

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

Financial Statements
(With Reports of Independent Public Accountants)

September 30, 2017 and 2016



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

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

Report on the Financial Statements

We have audited the statements of net position of the District of Columbia Health Benefit Exchange Authority (the Authority or HBX), a component unit of the District of Columbia, as of September 30, 2017 and 2016, the related statements of revenues, expenses and change in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. 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, 2017 and 2016, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits 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 3, 2018 on our consideration of the Authority's internal controls 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 controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal controls 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 controls over financial reporting and compliance.

Washington, DC
January 3, 2018

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

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
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Management's Discussion and Analysis
September 30, 2017 and 2016

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, 2017, and 2016, with 2015, for comparative purposes. This information should be read in conjunction with the financial statements and the accompanying notes, which follow this discussion and analysis.

About Our Business

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

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

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
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Management's Discussion and Analysis
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About Our Business (continued)

The Authority is funded by assessments received from insurance carriers. The Health Benefit Exchange Authority Establishment Act of 2011, effective March 2, 2012, (D.C. Law 19-94; D.C. Official Code § 31-3171.01 et seq.), was permanently amended on June 23, 2015, to provide for the financial sustainability of the Health Benefit Exchange Authority. The amendment included language for the Authority to annually assess, through a Notice of Assessment, each health carrier doing business in the District, and having direct gross receipts of \$50,000 or greater in the preceding calendar year, an amount based on a percentage of its direct gross receipts for the preceding calendar year. Each health carrier is required to pay the Authority the amount stated in the Notice of Assessment, within 30 business days after the date of the Notice of Assessment. Failure to pay the assessment shall subject the health carrier to Section 5 of the Insurance Regulatory Trust Fund Act of 1993, effective October 21, 1993 (D.C. Law 10- 40; D.C. Official Code § 31-1204).

The Authority is also funded by Federal grants from the U.S. Department of Health and Human Services, that are made available as part of the Patient Protection and Affordable Care Act (the Affordable Care Act or PPACA), which was approved on March 23, 2010. On October 23, 2013, the Authority was awarded \$34,418,790, to provide implementation efforts associated with the Affordable Care Act. In August 2014, the Authority was awarded supplemental funding of an additional \$7,984,187 (an increase to the original grant award of \$34,418,790, for a total of \$42,402,977). The period of availability for this grant expired in October 2016, and the remaining balance of \$2,553,817 was spent in fiscal year 2017.

The Authority was also awarded two additional Federal grants, in the amounts of \$31,525,096 and \$22,057,941, in the months of July and December 2014, respectively. In November 2016, the periods of availability for these two grants were extended through December 2017. As a result of the grants being extended, \$13,260,621 and \$10,974,725, respectively, were added to the fiscal year 2017 Council approved budget. The total expended for these two grants, as of September 30, 2017 were \$13,260,621 and \$10,974,725, respectively. As of September 30, 2017, the Authority has spent all of the funds awarded through Federal grants.

The Authority entered into a memorandum of understanding (MOU) with another State Based Marketplace (SBM) on March 2, 2017. The agreement between the Authority and the SBM is a partnership, whereby the Authority will be reimbursed for assisting with the implementation of an operable platform for group insurance offerings for the SBM's Small Business Health Options Program (SHOP). The goal is to expand and share information technology systems, and business and customer service operations. In addition, this cooperative relationship will support a cost-effective, sustainable state-based marketplace in each state; and further the shared goals of affordability, functionality, and timely availability of health plans to consumers.

