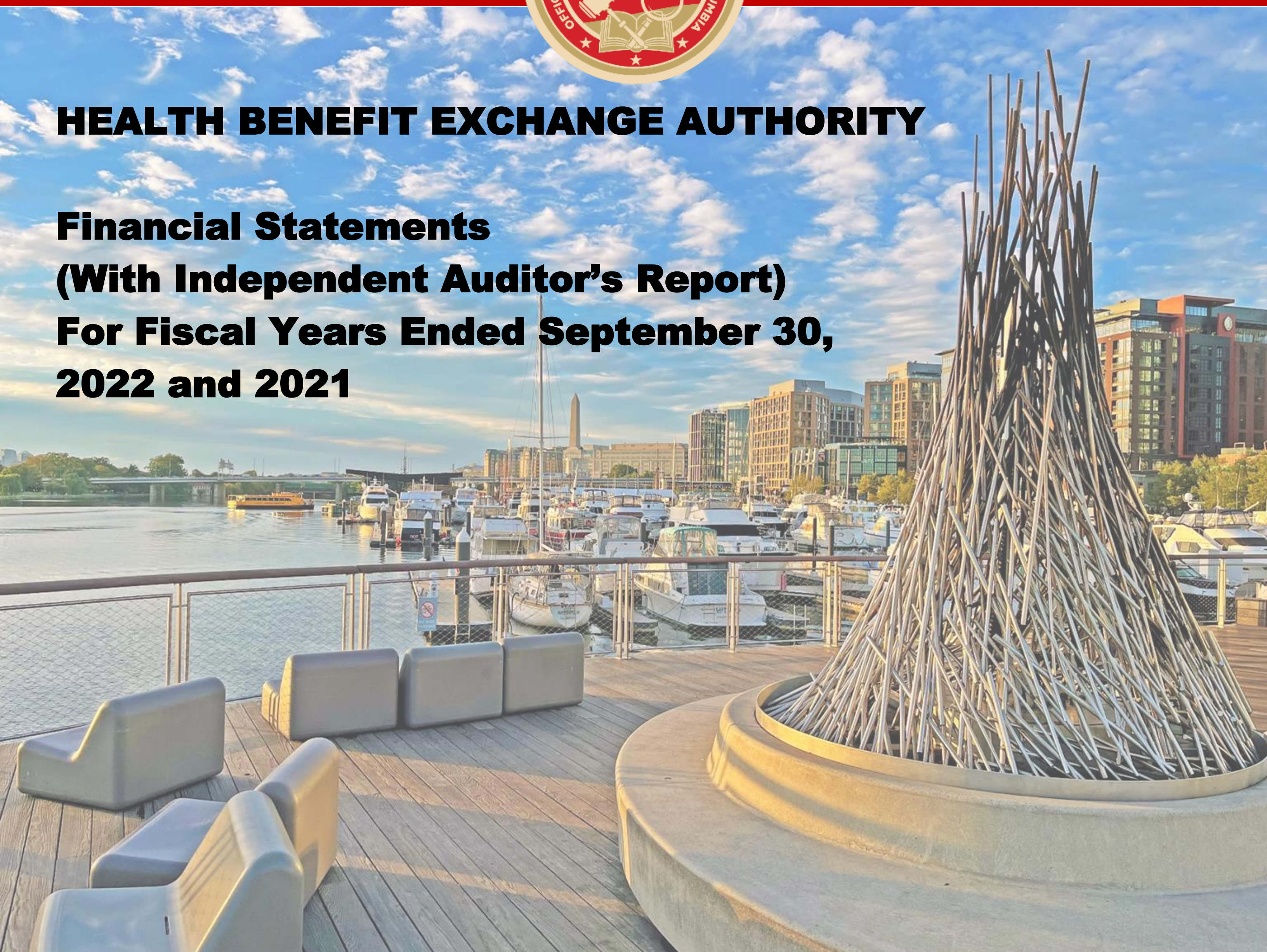
DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 22-1-31HI

January 2023

HEALTH BENEFIT EXCHANGE AUTHORITY

Financial Statements
(With Independent Auditor's Report)
For Fiscal Years Ended September 30, 2022 and 2021



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TRANSPARENCY ⁕ CONTINUOUS IMPROVEMENT ⁕ EXCELLENCE

Mission

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

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

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

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Transparency ⁕ Continuous Improvement ⁕ Excellence

WE ARE WASHINGTON DC

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

OIG

January 31, 2023

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

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

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *Health Benefit Exchange Authority Financial Statements (With Independent Auditor's Report) for Fiscal Years Ended September 30, 2022 and 2021* (OIG No. 22-1-31HI). McConnell & Jones LLP (MJ) conducted the audit and submitted this component report as part of our overall contract for the audit of the District of Columbia's general-purpose financial statements for fiscal year 2022.

On January 3, 2023, MJ issued its opinion and concluded that the financial statements are presented fairly in all material respects, in accordance with accounting principles generally accepted in the United States of America. MJ identified no material weaknesses in internal control over financial reporting.

If you have questions about this report, please contact me or Fekede Gindaba, Assistant Inspector General for Audits, at (202) 727-2540.

