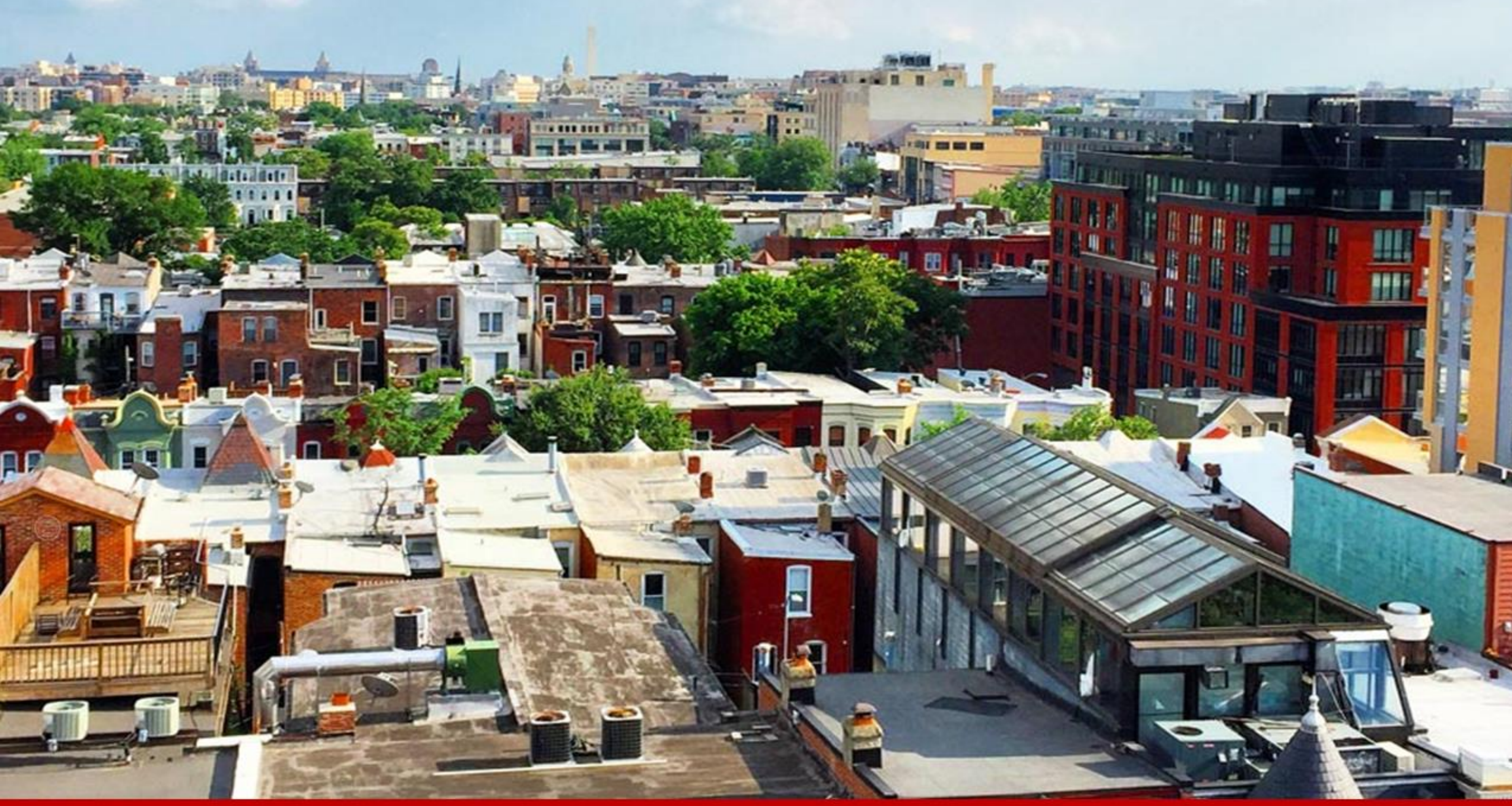
DISTRICT OF COLUMBIA
OFFICE OF THE INSPECTOR GENERAL

OIG Project No. 21-1-08HI

January 2021

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY

Financial Statements (With Independent Auditors' Reports) For Fiscal Years Ended September 30, 2020 and 2019



Guiding Principles

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

Mission

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

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

Vision

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

Core Values

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

GOVERNMENT OF THE DISTRICT OF COLUMBIA
Office of the Inspector General

Inspector General

OIG

January 29, 2021

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

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

Dear Mayor Bowser and Chairman Mendelson:

Enclosed is the final report entitled *District of Columbia Health Benefit Exchange Authority Financial Statements (With Independent Auditors' Reports) For Fiscal Years Ended For Fiscal Years Ended September 30, 2020 and 2019* (OIG No. 21-1-08HI). 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 2020.