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Management's Discussion and Analysis
September 30, 2017 and 2016

Financial Highlights

- The Health Benefit Exchange Authority Establishment Act of 2011 became effective on March 2, 2012. The Authority began operations on October 1, 2012, the start of fiscal year 2013.
- As noted in Table I on page 7, the Authority's total assets exceeded liabilities by \$161,650,189, as of September 30, 2017, which is classified and reported as Net Investment in Capital Assets, and Unrestricted Net Position in the Statements of Net Position. This represents an increase of \$31,973,347, or a 25% change from September 30, 2016 to September 30, 2017. The Authority's total assets exceeded liabilities by \$129,676,842 and \$101,326,551, as of September 30, 2016 and 2015, respectively. This represents a change of \$28,350,291, or a 28% increase from September 30, 2015 to September 30, 2016. The increases are primarily related to the build-out of the information technology infrastructure for DC Health Link. Refer to Table I on page 7 for further details.
- The Authority's revenues and Federal grants exceeded its expenses by \$31,973,347 and \$28,350,291, for the years ended September 30, 2017 and 2016, respectively. This represents an increase of \$3,623,056, or a 13% increase in Change in Net Position from September 30, 2016 to September 30, 2017; which represents an overall increase in Change in Net Position. HBX recognized cost savings through a change in cost allocation with Medicaid, and by renegotiating contracts with outside vendors and other District agencies. Refer to Table II on page 8 for further detail. The Federal grants and revenues exceeded expenses by \$59,168,464 for the fiscal year ended September 30, 2015. This represents a decrease of \$30,818,173, or a 52% decrease in Change in Net Position from September 30, 2015 to September 30, 2016. This was due to the assessment collections being recorded as deferred inflows in fiscal year 2014, and then being recognized in fiscal year 2015 as non-operating revenues, in addition to the fiscal year 2015 assessment collections.

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Management's Discussion and Analysis
September 30, 2017 and 2016

Overview of the Financial Statements

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

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

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
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Management’s Discussion and Analysis
September 30, 2017 and 2016

Financial Analysis

Condensed Financial Information:

The following table provides a summary of the Authority’s total assets, liabilities, and net position as of September 30, 2017, 2016, and 2015.

Table I – Condensed Schedules of Net Position
As of September 30, 2017, 2016, and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>	Percentage Change 2017-2016	Percentage Change 2016-2015
Current Assets	\$ 111,946,944	\$ 82,589,134	\$ 67,007,256	36%	23%
Capital Assets	85,620,129	69,102,043	54,058,915	24%	28%
Total Assets	<u>197,567,073</u>	<u>151,691,177</u>	<u>121,066,171</u>	30%	25%
Current Liabilities	35,916,884	22,014,335	19,739,620		
Total Liabilities	<u>35,916,884</u>	<u>22,014,335</u>	<u>19,739,620</u>	63%	12%
Net Position					
Net Investment in Capital Assets	85,620,129	69,102,043	54,058,915	24%	28%
Unrestricted Net Position	76,030,060	60,574,799	47,267,636	26%	28%
Total Net Position	<u>\$ 161,650,189</u>	<u>\$ 129,676,842</u>	<u>\$ 101,326,551</u>	25%	28%

The net position serves as an indicator of an organization’s financial position. The Authority’s assets exceeded liabilities by \$161,650,189, \$129,676,842, and \$101,326,551, as of September 30, 2017, 2016, and 2015, respectively. This was mainly a result of the Federal government’s funding of the DC Health Link’s information technology (IT) infrastructure.

Non-current assets are comprised of items that are considered capital assets. The capital assets of \$85,620,129, as of September 30, 2017 represent a 24% increase from September 30, 2016. The capital assets of \$69,102,043, as of September 30, 2016 represent a 28% increase from September 30, 2015. These increases are related to the development of the DC Health Link’s IT infrastructure, an online marketplace system that allows users to shop, compare, and select health insurance plans.

