

**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, 2015 and 2014**



**SB & COMPANY, LLC**  
KNOWLEDGE • QUALITY • CLIENT SERVICE

**SEPTEMBER 30, 2015**

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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 statement 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, 2015, and the statements of revenues, expenses and changes in net position and cash flows for the year 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***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 Authority as of September 30, 2015, and its changes in net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Prior Year Balances***

The accompanying financial statements of the Authority as of September 30, 2014, and for the year then ended were audited by other auditors whose report dated March 3, 2015, expressed an unmodified opinion on those financial statements.

***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 January 22, 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  
January 22, 2016

# **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, 2015 and 2014**

#### **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, 2015 and 2014. 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, appointed by the Mayor with the advice and consent of the Council of the District of Columbia (the Council) and four nonvoting ex-officio members, or their designees, which includes 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.

The Authority is funded by 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. On October 23, 2013, the Authority was awarded \$34,418,790 to provide implementation efforts associated with the Affordable Care Act. In May, July, and December 2014, the Authority was awarded an additional \$7,984,187, \$31,525,096, and \$22,057,941, respectively, of supplemental funding.

#### **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.
- The Authority's total assets exceeded liabilities by \$101,326,551 as of September 30, 2015, which is classified and reported as net investment in capital assets and unrestricted net position in the Statements of Net Position. The Authority's total assets exceeded liabilities and deferred inflow by \$42,158,088 and \$27,744,210 as of September 30, 2014 and 2013, respectively.

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**Management's Discussion and Analysis**  
**September 30, 2015 and 2014**

- The Authority's revenues and federal grants exceeded its expenses by \$59,168,464 for the fiscal year ended September 30, 2015 and federal grants exceeded expenses by \$14,413,878 and \$27,744,210, for the fiscal years ended September 30, 2014 and 2013, respectively. The increase in revenues over expenses in 2015 is mainly because of the federal government's continued funding of the development of the DC Health Link computer system.

**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 Changes 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 presents information on the Authority's assets, liabilities, deferred inflows of resources, and the net position (which is defined as the residual of all other financial statement elements presented in the statements of net position).
2. **Statements of Revenues, Expenses, and Changes in Net Position** – The Statements of Revenues, Expenses, and Changes in Net Position reports operating and non-operating revenues and expenses for the fiscal years. The increase or decrease in net position is presented as the changes in net position for the 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 presents information showing how the Authority's cash and cash equivalents changed during the fiscal years. The Statements of Cash Flows classifies 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 statement also reconciles the change in net position to the net cash provided by/ (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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**Management’s Discussion and Analysis**  
**September 30, 2015 and 2014**

**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, 2015, 2014 and 2013.

**Table I – Condensed Schedule of Net Position**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Percentage Change 2015 -2014</u>	<u>Percentage Change 2014-2013</u>
Current Assets	\$ 67,007,256	\$ 46,204,824	\$ 10,914,705	45%	323.0%
Capital Assets, net of Depreciation	54,058,915	42,189,643	27,744,210	28%	52%
<b>Total Assets</b>	<u>121,066,171</u>	<u>88,394,467</u>	<u>38,658,915</u>	37%	129%
Current Liabilities	19,739,620	20,872,458	10,914,705		
<b>Total Liabilities</b>	<u>19,739,620</u>	<u>20,872,458</u>	<u>10,914,705</u>	-5.0%	91.0%
Deferred Inflow	-	25,363,921	-	-100.0%	100.0%
Net Position			-		
Net investment in capital assets	54,058,915	42,189,642	27,744,210	28%	52%
Unrestricted Net Assets	47,267,636	(31,554)	-	149899%	100%
<b>Total net position</b>	<u>\$ 101,326,551</u>	<u>\$ 42,158,088</u>	<u>\$ 27,744,210</u>	140%	52%

The net position serves as an indicator of an organization’s financial position. The Authority’s assets exceeded liabilities and deferred inflows of resources by \$101,326,551, \$42,158,088, and \$27,744,210 as of September 30, 2015, 2014, and 2013, respectively. This was mainly a result of the federal government’s funding of the DC Health Link computer system.