On January 5, 2021, 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 (via email)

DISTRICT OF COLUMBIA HEALTH BENEFIT EXCHANGE AUTHORITY

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

Financial Statements
(With Independent Auditors' Reports)

September 30, 2020 and 2019

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

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McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' 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 Financial Statements

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 year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2020, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

5101 Wisconsin Ave. NW
Suite 210
Washington, D.C. 20016
Phone: 202.207.3570
Fax: 202.846.6310

WWW.MCCONNELLJONES.COM

Emphasis of Matter

As discussed Note 1 to the financial statements, the financial statements present only those of the Authority and do not purport to, and do not present fairly the financial position of the Government of the District of Columbia as of September 30, 2020, the changes in its financial position or, its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to the matter.

Other Matters

Prior Period Financial Statements

The financial statements of the Authority as of and for the year ended September 30, 2019 were audited by other auditors. Those auditors expressed an unmodified opinion on those statements in their report dated December 20, 2019.

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, 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 05, 2021 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 5, 2021

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, 2020, and 2019; with 2018, 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 will support a cost-effective, sustainable, state-based marketplace in both states; and further 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, 2020 and 2019

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.
- As noted in Table I on page 7, the Authority's total assets exceeded liabilities by $131,700,796, as of September 30, 2020, which is classified and reported as Net Investment in Capital Assets, and Unrestricted Net Position in the Statements of Net Position. This represents a decrease of $11,691,135, or an 8% change from September 30, 2019 to September 30, 2020. The Authority's total assets exceeded liabilities by $143,391,931, as of September 30, 2019, which is classified and reported as Net Investment in Capital Assets, and Unrestricted Net Position in the Statements of Net Position. This represents a decrease of $9,553,172, or a 6% change from September 30, 2018 to September 30, 2019.
- The Authority's expenses exceeded its revenues by $11,691,135, for the year ended September 30, 2020. This represents a decrease of $2,137,963, or a 22% decrease in the Change in Net Position from September 30, 2019 to September 30, 2020, which represents an overall decrease in Change in Net Position. The decrease in the Net Position is a result of a higher increase in expenses over revenues in fiscal year 2020, as compared to fiscal year 2019. The Authority's expenses exceeded its revenues by $9,553,172, for the year ended September 30, 2019. This represents a decrease of $848,086, or a 10% decrease in the Change in Net Position from September 30, 2018 to September 30, 2019, which represents an overall decrease in Change in Net Position. The decrease in the Net Position is a result of a higher increase in expenses over revenues in fiscal year 2019, as compared to fiscal year 2018. Additionally, HBX reduced the assessment rate applied to health insurance companies, from 1% of the total premiums, to 0.9% of the total premiums. Refer to Table II on page 8 for further detail.

Overview of the Financial Statements

This Management 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, 2020 and 2019

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, 2020; 2019; and 2018.

Table I – Condensed Schedules of Net Position As of September 30, 2020; 2019; and 2018

				Change 2020-2019		Change 2019-2018	
	2020	**2019**	**2018**	**Amount**	**%**	**Amount**	**%**
Current Assets	**$ 104,746,642**	$ 103,528,452	$ 105,146,981	$ 1,218,190	1%	$ (1,618,529)	-2%
Capital Assets	**59,989,076**	72,269,846	83,500,121	(12,280,770)	-17%	(11,230,275)	-13%
Total Assets	**164,735,718**	175,798,298	188,647,102	(11,062,580)	-6%	(12,848,804)	-7%
Current Liabilities	**33,034,922**	32,406,367	35,701,999	628,555	2%	(3,295,632)	-9%
Total Liabilities	**33,034,922**	32,406,367	35,701,999	628,555	2%	(3,295,632)	-9%
Net Position							
Net Investment in Capital Assets	**59,989,076**	72,269,846	83,500,121	(12,280,770)	-17%	(11,230,275)	-13%
Unrestricted Net Position	**71,711,720**	71,122,085	69,444,982	589,635	1%	1,677,103	2%
Total Net Position	**$ 131,700,796**	$ 143,391,931	$ 152,945,103	$ (11,691,135)	-8%	$ (9,553,172)	-6%

The net position serves as an indicator of an organization's financial position. The Authority's assets exceeded liabilities by $131,700,796; $143,391,931; and $152,945,103, as of September 30, 2020; 2019; and 2018, respectively.