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Financial Analysis (continued)

The Authority’s current assets are comprised of cash and cash equivalents, due from the primary government, other State Based Marketplaces, and insurance carriers. The total current assets of \$111,946,944, as of September 30, 2017, represents an increase of \$29,357,810, which translates to a 36% increase from September 30, 2016. The total current assets of \$82,589,134, as of September 30, 2016, represents an increase of \$15,581,878, which also translates to a 23% increase from the total current assets of \$67,007,256 as of September 30, 2015. There was a significant SHOP enrollment increase, from 15,875 covered lives, to 29,775 covered lives, from September 30, 2016 to September 30, 2017, respectively. The increase in enrollment contributed to the significant increase in cash and cash equivalents. In addition, in October 2016, HBX’s Board of Directors approved the funding of HBX’s Operating Reserves, in the amount of \$14,500,000. As of September 30, 2017, a receivable was also created for the other SBM; and there were amounts due from the Department of Health Care Finance (DHCF), for cost-allocated rent and other miscellaneous call center expenses paid on its behalf, by the Authority.

The Authority’s total liabilities are comprised of current liabilities, which include accounts payable, due to the primary government, due to insurance carriers, compensation payable, accrued annual leave, and other liabilities. The total liabilities of \$35,916,884, as of September 30, 2017 represent an increase of \$13,902,549, which also signifies a 63% increase from September 30, 2016. The total liabilities of \$22,014,335; as of September 30, 2016, represents an increase of \$2,274,715, or 12% more than the September 30, 2015 balance. The increase in current liabilities was primarily due to a significant increase of, approximately, \$12,713,016 in amounts due to insurance carriers.

The following table presents condensed financial information from the Statements of Revenues, Expenses, and Change in Net Position for the fiscal years ended September 30, 2017, 2016 and 2015.

Table II – Condensed Schedules of Revenues, Expenses, and Change in Net Position
For the Years ended September 30, 2017, 2016 and 2015

	<u>2017</u>	<u>2016</u>	<u>2015</u>	Percentage Change 2017-2016	Percentage Change 2016-2015
Operating Revenue	\$ 4,376,291	\$ -	\$ -	100%	0%
Operating Expenses	<u>31,491,473</u>	<u>33,106,358</u>	<u>47,488,198</u>	-5%	-30%
Operating Loss	(27,115,182)	(33,106,358)	(47,488,198)		
Non-Operating Revenues	<u>34,275,506</u>	<u>39,015,621</u>	<u>88,482,686</u>	-12%	-56%
Federal Grants - Capital	<u>24,813,023</u>	<u>22,441,028</u>	<u>18,173,976</u>	11%	23%
Change in Net Position	<u>\$ 31,973,347</u>	<u>\$ 28,350,291</u>	<u>\$ 59,168,464</u>	13%	-52%

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September 30, 2017 and 2016

Financial Analysis (continued)

The operating revenues are from the agreement between HBX and the other SBM that was established in the current fiscal year. The revenues generated from inception, to September 30, 2017, were a result of billing the SBM for incurred expenses related to its SHOP. The operating revenues represent reimbursements obtained as result of providing shared information technology systems, and business and customer operational services to the other SBM. During the fiscal years ended September 30, 2017 and 2016 the Authority's operating revenues totaled \$4,376,291 and \$0, respectively.

The non-operating revenues were derived from assessments from insurance carriers and grants provided by the Federal government, for operating and capital purposes. During the fiscal year ended September 30, 2017, the Authority's non-operating revenues and capital contributions totaled \$59,088,529, as compared to \$61,456,649, and \$106,656,662 during the fiscal years ended September 30, 2016 and 2015, respectively. The total cost of the Authority's activities and services were \$31,491,473, \$33,106,358, and \$47,488,198, for the fiscal years ended September 30, 2017, 2016, and 2015, respectively.

There was an overall increase in the Change in Net Position, due to receipt of operating revenues, and reduction in operating expenses; offset by a reduction in non-operating revenues. There was a significant reduction in operating expenses for professional support, since there was a reduction in funding received from Federal grants. As the Federal funding is reduced, HBX spending decreases for marketing/outreach expenses. HBX may be able to recognize cost savings, by renegotiating contracts with outside vendors and other District Agencies.