Sincerely,

Daniel W. Lucas
Inspector General

DWL/ws

Enclosure

cc: See Distribution List

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Mr. Wayne McConnell, Managing Partner, McConnell & Jones LLP

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY

(A Component Unit of the Government of the District of Columbia)

Financial Statements
(With Independent Auditor’s Reports)

September 30, 2022 and 2021

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

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McConnell Jones

INDEPENDENT AUDITOR'S REPORT

To the Mayor, Members of the Council of the Government of the
District of Columbia, Executive Director and the Executive Board of
the District of Columbia Health Benefit Exchange Authority and
Inspector General of the Government of the District of Columbia
Washington, D.C.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the District of Columbia Health Benefit Exchange Authority (the Authority), a component unit of the Government of the District of Columbia, as of and for the years ended September 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Authority as of September 30, 2022, and 2021, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

The Authority's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Authority's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 3, 2023, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

McConnell & Jones

Washington, D.C.
January 3, 2023

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, 2022, and 2021; with 2020, 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 non-voting 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.

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 Authority. The amendment included language that the Authority annually assess, through a Notice of Assessment, each health carrier doing business in the District of Columbia; 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 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 is 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 supports a cost-effective, sustainable, state-based marketplace in both jurisdictions; and furthers the shared goals of affordability, functionality, and timely availability of health plans to consumers.

The Authority was also funded in fiscal year 2017 and prior years, by Federal grants from the U.S. Department of Health and Human Services, that were 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. The last available funds awarded through Federal grants, were all spent as of September 30, 2017.

Management's Discussion and Analysis
September 30, 2022 and 2021

Financial Highlights

- As noted in Table I on page 7, the Authority's total assets exceeded liabilities by $109,388,209, as of September 30, 2022, which is classified and reported as Net Investment in Capital Assets, Restricted and Unrestricted Net Position in the Statements of Net Position. This represents a decrease of $9,718,304, or an 8% change from September 30, 2021, to September 30, 2022. The Authority's total assets exceeded liabilities by $119,106,513, as of September 30, 2021, which is classified and reported as Net Investment in Capital Assets, Restricted and Unrestricted Net Position in the Statements of Net Position. This represents a decrease of $12,594,283, or a 10% change from September 30, 2020, to September 30, 2021.
- As noted in Table II on page 8, the Authority's expenses exceeded its revenues by $9,718,304, for the year ended September 30, 2022. This represents an improvement of $2,875,979, or 23% in the Change in Net Position from September 30, 2021, to September 30, 2022. The improvement in the Change in Net Position is a result of a decrease in expenses, coupled with an increase in revenues in fiscal year 2022, as compared to fiscal year 2021. The Authority's expenses exceeded its revenues by $12,594,283, for the year ended September 30, 2021. This represents a decrease of $903,148, or an 8% decrease in the Change in Net Position from September 30, 2020, to September 30, 2021, which represents an overall decrease in Change in Net Position. The decrease in the Change in Net Position is the result of a higher increase in expenses over revenues in fiscal year 2021, as compared to fiscal year 2020. Refer to Table II on page 8 for further detail.

Overview of the Financial Statements

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

1. ***Statements of Net Position*** **–** The Statements of Net Position present information on the Authority's assets, liabilities, and 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, non-capital 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.

Management's Discussion and Analysis
September 30, 2022 and 2021

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, 2022; 2021; and 2020.

Table I – Condensed Schedules of Net Position As of September 30, 2022; 2021; and 2020

				Change 2022-2021		Change 2021 - 2020	
	2022	**2021**	**2020**	**Amount**	**%**	**Amount**	**%**
Current Assets	**$ 112,507,269**	$ 98,132,076	$104,746,642	$ 14,375,193	15%	$ (6,614,566)	-6%
Capital Assets	**35,391,127**	47,680,997	59,989,076	(12,289,870)	-26%	(12,308,079)	-21%
Total Assets	**147,898,396**	145,813,073	164,735,718	2,085,323	1%	(18,922,645)	-11%
Current Liabilities	**38,510,187**	26,706,560	33,034,922	11,803,627	44%	(6,328,362)	-19%
Total Liabilities	**38,510,187**	26,706,560	33,034,922	11,803,627	44%	(6,328,362)	-19%
Net Position:							
Net Investment in Capital Assets	**35,391,127**	47,680,997	59,989,076	(12,289,870)	-26%	(12,308,079)	-21%
Restricted for:							
Premium shortfall relief payments	**46,586**	1,538,927	-	(1,492,341)	-97%	1,538,927	100%
Unrestricted Net Position	**73,950,496**	69,886,589	71,711,720	4,063,907	6%	(1,825,131)	-3%
Total Net Position	**$ 109,388,209**	$ 119,106,513	$ 131,700,796	$ (9,718,304)	-8%	$ (12,594,283)	-10%

The net position serves as an indicator of an organization's financial position. The Authority's assets exceeded liabilities by $109,388,209; $119,106,513; and $131,700,796, as of September 30, 2022; 2021; and 2020, respectively.

Non-current assets are comprised of items that are considered to be capital assets. The capital assets of $35,391,127 as of September 30, 2022, represent a 26% decrease from September 30, 2021. The capital assets of $47,680,997, as of September 30, 2021, represent a 21% decrease from September 30, 2020. This decrease is related to the depreciation of capital assets, now that the DC Health Link system is developed and operational.