Non-current assets are comprised of items that are considered to be capital assets. The capital assets of $59,989,076, as of September 30, 2020, represent a 17% decrease from September 30, 2019. The capital assets of $72,269,846, as of September 30, 2019, represent a 13% decrease from September 30, 2018. These decreases are 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; amounts due from the primary government, the other State-Based Marketplace, and insurance carriers; investments, at fair value; and investments receivable. The total current assets of $104,746,642, as of September 30, 2020, represents an increase of $1,218,190, which also translates to a 1% increase from September 30, 2019. The increase in the current assets was mainly a result of the reductions in the assessments owed by the insurance companies and receivables from the other State-Based Marketplace, offset by the net increase from appreciation of the fair value of the investments. In November 2019, the Finance Committee of the Board approved the Authority to update its bank account used for premium collection, so that interest can be earned on the funds, via a sweep account.

Financial Analysis (continued)

The total current assets of $103,528,452, as of September 30, 2019, represents a decrease of $1,618,529, which translates to a 2% decrease from September 30, 2018. The decrease in the current assets was mainly a result of the reductions in the assessments owed by the insurance companies and receivables from the other State Based Marketplace.

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. No new operating and capital reserves were approved during the current fiscal year.

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 $33,034,922, as of September 30, 2020, represents an increase of $628,555, or a 2% increase from September 30, 2019. The increase is primarily due to an overall increase in all classes of liabilities, except for accounts payable and due to the primary government.

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, 2020; 2019; and 2018.

Table II – Condensed Schedules of Revenues, Expenses, and Change in Net Position
For the Years ended September 30, 2020; 2019; and 2018

				Change 2020-2019		Change 2019-2018	
	2020	**2019**	**2018**	**Amount**	**%**	**Amount**	**%**
Operating Revenues	**$ 3,893,556**	$ 4,743,066	$ 4,971,319	$ (849,510)	-18%	$ (228,253)	-5%
Operating Expenses	**46,795,951**	45,573,972	43,026,003	1,221,979	3%	2,547,969	6%
Operating Loss	**(42,902,395)**	(40,830,906)	(38,054,684)	(2,071,489)	-5%	(2,776,222)	-7%
Non-Operating Revenues	**31,211,260**	31,277,734	29,349,598	(66,474)	0%	1,928,136	7%
Change in Net Position	**$ (11,691,135)**	$ (9,553,172)	$ (8,705,086)	$ (2,137,963)	-22%	$ (848,086)	-10%

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, 2020 and 2019, the Authority's operating revenues totaled $3,893,556 and $4,743,066, respectively.

The non-operating revenues were derived from assessments from insurance carriers; interest and fees; and investment income. During the fiscal year ended September 30, 2020, the Authority's non-operating revenues totaled $31,211,260; as compared to $31,277,734 and $29,349,598 during the fiscal years ended September 30, 2019 and 2018, respectively. The total cost of the Authority's activities and services were $46,795,951; $45,573,972; and $43,026,003, for the fiscal years ended September 30, 2020; 2019; and 2018, respectively.

There was an overall decrease in the Change in Net Position, due to an increase in operating expenses; coupled with a decrease in operating revenues. Increased staffing, salary increases, and reduction in the capitalization rate for IT development caused the increase in operating expenses.

Capital Assets

The Authority had $59,989,076, $72,269,846, and $83,500,121, in capital assets, net of accumulated depreciation, as of September 30, 2020; 2019; and 2018, 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, 2020, decreased by $12,280,770, compared to September 30, 2019, which was due to the depreciation expenses in fiscal year 2020. The Authority's net capital assets as of September 30, 2019, decreased by $11,230,275, compared to September 30, 2018. This was primarily due to additions of $1,050,495 made to the system in fiscal year 2019; which was offset by depreciation expenses of $12,280,770 in fiscal year 2019.