Capital Assets

The Authority had \$85,620,129, \$69,102,043, and \$54,058,915, in capital assets, net of accumulated depreciation, as of September 30, 2017, 2016, and 2015, respectively. Most of these investments for these periods are related to the development of the DC Health Link IT system and infrastructure, an online marketplace system that allows users to shop, compare, and select health insurance plans. The Authority's net capital assets as of September 30, 2017, increased by \$16,518,086, compared to September 30, 2016, which was primarily due to additions of \$26,460,574, made to the system, which was offset by depreciation expenses of \$9,942,487. The Authority's net capital assets as of September 30, 2016, increased by \$15,043,128, compared to September 30, 2015, which was primarily due to additions of \$22,441,028 made to the system, which was offset by depreciation expenses of \$7,397,900.

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

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
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Management's Discussion and Analysis
September 30, 2017 and 2016

Budgetary Controls

The Authority adopts an operating budget, which is approved by its Board of Directors in December of each year, for the subsequent fiscal year. Prior to approval by the Board, the budget is reviewed in detail, and adjusted, if necessary. After approval by the Board of Directors, the Authority is required to submit its annual operating budgets to the Mayor and Council of the District of Columbia, to be included in the District's budgets that are sent to the United States Congress for approval. The budget that is originally loaded into the Authority's Financial Management System is for assessment based spending only. Any grants that are subsequently awarded or extended after the budget has been formulated will be added to the budget as they are known. The Financial Management Division prepares monthly reports for the Board of Directors and its Finance Committee. The reports are reviewed and acted upon each month, to ensure that the Authority complies with its authorized budget levels. The budget for fiscal year 2018 is \$28,142,740 which is 18% less than fiscal year 2017 actual expenses. The decrease was due to change in cost allocation with Medicaid going from a 50/50 split to a 94/6 split with the Authority being responsible for the 6%. In addition, a decrease in costs associated with agreements with other DC Agencies like Department of Human Services (DHS) and Office of Chief Technology Officer (OCTO) and the Authority's ability to move from software licenses to a cloud based system that utilizes open source coding caused a 74% budgetary decrease from fiscal year 2017 to fiscal year 2018. The budget for fiscal year 2017 was \$34,521,266, which is 6% greater than fiscal year 2016. These budgets for fiscal years 2017 and 2018 do not include Federal grant revenues.

Economic Outlook

As of September 30, 2017, all Federal grants were expended. Moving forward, HBX IT systems enhancement spending will substantially decrease. While Federal implementation grants were available for fiscal year 2017 and first quarter of fiscal year 2018, HBX is focused on improving and adding functionality to the DC Health Link. Federal grants also supported 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 and through partnerships with other entities.

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 Authority's Executive Director, 1225 I Street, N.W., 4th Floor, Washington, DC 20005.

