

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

Financial Statements

September 30, 2014 and 2013

(With Independent Auditors' Reports Thereon)

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

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KPMG LLP
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Independent Auditors' Report

Executive Director and 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 accompanying financial statements of the District of Columbia's Health Benefit Exchange Authority (the Authority), a component unit of the Government of the District of Columbia, which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 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 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly in all material respects, the financial position of the District of Columbia Health Benefit Exchange Authority as of September 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis as listed in the table of contents, 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 March 3, 2015 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.

KPMG LLP

March 3, 2015

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY

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Management's Discussion and Analysis

September 30, 2014 and 2013 - Unaudited

Introduction

The following is a discussion and analysis of the District of Columbia Health Benefit Exchange Authority's (the Authority's) financial performance for the fiscal years ended September 30, 2014 and 2013. This information should be read in conjunction with the financial statements and the accompanying note disclosures, which follow this discussion and analysis.

Background of the Health Benefit Exchange Authority

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) with a legally separate existence. 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, appointed by the Mayor with the advice and consent of the Council of the District of Columbia (Council); and 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 it to be appropriate. The advisory boards provide the Executive Board with recommendations on such matters as: insurance standards, covered benefits, premiums, plan certification, internet technology system development, and other policies or operational issues as required by the Executive Board.

The Authority is funded by federal grants through the U.S. Department of Health and Human Services made available with the passage of the Patient Protection and Affordable Care Act, approved on March 23, 2010. On October 23, 2013 the Authority was awarded \$34,418,790 to continue implementation efforts associated with Affordable Care Act. In May 2014 the Authority was awarded an additional \$7,984,187 of supplemental funding.

Financial Highlights

- The Health Benefit Exchange Authority Establishment Act of 2011 became effective on March 2, 2012. However, the Authority began operations on October 1, 2012, the start of fiscal year 2013.
- The Authority's total assets exceeded liabilities and deferred inflow by \$42,158,088 at September 30, 2014, which is classified and reported as invested in capital assets and Unrestricted Net position in the Statement of Net Position. The Authority's total assets exceeded liabilities by \$27,744,210 at September 30, 2013.

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- The Authority's revenues and capital grants exceeded expenses by \$14,413,878 and \$27,744,210 for fiscal years ended September 30, 2014 and 2013, respectively, which is the result of the federal grants continued funding of the development of the DC Health Link.

Overview of the Financial Statements

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 report includes three financial statements: the Statements of Net Position; the Statements of Revenues, Expenses and Changes in Net Position; and the Statements of Cash Flows. These financial statements and related note disclosures 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, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is defined as the residual of all other financial statement elements presented in a statement of net position.)
2. ***Statements of Revenues, Expenses, and Changes in Net Position*** – The Statements of Revenues, Expenses, and Changes in Net Position report operating revenues and expenses and non-operating revenues and expenses of the Authority for the fiscal year. The difference – increase or decrease in net position – is presented as the change in net position for the fiscal year. The cumulative differences from inception forward will be presented as the net position of the Authority, reconciling to total net position reflected on the Statement of Net Position.
3. ***Statements of Cash Flows*** - The Statements of Cash Flows present information showing how the Authority's cash and cash equivalents balances changed during the fiscal year. The Statements of Cash Flows classify cash receipts and cash payments resulting from operating activities, capital and related financing activities, noncapital financing activities and investing activities. The net result of those activities is reconciled to the cash and cash equivalents balances reported at the end of the fiscal year. The statements of cash flows are 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 operating loss to net cash used in operating activities.
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.

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Financial Analysis of the Authority

Condensed Financial Information:

The Authority reported no deferred outflow of resources. The Authority reported deferred inflow of resources at the end of fiscal year 2014. The following table provides a summary of the Authority's total assets, liabilities, deferred inflow and net position as of September 30, 2014 and 2013.