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 2021 is $30,947,602, which is 3% less than the fiscal year 2020 budget. The fiscal year 2021 budget includes an increase of $983,775 in personal services across multiple programs. This will support an additional eight full-time equivalents (FTEs) and associated fringe benefit costs. The Authority will also reclassify five FTEs from temporary to full-time status. The budget also includes savings of $536,814, which is primarily due to a reduction to the rent fixed cost estimate. There is also a proposed decrease of $1,268,191 to non-personal services costs across multiple programs, which is primarily the result of a projected savings in approved contracts for Information Technology related operations. The budget for fiscal year 2020 was $31,768,832, which was 2% more than the fiscal year 2019 budget. The budget for fiscal year 2019 was $31,143,597. The fiscal year 2020 budget included an increase of $448,439 across multiple programs, to align the budget with fixed costs assessments for rent, telecommunications, security services, and occupancy costs from the Department of General Services and the Office of the Chief Technology Officer. There was also a net increase of $168,119 across multiple programs that primarily support DC Health Link; the Authority's marketplace for subscribers. Additionally, there was an increase of $8,677 across multiple programs that support projected salary and fringe benefit costs of existing personnel. This adjustment also included the reclassification of 11 FTEs from temporary to full-time status. These budgets for fiscal years 2020 and 2019 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 the Coronavirus disease 2019 (COVID-19), and federal or local legislative and regulatory changes to the Affordable Care Act. HBX's partnership with the other State Based Marketplace will continue to produce revenue and reduce costs for IT development. HBX will face increased costs for its contact center, which is a federal requirement. Since its inception, HBX and the Department of Health Care Finance (DHCF) have shared costs to fund the DC Health Link Contact Center, which serves residents applying for Medicaid as well as private health insurance. Starting in fiscal year 2022, DHCF will have its own contact center, which will service Medicaid and other public programs in the District. HBX has renegotiated a lower cost contract with its contact center vendor. HBX will also achieve substantial cost savings by moving to a virtual contact center. This will save hundreds of thousands of dollars in the future.

Economic Outlook (continued)

Additionally, there is some uncertainty about health carrier assessments that will be assessed in July 2021 to fund fiscal year 2022 operations, as well as uncertainty related to assessments that will be assessed in July 2022 to fund fiscal year 2023 operations. This is due to the uncertainty of the economic impact of COVID-19 on the assessed insurance premiums; and whether the market will remain stable, grow, or shrink. HBX continues to look for operational savings and internal efficiencies, and is considering these uncertainties in its future activities. Finally, the change in the Federal administration will lead to new Federal actions anticipated to strengthen the ACA and add to the responsibilities of state-based marketplaces, (including HBX).

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, 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, 2020 and 2019

	2020	2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 31,544,104	$ 68,636,377
Due from the primary government	-	83,351
Due from the Other State Based Marketplace	623,029	1,182,414
Due from insurance carriers, net	247,254	1,722,339
Investments	72,318,339	31,832,419
Investments receivable	13,916	71,552
Total currents assets	104,746,642	103,528,452
Capital assets:		
DC Health Link IT infrastructure	122,898,697	122,898,697
Less: accumulated depreciation	(62,909,621)	(50,628,851)
Capital assets, net	59,989,076	72,269,846
Total Assets	164,735,718	175,798,298
LIABILITIES		
Current liabilities:		
Accounts payable	1,804,741	2,872,515
Due to the primary government	615,935	662,892
Due to insurance carriers	28,775,535	27,735,643
Compensation payable	695,810	577,718
Accrued annual leave	851,169	543,751
Other liabilities	291,732	13,848
Total Liabilities	33,034,922	32,406,367
NET POSITION		
Net investment in capital assets	59,989,076	72,269,846
Unrestricted net position	71,711,720	71,122,085
Total Net Position	$ 131,700,796	$ 143,391,931

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, 2020 and 2019

	2020	2019
Operating Revenues:	**$ 3,893,556**	$ 4,743,066
Operating Expenses:		
Salaries	**14,591,577**	13,029,293
Telephone	**192,073**	382,089
Supplies and materials	**15,015**	34,573
IT and communications	**12,620,119**	14,386,887
Eligibility and enrollment support	**1,583,762**	194,715
Consumer education and outreach	**1,924,179**	1,730,371
Building and equipment rental	**1,785,795**	1,206,331
Professional support	**888,793**	2,047,047
General and administrative	**913,868**	281,896
Depreciation expense	**12,280,770**	12,280,770
Total Operating Expenses	**46,795,951**	45,573,972
Operating loss	**(42,902,395)**	(40,830,906)
Non-Operating Revenues:		
Assessments	**30,542,134**	30,231,377
Interest and fees	**12,048**	76,415
Investment income	**657,078**	969,942
Total Non-Operating Revenues	**31,211,260**	31,277,734
Change in net position	**(11,691,135)**	(9,553,172)
Net position - beginning of year	**143,391,931**	152,945,103
Net position - End of Year	**$ 131,700,796**	$ 143,391,931