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY
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Statements of Net Position
September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 103,311,069	\$ 70,140,464
Due from the primary government	641,845	445,541
Due from the Federal government	6,513,851	6,077,110
Due from the State Based Marketplace	669,475	-
Due from insurance carriers, net	810,704	5,926,019
Total currents assets	<u>111,946,944</u>	<u>82,589,134</u>
Capital assets:		
DC Health Link IT infrastructure	112,039,642	85,579,068
Less: accumulated depreciation	(26,419,513)	(16,477,025)
Capital assets, net	<u>85,620,129</u>	<u>69,102,043</u>
Total Assets	<u>197,567,073</u>	<u>151,691,177</u>
LIABILITIES		
Current liabilities:		
Accounts payable	9,469,481	8,143,915
Due to the primary government	725,567	1,011,253
Due to insurance carriers	24,591,051	11,878,035
Compensation payable	415,188	317,034
Accrued annual leave	444,203	410,707
Other liabilities	271,394	253,391
Total Liabilities	<u>35,916,884</u>	<u>22,014,335</u>
NET POSITION		
Net investment in capital assets	85,620,129	69,102,043
Unrestricted net position		
Assigned	14,500,000	-
Unassigned	61,530,060	60,574,799
Total Net Position	<u>\$ 161,650,189</u>	<u>\$ 129,676,842</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 Change in Net Position
For the Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:	\$ 4,376,291	\$ -
Operating Expenses:		
Salaries	9,996,628	8,296,696
Telephone	343,882	237,831
Supplies and materials	42,253	30,959
IT and communications	4,746,657	9,533,544
Eligibility and enrollment support	757,804	1,800,443
Consumer education and outreach	1,268,876	503,632
Building and equipment rental	1,810,222	1,121,883
Professional support	2,351,513	3,241,127
General and administrative	231,150	942,343
Depreciation expense	9,942,488	7,397,900
Total Operating Expenses	<u>31,491,473</u>	<u>33,106,358</u>
Operating loss	<u>(27,115,182)</u>	<u>(33,106,358)</u>
Non-Operating Revenues:		
Assessments	32,261,623	30,261,358
Federal grants - non-capital	1,976,140	8,749,767
Interest and fees	37,743	4,496
Total Non-Operating Revenues	<u>34,275,506</u>	<u>39,015,621</u>
Change in net position before Federal capital grants	7,160,324	5,909,263
Federal grants - capital (Note 8)	<u>24,813,023</u>	<u>22,441,028</u>
Change in net position	31,973,347	28,350,291
Net position - beginning of year	<u>129,676,842</u>	<u>101,326,551</u>
Net position - End of Year	<u><u>\$161,650,189</u></u>	<u><u>\$ 129,676,842</u></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 Cash Flows
For the Years Ended September 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Payment to employees	\$ (9,864,978)	\$ (8,187,039)
Payment to suppliers	(10,423,095)	(22,026,413)
Receipts from customers	<u>3,706,816</u>	<u>-</u>
Net cash flows from operating activities	<u>(16,581,257)</u>	<u>(30,213,452)</u>
 Cash flows from investing activities:		
Proceeds from interest and fees	<u>37,743</u>	<u>4,496</u>
 Cash flows from noncapital financing activities:		
Proceeds from assessments	37,394,941	26,886,374
Premiums received on behalf of insurance carriers, net	12,713,016	(5,807,098)
Proceeds from federal grants - non-capital	1,976,140	8,749,767
(Payments to)/advances from primary government	<u>(285,686)</u>	<u>316,817</u>
Net cash flows from noncapital financing activities	<u>51,798,411</u>	<u>30,145,860</u>
 Cash flows from capital and related financing activities:		
Proceeds from federal grants - capital	24,376,282	29,383,997
Acquisition of capital assets	<u>(26,460,574)</u>	<u>(22,441,028)</u>
Net cash flows from capital and related financing activities	<u>(2,084,292)</u>	<u>6,942,969</u>
 Net increase in cash and cash equivalents	33,170,605	6,879,873
Cash and cash equivalents, beginning of the year	<u>58,526,268</u>	<u>51,646,395</u>
Cash and cash equivalents, end of year	<u>\$ 91,696,873</u>	<u>\$ 58,526,268</u>
 Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss	\$ (27,115,182)	\$ (33,106,358)
Adjustments to reconcile operating loss to net cash flows from operating activities		
Depreciation expense	9,942,488	7,397,900
Effect of changes in non-cash operating assets and liabilities:		
Due from primary government	(196,304)	(445,541)
Accounts payable	1,325,566	(4,169,110)
Compensation payable	98,154	50,678
Accrued annual leave	33,496	58,979
Due from the State Based Marketplace	<u>(669,475)</u>	<u>-</u>
Net cash flows from operating activities	<u>\$ (16,581,257)</u>	<u>\$ (30,213,452)</u>

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

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

Notes to Financial Statements
September 30, 2017 and 2016

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 premium assistance tax credits, and cost-sharing reductions.

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

Financial Reporting Entity

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

- The organization is a legally separate entity.
- The District of Columbia appoints a voting majority of the organization's board.