The Authority's current assets are comprised of cash and cash equivalents; restricted cash; amounts due from the primary government, Federal government, the other State-Based Marketplace, and insurance carriers; and investments. The total current assets of $112,507,269, as of September 30, 2022, represents an increase of $14,375,193, which also translates to a 15% increase from September 30, 2021. The increase in the current assets was mainly a result of a higher cash balance in fiscal year 2022 which resulted from having more premiums that were due to insurance carriers on hand in fiscal year 2022 as compared to fiscal year 2021.

Financial Analysis (continued)

The total current assets of $98,132,076 as of September 30, 2021, represents a decrease of $6,614,566, which translates to a 6% decrease from September 30, 2020. The decrease in the current assets was mainly a result of the sale of investments from the invested operating funds in fiscal year 2021; to support ongoing development of IT programs for DC Health Link, the continued operations of the Contact Center, the consumer education and outreach services, and services associated with COVID-19 related costs.

In October 2016, the Authority's Board of Directors approved the funding of its operating reserves, in the amount of $14,500,000. In January 2018, the Authority's Board of Directors approved additional funding of its operating reserves, in the amount of $11,390,950, and capital reserves of $5,000,000. During fiscal year 2018, the District of Columbia Office of the Chief Financial Officer (OCFO) invested the reserve funds, as required by the Authority's reserve funding policy. The amounts invested were $25,890,950 and $5,000,000, related to the operating and capital reserve funds, respectively. In May 2022, the Authority's Board of Directors approved additional funding of its capital reserves, in the amount of $800,000. This amount was invested, resulting in a total of $5,800,000 in capital reserves.

The Authority's total liabilities are comprised of current liabilities, which include accounts payable, due to the primary government, due to the Federal government, due to insurance carriers, compensation payable, accrued annual leave, and other liabilities. The total liabilities of $38,510,187, as of September 30, 2022, represents an increase of $11,803,627, or a 44% increase from September 30, 2021. The increase is primarily due to a significant increase in premiums due to insurance carriers in fiscal year 2022. The District of Columbia implemented an electronic vendor invoicing system towards the end of fiscal year 2018. HBX required all vendors to submit invoices through e-Invoicing during fiscal years 2022 and 2021. By the end of fiscal year 2022, vendors had entered invoices into the e-Invoicing system and received prompt payment.

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, 2022; 2021; and 2020.

Table II – Condensed Schedules of Revenues, Expenses, and Change in Net Position
For the Years ended September 30, 2022; 2021; and 2020

				Change 2022-2021		Change 2021-2020	
	2022	**2021**	**2020**	**Amount**	**%**	**Amount**	**%**
Operating Revenues	**$ 3,638,203**	$ 3,961,557	$ 3,893,556	$ (323,354)	-8%	$ 68,001	2%
Operating Expenses	**46,469,767**	48,193,813	46,795,951	(1,724,046)	-4%	1,397,862	3%
Operating Loss	**(42,831,564)**	(44,232,256)	(42,902,395)	1,400,692	3%	(1,329,861)	-3%
Non-Operating Revenues	**33,113,260**	31,637,973	31,211,260	1,475,287	5%	426,713	1%
Change in Net Position	**$ (9,718,304)**	$ (12,594,283)	$ (11,691,135)	$ 2,875,979	23%	$ (903,148)	-8%

Financial Analysis (continued)

The operating revenues were derived from the agreement between HBX and the other SBM that was established in fiscal year 2017. The revenues generated were a result of billing the other 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, 2022 and 2021, the Authority's operating revenues totaled $3,638,203 and $3,961,557, respectively.

The non-operating revenues were derived from assessments from insurance carriers; interest and fees; investment income; Federal Coronavirus recovery funds; Health Care 4 Child Care funds; and non-capital Federal grants. During the fiscal year ended September 30, 2022, the Authority's non-operating revenues totaled $33,113,260; as compared to $31,637,973 and $31,211,260 during the fiscal years ended September 30, 2021, and 2020, respectively. The total cost of the Authority's activities and services were $46,469,767; $48,193,813; and $46,795,951, for the fiscal years ended September 30, 2022; 2021; and 2020, respectively.

There was an overall improvement in the Change in Net Position, due to a decrease in expenses, coupled with an increase in revenues in fiscal year 2022, as compared to fiscal year 2021. There was an increase of $1,135,454 in assessments in fiscal year 2022 compared with fiscal year 2021 due to an increase in premiums earned by health insurance carriers, offset by a reduction in the assessment rate. Additionally, the operations of the HBX Contact Center became 100% virtual. As a result, HBX did not pay rent in fiscal year 2022, for the L'Enfant Plaza space previously held for the Contact Center.

Capital Assets

The Authority had $35,391,127, $47,680,997, and $59,989,076, in capital assets, net of accumulated depreciation, as of September 30, 2022; 2021; and 2020, respectively. Most of the 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, 2022, decreased by $12,289,870, compared to September 30, 2021, which was due to the depreciation expenses in fiscal year 2022. The Authority's net capital assets as of September 30, 2021, decreased by $12,308,079, compared to September 30, 2020. This was primarily due to depreciation expenses in the fiscal year 2021.