Table I – Condensed Schedule of Net Position

	2014	2013
Current Assets	\$ 46,204,824	\$ 10,914,705
Capital Assets, net of depreciation	42,189,643	27,744,210
Total Assets	88,394,467	38,658,915
Current Liabilities	20,872,458	10,914,705
Total Liabilities	20,872,458	10,914,705
Deferred Inflow (note 6)	25,363,921	-
Net Position:		
Net Investment in Capital Assets	42,189,642	27,744,210
Unrestricted	(31,554)	-
Total Net Position	\$ 42,158,088	\$ 27,744,210

Over time, net position can serve as a useful indicator of an organization's financial position. At September 30, 2014, the Authority's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$42,158,088 as compared to \$27,744,210 in fiscal year 2013. This is a result of the Federal grant funding of the DC Health Link Computer System.

DC Health Link Computer System represented the largest portion of the Authority's total capital assets. At the end of fiscal year 2014, capital assets represented 47.7% of total assets as compared to 71.8% in fiscal year 2013. The capital assets of \$42,189,643 are related to the development of DC Health Link, an online marketplace that allows users to shop, compare, and select health insurance. The system became functional and 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 significant portion of liabilities at September 30, 2014 was in accounts payable of \$8,503,940 which represents 40.7 % of total liabilities. Accounts payable represents amounts owed to the Authority's vendors, suppliers, and consultants. In addition, due to primary government, which represents operating advances from the primary government, and other business transactions with different agencies of the primary government are \$7,302,909 or 35.0% of total liabilities.

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The Authority's net position totaled \$42,158,088 and \$27,744,210 at September 30, 2014 and 2013, respectively. These balances resulted from revenues generated by Federal grants from the U.S. Department of Health and Human Services during the fiscal years 2014 and 2013. The Authority spent a significant portion of the revenue for the development of DC Health Link computer system. The Authority did not generate operating revenues in fiscal years 2014 and 2013 respectively.

The following table presents condensed financial information from the Statements of Revenues, Expenses and Changes in Net Position for fiscal years ended September 30, 2014 and 2013.

Table II – Condensed Schedule of Revenues, Expenses, and Changes in Net Position

	<u>2014</u>	<u>2013</u>
Operating revenue	\$ -	\$ -
Operating expense	<u>23,179,973</u>	<u>16,155,046</u>
Operating loss	<u>(23,179,973)</u>	<u>(16,155,046)</u>
Non-Operating revenues	20,373,997	16,155,046
Federal grant-capital	<u>17,219,854</u>	<u>27,744,210</u>
Change in net position	\$ <u><u>14,413,878</u></u>	\$ <u><u>27,744,210</u></u>

During fiscal year 2014, the Authority's revenues and capital contributions totaled \$37,593,851 as compared to \$43,899,256 in fiscal year 2013. These revenues were derived from grants provided by the federal government. The total costs of all the Authority activities and services were \$23,179,973 and \$16,155,046 during fiscal years 2014 and 2013, respectively. The increase in operating expenses from prior year is a result of the Authority being fully operational in fiscal year 2014. Consequently, the increase in net position was \$14,413,878 and \$ 27,744,210 during fiscal years 2014 and 2013, respectively. The excess of operating expenses over non-operating revenue is primarily due to the fiscal year 2014 depreciation expense of \$2,774,421.

Contacting the Authority's Management

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

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Statements of Net Position

September 30, 2014 and 2013

Assets:	<u>2014</u>	<u>2013</u>
Current Assets:		
Cash and Cash Equivalents (note 2)	\$ 19,637,502	\$ -
Due from the Primary Government (note 3)	10,314,109	10,914,705
Federal Grant Receivable	5,635,416	-
Due from Insurance Carriers (note 6)	<u>10,617,797</u>	<u>-</u>
Total Current Assets	<u>46,204,824</u>	<u>10,914,705</u>
Noncurrent Assets:		
Capital Assets, net (note 4)	<u>42,189,643</u>	<u>27,744,210</u>
Total Assets	<u>88,394,467</u>	<u>38,658,915</u>
Liabilities:		
Current Liabilities		
Accounts Payable (note 5)	8,503,940	6,400,773
Due to the Primary Government (note 5)	7,302,909	4,272,259
Due to Insurance Carriers (note 5)	4,891,378	-
Compensation Payable (note 5)	<u>174,231</u>	<u>241,673</u>
Total Liabilities	<u>20,872,458</u>	<u>10,914,705</u>
Deferred Inflow (note 6)	25,363,921	-
Net Position:		
Net Investment in Capital Assets	42,189,642	27,744,210
Unrestricted	<u>(31,554)</u>	<u>-</u>
Total Net Position	<u>\$ 42,158,088</u>	<u>\$ 27,744,210</u>

The accompanying notes are an integral part of this statement.

