

DISTRICT OF COLUMBIA OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 17-1-07HI

February 2017



HEALTH BENEFIT EXCHANGE AUTHORITY: FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS (WITH REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS) FOR FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015



Guiding Principles

*Workforce Engagement * Stakeholders Engagement * Process-oriented * Innovation
* Accountability * Professionalism * Objectivity and Independence * Communication * Collaboration
* Diversity * Measurement * Continuous Improvement*

Mission

Our mission is to independently audit, inspect, and investigate matters pertaining to the District of Columbia government in order to:

- prevent and detect corruption, mismanagement, waste, fraud, and abuse;
- promote economy, efficiency, effectiveness, and accountability;
- inform stakeholders about issues relating to District programs and operations; and
- recommend and track the implementation of corrective actions.

Vision

Our vision is to be a world class Office of the Inspector General that is customer-focused, and sets the standard for oversight excellence!

Core Values

Excellence * Integrity * Respect * Creativity * Ownership
* Transparency * Empowerment * Courage * Passion
* Leadership



GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General



February 13, 2017

The Honorable Muriel Bowser
Mayor of the District of Columbia
Mayor's Correspondence Unit
1350 Pennsylvania Avenue, N.W., Suite 316
Washington, D.C. 20004

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, N.W., Suite 504
Washington, D.C. 20004

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Health Benefit Exchange Authority Financial Statements for the Fiscal Years Ended September 30, 2016, and 2015* (OIG No. 17-1-07HI). SB & Company, LLC (SBC) conducted the audit and submitted this component report as part of our overall contract for the audit of the District of Columbia's general purpose financial statements for fiscal year (FY) 2016.

On December 27, 2016, SBC issued its opinion on the financial statements and concluded that the financial statements present fairly in all material respects, in conformity with accounting principles generally accepted in the United States of America. SBC identified no significant deficiencies or material weaknesses in internal control over financial reporting.

If you have any questions concerning this report, please contact me or Toayoa D. Aldridge, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Lucas", is written over the typed name.

Daniel W. Lucas
Inspector General

DWL/fg

Enclosure

cc: See Distribution List

Mayor Bowser and Chairman Mendelson
Health Benefit Exchange Authority Financial
Statements for FYs 2016 and 2015 (with Report
of Independent Public Accountants Therein)
OIG No. 17-1-07HI
February 13, 2017
Page 2 of 2

DISTRIBUTION:

The Honorable Jack Evans, Chairperson, Committee on Finance and Revenue, Council of the District of Columbia (via email)
The Honorable Vincent C. Gray, Chairperson, Committee on Health, Council of the District of Columbia (via email)
Mr. Rashad M. Young, City Administrator, Attention: Mr. Barry Kreiswirth (via email)
Mr. John Falcicchio, Chief of Staff, Office of the Mayor (via email)
Mr. Kevin Harris, Director, Office of Communications, (via email)
Mr. Matthew Brown, Director, Mayor's Office of Budget and Finance (via email)
Ms. Nyasha Smith, Secretary to the Council, Council of the District of Columbia (via email)
Mr. Jeffrey DeWitt, Chief Financial Officer, Office of the Chief Financial Officer (via email)
Mr. Timothy Barry, Executive Director, Office of Integrity and Oversight, Office of the Chief Financial Officer (via email)
The Honorable Kathleen Patterson, D.C. Auditor, Office of the D.C. Auditor, Attention: Candace McCrae (via email)
Mr. Jed Ross, Director and Chief Risk Officer, Office of Risk Management (via email)
Mr. Graylin (Gray) Smith, Partner, SB & Company, LLC (via email)

**DISTRICT OF COLUMBIA HEALTH BENEFIT
EXCHANGE AUTHORITY**
(A Component Unit of the Government of the District of Columbia)

Financial Statements
(With Report of Independent Public Accountants)

September 30, 2016 and 2015

**DISTRICT OF COLUMBIA HEALTH BENEFIT
EXCHANGE AUTHORITY**
(A Component Unit of the Government of the District of Columbia)

TABLE OF CONTENTS

Report of Independent Public Accountants	1
Management’s Discussion and Analysis	3
Basic Financial Statements:	
Statements of Net Position	10
Statements of Revenues, Expenses, and Change in Net Position.....	11
Statements of Cash Flows.....	12
Notes to Financial Statements	13
Report of Independent Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24



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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Executive Director and the Executive Board of the
District of Columbia Health Benefit Exchange Authority
Inspector General of the Government of the District of Columbia:

Report on the Financial Statements

We have audited the statements of net position of the District of Columbia Health Benefit Exchange Authority (the Authority or HBX), a component unit of the District of Columbia, as of September 30, 2016 and 2015, and the statements of revenues, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



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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 Authority as of September 30, 2016 and 2015, and its change in net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2016 on our consideration of the Authority'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 Authority's internal control over financial reporting and compliance.

Washington, DC
December 27, 2016

A handwritten signature in black ink that reads "SB & Company, LLC". The signature is written in a cursive, flowing style.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis
September 30, 2016 and 2015

Introduction

The following is a discussion and analysis of the District of Columbia Health Benefit Exchange Authority's (the Authority or HBX) financial performance as of, and for the fiscal years ended September 30, 2016 and 2015, with 2014 for comparative purposes. This information should be read in conjunction with the financial statements and the accompanying notes, which follow this discussion and analysis.