Budgetary Controls

The Authority adopts an operating budget, which is approved by its Board of Directors in November 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 budget to the Mayor and Council of the District of Columbia, to be included in the District of Columbia'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 2023 is $35,684,055, which is 9% more than the fiscal year 2022 budget. The fiscal year 2023 budget includes an increase of $1,767,269 in nonpersonal services, across multiple programs, to align the nonpersonal services budget with projected expenses. This funding will primarily be used to support anticipated contractual service costs in the marketplace innovation policy and operations program. Additionally, a proposed increase of $1,636,323 aligns the personal services budget, with projected costs across multiple programs, and will support an additional 8 Full-Time Equivalents (FTEs). The budget includes a net decrease of $561,515 across multiple programs, to align rent and telecommunications fixed costs with projected estimates. The budget for fiscal year 2022 was $32,841,979, which was 6% more than the fiscal year 2021 budget. The fiscal year 2022 budget included an increase of $2,083,332 across multiple programs, to align the nonpersonal services budget with projected expenses. The funding was primarily to be used to support anticipated contractual service costs in the marketplace innovation policy and operations program. There was also a proposed increase of $317,149 across multiple programs, which aligns the personal services budget with projected costs. The budget included a decrease of $506,103 across multiple programs; to align rent and telecommunications fixed costs, with projected estimates. These budgets for fiscal years 2022 and 2021 do not include revenues from the other State Based Marketplace.

Economic Outlook

HBX's IT systems enhancement spending will remain focused on improving and adding functionality to DCHealthLink.com, including new automated systems for handling customer issues, updates related to federal or local legislative and regulatory changes to strengthen the Affordable Care Act and provide relief in response to the economic and public health impacts of COVID-19, and adding functionality for HealthCare4ChildCare. HeathCare4ChildCare is a program that launched fall of 2022 providing free health insurance and lower premiums through DC Health Link for early childhood providers and their teams. HBX is utilizing federal funding from grants and COVID relief for some IT enhancements. HBX's partnership with the other State Based Marketplace will continue to produce revenue and reduce costs for IT development. HBX is finding efficiencies and ways to mitigate increased costs such as personnel by reducing other costs such as reducing physical space and associated expenses, moving to a hybrid work model, and transitioning consultants to FTEs.

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, at 1225 I Street, NW, 4th Floor, Washington, DC 20005.

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

Statements of Net Position
September 30, 2022 and 2021

	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 57,507,372**	$ 28,561,708
Restricted Cash	**46,586**	1,538,927
Due from the primary government	**81,425**	6,696
Due from the Federal government	**3,246**	445,451
Due from the Other State Based Marketplace	**649,051**	725,071
Due from insurance carriers, net	**1,508,683**	2,397,250
Investments	**52,710,906**	64,456,973
Total currents assets	**112,507,269**	98,132,076
Capital assets:		
DC Health Link IT infrastructure	**122,898,697**	122,898,697
Less: accumulated depreciation	**(87,507,570)**	(75,217,700)
Capital assets, net	**35,391,127**	47,680,997
Total Assets	**147,898,396**	145,813,073
LIABILITIES		
Current liabilities:		
Accounts payable	**2,242,796**	1,840,629
Due to the primary government	**876,697**	873,234
Due to the Federal government	**61,073**	1,538,927
Due to insurance carriers	**32,541,488**	19,973,904
Compensation payable	**1,368,717**	1,198,672
Accrued annual leave	**1,007,755**	959,455
Other liabilities	**411,661**	321,739
Total Liabilities	**38,510,187**	26,706,560
NET POSITION		
Net investment in capital assets	**35,391,127**	47,680,997
Restricted for:		
Premium shortfall relief payments	**46,586**	1,538,927
Unrestricted net position	**73,950,496**	69,886,589
Total Net Position	**$ 109,388,209**	$ 119,106,513

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

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

Statements of Revenues, Expenses, and Change in Net Position
For the Years Ended September 30, 2022 and 2021

	2022	2021
Operating Revenues	**$ 3,638,203**	$ 3,961,557
Operating Expenses:		
Salaries	**16,262,216**	14,885,735
Telephone	**96,458**	145,769
Supplies and materials	**18,874**	16,109
IT and communications	**10,436,315**	13,557,561
Eligibility and enrollment support	**1,184,339**	1,607,803
Consumer education and outreach	**1,860,139**	2,688,592
Building and equipment rental	**1,542,249**	1,991,441
Professional support	**2,595,082**	825,986
General and administrative	**184,225**	166,738
Depreciation expense	**12,289,870**	12,308,079
Total Operating Expenses	**46,469,767**	48,193,813
Operating loss	**(42,831,564)**	(44,232,256)
Non-Operating Revenues (Expenses):		
Assessments	**32,304,483**	31,169,029
Interest and fees	**1,348**	733
Investment income	**320,299**	22,760
Federal Coronavirus recovery funds	**5,452,923**	13,461,073
Premium shortfall relief payments	**(5,467,411)**	(13,461,073)
HealthCare4ChildCare (HC4CC)	**57,344**	-
Staff for HC4CC	**(57,344)**	-
Federal grants- non-capital	**501,618**	445,451
Total Non-Operating Revenues (Expenses)	**33,113,260**	31,637,973
Change in net position	**(9,718,304)**	(12,594,283)
Net position - beginning of year	**119,106,513**	131,700,796
Net position - End of Year	**$ 109,388,209**	$ 119,106,513