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

Statements of Cash Flows
For the Years Ended September 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Payments to employees	**$ (14,166,067)**	$ (12,898,468)
Payments to suppliers	**(20,908,027)**	(23,834,545)
Receipts from customers	**4,452,941**	5,316,644
Net cash flows used for operating activities	**(30,621,153)**	(31,416,369)
Cash flows from noncapital financing activities:		
Proceeds from assessments	**32,295,103**	31,305,609
Premiums received on behalf of insurance carriers	**510,034,837**	478,205,028
Premiums transferred to insurance carriers	**(508,994,945)**	(477,300,817)
Payments to primary government	**(46,957)**	(836,374)
Net cash flows provided by noncapital financing activities	**33,288,038**	31,373,446
Cash flows from capital and related financing activities:		
Acquisition of capital assets	**-**	(1,050,495)
Net cash flows used for capital and related financing activities	**-**	(1,050,495)
Cash flows from investing activities:		
Acquisition of investments	**(39,771,206)**	-
Proceeds from interest and fees	**12,048**	76,415
Net cash flows provided by/(used for) investing activities	**(39,759,158)**	76,415
Net decrease in cash and cash equivalents	**(37,092,273)**	(1,017,003)
Cash and cash equivalents, beginning of the year	**68,636,377**	69,653,380
Cash and cash equivalents, end of year	**$ 31,544,104**	$ 68,636,377
Reconciliation of operating loss to net cash flows from operating activities:		
Operating loss	**$ (42,902,395)**	$ (40,830,906)
Adjustments to reconcile operating loss to net cash flows from operating activities		
Depreciation expense	**12,280,770**	12,280,770
Effect of changes in non-cash operating assets and liabilities:		
Due from/to the primary government	**83,351**	(83,351)
Accounts payable	**(1,067,774)**	(3,487,285)
Compensation payable	**118,092**	61,590
Accrued annual leave	**307,418**	69,235
Due from the State Based Marketplace	**559,385**	573,578
Net cash flows used for operating activities	**$ (30,621,153)**	$ (31,416,369)

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 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 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, 2020 and 2019 was $12,280,770 and $12,280,770, 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 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.

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, 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, 2020 and 2019, the Authority contributed $504,339 and $442,800, 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Post-Employment Benefits (continued)

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, 2020 and 2019 were $19,828 and $16,746, 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 $19,500 (2020), $19,000 (2019), or 100% of includable compensation, in calendar years 2020 and 2019. 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 of $19,500 ($39,000 for 2020) and $19,000 ($38,000 for 2019); or (b) the annual contribution limit for the year, plus underutilized amounts from prior taxable years. An additional deferral of $6,500 and $6,000 is available to participants, who are at least 50 years old before the end of the calendar years 2020 and 2019, respectively. 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 ICMA-RC.

Contractual Commitments

The Authority's contractual commitments are primarily associated with the projects related to the maintenance and enhancements of the online health insurance marketplace, DC Health Link. Outstanding contractual commitments related to the IT projects as of September 30, 2020 were $2,113,321.

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-designated operating reserves were $25,890,950, as of September 30, 2020 and 2019. Capital reserves are authorized to be funded up to $20 million, after the full funding of Operating Reserves. The Authority's board-designated capital reserves were $5,000,000 for the fiscal years ended September 30, 2020 and 2019.

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

In fiscal year 2017, GASB issued GASB Statement No. 87, Leases, with an initial effective 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.

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

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, 2020 and 2019, were $31,544,104 and $68,636,377, 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 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, 2020, and 2019, there were no deposits exposed to custodial credit risk.

The following is the breakout of the deposits held by financial institutions as of September 30, 2020 and 2019.