About Our Business

Pursuant to the Health Benefit Exchange Authority Establishment Act of 2011, the Authority was established as an independent authority of the Government of the District of Columbia (District of Columbia) as a separate legal entity. The Authority was established to: (a) enable individuals and small employers to find affordable and easier-to-understand health insurance, (b) facilitate the purchase and sale of qualified health plans, (c) assist small employers in facilitating the enrollment of their employees in qualified health plans, (d) reduce the number of uninsured, (e) provide a transparent marketplace for health benefit plans, (f) educate consumers, and (g) assist individuals and groups in accessing programs, premium assistance tax credits, and cost-sharing reductions.

The Authority is governed by an 11-member Executive Board, comprised of seven voting members, who are residents of the District of Columbia, and appointed by the Mayor, with the advice and consent of the Council of the District of Columbia (the Council). The Executive Board also includes four nonvoting ex-officio members, or their designees, which include the Director of the District of Columbia Department of Health Care Finance, the Commissioner of the District of Columbia Department of Insurance, Securities and Banking, the Director of the District of Columbia Department of Health, and the Director of the District of Columbia Department of Human Services. In addition, a standing Advisory Board consisting of nine members, who are residents of the District of Columbia, works closely with the Executive Board. Pursuant to the Authority's enabling legislation, the Executive Board may create additional advisory boards as it considers appropriate. The advisory boards provide the Executive Board with recommendations on various matters, including insurance standards, covered benefits, premiums, plan certification, internet technology system development, and other policies or operational issues as required by the Executive Board.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis
September 30, 2016 and 2015

About Our Business (continued)

The Authority is funded by assessments received from insurance carriers. The Health Benefit Exchange Authority Establishment Act of 2011, effective March 2, 2012 (D.C. Law 19-94; D.C. Official Code § 31-3171.01 et seq.), was amended on July 29, 2014, to provide for the financial sustainability of the Health Benefit Exchange Authority. The amendment included language authorizing the Authority to annually assess, through a Notice of Assessment, each health carrier doing business in the District, and having direct gross receipts of \$50,000 or greater in the preceding calendar year, an amount based on a percentage of its direct gross receipts for the preceding calendar year. Each health carrier is required to pay the Authority the amount stated in the Notice of Assessment, within 30 business days of receipt of the Notice of Assessment. Failure to pay the assessment shall subject the health carrier to Section 5 of the Insurance Regulatory Trust Fund Act of 1993, effective October 21, 1993 (D.C. Law 10-40; D.C. Official Code § 31-1204).

The Authority is also funded by Federal grants from the U.S. Department of Health and Human Services, that are made available as part of the Patient Protection and Affordable Care Act (the Affordable Care Act or PPACA), approved on March 23, 2010. On October 23, 2013, the Authority was awarded \$34,418,790, to provide implementation efforts associated with the Affordable Care Act. In August 2014, the Authority was awarded supplemental funding of an additional \$7,984,187 (an increase to the original grant award of \$34,418,790, for a total of \$42,402,977). The amount awarded in July and December 2014 was \$31,525,096 and \$22,057,941, respectively. There were three Federal grants that were still available for use by the Authority for the fiscal year ended September 30, 2016. In November 2015, the period of availability for the Federal grant totaling \$42,402,977, was extended through October 2016. In November 2016, the periods of availability for the other two Federal grants awarded in July and December 2014, totaling \$31,525,096, and \$22,057,941, respectively, were extended through December 2017. As a result, \$13,260,621 and \$10,974,725, was added to the fiscal year 2017 Council approved budget.

Financial Highlights

- The Health Benefit Exchange Authority Establishment Act of 2011 became effective on March 2, 2012. The Authority began operations on October 1, 2012, the start of fiscal year 2013.
- As noted in Table I on page 4, the Authority's total assets exceeded liabilities by \$129,676,842, as of September 30, 2016, which is classified and reported as net investment in capital assets, and unrestricted net position in the Statements of Net Position. This increase is a 28% change from September 30, 2015 to September 30, 2016. The Authority's total assets exceeded liabilities and deferred inflows by \$101,326,551 and \$42,158,088, as of September 30, 2015 and 2014, respectively. This represents a 140% change between September 30, 2015 and September 30, 2014. The increases are primarily related to the buildout of the information technology infrastructure for DC Health Link.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis
September 30, 2016 and 2015

Financial Highlights (continued)

- The Authority's revenues and Federal grants exceeded its expenses by \$28,350,291 and 59,168,464, for the years ended September 30, 2016 and 2015, respectively. This represents a 52% decrease in change in net position from September 30, 2015 to September 30, 2016. The Federal grants and revenues exceeded expenses by \$14,413,878 for the fiscal year ended September 30, 2014. This represents a 310% increase in change in net position from September 30, 2014 to September 30, 2015. The 310% increase was due to the assessment recorded as deferred inflows in fiscal year 2014, and amounts collected in fiscal year 2015 being recognized as non-operating revenue in the fiscal year ended September 30, 2015. Refer to Table II on page 5 for further detail.

Overview of the Financial Statements

This Management's Discussion and Analysis (MD&A) is intended to serve as an introduction to the Authority's basic financial statements. The Authority's financial statements include three financial statements: the Statements of Net Position, the Statements of Revenues, Expenses, and Change in Net Position, and the Statements of Cash Flows. These financial statements and the related notes provide information about the financial activities of the Authority.