There is a financial benefit/burden relationship between the District of Columbia and the organization, and the District of Columbia is able to impose its will on the organization.

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

Notes to Financial Statements
September 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Reporting Entity (continued)

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

Basis of Presentation

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

The Authority's financial transactions are accounted for as an enterprise fund in the District's financial statements. The accompanying financial statements are only those of the Authority, and are not intended to present the financial position, changes in financial position, and cash flows of the District, taken as a whole. The District provides certain legal, central, accounting, and other services to the Authority. The costs and revenues 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, and liabilities associated with HBX's operations are included on the Statements of Net Position. The net position of the Authority is further categorized into net investment in capital assets and unrestricted net position.

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

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

Notes to Financial Statements
September 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reclassification

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Cash and Cash Equivalents

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

Capital Assets and Depreciation

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

The estimated useful lives for capital assets are as follows:

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

Depreciation is calculated on each class of depreciable property, using the straight-line method. The Authority commenced depreciating the DC Health Link's computer system beginning in fiscal year 2014, which was the date the system was put into service. Depreciation expense as of September 30, 2017 and 2016 was \$9,942,487 and \$7,397,900, respectively.

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

Notes to Financial Statements
September 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and Non-Operating Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. The Authority is authorized to generate 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.

Operating revenues generally result from providing services in connection with the Authority's principal ongoing operations. The Authority generated operating revenues, which solely represented reimbursements obtained as result of providing shared information technology system, and business and customer operational services to another State Based Marketplace (SBM).

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. Operating expenses also include costs associated with maintenance of the other SBM's SHOP.

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

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

Compensated Absences

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

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

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

Notes to Financial Statements
September 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Post-Employment Benefits

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

Under the provisions of D.C. Official Code § 1-626.05, the District of Columbia sponsors a defined contribution pension plan (Internal Revenue Code Section 401(a) Plan) for permanent full-time employees, pursuant to § 401(a) of the Internal Revenue Code (26 U.S.C. § 401). The Authority's employees are eligible to participate in this plan after one year of employment with the District, and they do not contribute to the plan. The Authority contributes 5% of base salaries for eligible employees in each pay period. During the fiscal years ended September 30, 2017 and 2016, the Authority contributed \$342,409 and \$289,302, respectively, on behalf of the Authority's employees. Contributions and earnings vest incrementally, beginning after two years of employment, including a one-year waiting period; and vest fully after five years of employment, including the one-year waiting period. Contributions and earnings are forfeited for the period of service during which the employee does not achieve incremental vesting, if separation occurs before five years of credited employment. The forfeited contributions and earnings during fiscal years ended September 30, 2017 and 2016 were \$13,092 and \$11,126, respectively.

The Authority's employees may also participate in the District of Columbia's deferred compensation plan, established under D.C. Code § 47-3601 in accordance with IRC Section 457. Employees are able to defer the lesser of \$18,000, or 100% of includable compensation, in calendar years 2017 and 2016. A special catch-up provision is also available to the participant that allows them to make up or catch up for prior years in which they did not contribute the maximum amount to the plan. The "catch-up" limit is the lesser of: (a) twice the annual contribution limit, \$36,000, or (b) the annual contribution limit for the year, plus underutilized amounts from prior taxable years. An additional deferral of \$6,000 is available to participants who are at least 50 years old before the end of the calendar year. Contributions are not assets of the District and the District has no further liability to the plan.

The District of Columbia's defined contribution and deferred compensation plans are administered by ICMA-RC.

Contractual Commitments

The Authority's contractual commitments are primarily associated with the capital projects related to the development of the online health insurance marketplace, DC Health Link. Outstanding contractual commitments related to the capital projects as of September 30, 2017 were \$20,438,915.