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

Statements of Cash Flows
For the Years Ended September 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Payments to employees	**$ (16,043,871)**	$ (14,274,587)
Payments to suppliers	**(17,590,243)**	(20,970,807)
Receipts from customers	**3,714,223**	3,859,515
Net cash flows used for operating activities	**(29,919,891)**	(31,385,879)
Cash flows from noncapital financing activities:		
Proceeds from assessments	**33,282,972**	29,049,040
Proceeds from Federal Coronavirus recovery funds	**3,975,069**	15,000,000
Payments for premium shortfall relief	**(5,467,411)**	(13,461,073)
Proceeds from HealthCare4ChildCare (HC4CC) funds	**92,910**	-
Payments to staff for HC4CC program	**(57,344)**	-
Proceeds from Federal grants non-capital	**943,823**	-
Premiums received on behalf of insurance carriers	**557,579,542**	558,617,458
Premiums transferred from insurance carriers	**(545,011,958)**	(567,419,089)
(Payments to) / advances from primary government	**(32,103)**	257,299
Net cash flows provided by noncapital financing activities	**45,305,500**	22,043,635
Cash flows from investing activities:		
Net proceeds from sale of investments	**12,066,366**	7,898,042
Proceeds from interest and fees	**1,348**	733
Net cash flows provided by investing activities	**12,067,714**	7,898,775
Net increase / (decrease) in cash, cash equivalents, and restricted cash	**27,453,323**	(1,443,469)
Cash, cash equivalents, and restricted cash, beginning of the year	**30,100,635**	31,544,104
Cash, cash equivalents, and restricted cash, end of year (Note 2)	**$ 57,553,958**	$ 30,100,635
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss	**$ (42,831,564)**	$ (44,232,256)
Adjustments to reconcile operating loss to net cash flows from operating activities		
Depreciation expense	**12,289,870**	12,308,079
Effect of changes in non-cash operating assets and liabilities:		
Increase in due from the primary government	**(74,729)**	(6,696)
Decrease / (increase) in due from the State Based Marketplace	**76,020**	(102,042)
Increase in accounts payable	**402,167**	35,888
Increase in compensation payable	**170,045**	502,862
Increase in accrued annual leave	**48,300**	108,286
Net cash flows used for operating activities	**$ (29,919,891)**	$ (31,385,879)

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

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 of Columbia 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 online 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 government of the District of Columbia. Consistent with the authoritative guidance of the Governmental Accounting Standards Board (GASB), the following criteria are used to determine the 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial Reporting Entity (continued)

The Authority is reported as a discretely presented component unit of the government 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 District of Columbia 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 accounting principles generally accepted in the United States of America, as prescribed by the Governmental 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 of Columbia'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 of Columbia, taken as a whole. The District of Columbia 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

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

Capital Assets and Depreciation

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

The estimated useful lives for capital assets are as follows:

Asset Class	Estimated Useful Life
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. Depreciation expense for the years ended September 30, 2022 and 2021 was $12,289,870 and $12,308,079, respectively.

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 a result of providing a shared information technology system, and business and customer operational services to another State Based Marketplace (SBM).

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, and providing a transparent marketplace for health benefit plans. Operating expenses also include costs associated with assisting persons in accessing programs, premium assistance tax credits, and cost sharing reductions; educating consumers; and maintenance of the other SBM's SHOP (Small Business Health Options Program).

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 expenses 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, for those who are civil service employees with unused sick leave, HBX may use the balance of the employees' leave to determine their years of service.

Post-Employment Benefits

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

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 of Columbia, 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, 2022 and 2021, the Authority contributed $565,681 and $551,386, respectively, on behalf of the Authority's employees. Contributions and earnings vest incrementally, beginning after two years of employment,

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Post-Employment Benefits (continued)

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, 2022 and 2021 were $21,974 and $20,318, 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 $20,500 and $19,500, or 100% of includable compensation, in calendar years 2022 and 2021, respectively. A special catch-up provision is also available to the participant, which 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 limits, $41,000 and $39,000; or (b) the annual contribution limit for the year, plus underutilized amounts from prior taxable years; for the calendar years 2022 and 2021, respectively. An additional deferral of $6,500 is available to participants, who are at least 50 years old before the end of the calendar years 2022 and 2021. Contributions are not assets of the District of Columbia, and the District of Columbia has no further liability to the plan.

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

Contractual Commitments

The Authority's contractual commitments are primarily associated with the IT projects related to the development of the online health insurance marketplace, DC Health Link. Outstanding contractual commitments related to the IT projects as of September 30, 2022, totaled $390,969.

Net Position and Reserves

The Authority adopted a long-term plan for financial sustainability. As part of that plan, a policy on the Reserve Fund was created to address spendable fund balance. The policy has two categories of reserves: Operating and Capital. The operating reserve is funded, using 6 to 9 months of the previous year's Council-approved budget. The Authority's board-assigned operating reserves were $25,890,950, as of September 30, 2022 and 2021. Capital reserves are authorized to be funded up to $20 million, after the full funding of Operating Reserves. The Authority's board-assigned capital reserves were $5,800,000 and $5,000,000 for the fiscal years ended September 30, 2022 and 2021, respectively. These reserves were included in the unrestricted net position, reported on the Statement of Net Position.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position and Reserves (continued)

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).

