Unit of the State of New Jersey)

STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION  
Year Ended June 30, 2020

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	<u>2020</u>
Revenues	
Assessments	<u>\$ 10,437,950</u>
Expenses	
Salaries and Wages	37,405
Project Manager	1,622,933
Advertising Expense	1,481,705
System Integration & Exchange Platform Expense	2,045,455
Health Plan Comparison Tool	245,000
Quality Assurance	1,380,010
Navigator Grants	1,112,400
Total Expenses	<u>7,924,907</u>
Change in Net Position	2,513,043
Net Position - July 1, 2019	-
Net Position - June 30, 2020	<u><u>\$ 2,513,043</u></u>

**NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND**  
(A Component Unit of the State of New Jersey)

STATEMENT OF CASH FLOWS  
Year Ended June 30, 2020

	<u>2020</u>
Cash flows from operating activities:	
Receipts from customers	\$ 4,902,259
Payments to vendors	<u>(4,902,259)</u>
Net cash flows from operating activities	<u>-</u>
Net change in cash and cash equivalents	-
Cash and cash equivalents, July 1,	<u>-</u>
Cash and cash equivalents, June 30,	<u><u>\$ -</u></u>
Reconciliation of Statement of Net Position:	
Total cash and cash equivalents	<u><u>\$ -</u></u>
Reconciliation of operating income to net cash flows from operating activities:	
Operating income	\$ 2,513,043
Working capital changes which provided/(used) cash:	
Accounts Receivable	(5,093,552)
Due from State Resources	(442,138)
Accounts and Accrued Expenses	<u>3,022,648</u>
Net cash flows from operating activities	<u><u>\$ -</u></u>

# **NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND**

(A Component Unit of the State of New Jersey)

## NOTES TO FINANCIAL STATEMENTS

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### **A. ORGANIZATION AND DESCRIPTION OF OPERATIONS**

In June 2019, Governor Phil Murphy signed legislation (P.L. 2019 c. 141) to establish a state-based health exchange for the State of New Jersey (the "State"), as authorized by the Federal Patient Protection and Affordable Care Act of 2010. The legislation supplemented the existing Title 17B of the New Jersey statutes concerning health insurance to establish a nonlapsing revolving fund.

The purpose of the Exchange is to provide a centralized location where individuals and small businesses can anonymously shop for a health insurance plan, entering the platform by way of a landing page, creating an account, receiving a determination or assessment of eligibility for any applicable financial assistance, appropriate referral to the State Medicaid agency, and selection of a health insurance plan, as appropriate.

The Fund will also serve as the repository for all monies collected, including grants or federal funds, or state funds appropriated for the purpose of supporting health insurance outreach and enrollment efforts through an exchange. The legislation identified the State Treasurer as the custodian of the Fund and the Commissioner of the Department of Banking and Insurance as the operator. Under this arrangement the Commissioner of the Department of Banking and Insurance has the authority to apply monthly assessments to each individual health benefits plan offered by a health insurance carrier sold in the individual market and approve all disbursements of the Fund.

Over time the Fund will support an Exchange that will cover many different services, including eligibility determinations, appeals of eligibility determinations, contracting with IT systems and customer service providers, maintaining enrollment systems, and monitoring insurance carriers. The Fund consists of revenue from an assessment on insurance carriers in the individual market based on data collected by the Exchange and enrollment and related premium information provided by the carriers to the Exchange on a monthly basis.

P.L. 2019, c.141 provides for an assessment of 1 percent of premiums during any period that the State is on a state-based exchange using the federal platform, which was the case for the 2020 plan year. In any year the State is on a state-based exchange, which was the case for fiscal year 2021 and subsequent years, the assessment is permitted to increase to 3.5 percent of premium. The Fund's operations began on November 1, 2019, when the Exchange began conducting outreach and advertising as a state-based exchange on the federal platform. The Fund's operating activity and initial startup was funded solely by the State of New Jersey Treasury appropriations. This included expenditures related to design, development and implementation, including outreach and advertising activities designed to attract new enrollees. The funds appropriated by the state were to be reimbursed to the Treasury when the Fund was able to begin collecting revenues from participating insurance carriers. As of June 30, 2020, no operations were funded through the federal grant funds of the State Planning and Exchange Establishments Grants made available under the Affordable Care Act ("ACA").