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

Notes to Financial Statements
September 30, 2017 and 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position and Reserves

The Authority adopted a long-term plan for financial sustainability. As part of that plan, a policy on Reserve Fund was created to address spendable fund balance. The policy has two categories of reserves: Operating and Capital. Operating reserve is funded, using 6 to 9 months of the previous year's Council approved budget. The Authority's board-assigned operating reserve was \$14,500,000 and \$0, as of September 30, 2017 and 2016, respectively. Capital reserves are authorized to be funded up to \$20 million, after the full funding of Operating Reserves. There were no board-assigned Capital reserves for the fiscal years ended September 30, 2017 and 2016.

When multiple categories of funds are available for an expenditure; such as a capital project being funded by a combination of grant funds, funds set aside by HBX, and unassigned reserves, HBX will spend project funds from the most restricted category first (i.e., grant funds). When the most restricted funds have been spent on the project, then funds will be spent from the next most restrictive category (i.e., committed or assigned fund balance), continuing this pattern until all project funds have been expended.

New Accounting Pronouncements

In Fiscal year 2017, GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; GASB No. 81, *Irrevocable Split-Interest Agreements*; GASB No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73*; GASB No. 85, *Omnibus 2017*; and GASB No. 86, *Certain Debt Extinguishment Issues* effective for the year ending June 30, 2018; GASB No. 83, *Certain Asset Retirement Obligations* effective for the year ending June 30, 2019; GASB No. 84, *Fiduciary Activities* effective for the year ending June 30, 2020, and GASB No. 87, *Leases* effective for the year ending June 30, 2021.

The Authority has not completed the process of evaluating the impact that will result from adopting these GASB statements, but does not expect these GASB statements would have a material effect on the financial statements. The Authority will be adopting these GASB statements, as applicable, by their effective date.

Use of Estimates

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

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

Notes to Financial Statements
September 30, 2017 and 2016

2. CASH AND CASH EQUIVALENTS

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

The Authority's cash and cash equivalents as of September 30, 2017 and 2016, was \$103,311,069 and \$70,140,464, respectively.

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

Custodial credit risk is the risk that in the event of a bank failure, HBX's deposits may not be returned to it. The HBX deposits are under the control of the District of Columbia, in accordance with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. law 12-56) and are insured or collateralized with securities held by the District or by its agents in the District's name. As of September 30, 2017, and 2016, there were no deposits exposed to custodial credit risk.

The following is the break out of the deposits held by financial institutions as of September 30, 2017 and 2016.

<u>Depository accounts as of September 30</u>	<u>2017</u>	<u>2016</u>
Insured	\$ 250,000	\$ 250,000
Collateralized by securities		
Collateral held by the District or by its agents in the District's name	103,061,069	69,890,464
Total Deposits	<u>\$103,311,069</u>	<u>\$ 70,140,464</u>

3. DUE FROM THE PRIMARY GOVERNMENT

The Authority operates a Contact Center, which provides the Authority the capability to provide consumers with over-the-phone and web-based services for Medicaid and private health insurance, and small business (SHOP) health insurance eligibility, enrollment, and related assistance. The District's Department of Human Services (DHS) and the Authority shared financial responsibility for the Contact Center, part of which is cost allocated to Medicaid. During the fiscal years ended September 30, 2017 and 2016, the amount due from the District's Department of Health Care Finance (DHCF) for rent and other miscellaneous Contact Center expenses paid on its behalf by the Authority was \$641,845 and \$445,541, respectively.

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

Notes to Financial Statements
September 30, 2017 and 2016

4. DUE FROM THE OTHER STATE BASED MARKETPLACE (SBM)

The Authority bills the other SBM, monthly, for all charges incurred for providing services, as set forth in the agreement between the Authority and the other SBM. The amount of \$669,475, due from the SBM, represents charges that have been billed but not paid by the SBM as of September 30, 2017.