1. **Statements of Net Position** – The Statements of Net Position present information on the Authority's assets, liabilities, deferred inflows of resources, and the net position (which is defined as the residual balance of all other financial statement elements presented in the Statements of Net Position).
2. **Statements of Revenues, Expenses, and Change in Net Position** – The Statements of Revenues, Expenses, and Change in Net Position report operating and non-operating revenues and expenses for the fiscal years. The increase or decrease in net position is presented as the change in net position for the fiscal years. The cumulative change since inception is the total net position of the Authority, and is presented as the total net position on the Statements of Net Position.
3. **Statements of Cash Flows** - The Statements of Cash Flows present information showing how the Authority's cash and cash equivalents changed during the fiscal years. The Statements of Cash Flows classify cash receipts and cash payments resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities. The net result of those activities is reconciled to the cash and cash equivalents balances reported as of the end of the fiscal years. 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 disbursed. The statements also reconcile the change in net position to the net cash used in operating activities.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Management’s Discussion and Analysis
September 30, 2016 and 2015

Overview of the Financial Statements (continued)

4. *Notes to the Financial Statements* – The notes to the financial statements provide additional information that is essential for a complete understanding of the data provided in the basic financial statements.

Financial Analysis

Condensed Financial Information:

The following table provides a summary of the Authority’s total assets, liabilities, deferred inflows, and net position as of September 30, 2016, 2015, and 2014.

Table I – Condensed Schedules of Net Position

As of September 30, 2016, 2015, and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>Percentage Change 2016 -2015</u>	<u>Percentage Change 2015-2014</u>
Current Assets	\$ 82,589,134	\$ 67,007,256	\$ 46,204,824	23%	45%
Capital Assets	69,102,043	54,058,915	42,189,643	28%	28%
Total Assets	151,691,177	121,066,171	88,394,467	25%	37%
Current Liabilities	22,014,335	19,739,620	20,872,458		
Total Liabilities	22,014,335	19,739,620	20,872,458	12%	-5%
Deferred Inflow	-	-	25,363,921	0%	-100%
Net Position					
Net Investment in Capital Assets	69,102,043	54,058,915	42,189,642	28%	28%
Unrestricted Net Position	60,574,799	47,267,636	(31,554)	28%	149899%
Total Net Position	\$ 129,676,842	\$ 101,326,551	\$ 42,158,088	28%	140%

The net position serves as an indicator of an organization’s financial position. The Authority’s assets exceeded liabilities and deferred liabilities by \$129,676,842, \$101,326,551, and \$42,158,088 as of September 30, 2016, 2015, and 2014, respectively. This was mainly a result of the Federal government’s funding of the DC Health Link’s information technology (IT) infrastructure.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Management’s Discussion and Analysis
September 30, 2016 and 2015

Financial Analysis (continued)

Non-current assets are comprised of items that are considered capital assets. The capital assets of \$69,102,043, as of September 30, 2016 represent a 28% increase from September 30, 2015. The capital assets of \$54,058,915, as of September 30, 2015 represent a 28% increase from September 30, 2014. These increases are related to the development of the DC Health Link’s IT infrastructure, an online marketplace system that allows users to shop, compare, and select health insurance plans. As of September 30, 2016, the Authority’s capital assets represented 45.6% of the organization’s total assets, as compared to 44.7% of the total assets as of September 30, 2015, and 47.7% as of September 30, 2014. The DC Health Link IT system became functional and was placed in service at the beginning of fiscal year 2014. The development and implementation of this system was critical to the Authority’s ability to fulfill its primary mission of educating consumers about insurance options, and assisting them in accessing necessary information.

The Authority had \$22,014,335, \$19,739,620, and \$20,872,458, in total liabilities as of September 30, 2016, 2015 and 2014, respectively. The total liabilities are comprised of current liabilities that include accounts payable, due to the primary government, due to insurance carriers, compensation payable, accrued annual leave, and other liabilities.

The Authority’s total net position balances of \$129,676,842, \$101,326,551, and \$42,158,088, as of September 30, 2016, 2015, and 2014, respectively, resulted mainly from revenues received for Federal government grants from the U.S. Department of Health and Human Services during the fiscal years ended September 30, 2016 and prior. The Authority did not generate any operating revenues for the fiscal years ended September 30, 2016, 2015, and 2014.

The following table presents condensed financial information from the Statements of Revenues, Expenses, and Change in Net Position for the fiscal years ended September 30, 2016, 2015, and 2014.

Table II – Condensed Schedules of Revenues, Expenses, and Change in Net Position
For the Years ended September 30, 2016, 2015, and 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>	Percentage Change 2016 -2015	Percentage Change 2015-2014
Operating Expenses	\$ 33,106,358	\$ 47,488,198	\$ 23,179,973	-30%	105%
Operating Loss	(33,106,358)	(47,488,198)	(23,179,973)		
Non-Operating Revenues	39,015,621	88,482,686	20,373,997	-56%	334%
Federal Grants - Capital	22,441,028	18,173,976	17,219,854	23%	6%
Change in Net Position	\$ 28,350,291	\$ 59,168,464	\$ 14,413,878	-52%	310%

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis
September 30, 2016 and 2015

Financial Analysis (continued)

During the fiscal year ended September 30, 2016, the Authority's non-operating revenues and capital contributions totaled \$61,456,649, as compared to \$106,656,662, during the fiscal year ended September 2015, and \$37,593,851 in 2014. The total costs of all of the Authority's activities and services were \$33,106,358, \$47,488,198, and \$23,179,973, for the fiscal years ended September 30, 2016, 2015, and 2014, respectively. These revenues were derived from assessments and grants provided by the Federal government, for operating and capital purposes. The 30% decrease in operating expenses from September 30, 2015 to September 30, 2016 as well as the 105% increase in operating expenses from September 30, 2014 to September 30, 2015 was due to the build out for DC Health Link's IT system and infrastructure. The increase in net position was \$28,350,219, \$59,168,464, and \$14,413,878 for the fiscal years ended September 30, 2016, 2015 and 2014, respectively.