Investments

The Authority's investments are reported at fair value, in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Fair value is defined by GASB Statement No. 72, as the price that would be received to sell an asset or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The authority categorizes its fair value measurements within the fair value hierarchy, established by GASB Statement No. 72. The hierarchy is based on the valuation inputs used to measure fair value of the assets.

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. These inputs are derived from, or corroborated by, observable market data through correlation or by other means.
Level 3 inputs are unobservable inputs, such as management's assumptions and information about market participant assumptions that are reasonably available.

Unrealized and realized gains and losses are included in investment income, as non-operating revenue, in the Statements of Revenues, Expenses, and Change in Net Position.

Use of Estimates

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts 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. However, actual results could differ from those estimates.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

GASB issued GASB Statement No. 99, *Omnibus 2022*, with certain requirements effective upon issuance and others effective for fiscal years beginning after June 15, 2022, and June 15, 2023; GASB Statement No. 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62, effective for fiscal years beginning after June 15, 2023; and GASB Statement No. 101, *Compensated Absences*, effective for fiscal years beginning after December 15, 2023. GASB also issued GASB Statement No. 87, *Leases*, with an initial effective date for reporting periods beginning after December 15, 2019. GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative* Guidance, postponed the effective dates of Statement 87, to fiscal years beginning after June 15, 2021, and all reporting periods thereafter. GASB also issued GASB Statement No. 91, *Conduit Debt Obligations*, effective for reporting periods beginning after December 15, 2021; GASB Statement No. 92, *Omnibus 2020,* with certain requirements effective upon issuance and others effective for fiscal years beginning after June 15, 2021; GASB Statement No. 93, *Replacement of Interbank Offered Rates,* with certain requirements effective for reporting periods ending after December 31, 2021 and others effective for fiscal years beginning after June 15, 2021; GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, effective for fiscal years beginning after June 15, 2022*;* GASB Statement No. 96, *Subscription-Based Information Technology Arrangements,* effective for fiscal years beginning after June 15, 2022; and GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32, effective for fiscal years and reporting periods beginning after June 15, 2021. GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective dates of Statement No. 91, to reporting periods beginning after December 15, 2021; and certain requirements of Statements No. 92 and 93, to fiscal years beginning after June 15, 2021, and all reporting periods thereafter.

The Authority adopted GASB Statement No. 87, *Leases*; GASB Statement No. 92, *Omnibus 2020*; GASB Statement No. 93, *Replacement of Interbank Offered Rates*; and GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. Implementation of the adopted GASB statements had no material impact on the Authority's fiscal year 2022 financial statements. The Authority has not completed the process of evaluating the impact that will result from adopting the other GASB statements, but does not expect these GASB statements would have a material effect on the financial statements. The Authority will be adopting those GASB statements, as applicable, by their effective dates.

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, including restricted cash as of September 30, 2022, and 2021, were $57,553,958 and $30,100,635, respectively. Restricted cash represent amounts received from the Federal Coronavirus recovery funds for relief payments for premium shortfall. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the Statement of Net Position that sum to the total of the same such amounts shown in the statement of cash flows.

	2022	**2021**
Cash and cash equivalents	**$ 57,507,372**	$ 28,561,708
Restricted Cash	**46,586**	1,538,927
Total cash, cash equivalents, and restricted cash shown on the Statements of Cash Flows.	**$ 57,553,958**	$ 30,100,635

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 may 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 of Columbia or by its agents in the District of Columbia's name. As of September 30, 2022, and 2021, there were no deposits exposed to custodial credit risk.

2. CASH AND CASH EQUIVALENTS (continued)

The following is the breakout of the deposits held by financial institutions as of September 30, 2022, and 2021.

Depository accounts as of September 30	2022	2021
Insured	**$ 250,000**	$ 250,000
Collateralized by securities		
Collateral held by the District or by its agents in the District's name	**57,303,958**	29,850,635
Total Deposits	**$ 57,553,958**	$ 30,100,635

3. DUE FROM THE OTHER STATE-BASED MARKETPLACE

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 amounts of $649,051 and $725,071, due from the SBM, represent charges that have been billed, but not paid by the SBM as of September 30, 2022, and 2021, respectively.

4. INVESTMENTS

The District of Columbia Office of the Chief Financial Officer invests the operating and capital reserve funds on behalf of the Authority. The District of Columbia purchases legally authorized investments, consistent with the provisions of the Financial Institutions Deposit and Investment Act of 1997 (D.C. Law 12-56); and the District of Columbia Cash and Investment Management Policy, adopted in November 2008. During fiscal years 2022 and 2021, the Authority's investments consisted primarily of money market funds, and U.S. Treasury bills.

The Authority categorizes its fair value measurements within the fair value hierarchy, established by accounting principles generally accepted in the United States of America.