The Exchange does not have component units that should be included within its financial statements.

# NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND

(A Component Unit of the State of New Jersey)

## NOTES TO FINANCIAL STATEMENTS

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### B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Measurement Focus and Basis of Accounting

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles (“GAAP”) for governments. Such principles are prescribed by the Governmental Accounting Standards Board (“GASB”), which is the standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America.

The Exchange’s financial statements are prepared using the current financial resources measurement focus and the modified accrual basis of accounting. The financial statements are intended to present the financial position and changes in financial position of only that portion that is attributable to the transactions of the Fund.

#### Cash and Cash Equivalents

The Fund considers cash and liquid short-term investments that have original maturities of ninety days or less to be cash or cash equivalents.

#### Assessments Receivable and Due from State Resources

Receivables consisted of the state-based exchange assessments receivable and amounts due from the State Treasury. The state-based exchange assessments receivable consisted of amounts billed for current fiscal year and plan year assessments on monthly insurance premiums that were uncollected from insurance carriers as of June 30, 2020.

Amounts due from state resources reflect the net amount due from the State Treasury for state appropriations for various Fund setup and first year operating costs that were unused or unreceived as of June 30, 2020.

#### Accounts Payable and Accrued Liabilities

Accounts payable consisted mainly of contracted service expenses incurred that were unpaid as of June 30, 2020. Accrued liabilities are recorded when an amount is encumbered for goods or services through the issuance of a purchase order or contract approved by Exchange management. Outstanding encumbrances at June 30 are reported as a liability in the financial statements.

#### Revenues

Revenues are recognized when earned and when they are both measurable and available. Revenues are considered available when they are billed and considered collectible within the current period.

In 2020, pursuant to P.L. 2019 c. 141, the Fund collected a 1 percent user fee from insurance carriers as permitted under the enabling legislation regulations, which went towards consumer support in the form of grants and marketing/outreach to consumers. This user fee makes up the assessment revenue and assessment receivable balances included in the statement of net position and statement of revenues, expenses and change in net position.

**NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND**  
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

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**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Expenses**

For the Exchange fiscal year ended June 30, 2020, expenses include salaries and wages, project manager costs, advertising expenses, system integration and exchange platform management, the health plan comparison tool, quality assurance testing expenses, and ongoing navigator grants. Expenses are incurred on the accrual basis. For the navigator grants, expenses are considered incurred in the year of the grant award and align with the period of plan enrollment. All costs are incurred solely by the Fund and are direct costs of the Fund based on contracts and invoices received for goods or services. No amounts are allocated or estimated.

**Net Position**

Net position represents the difference between assets and liabilities and is classified into two categories:

- *Restricted Net Position* – This represents the net position that is not accessible for general use because its use is subject to restrictions enforceable by third parties. When both restricted and unrestricted resources are available for use, it is the Fund's policy to use restricted resources first and then unrestricted resources, as they are needed.
- *Unrestricted Net Position* – This represents the net position that is available for general use.

**Use of Estimates**

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

**C. CASH AND CASH EQUIVALENTS**

New Jersey statutes permit the deposit of public funds in the State of New Jersey Cash Management Fund ("NJCMF") or in institutions located in New Jersey that are insured by the Federal Deposit Insurance Corporation (the "FDIC") or by any other agencies of the United States that insure deposits. All funds of the Exchange may be invested in, obligations of, or guaranteed by, the U.S. government.

As of June 30, 2020, the Exchange's bank balance was \$0. Accounts maintained by the Exchange are held in member FDIC institutions with insurance coverage up to \$250,000. Any remaining balances beyond FDIC coverage are considered uninsured and uncollateralized and exposed to custodial credit risk. Custodial credit risk is the risk that, in the event of a bank failure, the Exchange's deposits may not be returned. The Exchange does not have a deposit policy for custodial credit risk.

**NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND**  
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

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**D. ASSESSMENTS RECEIVABLE**

Assessments receivable for amounts due from insurance carriers for state-based exchange assessments based on both on and off exchange premiums consist of the following at June 30, 2020:

Insurance Carrier:	
Horizon Healthcare Services	\$ 3,085,968
Horizon Healthcare of NJ	353
United Healthcare (Oxford)	15,758
AmeriHealth	1,883,650
Oscar	107,825
Total	<u>\$ 5,093,552</u>

All amounts noted as receivable were considered 100 percent collectible. No estimate for allowance for doubtful accounts or bad debt expense was recorded as of June 30, 2020.