The DC Health Link computer system represented the largest portion of the Authority’s total capital assets. As of September 30, 2015, the Authority’s capital assets represented 44.7% of the organization’s total assets as compared to 47.7% of the total assets as of September 30, 2014 and 71.8% as of September 30, 2013. The capital assets of \$54,058,915 as of September 30, 2015, are related to the development of the DC Health Link computer system, an online marketplace system that allows users to shop, compare, and select health insurance plans. The 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.

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**Management’s Discussion and Analysis**  
**September 30, 2015 and 2014**

The Authority had \$12,313,025, \$8,503,940 and \$6,400,773, in accounts payable representing 62.4%, 40.7%, and 58.6% of the total liabilities as of September 30, 2015, 2014 and 2013, respectively. Accounts payable represents amounts owed to the Authority’s vendors, suppliers, and consultants. In addition, due to primary government, which represents operating advances received from the primary government, and other business transactions with different agencies of the primary government was \$694,436, \$7,302,909 and \$4,272,259, which is 3.5%, 35.0%, and 39.1% of the total liabilities as of September 30, 2015, 2014 and 2013, respectively.

The Authority’s total net position balances of \$101,326,551, \$42,158,088, and \$27,744,210, as of September 30, 2015, 2014, and 2013, respectively, resulted mainly from revenues received for federal government grants from the U.S. Department of Health and Human Services during fiscal years 2015 and prior. The Authority generated no operating revenues for the fiscal years ending September 30, 2015, 2014, and 2013.

The following table presents condensed financial information from the Statements of Revenues, Expenses and Changes in Net Position for the fiscal years ended September 30, 2015, 2014, and 2013.

**Table II – Condensed Schedule of Revenues, Expenses, and Changes in Net Position**  
**Years ended September 30, 2015, 2014, and 2013**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Percentage Change 2015 -2014</u>	<u>Percentage Change 2014-2013</u>
Operating Revenues	\$ -	\$ -	\$ -		
Operating Expenses	47,488,198	23,179,973	16,155,046	105%	43%
<b>Operating Loss</b>	<b>(47,488,198)</b>	<b>(23,179,973)</b>	<b>(16,155,046)</b>		
Non-Operating Revenues	88,482,686	20,373,997	16,155,046	334%	26%
Federal Grant- Capital	18,173,976	17,219,854	27,744,210	6%	-38%
<b>Change in net position</b>	<b>\$ 59,168,464</b>	<b>\$ 14,413,878</b>	<b>\$ 27,744,210</b>	310%	-48%

During the fiscal year ended September 30, 2015, the Authority’s non-operating revenues and capital contributions totaled \$106,656,662 as compared to \$37,593,851 during fiscal year 2014 and \$43,899,256 in 2013. These revenues were derived from grants provided by the federal government for operating and capital purposes. The total costs of all the Authority’s activities and services were \$47,488,198, \$23,179,973, and \$16,155,046 for the fiscal years ended September 30, 2015, 2014, and 2013, respectively. The increase in operating expenses from FY 2014 to FY 2015 is a result of the Authority being fully operational for all of FY 2015. The expenses for FY2013 were initial startup expenses. The increase in net position was \$59,168,464, \$14,413,878, and \$27,744,210 for the fiscal years ended September 30, 2015, 2014, and 2013, respectively.

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**Management's Discussion and Analysis**  
**September 30, 2015 and 2014**

*Capital Asset and Debt Administration*

**Capital Assets**

The Authority has invested \$54,058,915, \$42,189,643, and \$27,744,210, in capital assets, net of depreciation for 2015, 2014, and 2013, respectively. Almost all of this investment for both fiscal years is related to the development of the DC Health Link computer system, an online marketplace system that allows users to shop, compare, and select health insurance plans. The Authority's 2015 net capital assets increased by \$11,869,272 compared to fiscal year 2014, which was primarily due to additions made to the system of \$18,173,976, offset by depreciation expenses of \$6,304,704. The Authority's 2014 net capital assets increased by \$14,445,433 compared to fiscal year 2013, which was primarily due to additions made to the system of \$17,291,854, offset by depreciation expenses of \$2,774,421.