Capital Assets

The Authority has invested \$69,102,043, \$54,058,915, and \$42,189,643, in capital assets, net of depreciation, for the fiscal years ended 2016, 2015, and 2014, respectively. Almost all of these investments for these periods are related to the development of the DC Health Link IT system and infrastructure, an online marketplace system that allows users to shop, compare, and select health insurance plans. The Authority's net capital assets as of September 30, 2016, increased by \$15,043,128, compared to September 30, 2015, which was primarily due to additions of \$22,441,028 made to the system, which was offset by depreciation expenses of \$7,397,900. The Authority's September 30, 2015 net capital assets increased by \$11,869,272, compared to September 30, 2014, which was primarily due to additions made to the system of \$18,173,976, offset by depreciation expenses of \$6,304,704.

The details are presented in Note 4 to the financial statements.

Budgetary Controls

The Authority adopts an operating budget, which is approved by its Board of Directors in December of each year, for the subsequent fiscal year. Prior to approval by the Board, the budget is reviewed in detail, and adjusted, if necessary. After approval by the Board of Directors, the Authority is required to submit its annual operating budgets to the Mayor and Council of the District of Columbia, to be included in the District's budgets that are sent to the United States Congress for approval. The budget that is originally loaded into the Authority's Financial Management System is for assessment based spending only. Any grants that are subsequently awarded or extended after the budget has been formulated will be added to the budget as they are known. The Financial Management Division prepares monthly reports for the Board of Directors and its Finance Committee. The reports are reviewed and acted upon each month, to ensure that the Authority complies with its authorized budget levels. The budget for fiscal year 2016 was \$32,513,186, which is 13% greater than fiscal year 2015. The budget for the fiscal year 2017 was \$34,521,266. These budgets for fiscal years 2015 through 2017 do not include Federal grant revenues.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Management's Discussion and Analysis
September 30, 2016 and 2015

Economic Outlook

When Federal implementation grants expire, HBX spending will substantially decrease in the following areas: marketing/outreach/enrollment and IT systems enhancement. While Federal implementation grants are available for fiscal year 2017 and first quarter fiscal year 2018, HBX is focused on improving and adding functionality to the DC Health Link. Federal grants are also supporting new automated systems for handling customer issues. Automated assignment and tracking will help reduce the need for human resources in some cases. Also, HBX has renegotiated several large contracts in order to achieve cost savings, and continues to look for operational savings with service providers. Finally, HBX's Board of Directors has approved a policy addressing operating and capital reserves. In October 2016, HBX's Board of Directors approved to fund HBX's Operating Reserves at \$14,500,000, and will continue evaluating the funding of both Operating Reserves and Capital Reserves.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in its finances. Additional information regarding the Authority's financial statements may be obtained from the Health Benefit Exchange Authority's Executive Director, 1225 I Street, N.W., 4th Floor, Washington, D.C. 20005.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Statements of Net Position
September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 70,140,464	\$ 51,646,395
Due from the primary government	445,541	9,287,029
Due from the Federal government	6,077,110	3,733,050
Due from insurance carriers, net	5,926,019	2,340,782
Total currents assets	<u>82,589,134</u>	<u>67,007,256</u>
Capital assets:		
DC Health Link IT infrastructure	85,579,068	63,138,040
Less: accumulated depreciation	<u>(16,477,025)</u>	<u>(9,079,125)</u>
Capital assets, net	<u>69,102,043</u>	<u>54,058,915</u>
Total Assets	<u>151,691,177</u>	<u>121,066,171</u>
LIABILITIES		
Current liabilities:		
Accounts payable	8,143,915	12,313,025
Due to the primary government	1,011,253	694,436
Due to insurance carriers	11,878,035	6,070,937
Compensation payable	317,034	266,356
Accrued annual leave	410,707	351,728
Other liabilities	253,391	43,138
Total Liabilities	<u>22,014,335</u>	<u>19,739,620</u>
NET POSITION		
Net investment in capital assets	69,102,043	54,058,915
Unrestricted net position	<u>60,574,799</u>	<u>47,267,636</u>
Total Net Position	<u>\$ 129,676,842</u>	<u>\$ 101,326,551</u>

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

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Statements of Revenues, Expenses, and Change in Net Position
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Operating Expenses:		
Salaries	\$ 8,237,717	\$ 6,976,096
Telephone	237,831	9,117
Supplies and materials	30,959	43,605
IT and communications	9,533,544	22,774,445
Eligibility and enrollment support	1,800,443	2,386,725
Consumer education and outreach	503,632	742,168
Building and equipment rental	1,121,883	1,492,292
Professional support	3,241,127	4,656,309
General and administrative	942,343	826,763
Depreciation expense	7,397,900	6,304,704
Bad debt expense	-	924,246
Annual leave	58,979	351,728
Total Operating Expenses	<u>33,106,358</u>	<u>47,488,198</u>
Operating loss	(33,106,358)	(47,488,198)
Non-Operating Revenues:		
Assessments	30,261,358	53,537,525
Federal grants - operating	8,749,767	34,945,161
Interest and fees	4,496	-
Total Non-Operating Revenues	<u>39,015,621</u>	<u>88,482,686</u>
Change in net position before Federal capital grants	<u>5,909,263</u>	40,994,488
Federal grants - capital (Note 7)	<u>22,441,028</u>	18,173,976
Change in net position	28,350,291	59,168,464
Net position - beginning of year	<u>101,326,551</u>	<u>42,158,087</u>
Net position - End of Year	<u>\$129,676,842</u>	<u>\$ 101,326,551</u>