4. INVESTMENTS (continued)

The Authority had the following recurring fair value measurements as of September 30, 2022:

		Fair Value Measurement Using		
Investments by fair value level	**September 30, 2022**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Fixed Income				
U.S. Treasury Bills	**$ 43,630,432**	$ 43,630,432	$ -	$ -
Total investments by fair value level	**43,630,432**	43,630,432	-	-
Investments measured at the net asset value (NAV)				
Money Market Fund	**9,080,474**			
Total investments measured at the NAV	**9,080,474**			
Total investments measured at fair value	**$ 52,710,906**			

The Authority had the following recurring fair value measurements as of September 30, 2021:

		Fair Value Measurement Using		
Investments by fair value level	**September 30, 2021**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Fixed Income				
U.S. Treasury Bills	$ 44,085,484	$ 44,085,484	$ -	$ -
Total investments by fair value level	44,085,484	44,085,484	-	-
Investments measured at the net asset value (NAV)				
Money Market Fund	20,371,489			
Total investments measured at the NAV	20,371,489			
Total investments measured at fair value	$ 64,456,973			

Investments in U.S. Treasury bills are classified as Level 1 of the fair value hierarchy. The assets are valued, using quoted prices that are readily and regularly available in an active market.

Money market funds generally transact at a $1 stable Net Asset Value (NAV). However, the fund's NAV is calculated daily, using the amortized cost, which approximates fair value of the securities held in the fund. Investments in the money market funds can be redeemed daily.

5. INVESTMENT RISKS

The Authority's investments are subject to credit, custodial credit, concentration of credit, and interest rate risks. These risks to which the Authority may be exposed, are described as follows:

Credit Risk: Credit Risk is the risk that an issuer of an investment may not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. To mitigate such risk, the District of Columbia's investment policy requires that for investments in money market mutual funds, the funds be rated AAAm, AAAm-G, or an equivalent rating by a credit rating agency. As of September 30, 2022 and 2021, the money market funds held by the Authority had a Standard and Poor's rating of AAAm.

Custodial Credit Risk: Custodial credit risk is the risk that the value of its investment securities that are in the possession of an outside party, the government may not be able to recover if the counterparty to the investment fails. The Authority had no custodial credit risk exposure during fiscal years 2022 and 2021. All of the Authority's investments in fiscal year 2022 and 2021 were held by the custodian in the District of Columbia's name.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. To mitigate such risk, the District of Columbia's investment policy does not allow investment in a single issuer, to exceed five percent of the District of Columbia's total investment portfolio. However, this requirement does not apply to the following investments, which have various investment limits: U.S. Treasury, 100% maximum; each Federal agency, 40% maximum; each repurchase agreement counterparty, 25% maximum; and each money market mutual fund, 25% maximum. As of September 30, 2022, and 2021, the District of Columbia was in compliance with its policy. Therefore, HBX was in compliance.

Interest Rate Risk: Interest rate risk is the risk that changes in market interest rates may adversely affect the fair value of an investment. An investment with a longer maturity may generally have a greater sensitivity to fair value changes that are related to market interest rates. The weighted average days to maturity for the U.S. Treasury Bills held by the Authority was 115 days and 179 days as of September 30, 2022 and 2021, respectively. As a means of limiting its exposure to fair value losses resulting from rising interest rates, the District of Columbia's investment policy limits the Authority's portfolio to specific maturities. The Authority had investments in U.S Treasury Obligations and money market funds as of September 30, 2022 and 2021. As of September 30, 2022 and 2021, the Authority was in compliance with this policy.

5. INVESTMENT RISKS (continued)

The District of Columbia's maturity limits for current investments, as detailed in the District of Columbia's investment policy, are presented in the table below:

Type of Investment	Maturity	Maximum Investment
U.S. Treasury Obligations	Five Years	100%
Money Market Mutual Funds	Not Applicable	100%

6. CAPITAL ASSETS

A summary of the Authority's capital asset activity for the fiscal year ended September 30, 2022, follows:

	October 1, 2021	Additions	September 30, 2022
Capital Assets Subject To Depreciation:			
DC Health Link IT infrastructure	$ 122,898,697	$ -	**$ 122,898,697**
Less: Accumulated Depreciation	(75,217,700)	(12,289,870)	**(87,507,570)**
Capital Assets, Net	$ 47,680,997	$ (12,289,870)	**$ 35,391,127**

A summary of the Authority's capital asset activity for the fiscal year ended September 30, 2021, follows:

	October 1, 2020	Additions	September 30, 2021
Capital Assets Subject To Depreciation:			
DC Health Link IT infrastructure	$ 122,898,697	$ -	$ 122,898,697
Less: Accumulated Depreciation	(62,909,621)	(12,308,079)	(75,217,700)
Capital Assets, Net	$ 59,989,076	$ (12,308,079)	$ 47,680,997

7. DUE TO INSURANCE CARRIERS

District of Columbia residents participating in the Affordable Care Act 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. 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.

7. DUE TO INSURANCE CARRIERS

These groups make their premium payments to HBX; either electronically, via 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 of $32,541,488 and $19,973,904, due to insurance carriers as of September 30, 2022, and 2021, respectively, represent the deposits and premium payments from SHOP Exchange and insured and congressional staffers, that have been deposited into the Authority's bank account, but have not yet been wired to the various insurance companies.

8. 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 Authority. The amendment included language that the Authority, annually assess, through a Notice of Assessment, each health carrier doing business in the District of Columbia 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 insurance carriers, with 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, 2022 and 2021, were $32,304,483 and $31,169,029, respectively. The net assessment due from insurance carriers as of September 30, 2022 and 2021 was $1,508,683 and $2,397,250, respectively. Amounts due from insurance carriers are recorded, net of estimated allowances and amounts estimated to be uncollectible.