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

**Debt Administration**

The Authority did not have any outstanding debt as of September 30, 2015, 2014, and 2013.

**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 is loaded into the Authority's Financial Management System. 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 the Authority complies with its authorized budget levels.

**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, in FY 2016 and first quarter FY 2017, HBX is focused on improving and adding functionality to 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 to achieve cost savings and continues to look for operational savings with service providers. Finally, HBX is in the process of reassessing its reserves (capital and operational reserves) to ensure there is financial sustainability and there are no funding gaps.

**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 Executive Director, 1225 "I" Street, N.W., 4<sup>th</sup> Floor, Washington, D.C. 20005.

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**Statements of Net Position**  
**September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>ASSETS</b>		
Current assets:		
Cash	\$ 51,646,395	\$ 19,637,502
Due from the primary government	9,287,029	10,314,109
Due from the Federal government	3,733,050	5,635,416
Due from insurance carriers	2,340,782	10,617,797
Total currents assets	<u>67,007,256</u>	<u>46,204,824</u>
Noncurrent assets:		
Construction-in-progress	-	17,219,854
Computer system and other	63,138,040	27,744,210
Less: accumulated depreciation	<u>(9,079,125)</u>	<u>(2,774,421)</u>
Total noncurrent assets	<u>54,058,915</u>	<u>42,189,643</u>
<b>Total Assets</b>	<u>121,066,171</u>	<u>88,394,467</u>
<b>LIABILITIES AND NET POSITION</b>		
Current liabilities:		
Accounts payable	12,313,025	8,503,940
Due to the primary government	694,436	7,302,909
Due to insurance carriers	6,070,937	4,891,378
Compensation payable	266,356	174,231
Accrued annual leave	351,728	-
Other liabilities	43,138	-
<b>Total Liabilities</b>	<u>19,739,620</u>	<u>20,872,458</u>
Deferred Inflow	-	25,363,921
Net position:		
Net investment in capital assets	54,058,915	42,189,642
Unrestricted net assets	<u>47,267,636</u>	<u>(31,554)</u>
<b>Total Net Position</b>	<u>\$ 101,326,551</u>	<u>\$ 42,158,088</u>

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

**DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY**  
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**Statements of Revenues, Expenses, and Changes in Net Position**  
**For the Years Ended September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Operating expenses:</b>		
Salaries	\$ 6,976,096	\$ 4,850,583
Telephone	9,117	97,155
Supplies and materials	43,605	26,499
IT and communications	22,774,445	2,493,596
Eligibility and enrollment support	2,386,725	3,614,172
Consumer education and outreach	742,168	5,122,200
Building and equipment rental	1,492,292	546,202
Professional support	4,656,309	3,397,646
General and administrative	826,763	257,499
Depreciation expense	6,304,704	2,774,421
Bad debt expense	924,246	-
Annual leave	351,728	-
<b>Total operating expenses</b>	<b>47,488,198</b>	<b>23,179,973</b>
Operating loss	(47,488,198)	(23,179,973)
<b>Non-Operating revenues:</b>		
Assessment	53,537,525	-
Federal - grant operating	34,945,161	20,373,997
<b>Total non-operating revenue</b>	<b>88,482,686</b>	<b>20,373,997</b>
Change in net position before Federal capital grants	40,994,488	(2,805,976)
Federal grants - capital (Note 7)	18,173,976	17,219,854
Change in net position	59,168,464	14,413,878
Net position - beginning of year	42,158,087	27,744,210
<b>Net position - end of year</b>	<b>\$ 101,326,551</b>	<b>\$ 42,158,088</b>