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Statements of Revenues, Expenses, and Changes in Net Position

For the Years Ended September 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating revenues:		
Total operating revenues	\$ -	\$ -
Operating expenses:		
Salaries	4,850,583	1,950,578
Supplies and materials	26,499	20,424
Professional services	3,397,646	4,587,699
Utilities	97,155	-
Building and equipment rental	546,202	-
IT and communications	2,493,596	7,667,020
Eligibility and enrollment support	3,614,172	317,999
Consumer education and outreach	5,122,200	1,047,295
General and administrative	257,499	564,031
Depreciation expense	2,774,421	-
Total operating expenses	<u>23,179,973</u>	<u>16,155,046</u>
Operating loss	<u>(23,179,973)</u>	<u>(16,155,046)</u>
Nonoperating revenues:		
Federal grant-operating (note 7)	<u>20,373,997</u>	<u>16,155,046</u>
Total nonoperating revenue	<u>20,373,997</u>	<u>16,155,046</u>
Change in net position before Federal capital grants	(2,805,976)	
Federal grant-capital (note 7)	<u>17,219,854</u>	<u>27,744,210</u>
Change in Net Position	14,413,878	27,744,210
Net Position-beginning of year	<u>27,744,210</u>	<u>-</u>
Net position-end of year	<u>\$ 42,158,088</u>	<u>\$ 27,744,210</u>

The accompanying notes are an integral part of this statement.

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Statements of Cash Flows

For the Years Ended September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Payment to employees	\$ (4,918,025)	\$ (1,708,905)
Payment to suppliers	(13,451,802)	(7,803,695)
Net cash and cash equivalents used in operating activities	<u>(18,369,827)</u>	<u>(9,512,600)</u>
Cash flows from noncapital financing activities:		
Proceeds from assessment	14,746,124	-
Amount received but not passed through to insurance carriers	4,891,378	-
Proceeds from federal grants - operating	15,339,177	5,240,341
Change in advances from primary government	3,030,650	4,272,259
	<u>38,007,329</u>	<u>9,512,600</u>
Cash flows from capital and related financing activities:		
Proceeds from federal grants - capital	17,219,854	27,744,210
Acquisition of capital assets	(17,219,854)	(27,744,210)
	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	19,637,502	-
Cash and cash equivalents, beginning of the year	<u>-</u>	<u>-</u>
Cash and cash equivalents, end of year	<u><u>19,637,502</u></u>	<u><u>-</u></u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	(23,179,973)	(16,155,046)
Increase (decrease) in liabilities:		
Accounts payable	2,103,167	6,400,773
Compensation payable	(67,442)	241,673
Depreciation expense	2,774,421	-
Net cash and cash equivalents used in operating activities	<u><u>\$ (18,369,827)</u></u>	<u><u>\$ (9,512,600)</u></u>

The accompanying notes are an integral part of this statement.

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Notes to Financial Statements

September 30, 2014 and 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Background

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

The Authority'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 (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 exchange 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 DC Health Link, an on-line marketplace created for individuals, families, 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, small business owners and their employees can use 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 the plan of their choice. DC Health Link may also be used by low-income residents to apply for Medicaid.

B. 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 or the District of Columbia is able to impose its will on the organization.

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

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Authority. Also, the Council must approve the rules adopted by the Authority, thereby demonstrating the District of Columbia's ability to modify or approve the rates or fees charged by the Authority.

C. Basis of Presentation

The accompanying financial statements of the Authority have been prepared in accordance with U.S. generally accepted accounting principles (GAAP), as prescribed by GASB. The Authority has prepared Statements of Net Position; Statements of Revenues, Expenses, and Changes 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.

D. 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 the Authority's operations are included on the Statements of Net Position. Net position is further categorized into Net Investment in Capital Assets, Restricted, and Unrestricted.

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.