The due from insurance carrier receivable is reduced by the allowance for uncollectible accounts, to reserve for accounts, which are expected to become uncollectible in future years. In evaluating the collectability of accounts receivable, HBX utilizes historical collections and age of the accounts. The amounts due from insurance carriers as of September 30, 2022 and 2021, were not reduced by any allowance for uncollectible assessments from the insurance carriers. No amounts were expected to be uncollectible.

9. FEDERAL CORONAVIRUS RECOVERY FUNDS

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by the President. Section 9901 of ARPA amended Title VI of the Social Security Act, to add section 602, which establishes the Coronavirus State Fiscal Recovery Fund; and section 603, which establishes the Coronavirus Local Fiscal Recovery Fund (together, the Fiscal Recovery Funds). The Fiscal Recovery Funds are intended to provide support to State, local, and Tribal governments; in responding to the impact of COVID-19 and in their efforts to contain COVID-19 in their communities, residents, and businesses. One of the four categories of eligible uses of the Fiscal Recovery Funds provides that the funds may be used to respond to the COVID-19 public health emergency; or its negative economic impacts, including assistance to households, small businesses, and nonprofits; or aid to impacted industries such as tourism, travel, and hospitality.

The Authority was awarded $3,874,000 and $15,000,000 in fiscal years 2022 and 2021, respectively, to provide emergency relief for past due premiums to help District small businesses and residents stay insured. The funds are intended to reduce the negative economic impact of COVID-19 that could last for years into the future. The funds are also intended to provide District small businesses and residents, the relief needed to recover; and prevent medical bankruptcies and bad credit related to unpaid premiums. HBX made premium shortfall relief payments; and recognized non-operating revenues of $5,452,923 and $13,461,073, from the Federal Coronavirus relief funds, for the fiscal years ended September 30, 2022 and 2021. The amounts due to the Federal government were $61,073 and $1,538,927, as of September 30, 2022 and 2021, respectively.

10. FEDERAL GRANTS

The Authority was awarded a Federal grant of $1,107,393, from the U.S. Department of Health and Human Services, Centers for Medicare & Medicaid Services. This grant was made available as part of the Section 2801 of the American Rescue Plan Act (ARPA) of 2021 (P.L. 117-2). These CMS grants (modernization grants) were made to American Health Benefits Exchanges, established under section 1311(b) of the Patient Protection and Affordable Care Act, to enable such exchanges to modernize or update any system, program, or technology to ensure that the exchanges were compliant with all applicable Federal requirements.

The Authority expended and recognized non-capital Federal grants as non-operating revenue of $501,618 and $445,451 for the fiscal years ended September 30, 2022 and 2021, respectively. The modernization grant allowed for reimbursement of costs incurred from March 15, 2021 to the application date, July 20, 2021. The award date of the modernization grant was September 10, 2021. The amounts due from the Federal government, reported on the Statements of Net Position, were $3,246 and $445,451, as of September 30, 2022 and 2021, respectively.

11. HEALTHCARE4CHILDCARE

The Authority entered into a memorandum of understanding (MOU) with the D.C. Office of the State Superintendent of Education-Division of Early Learning (OSSE-DEL), in August 2022. The MOU was to support outreach to, and communication with, eligible child care employers, sole proprietors, and employees, about DC Health Link and the benefits and subsidies available to them through the exchange; assist eligible child care employers, sole proprietors, and employees in selecting individual or employer-sponsored benefits packages that best meet their needs; efficiently leverage District and Federal resources; provide financial assistance to increase the affordability of coverage for child care employers and employees; and increase the number and percentage of child care employees with adequate and affordable health benefits coverage.

The Authority was awarded $92,910 in fiscal year 2022, to employ staff to assist eligible child-care employers and employees in selecting health care benefits packages and purchasing health care coverage through DC Health Link. The funds were also to be used by HBX to equip and direct its grantees that provide exchange navigator and assister services, to prepare them to assist child-care employers and employees in selecting and enrolling in health care coverage through DC Health Link. Additionally, the Authority was required to work with OSSE-DEL, to design policies and subsidies to increase access to, and affordability of, health care coverage through DC Health Link for eligible childcare employers and employees. The Authority expended $57,344 and $0 for the fiscal years ended September 30, 2022 and 2021, respectively. The amount due to OSSE was $35,566 in fiscal year 2022, that was included in the due to the primary government, reported on the Statement of Net Position.

12. 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 2022 and 2021, 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.

13. SUBSEQUENT EVENTS

The Authority evaluated subsequent events and transactions, through January 3, 2023, the date these financial statements were available for issue; and has 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 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*

INDEPENDENT AUDITOR'S REPORT

To the Mayor, Members of the Council of the Government of the
District of Columbia, Executive Director and the Executive Board of
the District of Columbia Health Benefit Exchange Authority and
Inspector General of the Government of the District of Columbia
Washington, D.C.

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), a component unit of the Government of the District of Columbia, as of and for the year ended September 30, 2022, 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, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on 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 of financial statements. However, providing an opinion on compliance with those provisions was not an objective

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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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McConnell & Jones

Washington, D.C.
January 3, 2023

To report fraud, waste, abuse, or mismanagement:

(202) 724-TIPS (8477) and (800) 521-1639

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