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

**DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY**  
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**Statements of Cash Flows**  
**For the Years Ended September 30, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Payment to employees	\$ (6,883,971)	\$ (4,918,025)
Payment to suppliers	<u>(29,122,339)</u>	<u>(13,451,802)</u>
<b>Net cash used in operating activities</b>	<u><b>(36,006,310)</b></u>	<u><b>(18,369,827)</b></u>
 <b>Cash flows from noncapital financing activities:</b>		
Proceeds from assessment	36,493,755	14,746,124
Amount received but not passed through to insurance carriers	1,179,559	4,891,378
Proceeds from federal grants - operating	36,950,362	15,339,177
Advances from primary government	<u>(6,608,473)</u>	<u>3,030,650</u>
<b>Net cash from noncapital financing activities</b>	<u><b>68,015,203</b></u>	<u><b>38,007,329</b></u>
 <b>Cash flows from capital and related financing activities:</b>		
Proceeds from federal grants - capital	18,173,976	17,219,854
Acquisition of capital assets	<u>(18,173,976)</u>	<u>(17,219,854)</u>
<b>Net cash from capital and related financing activities</b>	<u><b>-</b></u>	<u><b>-</b></u>
 <b>Net increase in cash and cash equivalents</b>	<b>32,008,893</b>	19,637,502
 Cash and cash equivalents, beginning of the year	19,637,502	-
 <b>Cash and cash equivalents, end of year</b>	<u><b>\$ 51,646,395</b></u>	<u><b>\$ 19,637,502</b></u>
 <b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (47,488,198)	\$ (23,179,973)
<b>Adjustments to reconcile operating loss to net cash flows from operating activities</b>		
Depreciation Expense	6,304,704	2,774,421
Bad debt reserve	924,246	-
<b>Effect of changes in non-cash operating assets and liabilities:</b>		
Accounts payable	3,809,085	2,103,167
Compensation payable	92,125	(67,442)
Accrued Annual Leave	<u>351,728</u>	<u>-</u>
<b>Net cash and cash equivalents used in operating activities</b>	<u><b>\$ (36,006,310)</b></u>	<u><b>\$ (18,369,827)</b></u>

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

**DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY**  
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**Notes to Financial Statements**  
**September 30, 2015 and 2014**

**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 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 a plan of their choice. Each application for financial assistance through 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.

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.

**DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY**  
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**Notes to Financial Statements**  
**September 30, 2015 and 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement 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.

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.

**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.

**Investments**

Pursuant to Section 4(d) of the Health Benefit Exchange Authority Establishment Act of 2011, the Authority's funds are to be invested in the same manner as are other District funds. Accordingly, the Authority is authorized by the District's 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.

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

**Notes to Financial Statements**  
**September 30, 2015 and 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments (continued)**

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 did not have any investments as of September 30, 2015 and 2014.

**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 – 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 computer system beginning in FY 2014, which was the date the system was put into service. Depreciation expense as of September 30, 2015 and 2014, was \$6,304,704 and \$2,774,421, respectively.

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

**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 2015 and 2014. 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**  
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**Notes to Financial Statements**  
**September 30, 2015 and 2014**

**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 (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 benefit accrues to the employees. HBX 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.

**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 2015 and \$117,000, in 2014. 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.

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. 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. During the fiscal years ended September 30, 2015 and 2014, the Authority contributed \$222,539 and \$125,285, respectively, on behalf of the Authority employees.

**DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY**  
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**Notes to Financial Statements**  
**September 30, 2015 and 2014**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Post-Employment Benefits (continued)**

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 \$18,000 or 100% of includable compensation in calendar year 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.

**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 project as of September 30, 2015 and 2014, were \$6,749,079 and \$9,242,107, 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.

**Recent Pronouncements**

The following accounting standard was issued by the Governmental Accounting Standards Board (GASB):

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 nonauthoritative 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, the Authority's fiscal year 2016. The Authority is currently evaluating the impact that this guidance will have on its financial statements.