E. 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.

F. Investments

Pursuant to Section 4(d) of the Health Benefit Exchange Authority Establishment Act of 2011, the Authority monies are to be invested in the same manner as are other District funds. Accordingly, the Authority is authorized by District laws to invest funds in a manner that will preserve principal and meet the entity's anticipated daily cash requirements, while maximizing investment earnings. The Authority is authorized to invest in obligations of the United States and agencies thereof, prime commercial paper, bankers' acceptances and repurchase agreements fully collateralized in obligations of the United States government and agency securities.

Investments purchased by the Authority must be consistent with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. law 12-56) and the District of Columbia's Cash and Investment Policy, adopted in November 2008. The Authority held no investments during fiscal years 2014 and 2013.

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G. Capital Assets and Depreciation

The Authority defines capital assets as classes of assets with an initial aggregate cost of more than \$5,000 and 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>Useful Life</u>
Internally Developed Software	3 – 5 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 to be calculated on each class of depreciable property using the straight-line method. The Authority began depreciating the DC Health Link computer system beginning in fiscal year 2014, which was the date the system, was put in service. Depreciation expense for September 30, 2014 was \$2,774,421.

Non-depreciable capital assets at September 30, 2014 and 2013 included Construction-in-Progress (CIP) related to the continuing development of the online health insurance marketplace, DC Health Link. At September 30, 2014 and 2013 the components of CIP were primarily computer equipment, software and consultant salaries.

H. 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 did not generate any operating revenues during fiscal years 2014 and 2013. However, the Authority anticipates that in future years, operating revenues will be generated 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.

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, and cost sharing reductions; and educating consumers.

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

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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.

I. Compensated Absences

Employees accumulate unused sick leave, with no maximum limitation. Annual (vacation) 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 benefits accrue to employees. The Authority does not record a liability for accumulated sick leave. However, at the time of retirement, unused sick leave can be used to determine employees' years of service. Employees earn sick leave credits that are considered termination payments at the time of retirement.

J. 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 employees, up to but not exceeding the applicable social security wage base, which was \$117,000 in 2014. In addition, the Authority pays a 1.45% payroll tax for Medicare with an additional 1.45% being withheld from each employee's salary/wages.

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. Eligible Authority employees do not contribute to the plan and are eligible to participate in this plan after one year of service to the District. The Authority contributes 5% of base salaries for eligible employees each pay period. Contributions and earnings vest incrementally beginning after two years of service, including a one-year waiting period and vest fully after five years of service 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 service. During fiscal years 2014 and 2013 the Authority contributed \$125,285 and \$29,542, respectively, on behalf of the Authority employees.

The Authority 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 were able to defer the lesser of \$17,500 or 100% of includable compensation in calendar year 2014. 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, \$35,000; or (b) the annual contribution limit for the year plus underutilized amounts from prior taxable years. An additional deferral of \$5,500 is

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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.

K. Contractual Commitments

The Authority's contractual commitments are primarily associated with the capital project related to the development of the online health insurance marketplace, DC Health Link. Outstanding contractual commitments related to the capital project as of September 30, 2014 and 2013 were \$9,242,107 and \$11,035,168, respectively. Outstanding contractual commitments are not recorded in the financial statements until goods and services have been received by the Authority in accordance with the terms of the related contracts.

L. Accounting Standards Implemented

During fiscal years 2014 and 2013, the Authority implemented the following accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement	Effective Date	Purpose/Impact of Statement
<i>Statement No. 70, Accounting and Financial Reporting for Non-exchange Financial Guarantees</i>	For Periods beginning after June 15, 2013	Establishes accounting and financial reporting standards for financial guarantees that are Non-exchange transactions extended or received by a state or local government. Implementation of this statement had no material impact on the Authority's fiscal year 2014 statements.
<i>Statement No. 65, Items Previously Reported as Assets and Liabilities</i> , issued March 2012	For periods beginning after December 15, 2012 (earlier application encouraged)	Establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of this statement impacts the reporting of deferred inflows from the assessment on insurance carriers. As those assessments are new in fiscal year 2014, there is no impact to prior year financial statements.
<i>Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position</i> , issued June 2011	For periods beginning after December 15, 2011 (earlier application encouraged)	Provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Amends the net asset reporting requirements in Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure net position, rather than net