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

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Statements of Cash Flows
For the Years Ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Payment to employees	\$ (8,187,039)	\$ (6,883,971)
Payment to suppliers	<u>(21,580,872)</u>	<u>(29,122,339)</u>
Net cash used in operating activities	<u>(29,767,911)</u>	<u>(36,006,310)</u>
 Cash flows from investing activities:		
Proceeds from interest and fees	<u>4,496</u>	<u>-</u>
 Cash flows from noncapital financing activities:		
Proceeds from assessment	26,886,374	36,493,755
Amount received but not passed through to insurance carriers	5,807,098	1,179,559
Proceeds from federal grants - operating	15,247,195	36,950,362
Advances from / (payments to) primary government	<u>316,817</u>	<u>(6,608,473)</u>
Net cash from noncapital financing activities	<u>48,257,484</u>	<u>68,015,203</u>
 Cash flows from capital and related financing activities:		
Proceeds from federal grants - capital	22,441,028	18,173,976
Acquisition of capital assets	<u>(22,441,028)</u>	<u>(18,173,976)</u>
Net cash from capital and related financing activities	<u>-</u>	<u>-</u>
 Net increase in cash and cash equivalents	18,494,069	32,008,893
 Cash and cash equivalents, beginning of the year	51,646,395	19,637,502
 Cash and cash equivalents, end of year	<u>\$ 70,140,464</u>	<u>\$ 51,646,395</u>
 Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (33,106,358)	\$ (47,488,198)
Adjustments to reconcile operating loss to net cash flows from operating activities		
Depreciation expense	7,397,900	6,304,704
Bad debt reserve	-	924,246
Effect of changes in non-cash operating assets and liabilities:		
Accounts payable	(4,169,110)	3,809,085
Compensation payable	50,678	92,125
Accrued annual leave	<u>58,979</u>	<u>351,728</u>
Net cash and cash equivalents used in operating activities	<u>\$ (29,767,911)</u>	<u>\$ (36,006,310)</u>

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

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Notes to Financial Statements
September 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

The District of Columbia Health Benefit Exchange Authority (the Authority or HBX) was established, pursuant to Section 3 of the Health Benefit Exchange Authority Establishment Act of 2011, which became effective on March 2, 2012 (D.C. Law 19-0094). The Authority began operations on October 1, 2012.

HBX's mission is to implement and administer a health care exchange program in the District of Columbia, in accordance with the Patient Protection and Affordable Care Act (the Affordable Care Act or PPACA), thereby ensuring access to quality and affordable health care to all District residents.

The health care exchange program is designed to provide individuals and small employers with the ability to find affordable and easier-to-understand health insurance, and assist small employers in purchasing qualified health benefit plans for their employees. The Authority also serves to facilitate the purchase of qualified health plans and assist individuals and groups in accessing programs, premium assistance tax credits, and cost-sharing reductions.

To fulfill its purpose, as mandated by law, the Authority manages the DC Health Link, an on-line marketplace created for individuals, families, and small business owners and their employees in the District of Columbia to shop, compare, and select health insurance that meets their health needs and budgets. District residents, and small business owners and their employees can use the DC Health Link to apply for coverage, determine whether they are eligible for help to lower the cost of their insurance, compare options, and enroll in a plan of their choice. Each application for financial assistance through the DC Health Link also checks eligibility for Medicaid.

Financial Reporting Entity

For financial reporting purposes, the Authority is reported as a discretely presented component unit of the District of Columbia government. Consistent with the authoritative guidance of the Governmental Accounting Standards Board (GASB), the following criteria are used to determine an entity's financial reporting status:

- The organization is a legally separate entity.
- The District of Columbia appoints a voting majority of the organization's board.
- There is a financial benefit/burden relationship between the District of Columbia and the organization, and the District of Columbia is able to impose its will on the organization.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Notes to Financial Statements
September 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Reporting Entity (continued)

The Authority is reported as a discretely presented component unit of the District of Columbia because the District of Columbia is able to approve or modify the Authority's budgets and may overrule, veto, or modify certain decisions made by the Authority's governing board (e.g., the awarding of contracts valued at \$1 million or more). Therefore, the District of Columbia is able to impose its will on the Authority. Also, the governing Council of the government of the District must approve the rules adopted by the Authority, thereby demonstrating the District of Columbia's ability to modify or approve the implementing and appeals regulation related to the assessment charged by the Authority.

Basis of Presentation

The accompanying financial statements of HBX have been prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP), as prescribed by the Government Accounting Standards Board (GASB). The Authority has prepared Statements of Net Position; Statements of Revenues, Expenses, and Change in Net Position; and Statements of Cash Flows, along with the required supplementary information titled "Management's Discussion and Analysis," which precedes the financial statements.

The Authority's financial transactions are accounted for as an enterprise fund in the District's financial statements. The accompanying financial statements are only those of the Authority, and are not intended to present the financial position, changes in financial position, and cash flows of the District, taken as a whole. The District provides certain legal, central, accounting, and other services to the Authority. The costs and revenue associated with these services are not reflected in these financial statements.