**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.

**DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY**  
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**Notes to Financial Statements**  
**September 30, 2015 and 2014**

**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 as of September 30, 2015 and 2014, was \$51,646,395 and \$19,637,502, respectively, of which \$6,070,937 and \$4,891,378, is restricted as being due to insurance carriers (Note 5).

**3. DUE FROM THE PRIMARY GOVERNMENT**

Pursuant to the Patient Protection and Affordable Care Act, the District of Columbia'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 the District's 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 Authority from the federal grant funds received for that purpose. During the fiscal year ended September 30, 2015, the Authority incurred \$18,173,976 of costs associated with the development of the HBX DC Health Link which were funds from proceeds of the federal grant. In addition, the Authority incurred \$47,488,198 and \$23,179,973, on salaries, IT and communications, professional support, and other operating expenses for the fiscal years ended September 30, 2015 and 2014, respectively. This entire amount has been reimbursed by the District of Columbia.

**4. CAPITAL ASSETS**

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

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

**DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY**  
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**Notes to Financial Statements**  
**September 30, 2015 and 2014**

**4. CAPITAL ASSETS (continued)**

A summary of the Authority’s capital asset activity for the fiscal year ended September 30, 2014 follows:

	<b>October 1, 2013</b>	<b>CIP Transfers</b>	<b>Additions</b>	<b>Sept 30, 2014</b>
		<b>In (Out)</b>		
Capital Assets Not Subject To Depreciation:				
Construction In Process	\$ 27,744,210	\$ (27,744,210)	\$ 17,219,854	\$ 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	<u>\$ 27,744,210</u>	<u>\$ -</u>	<u>\$ 14,445,433</u>	<u>\$ 42,189,643</u>

**5. LIABILITIES**

**Accounts Payable**

Accounts payable totaled \$12,313,025 and \$8,503,940, as of September 30, 2015 and 2014, respectively. This balance represents amounts owed to the Authority’s vendors, suppliers, and consultants.

**Due to Primary Government**

During FY2015, 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. The Authority owed the primary government \$694,436 and \$7,302,909, as of September 30, 2015 and 2014, respectively, for expenses paid on its behalf.

**Due to Insurance Carriers**

District residents that do not otherwise have health insurance are required to use DC Health Link to select health insurance plans. 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.

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 \$6,070,937 and \$4,891,378, as of September 30, 2015 and 2014, respectively, represents the deposits and premium payments from SHOP Exchange 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.

**DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY**  
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**Notes to Financial Statements**  
**September 30, 2015 and 2014**

**5. LIABILITIES** (continued)

**Compensation Payable**

The compensation payable of \$266,356 and \$174,231, as of September 30, 2015 and 2014, respectively, represents wages earned by employees that has 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 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, which was recognized as a deferred inflow. As of September 30, 2015, the full \$25,363,921 has been received. In 2015, the full amount of the prior year deferred inflow was recognized as the Authority became fully operational.

The assessment for the year ended September 30, 2015 was \$28,801,414 which was recognized in the current year as revenue. As of September 30, 2015, \$26,460,632 of the \$28,801,414 in revenue has been collected.

**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 2015, the Authority received federal grant funds totaling \$53,119,137, in support of its planning and organizational activities with \$18,173,976 of that total 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 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.

**DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY**  
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**Notes to Financial Statements**  
**September 30, 2015 and 2014**

**9. CONCENTRATION OF RISK**

The Authority maintains cash and cash equivalent balances at several financial institutions. The cash balance at each 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, the Authority has not experienced any losses related to this concentration to date and believes it is not exposed to any significant credit risks.

**10. SUBSEQUENT EVENTS**

The Authority is funded by 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 are three federal grants that are still available for use by the Authority after year end and their periods of availability were extended in November 2015. One of the grants was extended through October 2016 and two of the grants were extended through December 2016.

The Authority evaluated the subsequent events and transactions through January 22, 2016, the date these financial statements were available for issue and have determined 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 REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

The 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's (the Authority) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 22, 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  
January 22, 2016

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