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Statement	Effective Date	Purpose/Impact of Statement
		assets. Implementation of this statement impacts the reporting of deferred inflows from the assessment on insurance carriers. As those assessments are new in fiscal year 2014, there is no impact to prior year financial statements.
Statement no. 62, <i>Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements</i> , issued December 2010	For periods beginning after December 15, 2011 (earlier application encouraged)	Incorporates into the GASB's authoritative literature certain accounting and financial guidance included in (a) FASB Statements and Interpretations; (b) APB Opinions; and (c) Accounting Research Bulletins of the AICPA Committee on Accounting Procedure which does not conflict with or contradict GASB pronouncements. Supersedes Statement No. 20, Accounting and Financial Reporting for Proprietary Fund Accounting. Implementation of this statement had no material impact on the Authority's fiscal year 2014 statements.
Statement No. 61, <i>The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34</i> , issued November 2010	For periods beginning after June 15, 2012 (earlier application encouraged)	Modifies certain requirements for inclusion of component units in the financial reporting entity. Also amends, in certain circumstances, the criteria for reporting component units as if they were part of the primary government and clarifies the reporting of equity interest in a component unit as an asset. Implementation of this statement had no material impact on the Authority's fiscal year 2014 statements.
Statement No. 60, <i>Accounting and Financial Reporting for Service Concession Arrangements</i> , issued November 2010	For periods beginning after December 15, 2011	Establishes recognition, measurement, and disclosure requirements for service concession arrangements (SCAs) for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. Implementation of this statement had no material impact on the Authority's fiscal year 2014 statements.

M. 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 and 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.

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2. CASH

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 or cash equivalents during fiscal year 2014, was \$19,637,502 of which \$4,891,378 is restricted (Due to Insurance Carriers Note 5). The bank balance as of September 30, 2014 was \$19,637,502. The Authority held no cash or cash equivalents during fiscal year 2013.

3. DUE FROM THE PRIMARY GOVERNMENT

Pursuant to the Patient Protection and Affordable Care Act, the District 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 will expire 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 year ended September 30, 2014, the Authority incurred \$17,219,854 of costs associated with the development of the DC Health Link which were funded from proceeds of the Federal grant. During the fiscal year ended September 30, 2014, the Authority incurred \$23,179,973 for salaries, IT and communications, professional support, and other operating expenses. \$10,314,109 had not been reimbursed by the District of Columbia. This amount is presented as due from the Primary Government in the Authority's financial statements.

4. CAPITAL ASSETS

A summary of the Authority's capital assets activities for the fiscal year ended September 30, 2014 follows:

	Balance at October 1, 2013	Additions	CIP transfers in (out)	Balance at September 30, 2014
Capital assets not subject to depreciation				
Construction in progress	\$ 27,744,210	\$ 17,219,854	\$ (27,744,210)	\$ 17,219,854
Capital assets subject to depreciation				
Computer System (DC Health Link)	-	-	27,744,210	27,744,210
Less accumulated depreciation	-	(2,774,421)	-	(2,774,421)
Capital assets, net	\$ 27,744,210	\$ 14,445,433	\$ -	\$ 42,189,643

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5. LIABILITIES

Accounts Payable

Accounts payable totaled \$8,503,940 at September 30, 2014. This balance represents amounts owed to the Authority's vendors, suppliers, and consultants.

Due to the Primary Government

During fiscal year 2014 the Primary Government paid all the expenses incurred by the Authority and the Authority has been reimbursing the primary government for payments made on its behalf. As of September 30, 2014, the Authority owes the primary government \$7,302,909 for expenses paid on its behalf. This balance will be reimbursed in fiscal year 2015.

Due to Insurance Carriers

District residents and congressional staffers that do not otherwise have health insurance are required to use the DC Health Link website to select health insurance plans. After the selection of a plan, non-congressional individuals make payments directly to their insurance carriers. These payments are not made to, or through, the Authority.

However, congressional staffers and "Qualified employers" meaning a small employer that elects to make its fulltime employees eligible for one or more qualified health plans offered through the Small Business Health Options Program Exchange ("SHOP Exchange") makes their premium payments to the Authority either electronically (ACH) or by mail via lock box. These payments are deposited directly into the Authority bank account. The premiums are then aggregated and wired to the various insurance companies.