Measurement Focus and Basis of Accounting

The Authority's transactions and business events are accounted for, using a flow of economic resources measurement focus. Under this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with HBX's operations are included on the Statements of Net Position. The net position of the Authority is further categorized into net investment in capital assets and unrestricted net position.

The Authority prepares its financial statements, using the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Notes to Financial Statements
September 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, and mature in such a short period of time that their values are effectively immune from changes in interest rates. The Authority considers all highly liquid investments with an original maturity of 90 days or less when purchased to be cash equivalents.

Capital Assets and Depreciation

The Authority defines capital assets as classes of assets with an initial aggregate cost of more than \$5,000, and an estimated useful life in excess of one year. Such assets are to be recorded at historical cost or estimated historical cost if purchased or constructed.

The estimated useful lives for capital assets are as follows:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Internally Developed Software	3 – 10 years
Equipment and Machinery	5 – 10 years
Furniture and Fixtures	5 years
Vehicles (and Other Mobile Equipment)	5 – 12 years
Leasehold Improvements	10 years, not to exceed the term of the lease

Depreciation is calculated on each class of depreciable property, using the straight-line method. The Authority commenced depreciating the DC Health Link's computer system beginning in fiscal year 2014, which was the date the system was put into service. Depreciation expense as of September 30, 2016 and 2015 was \$7,397,900 and \$6,304,704, respectively.

Operating and Non-Operating Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the Authority's principal ongoing operations. The Authority generated no operating revenues for the fiscal years ended September 30, 2016 and 2015. HBX is authorized, in future years, to generate operating revenues through various sources, including user fees, licensing fees, and other assessments on health carriers selling qualified dental plans or qualified health plans in the District of Columbia.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Notes to Financial Statements
September 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and Non-Operating Revenues and Expenses (continued)

Operating expenses include all costs associated with assisting individuals and employers in finding affordable and understandable health insurance, facilitating the purchase and sale of qualified health plans, helping employers enroll their employees in qualified health plans, providing a transparent marketplace for health benefit plans, assisting persons in accessing programs, premium assistance tax credits, cost sharing reductions, and educating consumers.

All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

It is the policy of the Authority to use restricted resources first, followed by unrestricted, when expenses are incurred for purposes for which any of these resources are available. Therefore, the Authority considers restricted amounts to have been spent when expenditures are incurred for purposes for which both restricted and unrestricted net position is available.

Compensated Absences

Employees accumulate unused sick leave, with no maximum limitation. Annual leave may be accumulated up to 240 hours, regardless of the employee's length of service.

Accumulated annual leave is recorded as an expense and liability, as the benefit accrues to the employees. HBX does not record a liability for accumulated sick leave; however, at the time of retirement, those who are civil service employees with unused sick leave may use the balance of their leave to determine employees' years of service.

Post-Employment Benefits

Full-time employees receive pension benefits through the Social Security System, and/or the District of Columbia's Retirement Programs.

Consistent with the Federal Insurance Contributions Act (FICA), a 6.20% Social Security tax is withheld from the gross salary/wages of the Authority's employees, up to, but not exceeding the applicable social security wage base, which is \$118,500 in 2016 and 2015. In addition, the Authority pays a 1.45% payroll tax for Medicare, along with an additional 1.45% being withheld from each employee's salary/wages.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Notes to Financial Statements
September 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Post-Employment Benefits (continued)

Under the provisions of D.C. Code § 1-627, the District of Columbia sponsors a defined contribution pension plan (Internal Revenue Code Section 401(a) Plan) for permanent full-time employees, who are covered under the Social Security System. The Authority's employees are eligible to participate in this plan after one year of employment with the District, and they do not contribute to the plan. The Authority contributes 5% of base salaries for eligible employees in each pay period. During the fiscal years ended September 30, 2016 and 2015, the Authority contributed \$289,302 and \$222,539, respectively, on behalf of the Authority's employees. Contributions and earnings vest incrementally, beginning after two years of employment, including a one-year waiting period, and vest fully after five years of employment, including the one-year waiting period. Contributions and earnings are forfeited for the period of service during which the employee does not achieve incremental vesting, if separation occurs before five years of credited employment. The forfeited contributions and earnings during fiscal years ended September 30, 2016 and 2015 were \$11,126 and \$16,960, respectively. The Authority's contribution liability outstanding as of the fiscal years ended September 30, 2016 and 2015 were \$11,056 and \$8,265, respectively.

The Authority's employees may also participate in the District of Columbia's deferred compensation plan, established under D.C. Code § 47-3601 in accordance with IRC Section 457. Employees are able to defer the lesser of \$18,000, or 100% of includable compensation, in calendar years 2016 and 2015. A special catch-up provision is also available to the participant that allows them to make up or catch up for prior years in which they did not contribute the maximum amount to the plan. The "catch-up" limit is the lesser of: (a) twice the annual contribution limit, \$36,000, or (b) the annual contribution limit for the year, plus underutilized amounts from prior taxable years. An additional deferral of \$6,000 is available to participants who are at least 50 years old before the end of the calendar year. Contributions are not assets of the District and the District has no further liability to the plan.

The District of Columbia's defined contribution and deferred compensation plans were administered by ICMA-RC, starting September 18, 2015, and previously by VOYA Retirement Insurance & Annuity Company (formerly ING Life Insurance & Annuity Company).