Depository accounts as of September 30	2020	2019
Insured	**$ 250,000**	$ 250,000
Collateralized by securities		
Collateral held by the District or by its agents in the District's name	**31,294,104**	68,386,377
Total Deposits	**$ 31,544,104**	$ 68,636,377

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 $623,029 and $1,182,414, due from the SBM, represent charges that have been billed, but not paid by the SBM as of September 30, 2020 and 2019, 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 the fiscal year 2020, the Authority's investments consisted primarily of money market funds, and U.S. Treasury notes.

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

The Authority had the following recurring fair value measurements as of September 30, 2020:

		Fair Value Measurement Using		
Investments by fair value level	**September 30, 2020**	**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 Notes	$ 6,563,765	$ -	$ 6,563,765	$ -
Total investments by fair value level	6,563,765	-	6,563,765	-
Investments measured at the net asset value (NAV)				
Money Market Fund	65,754,574			
Total investments measured at the NAV	65,754,574			
Total investments measured at fair value	$ 72,318,339			

4. INVESTMENTS (continued)

The Authority had the following recurring fair value measurements as of September 30, 2019:

		Fair Value Measurement Using		
Investments by fair value level	**September 30, 2019**	**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 Notes	$ 24,605,527	$ -	$ 24,605,527	$ -
Total investments by fair value level	24,605,527	-	24,605,527	-
Investments measured at the net asset value (NAV)				
Money Market Fund	7,226,892			
Total investments measured at the NAV	7,226,892			
Total investments measured at fair value	$ 31,832,419			

Investments in U.S. Treasury Notes are classified as Level 2 of the fair value hierarchy. The assets are valued, using observable market inputs for similar securities from a number of data providers, or a broker quote in a non-active market.

Money market funds generally transact at a $1 stable Net Asset Value (NAV). However, daily, the fund's NAV is calculated, 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, 2020 and 2019, the money market fund held by the Authority had a Standard and Poor’s rating of AAAm.

5. INVESTMENT RISKS (continued)

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a financial institution's failure, the government may not be able to recover deposits or collateral. The Authority had no custodial credit risk exposure during fiscal years 2020 and 2019. All of the Authority's investments in fiscal year 2020 and 2019 were collateralized. All collateral for investments is held in the District of Columbia's name, by the Federal Reserve, in a custodial account. Any funds not invested at the end of the day are placed in overnight investments, 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, 2020 and 2019, 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. 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, 2020 and 2019. The U.S. Treasury Notes held as of September 30,2020 had a fair value of $6,563,765 and had a maturity date of February 28, 2021. As of September 30, 2020 and 2019, the Authority was in compliance with this policy.

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, 2020 follows:

	October 1, 2019	Additions	September 30, 2020
Capital Assets Subject To Depreciation:			
DC Health Link IT infrastructure	$ 122,898,697	$ -	**$ 122,898,697**
Less: Acumulated Depreciation	(50,628,851)	(12,280,770)	**(62,909,621)**
Capital Assets, Net	$ 72,269,846	$ (12,280,770)	**$ 59,989,076**

A summary of the Authority's capital asset activity for the fiscal year ended September 30, 2019 follows:

	October 1, 2018	Additions	September 30, 2019
Capital Assets Subject To Depreciation:			
DC Health Link IT infrastructure	$ 121,848,202	$ 1,050,495	$ 122,898,697
Less: Acumulated Depreciation	(38,348,081)	(12,280,770)	$ (50,628,851)
Capital Assets, Net	$ 83,500,121	$ (11,230,275)	$ 72,269,846

7. DUE TO INSURANCE CARRIERS

District of Columbia 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. 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 of $28,775,535 and $27,735,643, due to insurance carriers as of September 30, 2020 and 2019, 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.

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, 2020 and 2019 were $30,542,134 and $30,231,377, respectively. The net assessment due from insurance carriers as of September 30, 2020 and 2019 was $247,254 and $1,722,339, 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 accounts.

The amounts due from insurance carriers as of September 30, 2020 and 2019, were reduced by an allowance of $0, and $1,180,054, respectively, due to the insurance carriers' unlikely ability to pay the assessments.

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 2020 and 2019, 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 5, 2021, 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.

MJ McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2020, 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 5, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control 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 may exist that have not been identified.

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

5101 Wisconsin Ave. NW
Suite 210
Washington, D.C. 20016
Phone: 202.207.3570
Fax: 202.846.6310

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such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McConnell & Jones

Washington, D.C.
January 5, 2021