5. CAPITAL ASSETS

A summary of the Authority's capital asset activity for the fiscal year ended September 30, 2017 follows:

	<u>October 1, 2016</u>	<u>Additions</u>	<u>September 30, 2017</u>
Capital Assets Subject To Depreciation:			
DC Health Link IT infrastructure	\$ 85,579,068	\$ 26,460,574	\$ 112,039,642
Less: Acumulated Depreciation	<u>(16,477,025)</u>	<u>(9,942,488)</u>	<u>(26,419,513)</u>
Capital Assets, Net	<u>\$ 69,102,043</u>	<u>\$ 16,518,086</u>	<u>\$ 85,620,129</u>

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

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

6. DUE TO INSURANCE CARRIERS

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

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

Notes to Financial Statements
September 30, 2017 and 2016

6. DUE TO INSURANCE CARRIERS (continued)

DC Health Link's Small Business Health Options Program Exchange ("SHOP Exchange"), the small business marketplace, is where small employers and their employees, and Members of Congress and their designated staff, apply for and select qualified health plans. These groups make their premium payments to HBX; either electronically, from the Automated Clearing House (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 \$24,591,051 and \$11,878,035, as of September 30, 2017 and 2016, respectively, represent the deposits and premium payments from SHOP Exchange and insured and congressional staffers that have been deposited in the Authority's bank account, but have not yet been wired to the various insurance companies.

7. ASSESSMENTS

The Authority is funded by assessments received from insurance carriers. The Health Benefit Exchange Authority Establishment Act of 2011, effective March 2, 2012 (D.C. Law 19-94; D.C. Official Code § 31-3171.01 et seq.), was permanently amended on June 23, 2015, to provide for the financial sustainability of the Health Benefit Exchange Authority. The amendment included language for the Authority to annually assess, through a Notice of Assessment, each health carrier doing business in the District, and having direct gross receipts of \$50,000 or greater in the preceding calendar year, an amount based on a percentage of its direct gross receipts for the preceding calendar year. Each health carrier is required to pay the Authority the amount stated in the Notice of Assessment, within 30 business days after the date of the Notice of Assessment. Failure to pay the assessment shall subject the health carrier to Section 5 of the Insurance Regulatory Trust Fund Act of 1993, effective October 21, 1993 (D.C. Law 10-40; D.C. Official Code § 31-1204).

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

The assessments for the fiscal years ended September 30, 2017 and 2016, were \$32,261,623 and \$30,261,358, respectively. The net assessment due from insurance carriers as of September 30, 2017 and 2016 was \$810,704 and \$5,926,019, respectively. The amounts due from insurance carriers as of September 30, 2017 and 2016, were reduced by an allowance of \$1,180,054 and \$1,184,382, respectively, due to the insurance carriers' unlikely ability to pay the assessments.

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

Notes to Financial Statements
September 30, 2017 and 2016

8. FEDERAL CONTRIBUTION

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

The Authority received Federal non-capital and capital grant funds, totaling \$26,789,163 and \$31,190,795, for the fiscal years ended September 30, 2017 and 2016, respectively, in support of its planning and organizational activities. Federal capital grants associated with the development of the DC Health Link, for the fiscal years ended September 30, 2017 and 2016, were \$24,813,023 and \$22,441,028, respectively. All grants awarded were expended in their entirety as of September 30, 2017.

9. RISK MANAGEMENT

The Authority is exposed to various risks of loss, related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the fiscal years 2017 and 2016, 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.

10. SUBSEQUENT EVENTS

The Authority evaluated the subsequent events and transactions through January 3, 2018, the date these financial statements were available for issue; and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements, or require additional disclosure.



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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the District of Columbia Health Benefit Exchange Authority (the Authority) as of and for the year ended September 30, 2017, 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 3, 2018.

Internal Controls over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal controls over financial reporting (internal controls) 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 controls. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal controls.

A deficiency in internal controls 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 controls, 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 controls that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls 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 controls 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 controls 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 controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal controls 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 controls and compliance. Accordingly, this communication is not suitable for any other purpose.

Washington, DC
January 3, 2018

A handwritten signature in cursive script that reads "SB & Company, LLC".