Contractual Commitments

The Authority's contractual commitments are primarily associated with the capital projects related to the development of the online health insurance marketplace, DC Health Link. Outstanding contractual commitments related to the capital projects as of September 30, 2016 were \$31,942,641.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Notes to Financial Statements
September 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of New Accounting Standard

The District of Columbia Health Benefit Exchange Authority adopted the following new accounting standard issued by the Governmental Accounting Standards Board (GASB) during the Authority's fiscal year 2016:

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, identifies, in the context of the current governmental financial reporting environment, the hierarchy of Generally Accepted Accounting Principles (GAAP). This Statement, which supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, reduces the GAAP hierarchy to two categories of authoritative GAAP, and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015.

Implementation of this statement had no material impact on the Authority's fiscal year 2016 financial statements.

New Accounting Pronouncements To Be Implemented in the Future

The Authority will adopt by the required effective date the following new accountant standard issued by the GASB:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. This Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. In addition, this Statement establishes standards for recognizing and measuring liabilities/assets, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and requirement supplementary information requirements about defined benefit OPEB also are addressed.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Notes to Financial Statements
September 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements To Be Implemented in the Future (continued)

The requirements of this Statement are effective for financial statements for reporting periods beginning after June 15, 2017, the Authority's fiscal year 2018.

Use of Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosures 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.

2. CASH AND CASH EQUIVALENTS

The District of Columbia follows the practice of pooling cash and cash equivalents for some of its governmental funds and component units, in order to provide better physical custody and control of cash, to enhance operational efficiency, and to maximize investment opportunities.

The Authority's cash and cash equivalents as of September 30, 2016 and 2015, was 70,140,464 and \$51,646,395, respectively.

The Authority maintains cash and cash equivalent balances at a financial institution. The cash and cash equivalent balance at the financial institution is insured under the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At times, the balances on deposit will exceed the balance insured by the FDIC; however, to date, the Authority has not experienced any losses related to this concentration.

Custodial credit risk is the risk that in the event of a bank failure, HBX's deposits may not be returned to it. The HBX deposits are under the control of the District of Columbia, in accordance with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. law 12-56) and are insured or collateralized with securities held by the District or by its agents in the District's name. As of September 30, 2016 and 2015, there were no deposits exposed to custodial credit risk.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Notes to Financial Statements
September 30, 2016 and 2015

2. CASH AND CASH EQUIVALENTS (continued)

The following is the break out of the deposits held by financial institutions as of September 30, 2016 and 2015.

<u>Depository accounts as of September 30</u>	<u>2016</u>	<u>2015</u>
Insured	\$ 250,000	\$ 250,000
Collateralized by securities		
Collateral held by the District or by its agents in the District's name	69,890,464	51,396,395
Total Deposits	<u>\$ 70,140,464</u>	<u>\$ 51,646,395</u>

3. DUE FROM THE PRIMARY GOVERNMENT

Pursuant to the Patient Protection and Affordable Care Act, the District's Department of Health Care Finance was awarded grants by the Federal government to support the establishment of a health care exchange program to serve District residents and employers. In June 2013, the Department of Health Care Finance was awarded a grant in the amount of \$89,954,422, which expired on September 26, 2015. As expenditures were incurred by the Authority in developing the legally mandated exchange, the Department of Health Care Finance reimbursed the agency from the Federal grant funds received for that purpose. During the fiscal years ended September 30, 2016 and 2015, the Authority incurred \$0 and 17,788,504, respectively, of costs associated with the development of the DC Health Link which were funds from proceeds of the Federal grant. For the fiscal years ended September 30, 2016 and 2015, \$0 and \$9,287,029, respectively, of the Federal grant expenses had not been reimbursed by the District of Columbia.

The Authority operates a Contact Center, which provides the Authority the capability to provide consumers with over the phone and web-based services for Medicaid and private health insurance, and small business (SHOP) health insurance eligibility, enrollment, and related assistance. During the fiscal year 2016, the District's Department of Human Services (DHS) and the Authority shared financial responsibility for the Contact Center, which is cost allocated with Medicaid. During the fiscal year ended September 30, 2016, the amount due from DHS for rent paid on its behalf by the Authority was \$445,541.

4. CAPITAL ASSETS

The capital assets of \$69,102,043 and \$54,058,915 as of September 30, 2016 and 2015, respectively, are related to the development of the DC Health Link computer system.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Notes to Financial Statements
September 30, 2016 and 2015

4. CAPITAL ASSETS (continued)

A summary of the Authority's capital asset activity for the fiscal year ended September 30, 2016 follows:

	October 1, 2015	CIP Transfers In (Out)	Additions	September 30, 2016
Capital Assets Subject To Depreciation:				
DC Health Link IT infrastructure	\$ 63,138,040	\$ -	\$ 22,441,028	\$ 85,579,068
Less: Accumulated Depreciation	(9,079,125)	-	(7,397,900)	(16,477,025)
Capital Assets, Net	<u>\$ 54,058,915</u>	<u>\$ -</u>	<u>\$ 15,043,128</u>	<u>\$ 69,102,043</u>

A summary of the Authority's capital asset activity for the fiscal year ended September 30, 2015 follows:

	October 1, 2014	CIP Transfers In (Out)	Additions	September 30, 2015
Capital Assets Not Subject To Depreciation:				
Construction in Progress (CIP)	\$ 17,219,854	\$ (17,219,854)	\$ -	\$ -
Capital Assets Subject To Depreciation:				
DC Health Link IT infrastructure	27,744,210	17,219,854	18,173,976	63,138,040
Less: Accumulated Depreciation	(2,774,421)	-	(6,304,704)	(9,079,125)
Capital Assets, Net	<u>\$ 42,189,643</u>	<u>\$ -</u>	<u>\$ 11,869,272</u>	<u>\$ 54,058,915</u>

5. LIABILITIES

Accounts Payable

Accounts payable totaled \$8,143,915 and \$12,313,025, as of September 30, 2016 and 2015, respectively. This balance represents amounts owed to the Authority's vendors, suppliers, and consultants.