As of September 30, 2014, the \$4,891,378 that is recorded as payments "Due to Insurance Carriers" represents the deposits and premium payments from SHOP insured and congressional staffers that have been deposited in the Authority bank account but have not yet been wired to the various insurance companies.

Compensation Payable

Compensation payable is \$174,231 of total liabilities and represents wages earned by employees that as of September 30, 2014 have not been paid.

6. DEFERRED INFLOW

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 to provide for the financial sustainability of the Health Benefit Exchange Authority on July 29, 2014. The amendment included language authorizing the Authority to annually assess, through a "Notice of Assessment," each health carrier doing business in the District with direct gross receipts of \$50,000 or greater in the preceding

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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, sent Notices of Assessment to health carriers, with a payment due date of September 30, 2014. As of September 30, 2014 the \$25,363,921 that is reported as Deferred Inflow represents payment of \$14,746,124 and net receivables of \$10,617,797 due from the health carriers. The receivable is reduced by an allowance of \$1,178,699, due to a health carrier's bankruptcy and unlikely ability to pay the assessment. These funds are to be used by the Authority in the next fiscal year.

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.

During fiscal year 2014, the Authority received federal grant funds totaling \$37,593,851 in support of its planning and organizational activities with \$17,219,854 used to fund capital costs associated with the development of the DC Health Link.

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 fiscal year 2014, the Authority was covered under the District of Columbia's self-insured risk management plan. Accordingly, any claim settlements and/or judgments pertaining to the Authority would have been paid from the District of Columbia's general fund resources. The Authority had no claims during fiscal year 2014.

9. RECLASSIFICATIONS

In fiscal year 2014, certain fiscal year 2013 balances were reclassified to conform to fiscal year 2014 presentation.



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**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***

Executive Director and 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 the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the District of Columbia Health Benefit Exchange Authority (the Authority), a component unit of the Government of the District of Columbia, and have issued our report thereon dated March 3, 2015.

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 opinion 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness.

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*.



The Authority's Response to Findings

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

March 3, 2015

Schedule of Findings and Responses

Controls Over the Financial Reporting Process Need Improvement

Background:

The Council of the District of Columbia amended the Health Benefit Exchange Authority Establishment Act of 2011 to provide for the financial sustainability of the Health Benefit Exchange Authority (the Authority) by authorizing the Authority to annually assess, through a “Notice of Assessment”, health carriers doing business in the District.

Condition:

During the FY 2014 financial statement audit, we noted that the Authority recorded the collected portion of the assessments as deferred inflow in the amount of \$14,746,124 but did not record a receivable balance, net of allowance for uncollectable assessments, in the amount of \$10,617,797 for the assessments that were due but not collected as of September 30, 2014.

Criteria:

Governmental Accounting Standards Board (GASB) Codification (Cod.) Section (Sec.) N50, *Nonexchange Transactions*, paragraph 114, states, “Governments should recognize assets from imposed nonexchange revenue transactions in the period when an enforceable legal claim to the assets arises or when the resources are received, whichever occurs first.”

Cause:

Management’s initial interpretation of the applicable GASB standards was that only the amount of resources collected should be reported in the financial statements.

Effect:

The assessment receivable and deferred inflow balances reported in the Authority’s draft FY 2014 financial statements were understated by \$10,617,797. The Authority corrected this misstatement in the final financial statements.

Recommendations:

We recommend that the Authority develop and implement policies and procedures to require a more detailed review of significant new transactions in the Authority’s financial statements to ensure that the financial statements are complete, accurate, and prepared in accordance with the GASB. Such review should be documented and maintained.

The Authority’s Response:

Management’s initial interpretation of GASB 63 and 65 was that only the *amount* of the resource (the Assessment) that was received during the reporting period was to be recorded in the financial statements. Upon further discussion and review of the standards it was determined that the total *value* of the assessment (not only the amount received) needed to be recorded in the financial statements. Thereafter, the Authority management revised the financial statements to reflect such. The omission or subsequent inclusion had no effect on the reported Net Position of the Authority.