**E. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities consist of the following at June 30, 2020:

Personal services	
Salary and fringe	\$ 37,405
Total personal services	<u>37,405</u>
Contractual services	
Project Manager	692,831
Advertising expense	308,418
Health Plan Comparison Tool	1,271,470
Quality assurance	108,540
Navigator Grants	603,984
Total contractual services	<u>2,985,243</u>
Total	<u>\$ 3,022,648</u>

**F. CONCENTRATION OF RISK**

During fiscal year 2020, the Fund assessed fees on monthly premiums both on and off Exchange to four insurance carriers. During fiscal year 2020, two carriers, Horizon Healthcare Services and AmeriHealth, accounted for approximately 97 percent of total assessment operating revenue. Horizon Healthcare Services made up 60 percent and AmeriHealth made up 37 percent of the total assessment revenue.



**NEW JERSEY STATE BASED HEALTH EXCHANGE TRUST FUND**  
(A Component Unit of the State of New Jersey)

NOTES TO FINANCIAL STATEMENTS

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**G. NAVIGATOR GRANTS**

During the fiscal year 2020, the Exchange management authorized and awarded navigator grants to various entities in New Jersey. Amounts were awarded to an individual or organization that's trained and able to help consumers, small businesses and their employees as they look for health coverage options through the marketplace, including completing eligibility and enrollment forms. These individuals and organizations are required to be unbiased. Their services are free to consumers. Awards issued and expensed during the year ended June 30, 2020, totaled \$1,112,400. Of that amount, \$939,225 was disbursed or payable at June 30, 2020, for reimbursement of the participating entities costs for salaries and wages, material supplies, travel and other operating expenses.

**H. RELATED-PARTY TRANSACTIONS**

During the fiscal year 2020, the Exchange account engaged in related-party transactions with another account within the State of New Jersey Department of Banking and Insurance to reimburse the department general accounts for Exchange related expenses incurred and paid through the Department's general account. As of June 30, 2020, the Fund reimbursed the Department of Banking and Insurance account a total of \$453,240 for payroll, program manager and comparison tool expenses incurred by the Department. Amounts were reimbursed within a reasonable amount of time from the date of the Department of Banking and Insurance general account disbursement and no interest was charged to the Fund on the transactions.

**I. IMPACT OF COVID-19**

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Fund operates. Due to the impact of New Jersey Governor Murphy's Executive Order No. 107 dated March 21, 2020, mandating statewide stay-at-home practices and closure of all non-essential retail businesses, it is likely that the Exchange will have limited financial impact, however, it is reasonably possible certain expenses and accounts receivable may increase. It is unknown how long these conditions will last and what the complete financial impact will be on the Fund.

**J. SUBSEQUENT EVENTS**

Per Section 1311(d)(5) of the Affordable Care Act, the state-based exchanges must be self-sustaining beginning January 1, 2015, and grant funds may not be used for ongoing operations. Exchanges demonstrate self-sustainability by, among other things, having a source of funding other than federal grants for ongoing operations. For the Exchange, in 2020, the State Treasury financed the costs for operations of the Exchange pending assessment collections from insurance carriers. In 2021, the Exchange will be reimbursed for approximately \$261 thousand of advertising operating expenses from federal grants. Additionally, as of January 1, 2021, the Exchange increased its assessment on monthly insurance premiums charged to insurance carriers from the 1 percent applicable for years the State is a state-based exchange using the federal platform to the 3.5 percent for applicable years the State is operating as a state-based exchange. Both reduce the need for State Treasury funding of operating costs.

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

The Program Director of the New Jersey State Based Health Exchange Trust Fund and  
New Jersey Department of Banking and Insurance

We have audited, 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, the financial statements of New Jersey State Based Health Exchange Trust Fund (the "Exchange" or "Fund"), as of and for the year ended June 30, 2020, and the related notes to financial statements, which comprise the Fund's basic financial statements, and have issued our report thereon dated June 2, 2021.

**Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Exchange'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.

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

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 financial statements. 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 Exchange's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Exchange's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Mercedien, P.C.*

*Certified Public Accountants*

June 2, 2021