Due to the Primary Government

During fiscal year 2016, the primary government paid all of the expenses incurred by the Authority, and the Authority has been reimbursing the primary government for payments made on its behalf. The Authority owed the primary government \$1,011,253 and \$694,436, as of September 30, 2016 and 2015, respectively, for expenses paid on its behalf.

Due to Insurance Carriers

District residents are required to use DC Health Link to select an individual health insurance plan. After the selection of a plan, individuals and families make payments directly to their insurance carriers. These payments are not made to or through the Authority.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Notes to Financial Statements
September 30, 2016 and 2015

5. LIABILITIES (continued)

Due to Insurance Carriers (continued)

DC Health Link's Small Business Health Options Program Exchange ("SHOP Exchange"), the small business marketplace, is where small employers and their employees, and Members of Congress and their designated staff, apply for and select qualified health plans. These groups make their premium payments to HBX, either electronically (ACH) or by mail, via lock box. These payments are deposited directly into the Authority's bank account. The premiums are then aggregated and wired to the various insurance companies.

The amounts "Due to Insurance Carriers" of \$11,878,035 and \$6,070,937, as of September 30, 2016 and 2015, respectively, represent the deposits and premium payments from SHOP Exchange and insured and congressional staffers that have been deposited in the Authority's bank account, but have not yet been wired to the various insurance companies.

Compensation Payable

The compensation payable of \$317,034 and 266,356, as of September 30, 2016 and 2015, respectively, represents wages earned by employees that have not been paid.

6. ASSESSMENTS

The Authority is funded by assessments received from insurance carriers. The Health Benefit Exchange Authority Establishment Act of 2011, effective March 2, 2012 (D.C. Law 19-94; D.C. Official Code § 31-3171.01 et seq.), was amended on July 29, 2014, to provide for the financial sustainability of the Health Benefit Exchange Authority. The amendment included language authorizing the Authority to annually assess, through a Notice of Assessment, each health carrier doing business in the District, and having direct gross receipts of \$50,000 or greater in the preceding calendar year, an amount based on a percentage of its direct gross receipts for the preceding calendar year. Each health carrier is required to pay the Authority the amount stated in the Notice of Assessment, within 30 business days of receipt of the Notice of Assessment. Failure to pay the assessment shall subject the health carrier to Section 5 of the Insurance Regulatory Trust Fund Act of 1993, effective October 21, 1993 (D.C. Law 10-40; D.C. Official Code § 31-1204).

The Department of Insurance, Securities, and Banking, on behalf of the Authority, sends Notices of Assessment to health carriers, with a payment due by the end of the fiscal year. Assessments are recognized as non-operating revenue on the Statements of Revenue, Expenses, and Change in Net Position.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
(A Component Unit of the Government of the District of Columbia)

Notes to Financial Statements
September 30, 2016 and 2015

6. ASSESSMENTS (continued)

The assessments for the fiscal years ended September 30, 2016 and 2015 were \$30,261,358 and \$53,537,525, respectively. The net assessment due from insurance carriers as of September 30, 2016 and 2015 was \$5,926,019 and \$2,340,782, respectively. The amounts due from insurance carriers as of September 30, 2016 and 2015, were reduced by an allowance of \$1,184,382 and \$1,180,054, respectively, due to the insurance carriers' unlikely ability to pay the assessments.

7. FEDERAL CONTRIBUTION

Section 1311 of the Patient Protection and Affordable Care Act makes grant funds available to all state-based exchanges, including the Authority, to assist them in planning, establishing, and operating their own state-based marketplaces.

The Authority received Federal operating and capital grant funds, totaling \$31,190,795 and \$53,119,137, for the fiscal years ended September 30, 2016 and 2015, respectively, in support of its planning and organizational activities. Federal capital grants associated with the development of the DC Health Link, for the fiscal years ended September 30, 2016 and 2015 were \$22,441,028 and \$18,173,976, respectively.

8. RISK MANAGEMENT

The Authority is exposed to various risks of loss, related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal years 2016 and 2015, HBX was covered under the District of Columbia's self-insured risk management plan. Accordingly, any claim settlements and/or judgments pertaining to the Authority will be paid from the District of Columbia's general fund resources.

9. SUBSEQUENT EVENTS

The Authority is funded primarily through an assessment of health carriers, but it also receives federal grants from the U.S. Department of Health and Human Services made available as part of the Patient Protection and Affordable Care Act (the Affordable Care Act or PPACA), approved on March 23, 2010. There were three Federal grants that were still available for use by the Authority, for the fiscal year ended September 30, 2016. In November 2016, the period of availability for two Federal grants for \$31,525,096, and \$22,057,941, were extended through December 2017. These grants are now limited to IT development.

The Authority evaluated the subsequent events and transactions through December 27, 2016, the date these financial statements were available for issue, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure, except as disclosed above.



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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS 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 Executive Director and the Executive Board of the
District of Columbia Health Benefit Exchange Authority
Inspector General of the Government of the District of Columbia

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 the District of Columbia Health Benefit Exchange Authority (the Authority) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 27, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority'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.

Washington, DC
December 27, 2016

A handwritten signature in black ink that reads "SB & Company, LLC".